Summary of the FIN-FSA's supervisor-specific inherent risk assessment on money laundering and terrorism financing

Content

1 Overview

In accordance with chapter 2, section 2 of the Act on the Prevention of Money Laundering and Terrorist Financing (AML Act), the Financial Supervisory Authority (FIN-FSA) shall publish a summary of its assessment of the risks of money laundering and terrorist financing.

On 17 March 2020, the FIN-FSA published a summary of its assessment of inherent risk of money laundering for the first time. After the preparation and publication of the FIN-FSA's inherent risk assessment, on 29 April 2021, the national assessment of money laundering and terrorist financing risk was published. The FIN-FSA also contributed actively to this assessment.

The FIN-FSA has updated its inherent risk assessment of money laundering and the related risk assessment methodology so as to reflect the results of the national risk assessment project. At the same time, the inherent risk assessment of terrorist financing in sectors supervised by the FIN-FSA was prepared. In addition to the inherent risk assessments, an assessment was made regarding the impact of supervision on anti-money laundering and counter-terrorist financing.

In the FIN-FSA's risk assessment methodology, the sector-specific level of inherent risk refers to the general level of risk in a given sector to be taken advantage of in money laundering or terrorist financing, with a view to the products and services typically provided in the sector. The inherent risk assessment does not consider what kind of risks are related to the operation of individual supervised entities or what kind of risk management measures are used within the sector in general or by specific individual supervised entities.

Based on the AML Act, in assessing the level of inherent risk of money laundering in sectors under its supervision, the FIN-FSA has considered the following sources:

- National risk assessment
- Supranational risk assessment
- EBA Risk Factors Guidelines
- AML/CFT reviews and reports of the Financial Intelligence Unit of the National Bureau of Investigation
- Information obtained in the scope of cooperation among authorities

- FATF Evaluation Report of Finland and information collected in connection with the country assessment

In addition to the above, findings made by the FIN-FSA in the conduct of its supervision work were taken into consideration.

The inherent risk assessment is used as the basis for the FIN-FSA's more detailed sector-specific risk assessments and supervised-entity-specific risk assessments. The summary of the inherent risk assessment may also be utilised by supervised entities in preparing an obliged entity's risk assessment.

The following risk rating scale is used in the inherent risk assessment[1]:

Very Significant
Significant
Moderately Significant
Less Significant

Entities with the same level of risks are not presented in an order of risk in the inherent risks tables. That is, the table does not indicate the level of inherent risk of a sector, relative to other sectors in the same risk bracket.

The table does not separately specify the following obliged entities:

- Insurance agents: The risk level related to insurance agents' products and services is determined based on the products (life and/or non-life policies) provided by the insurance broker.
- Insurance associations (5 fishing insurance associations) are included in the category Non-life insurance companies.

No inherent risk assessment has yet been made on the following (number of entities):

- Central securities depository (1)
- Account operators (7)
- Depositories (7)
- Employee pension insurance companies (4)

[1] *The assessment applies a four-tier scale consistent with the one used by the EBA*

2 Summary of the assessment of inherent risk of money laundering

The ways of committing money laundering are linked to the activity through which the assets to be laundered have been obtained. Typical precedent crimes to money laundering detected in Finland include fraud, embezzlement, theft, narcotics offences and debtor's offences. Typical to the predicate offences mentioned is that the funds obtained through crime are transferred from a party, a service, and an asset class to another.[2]. These transfers may be cross-border transfers.

From the FIN-FSA's perspective, there is an elevated inherent money laundering risk involved in products and services enabling the entry of funds into the legitimate payment system, as well as the custody and transfer of these funds. Factors elevating the risk include, among other things, the possibility provided by the product or service to transfer funds fast. Risk is also elevated where the transfer of funds involves several different products and/or services not provided by the same service provider. In particular, there is elevated risk attached to products and services that have international dimensions. Examples of international dimensions include the international payment traffic and the provision of services to customers residing outside Finland. Therefore, sectors providing payment services and facilities to deposit funds are rated high in the inherent risk assessment.

The inherent money laundering risk of products and services is also indirectly affected by the customer groups to which they are targeted. Services pertaining to institutional clients may involve an elevated risk of money laundering particularly in circumstances where it is challenging to identify the ownership structure and beneficial owners.

The FIN-FSA's assessment of the inherent levels of risk in sectors supervised by it under the AML Act:

Sector	Number of obliged entities[3]
Payment Service Providers (excl. money remittance)	59
Money Remittance (excl. other PSPs)	12
Virtual Currency Service Providers	6
Deposit Banks	188
Other Credit Institutions	19
Investment Service Providers	52
Fund Management Companies	30
Crowdfunding Companies	12
Alternative Investment Fund Managers	135
Life Insurance Companies	12
Non-Life Insurance Companies	55
Housing Loan Brokers	4

The inherent money laundering risk levels of the sectors are consistent with those in the summary published in 2020.

