

The background image shows a scenic view of a European town, likely in Switzerland or France, featuring a hillside with traditional buildings and a church spire. The scene is partially obscured by blue geometric overlays. The title text is positioned on the left side, overlaid on a dark blue triangular shape.

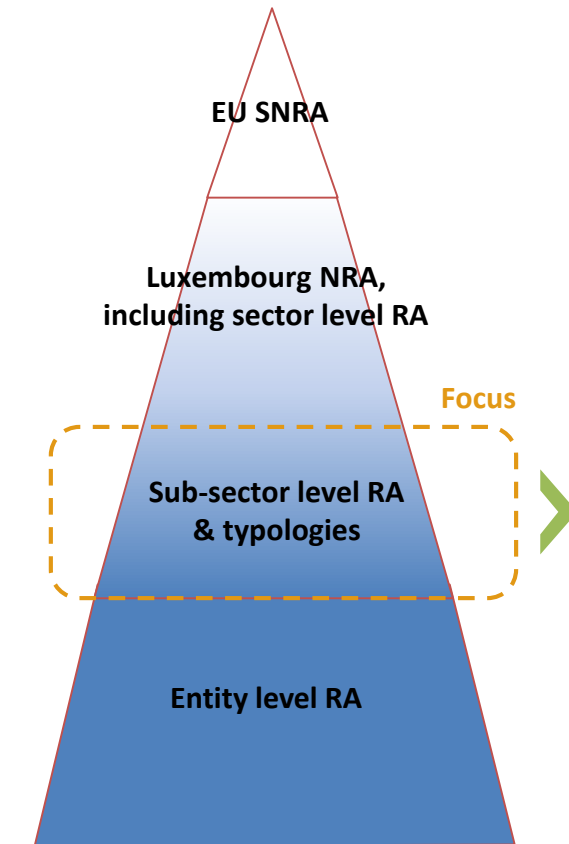
Private Banking Risk Assessment

A large blue geometric overlay, consisting of a triangle and a rectangle, covers the right and bottom portions of the slide. The text is centered within the rectangular part of this overlay.

Claude Wampach
CSSF, Director

Why a sub-sector risk assessment on Private Banking?

Following the publication of the NRA, CSSF is reviewing specific higher risk sub-sectors...



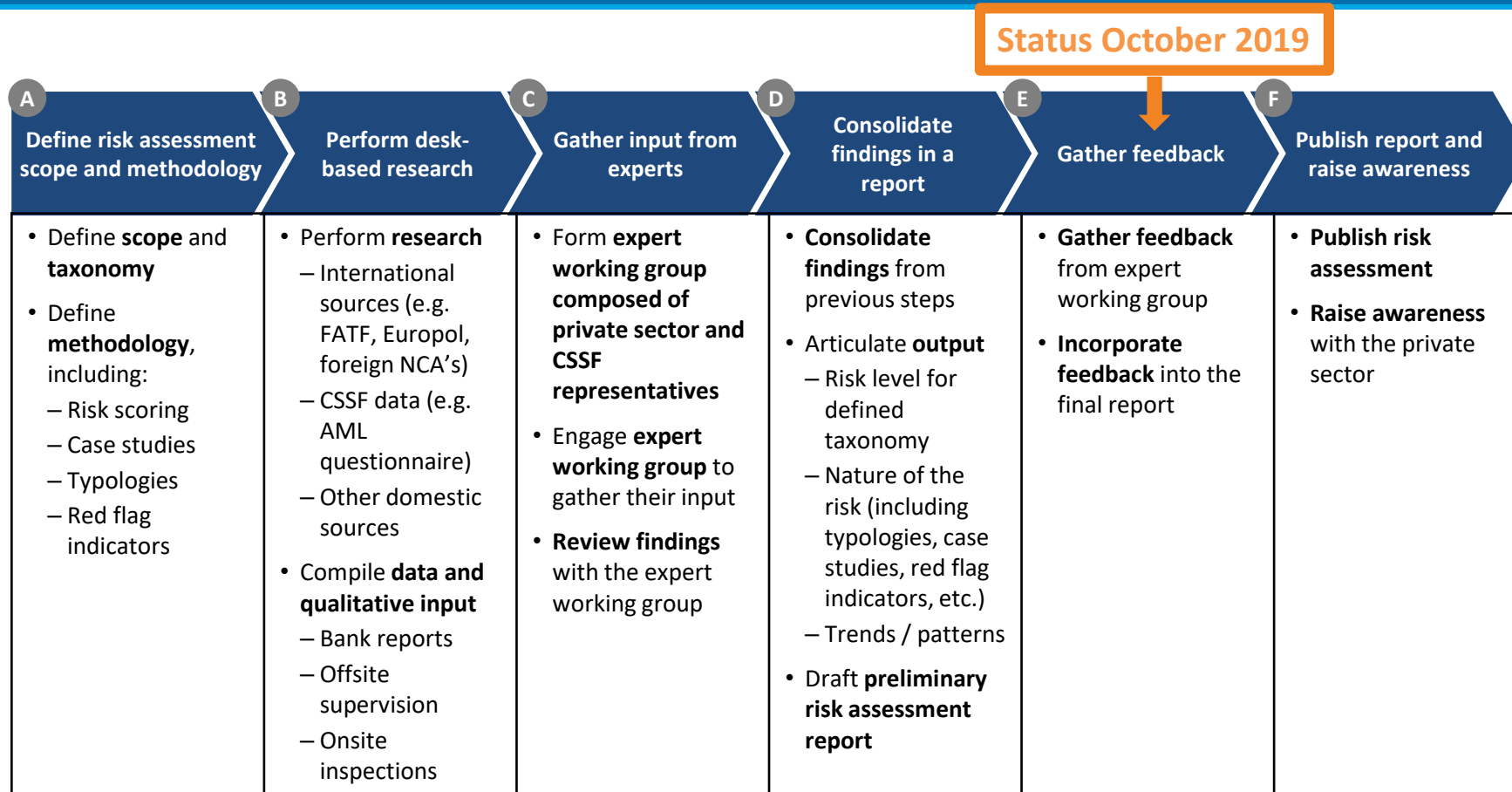
Key objectives:

