



# OVERVIEW OF TRANSACTION MONITORING AND SUSPICIOUS TRANSACTION REPORT FILING PRACTICES BY FSC LICENSEES

JULY 2021



# OUTLINE

INTRODUCTION

STR QUESTIONNAIRE FINDINGS AND ANALYSIS

RESPONSIBILITIES OF CONDUCTING TM AND  
FILING STRS

WAYS TO PROCESS AND CONDUCT TM

CONCLUSIONS



## ROLE OF THE FINANCIAL SERVICES COMMISSION (THE "FSC")

FSC is the integrated regulator for the non-banking and the global business sectors.

FSC is also the Anti-Money Laundering / Countering the Financing of Terrorism ("AML/CFT") supervisor for the Financial Institutions covered under the Financial Intelligence and Anti-Money Laundering Act ("FIAMLA") 2002.

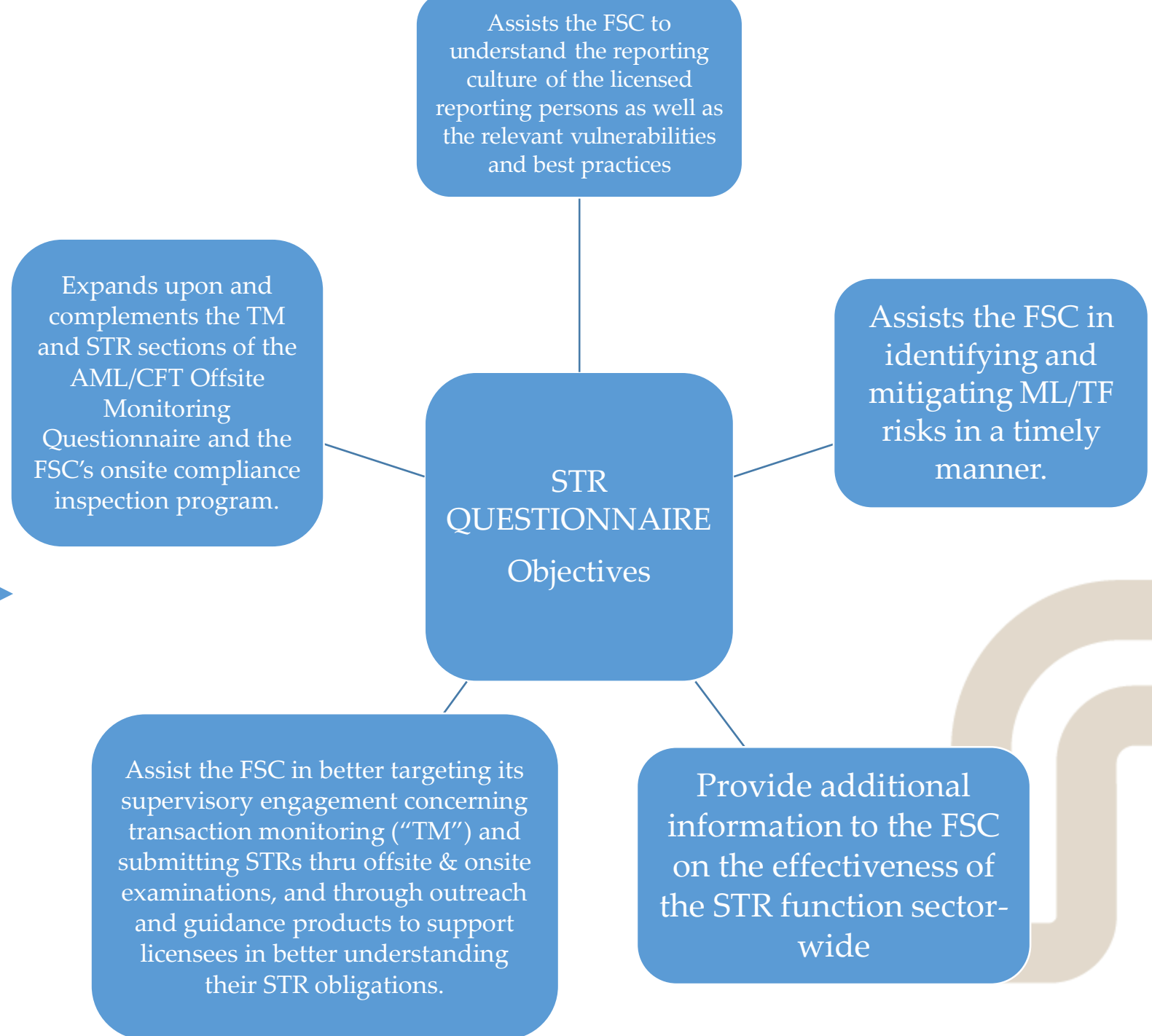
## OBLIGATION OF THE FINANCIAL INSTITUTIONS ("FI")

The FIs under the aegis of the FSC, are required by law to file suspicious transaction reports ("STRs") to the Financial Intelligence Unit (the "FIU").

If an FI suspects or has reasonable grounds to suspect that funds are the proceeds of crime or are related to terrorism financing, they need to report this to the FIU.



