



# Caribbean Principles

## AML/CTF Risk Management & Governance Guidelines

Sanctioned by the CAIB for it's members

# What are Caribbean Principles

- Practices to mitigate Caribbean banking risks and support the integrity of correspondent relations
- Continually raise the standards for due diligence, corporate governance & regulatory compliance
- Based on globally accepted standards and the Wolfsberg Principles in particular
- Concentration on Anti Money Laundering (AML), Combating of Terrorist Financing (CTF) and Knowing Your Customer (KYC).

# Why Is It necessary?

- Strengthen the reputation of banking services in the region
- Facilitate sound correspondent banking relationships
- Align the compliance standards of Caribbean banks with world standards
- Enable the compliance environment to better monitor and ensure the legitimate flow of funds between regions



## CAIB's Role

- To be the advocate for member banks adopting the Caribbean Principles
- To formalise a Registry for all banks who are compliant with the Principles
- To educate and encourage all Financial Institutions in the region to subscribe to the Principles
- To address threats and encourage full transparency from members

# Wolfsberg AML Principles

- Established by a group of 11 banks who agreed to develop financial services industry standards, and related products, for Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies.
- Defined principles and practices for governing Correspondent Banking risks in Nov. 2002 relative to AML/CTF
- Fundamental to proper risk management
- Collaboration with the Banker's Almanac to host a registry where financial institutions would submit information useful for conducting due diligence as outlined in the Principles

# Correspondent Banking

- Essential lifeline for Caribbean banks who do not have a head-office located in a major money centre to support international transactions
- Provides wire transfers, bank drafts, card settlement services, liquidity, cash clearing, global banking, investment services
- Correspondent banks must consider issues of “risk versus return”, and the adoption of the Caribbean Principles by regional banks will assist in deepening the integrity of relationships in the region



# Responsibility & Oversight

- The Board of Directors of each subscribing bank is responsible for:
  - Approving written policies and procedures relative to managing AML/CTF/KYC risks
  - Appointing a Compliance Officer
  - Ensuring auditors review levels of compliance
  - Encouraging continuous compliance training
  - Enforcing the reporting of suspicious activity to supervisory authorities

# Regulatory Oversight

- The Caribbean region is made up of several separate regulatory and legal jurisdictions
- CAIB's member banks all operate in jurisdictions that are members of the Caribbean Financial Action Task Force and cooperate with FATF Recommendations
- Caribbean regulatory authorities provide sound and enforceable oversight and supervision to financial institutions
- Membership in Egmont Group is encouraged in order to share information between law enforcement agencies

# Bank Ownership

- CAIB members provide full disclosure as to the ownership and management structure of the bank
- Provide profiles on directors and senior managers
- Identify any involvement with PEPs (Politically Exposed Persons)
- Type of business the bank is engaged in as well as its customer base

# Due Diligence Standards

- KYC, source of funds, clients' risk profiles
- Ultimate parent incorporation and domicile
- Ownership nature (public or private)
- Fit and proper directors and nature of sub-committees
- Regulatory status and history
- Any shell bank arrangements

# The Customer Base

- Beneficial owners: Personal, Corporate, Trust, Partnership etc; KYC; source of wealth from legitimate means
- Nominee accounts (other than the registered name)
- Anticipated account activities
- Numbered accounts



# Reporting

- High risk countries, per FATF
- High risk activities/services
- High risk accounts; numbered accounts, public officials
- Unusual or suspicious transactions



# Board Committees

- Role of Executive Management
- Role of Risk Management Committee
- Role of the Audit Committee
- Role of the Board of Directors



# Education

- Education is derived from information: suspicious transactions, high risk countries, high risk services
- The key to education is continuous training and monitoring of transactions with the assistance of technology
- The processing of transactions and transcribing them to information is key to educating employees on how to identify illicit transactions
- Each institution must have a well developed programme to train staff

# Record Retention

- Criminals are becoming more sophisticated
- The Principles will assist Caribbean banks to enforce KYC policies and monitor accounts for suspicious activity and the detection of unusual patterns
- Use of technology is paramount for monitoring and record retention
- Customers' records should be maintained in accordance with regulatory requirements

# Exceptions and Deviations

- Exceptions and deviations to the Caribbean Principles should be escalated to the highest levels (the Board)
- The Principles and Guidelines will be updated from time to time via recommendations coming from member banks to the CAIB Board
- The Principles and Guidelines are risk based rules that are self regulated by each institution's board of directors



# Conclusion

- Banking is about managing and mitigating various risks
- Caribbean institutions must deploy the highest global standards for managing risks identified by correspondent banks
- The Caribbean Principles are the conduit to proactively attaining the highest standards
- The CAIB will be the champion for driving such AML/CTF/KYC standards thus ensuring proper governance by Caribbean financial institutions and their compliance with internationally accepted risk management standards to support correspondent relations