- Increase **understanding** of ML/TF risks in the sub-sector
- Act as **resource for CSSF** in supporting its supervisory activities
- Act as **resource for industry** in informing own ML/TF risk assessments
- Support **public-private interaction**

... among which private banking in line with the NRA’s finding of “Very High risk”

Sector	Inherent ML/TF risk	Sub-sectors	Inherent ML/TF risk
Banks	High	Retail & business banks (incl. payment services)	High
		Wholesale, corporate & investment banks	High
		Private banking	Very High
		Custodians and sub-custodians (incl. CSDs)	High

Six-step approach to conduct the sub-sector risk assessment









The output will include risk scores per taxonomy element as well as **typologies, case studies, red flag indicators, trends & patterns, etc.**






Taxonomy encompasses six key areas of activity

Category	Taxonomy	Description	Examples (non-exhaustive)
Asset management	Custody of financial assets	Provide custody of stocks, bonds and other financial assets along with all related back office services.	<ul style="list-style-type: none"> • Custody of securities and deposits • Back office administration (dividends, interest, corporate actions, etc.)
	Investment services	Optimise clients' financial investments according to agreed objectives.	<ul style="list-style-type: none"> • Discretionary portfolio management • Advice on investments
Ancillary services	Current account banking	Provide services meant to satisfy clients' day-to-day banking needs.	<ul style="list-style-type: none"> • Current account & payment instruments • Standard savings solutions (e.g. savings account) • Electronic payments
	Credit solutions	Provide money or resources to clients with no immediate reimbursement. Credit solutions typically include the provision of credit lines to improve portfolio returns (e.g. fixed advances) as well as loans and mortgages unrelated to portfolio investments.	<ul style="list-style-type: none"> • Investment lines (e.g. margin lending) • Loans and lending solutions unrelated to investment services • Mortgages
	Wealth structuring	Perform long-term management and preservation of wealth.	<ul style="list-style-type: none"> • Family office services • Wealth governance and inheritance structures • Tax planning
	Insurance solutions	Distribute life and non-life insurance solutions to clients.	<ul style="list-style-type: none"> • Life insurance products • Non-life insurance products (e.g. for property, automobiles, art)

Inherent ML/TF risk of each area of activity assessed along five risk factors

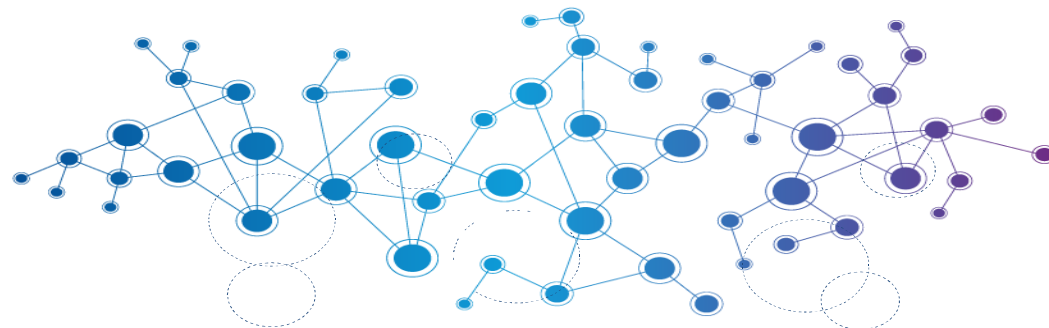
Inherent risk factors	Rationale	
 Clients and geography	<i>Certain types of clients (such as complex legal structures or PEPs) and geographies pose greater ML/TF risks</i>	High impact on ML/TF risk across all activities
 Intermediaries	<i>The reliance on intermediaries between banks and their clients (e.g. introducing intermediaries and/or POA holders) reduces transparency on beneficial owners, thereby increasing risk</i>	
 Market structure	<i>The volume of the activity, the diversity of players and the fragmentation of the market increase exposure to ML/TF risk and complicate its detection</i>	Different impact on ML/TF risk across activities
  Activities and products	<i>Certain activities and products are more susceptible to ML/TF abuse or misuse, in particular more complex, opaque and high value activities</i>	
 External advisors	<i>The use of specialist external advisors for specific services (e.g. TCSPs, financial experts, etc.) might lead to more complex and sometimes opaque activities, thereby increasing exposure to ML/TF risk and complicating its detection</i>	