In October 2020, the FSC launched a Transaction Monitoring and Suspicious Transactions Report Thematic Questionnaire (“STR Questionnaire”)



## TARGETED LICENSEES - SAMPLING

Sample of 280 targeted FSC licensees

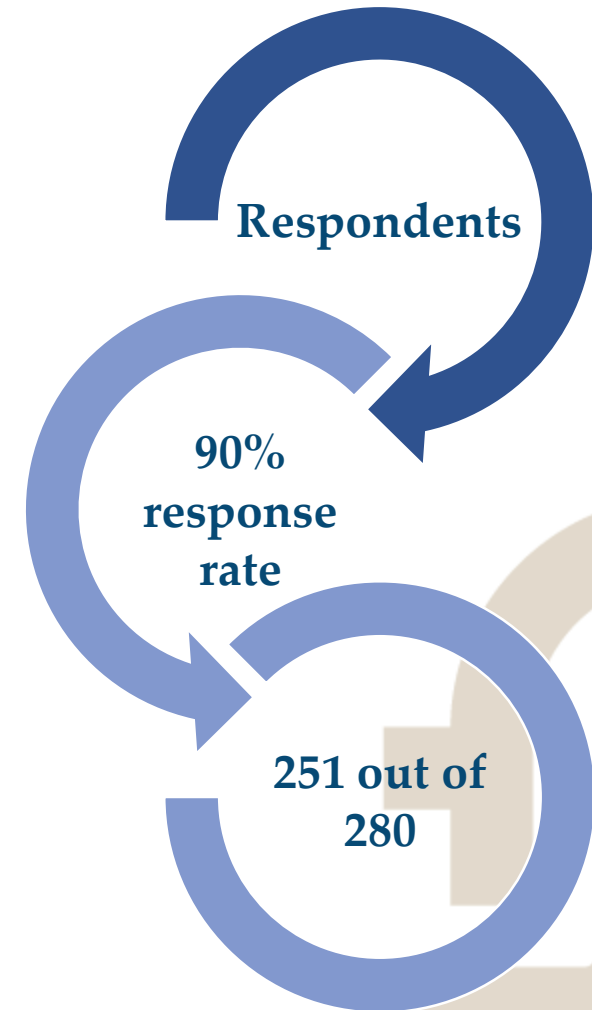
79% of the targeted Management Companies (“MCs”)

12% of the targeted Collective Investment Scheme managers  
 (“CIS Managers”)

- 8% of the targeted funds
- 5% of the targeted Investment Advisors

60% of the targeted Payment Intermediary Services  
 Companies

56% of the targeted Long Term Insurance Business  
 Companies.



# SECTORS

## Trusts and Company Service Provider (“TCSP”)

- Management Companies, Corporate Trustees, Global Legal Advisory Services and Global Headquarters Administration

## FinTech

- Payment Intermediary Services

## Insurance

- Long-term Insurance Business, General Insurance Business, External Insurance Business, Professional Reinsurer, Professional Reinsurer (Protected Cell Company), Insurance Manager, Insurance Broker, Pure Captive Insurer, Actuarial Services

## Investment Funds (“IF”)

- CIS and CEF (funds), Custodian, CIS Manager, CIS Administrator, Asset Management, Distribution of Financial Products, Custodian Services (Non-CIS)

## Capital Markets

- Registrar and Transfer Agent, Leasing, Factoring, Credit Finance, Credit Rating Agencies, Investment Banking, Treasury Management, Securities Exchange, Clearing and Settlement Facility, Securities Trading Exchange, Investment Dealer, Investment Adviser, Foreign Investment Dealer, Global Treasury Activities

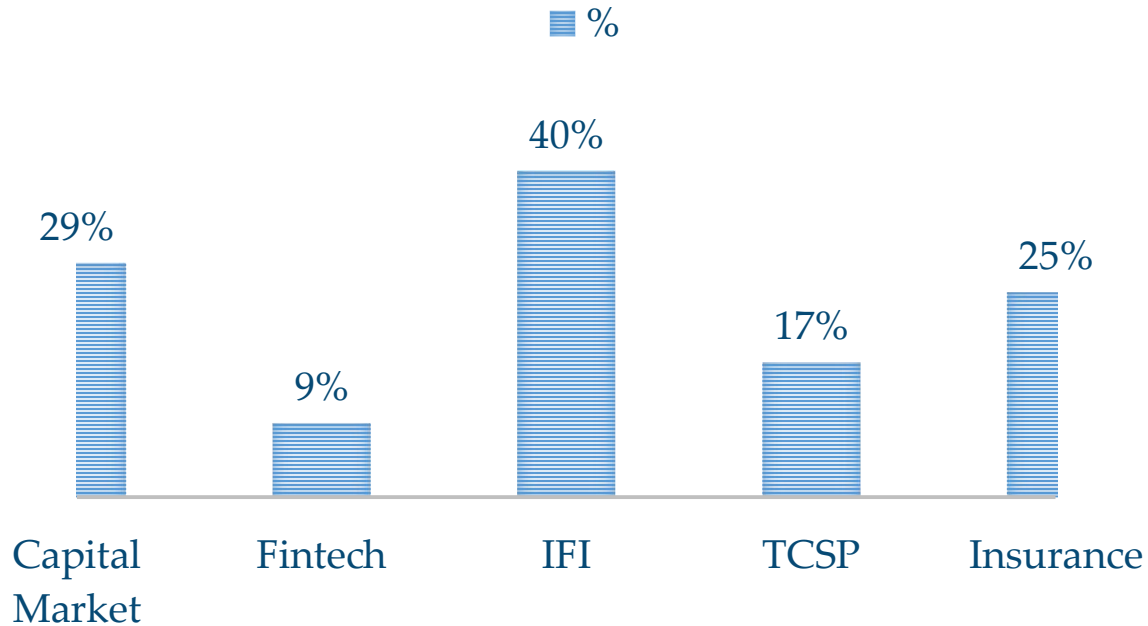
## Pension

- Pension Scheme Administrators

# SET-UP OF A RISK-BASED TRANSACTION MONITORING ("TM") AND STR FILING SYSTEM

## BUSINESS RISK ASSESSMENT ("BRA")

PERCENTAGE OF RESPONDENTS  
WITHOUT A BUSINESS RISK  
ASSESSMENT



- ☞ Majority of the respondents are actually carrying out Risk Based Approach ("RBA") with respect to BRA;
- ☞ 40% of the IF respondents and 17% of the TCSP respondents have not yet conducted a BRA;
- ☞ Two-third of the respondents are carrying out a BRA;
- ☞ 88% of the respondents report that they set up policies and procedures to perform TM of the activities of their clients systematically; and
- ☞ Overall, licensees carry out a BRA notwithstanding the (limited) size of staff and the high number of transactions per year.

