

CUSTOMER RISK ASSESSMENTS (CRA)

➤ What is a Customer Risk Assessment (CRA)?

A CRA is a risk-based assessment that you must undertake for on your customers (or prospective customers). This risk assessment must, at minimum, factor in the type of customer (individual or corporate), jurisdiction of the customer, purpose and intended nature of the customer's business, nature of the ownership and control structure of the customer, its beneficial owner, and the product and service you are offering, and the delivery channel. The result of the CRA determines your customer's risk rating.

The outcome of your CRA, which could be descriptive (i.e., High, Medium and Low) or numerical (i.e., 1 to 10), will determine the level of Customer Due Diligence (CDD) you must perform and the frequency of reviews that you must undertake in relation to that customer. For example, where a customer poses higher risk and is rated high risk from ML/TF perspective, you will be required to conduct Enhanced Customer Due Diligence (Enhanced CDD). Further information on the different levels of CDD is available in the ADGM CDD Quick Guide.

The CRA is part of a broader process – Know-Your-Customer – see the ADGM KYC Quick Guide for more information.

When must a CRA be completed?

- Prior to establishing a business relationship with a customer, and at regular intervals throughout the business relationship, depending on the risk rating of your customer.
- Whenever there is a change in the customer's circumstances or the nature of the business relationship. For example, change in ownership, nature of the products or services being offered, or transaction patterns (i.e., unusually complex transaction)

The following are the risk factors that must be taken into consideration when conducting a comprehensive CRA:



Customer Risk



Jurisdictional
Risk



Product/Service/
Transaction Risk



Delivery
Channel Risk



Other Risks,
that may be
applicable

➤ Risk factor categories and examples



Customer Risk Factors

- Nature of the business relationship (one-off interaction/repetitive transactions)
- Registered country and areas of operations
- The customer has nominee shareholders or shares in bearer form
- Use of large amounts of cash in the customer's business model
- The complexity of the legal, ownership or network structure of the customer
- The type of clients the customer serves (i.e., general consumers, high net worth individuals, PEPs, corporations)
- The most recent results of the National Risk Assessment ("NRA")



Jurisdictional Risk Factors

- Whether the customer's business presence and country of operations have effective AML/CFT systems in place
- Customer's primary business presence and country of operations' reputation in terms of the level and rates of corruption, terrorism, and money laundering, including whether said country is:
 - ♦ subject to sanctions, embargos or similar measures
 - ♦ involved in the funding or support for terrorism
 - ♦ characterized by the presence of terrorist organizations



Delivery Channel Risk Factors

- New products and/or new business practices involving new delivery channels for new and existing products, with newly developed technology
- Assessment of customer acquisition methods and/or relationship management with respect to the channel that the primary product/service is offered through
- The use of non-face-to-face channels (i.e., through electronic means), especially when the customer lacks safeguards for means of electronic identification
- The use of third-party business introducers, agents or distributors



Product/service/transaction type risk factors

- One-off interaction/repetitive transactions
- Cross border transactions from high-risk jurisdictions
- Providing nominee services
- Involves private banking
- Customer requesting to set up of a complex structure to hide the beneficial owners' identity
- Operating a crypto exchange
- Customer dealing in dual use goods
- Payments received from unknown or unassociated third parties
- Non-face-to-face business relationship
- A product, service or transaction that might allow for anonymity or confusion of the true identity of any of the parties involved in the transaction
- New products and new business practices, including new delivery mechanisms or the use of new or developing technologies for a new or pre-existing product



Other Risk Factors

- Newness and/or innovation of product, service, or delivery channel, which may not have been established in the market yet
- Assessment of operational processes with respect to cyber security, use of third parties and/or virtual assets

➤ Example of customer risk factors for Auditors



- Type, complexity, country of origin and transparency of the customer (i.e., whether the customer is a single legal entity or part of a larger and complex group)



- Use of corporate vehicles, companies (including shell companies), and legal structures (such as trusts)



- Industry or sector in which the Auditor's customer operates (i.e., whether they are associated with a higher risk of ML/FT considering the results of the NRA and other sectoral risk assessments)



- Poor controls over and/or misuse of client accounts (e.g., blending of firm and client funds)



- Channel by which the Auditor's customers are introduced and communicate (e.g., face to face interactions versus remote communication)



- Type, size, complexity, transparency, and geographic origins of transactions associated with the customer



- Unusual nature of the financial arrangements or circumstances associated with the customer, particularly compared with what is considered normal practice

➤ Example of customer risk factors for Real Estate Sector and Company Service Providers (CSPs)



- Type, complexity, country of origin and transparency of the customer (whether the customer is an individual or legal person and part of a larger corporate group)



- Customer's country of origin (whether they are a UAE national, UAE resident or a foreign customer, and whether they are associated with a high-risk country)



- Channel by which the customer is introduced (e.g., referrals versus walk-in customers, or customers sourced via the internet)



- Type, size, complexity, transparency, and geographic origins of financial instruments and/or arrangements associated with the transactions



- Unusual nature of the financial instruments or arrangements associated with the transaction, particularly compared with what is normal practice in the local market

Example of customer risk factors for Dealers in Precious Metals and Stones



Type, complexity and transparency of the customer (whether the customer is a natural or legal person, part of a larger corporate group, and is associated with a PEP)



Country of origin of the Precious Metals and Precious Stones ("PMS"), including the assessment of the mining risk:

- Is it a high-risk country, such as product or trading hub for PMS, which is subject to international financial sanctions?
- Does it have a low scoring on the transparency scoring or corruption index? Is it a known location for the operation of criminal or terrorist organizations with poor oversight from the government?
- Does it have appropriate regulations and controls? Is it considered to be a Conflict-Affected and High-Risk Area?



Residence status of the customer (whether they are a UAE national, UAE resident or a foreign customer, and whether they are associated with a high-risk country)



Channel by which the customer is introduced (e.g., referrals versus walk-in, international versus domestic, in-person or via the internet or other media)



Types of the products, including quantity, level of purity, value and form (whether physical or virtual, raw/rough or processed/finished), portability and potential for anonymity



Type, size, complexity, cost and transparency of the transaction (including whether the physical or virtual exchange of products is involved); this includes whether the means of payment appear to be consistent with the customer's known income and local market practices



Unusual nature of the transaction as compared with what is normal practice in the local market; this may include requirements to speed up the transaction beyond what is customary, unusual delivery requirements, or unusual requests for secrecy