Mitigating factors for each taxonomy element assessed along five dimensions

Mitigating factors	Rationale
 Understanding of ML/TF risk	<i>Entities with knowledge of ML/TF risks are typically better equipped to identify and prevent ML/TF activity</i>
 Market entry	<i>Market entry controls and requirements ensure the soundness of financial institutions and prevent criminals from entering and remaining in the industry. The maturity of the sector in Luxembourg is favourable to a solid control framework</i>
 Oversight and supervision	<i>Targeted rules, clear and comprehensive guidance promote superior AML/CFT controls and processes. Banks' three lines of defence each play a dedicated, key role in ML/TF prevention</i>
 Rules enforcement	<i>Strict compliance with AML/CFT obligations and adequate sanctions deter criminals from misusing the sector for ML/TF purposes</i>
 Detection	<i>The level of detection, investigation and prosecution demonstrates the effectiveness of AML/CFT measures</i>

Following media reports of alleged money laundering through the Estonian branch of a Danish Bank, CSSF conducted offsite research into potential exposure of Luxembourg banks

- Key conclusions from offsite research:
 - Luxembourg’s stability and security is attractive for clients whose wealth originates in high risk jurisdictions
 - High risk clients with often highly transactional activity (as opposed to traditional private banking activity)
 - Often multiple accounts opened with multiple banks
 - Business introducers play an important role
 - Smaller, independently operating private banks and private banking departments potentially more exposed, as
 - Complex transactional behavior can be difficult to assess with the resources of smaller or standalone banks



- Possible lessons to be learnt:
 - Properly identify ML/FT risk level of both clients and intermediaries
 - Make sure to fully understand (the risk linked to) the client's business, objectives and origin of wealth
 - Conduct the appropriate level of risk-based due diligence
 - Ensure risk-based, adequate monitoring of client's account behavior and transactions (in particular first line of defense)
 - Ensure resources and tools are adequate and function properly
 - Define ML/FT risk appetite proportionate to your means and do not accept clients/business outside this definition
 - Never hesitate to timely file STR's with the FIU

Develop a clear AML/CFT risk appetite and strategy

- Discussed and approved by Board of Directors
- Worded clearly & documented in writing
- Communicated across the organisation

Engage the Board of Directors in the bank's AML/CFT strategy, policies and processes

- Board should actively participate in determining and monitoring the bank's AML/CFT framework
- Ensure AML/CFT functions have **resources proportionate to the bank's risk appetite and strategy** :
- **Human resources** (FTE, competencies, knowledge, seniority, authority, etc.)
- **Effective IT tools & resources** (transaction monitoring tools, due diligence resources, etc.)

Ensure AML/CFT functions are...

- ...sufficiently **independent**
- ...involved in the **acceptance of higher risk clients**
- ...consulted systematically on **ML/FT risk related matters**

Conduct your own internal risk assessments of your business, leveraging on...

- ... the conclusions from the NRA
- ... the conclusions of the CSSF PB sub-sector risk assessment
- ... the findings from CSSF onsite and offsite supervision
- ... any other relevant public source (other authorities and bodies, FATF, etc.)

Recommendations for all banks based on off- and onsite findings



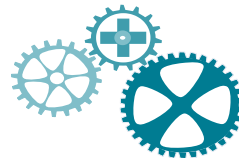
Where banks have **foreign branches**, ensure that **foreign branches apply AML/CFT measures** also consistent with Luxembourg/group requirements, to the extent permitted by local law

When banks are **branches of foreign-based groups**, ensure that the Luxembourg branch respects the requirements of Luxembourg and, to the extent possible, group/home country requirements



Collaborate closely with all competent authorities to ensure Luxembourg has an effective national AML/CFT framework

Report promptly suspicious activities and transactions to the FIU



Adjust and enhance AML/CFT mitigating actions to **maintain the effectiveness of AML/CFT controls in light of emerging trends** (e.g. changes in the client base, increasing market competition, new client interaction models, more complex private banking ecosystem, emergence of virtual assets etc.)

The background features a stone tower on the left and a cityscape with a prominent church spire in the distance. A large blue diagonal shape is overlaid on the right side of the image.

**Thank you for
your attention !**

[http://www.cssf.lu/surveillance/criminalite-
financiere/](http://www.cssf.lu/surveillance/criminalite-financiere/)