# SET-UP OF A RISK-BASED TM AND STR FILING SYSTEM

## Full Time Equivalent Staff (“FTE”) with respect to BRA

- As per the results of STR Questionnaire, it is seen that FTE does not seem to be a determining factor for licensees to carry out a BRA.
- Average number of FTEs involved in TM for respondents carrying out BRA is the same as for those that do not do so which is an average of 2.5 FTE.
- 62% of the respondents with a low number of staff available (1-3 FTE) are still carrying out their BRA across all targeted clusters.

## Number of transactions with respect to BRA

- The maximum number of respondents (31%) which carry out BRA are those having 1,001 – 100,000 transactions per year, showing that companies with a high number of transactions tend to be more effective in implementing a BRA.
- In order to implement an adequate RBA and to come to a risk-based TM and STR filing, a BRA needs to be conducted systematically irrespective of the number of transactions that are processed by the licensee.



# RESPONSIBILITIES OF CONDUCTING TM AND FILING STRs

## IN-HOUSE OR OUTSOURCED TM AND STR FILING

As per the STR Questionnaire, the following were considered for in-house and outsourced TM:

### In-house TM:

- ☼ In-house by the licensees themselves;
- ☼ By the parent company of the licensee;
- ☼ By the CIS manager on their own behalf; and
- ☼ By the management company on their own behalf.

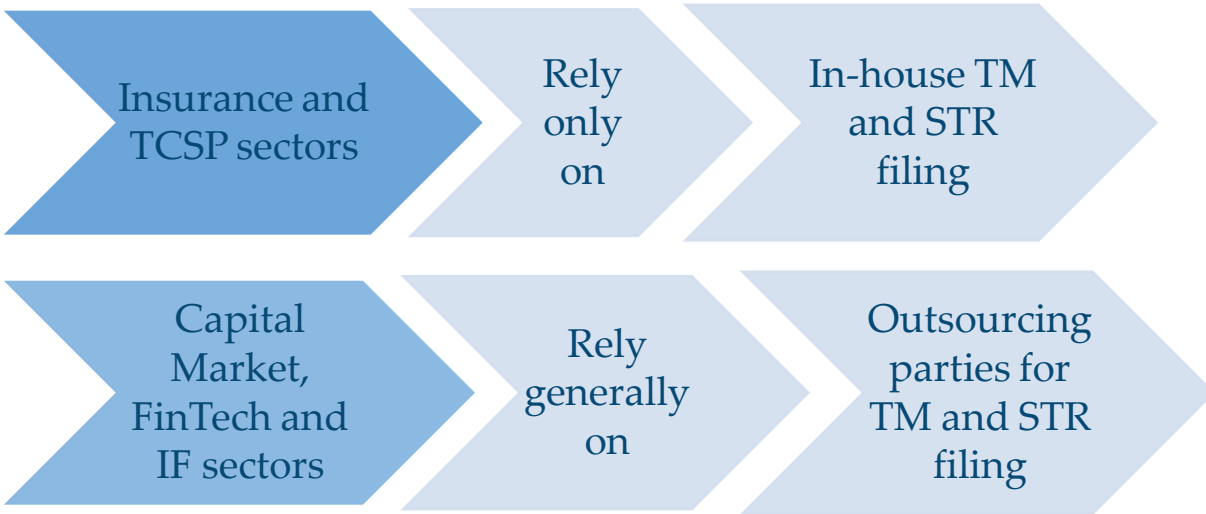
### Outsourced TM:

- ☼ By the CIS manager for funds under their management;
- ☼ By the management company for entities under their administration; and
- ☼ Other third parties.