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[2] *For example, depositing cash to an account, cash withdrawals, currency exchange, exchange of fiat currency to crypto currencies and vice versa.*
Number of entities under the reporting obligation on 2 March 2022, including branches operating in Finland. The inherent risk assessment of 2020 excluded the branches of foreign insurance companies. Therefore, the increase in the numbers doesn't mean that new authorisations have been granted.

3 Summary of the inherent risk assessment of terrorist financing

Terrorist financing differs from money laundering in that terrorist financing can be made with funds from fully legitimate sources. From the perspective of meeting the definition of terrorist financing, the purpose of use of the funds is decisive.[4]

From the perspective of entities supervised by the FIN-FSA, there is elevated inherent risk of terrorist financing involved in products and services enabling the custody of funds so that they can be transferred readily from a person or service to another. In particular, there is risk involved in products and services enabling the cross-border transfer of funds almost in real time, and which allow the withdrawal of funds in cash.

From the perspective of terrorist financing, there may also be elevated risk attached to products and services used in fund-raising purposes.

The FIN-FSA's assessment of the inherent levels of terrorist financing risk in sectors supervised by it under the AML Act:

Sector	Number of obliged entities[5]
Payment Service Providers (excl. money remittance)	59
Money Remittance (excl. other PSPs)	12
Virtual Currency Service Providers	6
Deposit Banks	188
Other Credit Institutions	19
Crowdfunding Companies	12
Life Insurance Companies	12
Non-Life Insurance Companies	55
Investment Service Providers	52
Fund Management Companies (UCITS)	30
Alternative Investment Fund Managers	135
Housing Loan Brokers	4

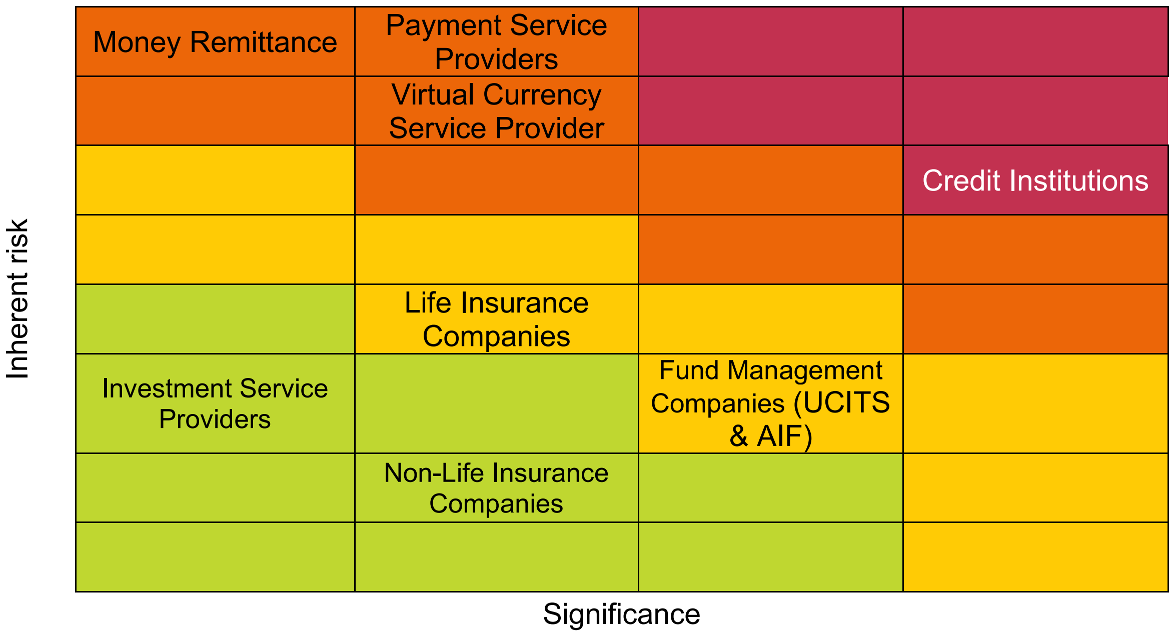
In the preparation of the inherent risk assessment of terrorist financing, there was much less material available than in the preparation of the inherent risk assessment of money laundering. Hence, part of the sector-specific inherent risk assessments is largely based on the national and supranational risk assessment of sector-specific risk.

[4] Terrorist financing means the activities referred to in chapter 34-a, sections 5, 5-a and 5-b of the Criminal Code.
[5] Number of entities under the reporting obligation on 2 March 2022,

4 Supervisory focus

In addition to the inherent risk assessment, the FIN-FSA has assessed the significance of each sector under its supervision from the perspective of anti-money laundering and counter-terrorist financing.

In preparing the assessment, the inherent risk of money laundering and terrorist financing in each of the sectors was taken into account. Furthermore, the number of customers and amount of funds flowing through each sector was considered.



Scale:

The role of the sector in anti-money laundering and counter-terrorist financing is:

Very Significant
Significant
Moderately Significant
Less Significant