# RESPONSIBILITIES OF CONDUCTING TM AND FILING STRS

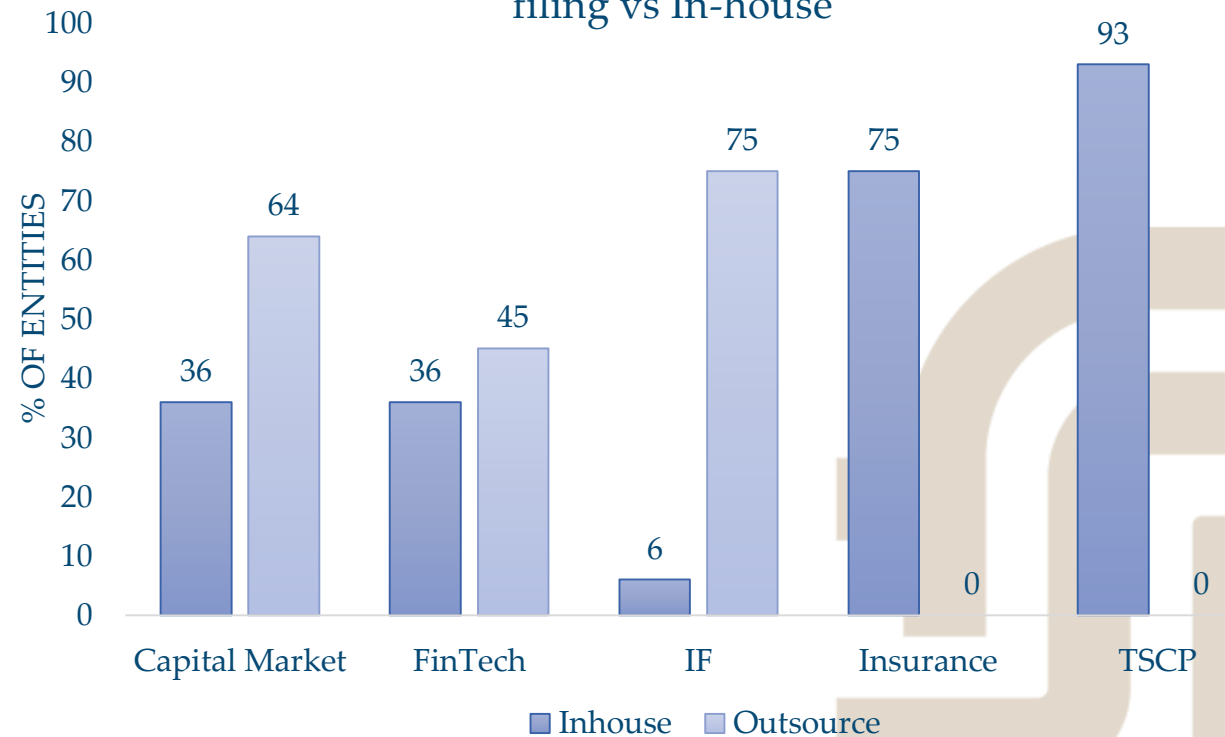
## IN-HOUSE OR OUTSOURCED TM AND STR FILING

The chart captures only entities which have responded to the specific question on in-house or out-sourced TM.



In the majority of cases where TM is being outsourced, this is done by the MCs administering the licensees.

Percentage of Entities using Outsourced TM and STR filing vs In-house



INHOUSE VS OUTSOURCE

# RESPONSIBILITIES OF CONDUCTING TM AND FILING STRS

## In-house or outsourced TM and STR filing cont'd

Chart 1

### Transaction Review (“TR”) for In-house and Outsourced TM

Chart 1 depicts that across the sectors, except for the IF sector where TM is carried out in-house, the percentage of entities that have their transactions reviewed across the targeted sectors is generally above 90% whether TM is outsourced or carried out in-house.

For the IF sector, only 57% of the entities (which have in-house TM) have their transactions reviewed despite having on average 2 staff for the review which is similar for outsourced TM whereby 94% of entities are able to review the transactions processed.

Charts 1 and 2 show that there are generally on average 2 to 3 staff available for TR across the targeted sectors irrespective of outsourced or in-house TM.

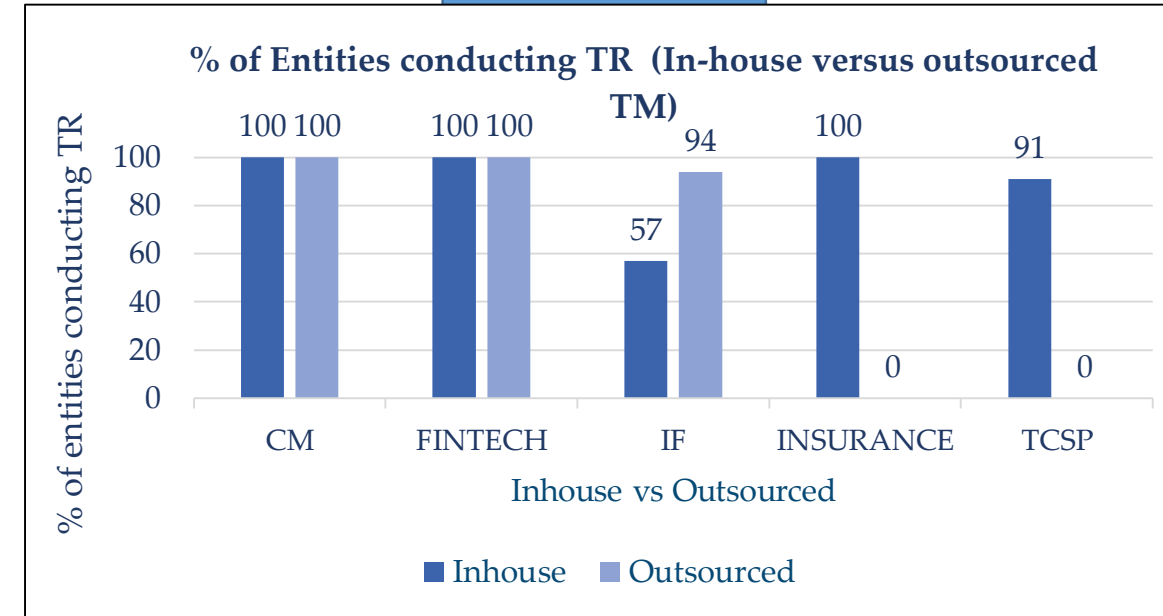
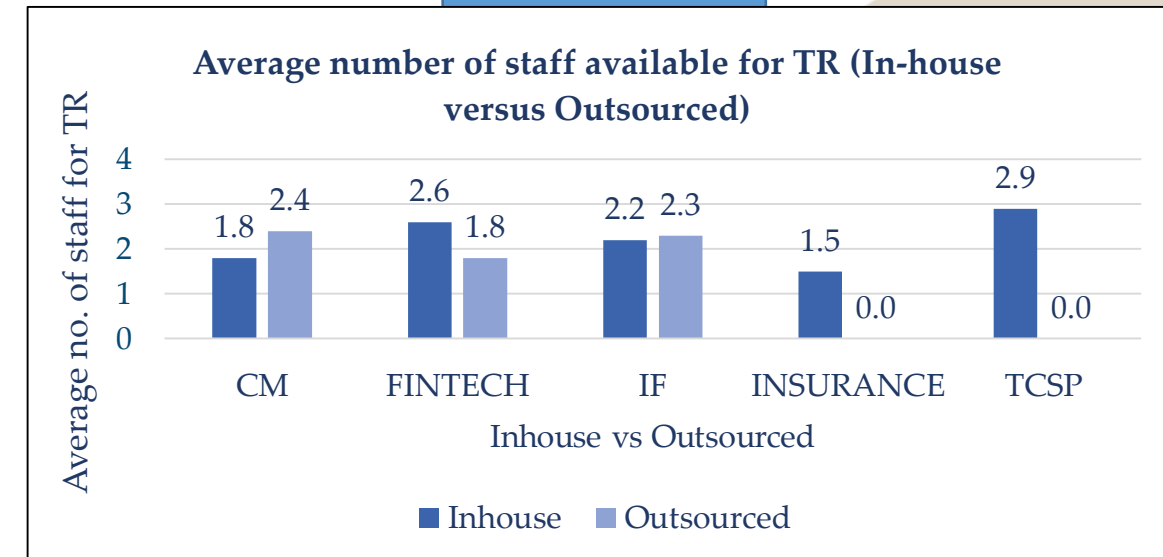


Chart 2

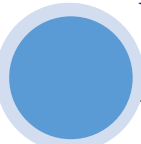


# RESPONSIBILITIES OF CONDUCTING TM AND FILING STRS

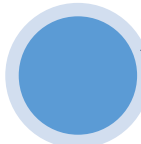
## FIRST LINE OF DEFENSE (“1<sup>ST</sup> LOD”)

The respondents have reported that their 1<sup>st</sup> LOD has the following related AML/CFT responsibilities, across sectors:

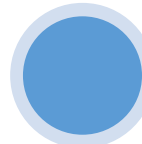
- Verification of all the transactions being processed for the licensees and if any transactions are being made to sanctioned countries;
- Verification that any transaction being processed by the licensees is in line with its client’s business plan and business activity and in some cases against their clients’ risk rating;
- Ensure that customer due diligence (“CDD”) is carried out on the parties transacting with the licensee; and
- Ensure that enough supporting documents are available before any transaction is processed.



Except for the respondents from the Insurance and TCSP clusters, no respondents have reported that their 1<sup>st</sup> LOD have the responsibility of staying well informed with AML/CFT legislative updates.



Not all respondents have reported that their 1<sup>st</sup> LOD are responsible for ensuring that transactions are processed in line with the policies and procedures manual of the entities which should be in compliance with FIAMLA 2002 and its supporting legislations.



Most respondents have not reported that their 1<sup>st</sup> LOD has the responsibility of monitoring the frequency of transactions.

# WAYS TO PROCESS AND CONDUCT TM

## Type of TM and the corresponding number of FTEs available for transactions review

- ☉ The data collected from the STR questionnaire shows that the majority of entities falling under the different clusters performed mainly manual TM and below are the highlights observed:

### Highlights

The TCSP cluster, has 75 entities which conduct TM manually, 1 entity carrying out TM automatically and 26 entities which conduct both manual and automatic TM. It can be examined that as the number of transactions increased, the average FTE also raised. The same trend can be evaluated for the IF cluster.


However, it can be noted that for entities across the targeted clusters processing more than 10,000 transactions per year have only 1 to 3.5 FTE available for the review (except for the TCSP sector having transactions between 10,001 and 100,000 for TM done manually). This questions the quality of the review being made given the size of the transactions.

# WAYS TO PROCESS AND CONDUCT TM

## Transactions review and access to information



223 entities agreed that their 1<sup>st</sup> LOD has access to clients' files and customer due diligence information.

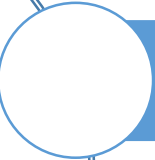


The respondent licensees have reported that their 1<sup>st</sup> LOD, is responsible for collecting all information including due diligence on the client at the on boarding stage. The 1<sup>st</sup> LOD also considers the business activity/business plan of the company to ensure the transaction is in line with the aligned objective.




Real time monitoring is done and is subject to two senior approval review as self-reported by some of the respondents. One entity also mentioned that it has appointed authorised signatories to assess the risks before authorising and processing daily transactions.

## Second Line of defense



205 entities agreed that they have 2<sup>nd</sup> LOD/ Money Laundering Reporting Officer ("MLRO") in place to ensure requisite monitoring as per their AML/CFT manual. 2<sup>nd</sup> LOD ensured that the "four-eye" principle is applied accordingly.

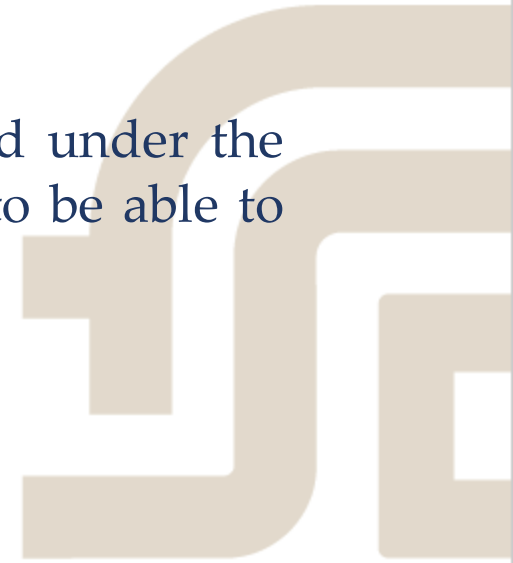


The respondents reported that their for high volumes of transactions, the 1<sup>st</sup> LOD is trained to identify clients who make investments which are not in line with their usual patterns of investing. As such, they have access to client's full CDD documents in case of suspicious transactions.

# REGISTRATION OF REPORTING PERSONS



All FSC licensees falling under the category of Reporting persons as defined under the FIAMLA 2002 have to register on the GoAML platform of the FIU in order to be able to file STRs.





# WHEN TO FILE AN STR

From the results of the questionnaire, it could be seen that only 23% of the respondents took into account all the below mentioned risk factors and indicators prior to filing an STR:

## FATF Recommendation corner

The current FATF standard establishes the obligation for financial institutions to report STRS under Recommendation 20:  
*"If a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required, by law, to report promptly its suspicions to the financial intelligence unit."*

### Risks factors as set out in the STR Questionnaire are as follows:

- Offshore clients with no face-to-face contact;
- High net worth clients with unclear source of wealth;
- Complex client corporate structures that obscure beneficial ownership;
- Pooled investment vehicles that obscure beneficial ownership;
- Aggressive client tax strategies;
- Politically exposed persons ("PEPS");
- High risk competitive jurisdiction;
- High-risk jurisdictions (corruption);
- Use of cash; and
- Non-compliance with AML/CFT obligations.

### All the indicators as laid down in the STR Questionnaire are as follows:

- Unable to identify/verify client or beneficial owner;
- Evasiveness by the client;
- Client wishes to avoid record keeping or reporting;
- Transactions with no clear economic purpose;
- Unnecessarily complicated transaction structure;
- Client shows lack of concern or knowledge with transactions;
- Source of funds/wealth are unclear;
- Transaction volume/value not in line with client profile;
- Sudden change in client activity;
- Structuring of transactions to avoid reporting thresholds;
- Client uses a third-party nominee to conduct business;
- Transactions with high risk jurisdictions;
- Negative news reports about the client;
- Client is a designated person on sanctions lists;
- Client has accounts with several financial institutions in one geographical area;
- Client has no employment history but makes frequent large transactions;
- Immediately after transferred funds have been cleared, the client moves the funds to another account or to another individual or entity; and
- Activity suggests that transactions may offend securities regulations or the business prospectus is not within the requirements.



# WHEN TO FILE AN STR

Only 9% respondents consider that once they notice any indication at all of unusualness in any transaction, they should proceed with filing an STR. The respondents seem to be applying too high a threshold for filing an STR given that they are awaiting preliminary investigations which indicate any crime may have been committed, preliminary investigations that indicate that ML/TF may have been committed, extensive investigations that indicate that any crime has probably been committed and extensive investigations indicating that ML/TF has probably been committed.

The 3 main risks that the respondents face, as self-reported, are offshore clients with no face-to-face contact, PEPs and high risk jurisdictions. Below is an analysis of the main risks faced by the respondents:

- 1
  - 58% of the respondents consider offshore clients with no face-to-face contact as one of the main risks they face. 98% of these respondents consider the inability to identify/verify client or beneficial owner as the indicator for suspicious transaction. These respondents are still applying too high a threshold for filing of STR as only 34% of them are actually filing an STR once they identify any indication of unusualness in a given transaction.
- 2
  - 66% of the respondents take PEPs as another main risk that their business faces and 94% of these respondents consider negative news reports about the client and 99% of the respondents consider clients which are designated persons on sanctions lists as the corresponding indicators for the risk identified. Only 29% of these licensees are proceeding with the filing of an STR once they have noticed any sign of unusualness in the transaction.
- 3
  - 53% of the respondents consider high risk jurisdictions as yet another main risk that they face in their business and 90% use transactions with high risk jurisdictions as the corresponding indicator for suspicious transactions. However, only 32% of these licensees are filing an STR only upon identifying any sign of unusualness in transactions.

### FIAMLA Corner

#### *Section 14: Reporting of suspicious transaction by reporting person or auditor*

*(1) Notwithstanding section 300 of the Criminal Code and any other enactment, every reporting person or auditor shall, as soon as he becomes aware of a suspicious transaction, make a report to FIU of such transaction not later than 5 working days after the suspicion arose.*

# When to file an STR

### Findings from the questionnaire:

- 76% of the respondents took 1 to 7 days on average to file an STR with the FIU.
- In some cases, licensees from the IF cluster (4%) took around 61 to 120 days to file an STR report and for Insurance cluster, one entity took 8 to 14 days to report same.
- After filing of an STR, around 73% of entities reported that they did not find any crime which has been probably committed after extensive investigations.
- Almost all licensees consider the inability to identify/verify client or beneficial owner as the indicator for suspicion when understanding the risk of offshore clients with no face-to-face contact.
- A majority of the respondents consider negative news reports about the clients which are designated persons on sanctions lists as indicators when they consider PEPs as a risk that their business faces.
- Licensees need to consider any single indication of unusualness to file an STR.
- A relatively low percentage of licensees find offshore clients with no face-to-face contact as a main risk that their business faces.

### FATF Recommendation corner

*The non-tipping off obligation and confidentiality rules are spelled out in the FATF recommendation 21:*

*Financial institutions, their directors, officers and employees should be:*

- *Protected by law from criminal and civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the FIU, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred; and*
- *Prohibited by law from disclosing (“tipping-off”) the fact an STR or related information is being filed with the FIU. These provisions are not intended to inhibit information sharing under Recommendation 18.*

### Note:

The longer it takes to file an STR, the greater the risk of tipping off the client and also the risk of the transaction being processed before the STR is filed.

# WHEN TO FILE AN STR

## 1. Impact of STRs filed on the performance rating of MLROs

- ☼ 219 respondents answered that the number of STRs filed does not affect the performance rating of the MLRO. MLROs are encouraged to file an STR if they suspect or have reasonable grounds to suspect that funds are the proceeds of crime or are related to terrorism financing and hence this could be used as a key performance indicator (“KPI”) for MLROs.

## 2. Reporting of MLROs to Board on STRs

- ☼ 211 respondents were found to report to the Board about STRs. Majority of the respondents are effectively carrying out their duty and hence all MLROs are encouraged to report to the Board for any STRs filed. The reporting to the Board on STRs by the MLRO could be used as a KPI.

## 3. Internal review of the effectiveness of TM and STR filing

- ☼ 45% of these respondents that they have effective TM and STR filing processes which were achieving their objectives given that these licensees have adequate controls and documentation in place for the processes as compared to 55% who did not have effective TM and STR filing processes in place.

### FSC AML/CFT Handbook Corner

As per Section 10.2 of the FSC AML/CFT Handbook (the “Handbook”):

*The responsibilities of the MLRO will include, as stated in the FIAML Regulations 2018: providing reports and other information to senior management.*

## When to file an STR

The following can be included in order for processes to be strong enough in order to guard the licensees against ML/TF risks:

- ⌘ all payments and incoming of funds be approved by the compliance officer;
- ⌘ each remitter be screened to check transaction genuineness;
- ⌘ management to document the organisational structure with clear reporting lines, and formalise the reporting line for the STRs to the MLRO or Deputy MLRO (“DMLRO”);
- ⌘ checks to be put in place such that transactions be reviewed more quickly for instance there is no need to wait for monthly bank statements;
- ⌘ in some cases, the AML/CFT compliance of the manual be updated in line with the required regulations and acts to effectively capture TM and STR filing processes;
- ⌘ more frequent screenings be carried out against sanctions lists;
- ⌘ implementation of a documented assessment of the risks pertaining to AML/CFT faced by the licensee in its operational and management activities;
- ⌘ more AML/CFT questions to be added to the TM checklist used by the 1st LOD;
- ⌘ a new sampling model be used by the 2nd LOD to conduct its second line TM such that there can be a global overview of the type of transactions being conducted by the clients of the licensee;
- ⌘ more training be given to the 1st LOD to assist them to identify red flags that trigger an internal STR;
- ⌘ re-iteration of the autonomy and independence of the MLRO and the DMLRO of the entities; and
- ⌘ implementation of proposed improvements in the IT system in order to enhance the effectiveness of support in the monitoring of customer profiles / risk assessments.

### FSC AML/CFT Handbook Corner

As per Section 10.2 of the FSC AML/CFT Handbook (the “Handbook”):

*The responsibilities of the MLRO will include, as stated in the FIAML Regulations 2018: providing reports and other information to senior management.*

## WHEN TO FILE AN STR

**Based on findings from the STR questionnaire, Some of the licensees have ineffective TM and STR filing processes in place given that they have incorrect processes which are as follows:**

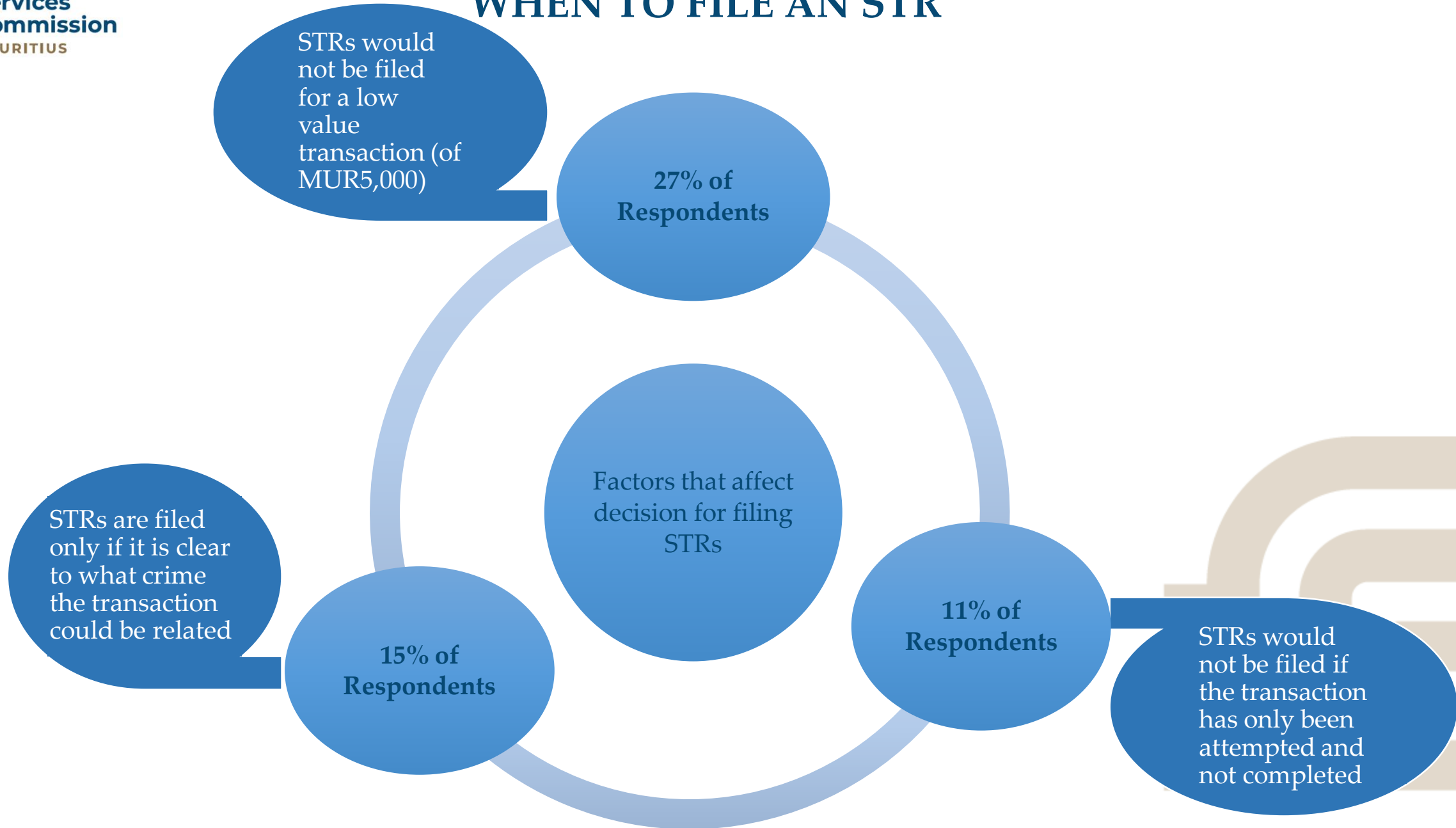
- ⌘ For some transactions, the TM is conducted after the investments are done which is incorrect given that post TM, even if a transaction is seen to be suspicious, the transaction would already have been processed and its ML/TF objective already met. After reviewing the effectiveness of the processes, it was agreed that all payments and incoming of funds must be approved by the compliance officer.
- ⌘ In some cases, the administrator of the entities is not correctly filing the control sheets for TM and therefore these control sheets often go missing. It is only upon seeing the report further to the independent audit that it was noted that those transactions were done without proper approval.
- ⌘ It could be noted in two cases that no report has been tabled to the Board to highlight the filed STRs. This represents a deficiency in the STR filing processes during the audit given that reporting of STRs to the Board should be part of the STR filing processes of the entities.

### FSC AML/CFT Handbook Corner

As per Section 10.2 of the FSC AML/CFT Handbook (the "Handbook"):

*The responsibilities of the MLRO will include, as stated in the FIAML Regulations 2018: providing reports and other information to senior management.*

## WHEN TO FILE AN STR



### Findings from the questionnaire:

Issues identified whereby MCs carry out TM

- Audit of TM and STR filing processes

It can be seen that an audit of the TM and STR filing processes of an entity helps to enhance such processes such that they are in line with the AML/CFT obligations of the entity. It is only with clear and robust processes in place that the individuals carrying out TM and STR filing within an entity can be properly guided to monitor and process transactions while being wary of the ML/TF risks that such transactions may present. While using the aforementioned updated processes for monitoring transactions, should any transaction show any indication of unusualness, an STR should be filed.

Cluster	Conduct of audit
Capital Markets	Out of the 50% of the targeted licensees from the Capital Market cluster, 75% of this population have effective TM and STR filing processes in place.
IF	Out of the 24% of the targeted licensees from the IF cluster, 71% of this population have effective TM and STR filing processes.



# WHEN TO FILE AN STR

## Findings from the questionnaire:

### Business Risk Assessment

- From the entities which have their MC carrying out their TM, 50% of Capital Market licensees and 59% of IF licensees do not have a BRA in place.
- Once a BRA has been carried out for the entities, the strategy to adopt for effective TM and STR filing can be properly established while taking into account the riskiness of their business. If instruction for a transaction received is not commensurate to the riskiness of its business, then, such transactions should be probed and any sign of unusualness should lead to the filing of an STR with the FIU. ♦

### Access to client files and CDD documents

- 96% of the respondents which have their MCs carrying out their TM, these MCs have access to all client files and CDD information of the licensees. Given that MCs carrying out TM is an outsourced service for the respondents, it is primordial for MCs to have easy access to all client files and CDD documents to be able to carry out in depth verification against such documents for any transaction being processed. It is with such a facility that the MCs can easily identify any suspicious transaction and hence, proceed with the filing of STRs.

### Identification of risks

- Only 22% of the targeted licensees which use their MC for TM consider all the aforementioned risks factors. This shows that the majority of the licensees whereby MCs carry out the TM, are not considering all the risks as identified in the questionnaire and as such it is not clear how they are effectively carrying out their RBA.



## WHEN TO FILE AN STR

### Main indicators of suspicious transaction

All the MCs carrying out TM for the licensees should be encouraged to update their existing TM and STR filing processes such that they take into account all the indicators. With such an update in the processes, MCs shall be better equipped to easily spot unusual transactions and hence promptly filing of STRs with the FIU.

The majority (76%) of the licensees which have appointed their MC for carrying out TM consider all the indicators for identifying suspicious transactions.

# CONCLUSION

## OVERALL RESULTS

### Objective of the STR Questionnaire

To support the FSC in monitoring its licensees on AML/CFT issues, and to identify and mitigate emerging ML/TF risks in a timely manner.

Licenses generally have policies and procedures in place for their TM and STR filings to be in line with their AML/CFT obligations.

A high percentage of entities which have reported that their transactions being processed are also reviewed.

Almost all the entities ensure that access to information is available for a more fruitful review of their transactions.

Entities having high volumes of transactions per year have a low number of full time employees available for the review.

MLRO should be trained on how to use the GoAML platform of the FIU for filing of STRs.

Entities must review their transaction monitoring process and provide relevant training to assist staff in recognising transactions that may be linked to ML/TF

Therefore, entities have to improve on the controls they have in place for detecting suspicious transactions by identifying the indicators for filing of STRs, reporting to the Board for STRs and audit of the TM and STR filing procedures.



THANK YOU

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