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MONEY LAUNDERING AND TERRORISM FINANCING RISK ASSESSMENT OF BANKING AND FINANCIAL SECTOR OF GEORGIA

Abstract. The banking sector dominates the economy of Georgia. The assets of commercial banks are voluminous, and the services offered to their clients are diverse. Herewith, the bank accounts are the main source of money laundering in Georgia. Within the certain period, the commercial banks had a certain deficiencies in client risk assessment and risk management processes. Thus, the process of verification of beneficiary owner was also considered as weakness, especially in relation to non-resident clients. Though systematic thematic onsite inspections, the growth of sanctions, intensive communication, new guidelines on risk identification and identification/verification of beneficiary owner facilitated the growth of compliance level of banking sector in terms of combating money laundering and terrorism financing. At this point of time the compliance level of banking sector with legislation of anti money laundering and anti terrorism financing is high.

Keywords: financing system, money laundering, terrorism financing, Risk Assessment.

Commercial banks allocate significant resources to establish effective compliance system. The awareness level of MLRO towards revealing and preventing money laundering and terrorism financing is high in the banking sector. Consequently, despite deficiencies mentioned above, the risk management is carried out adequately in the banking sector. Comprehensive Risk based supervision applies to banking sector. Given these circumstances, the level of money laundering risk in banking sector was assessed as Medium, while the terrorism financing risk as Medium Low.

The development of the non-bank financial sector is driven by the availability of products and services and a broad network of services, and in some cases, by low fees, speed of service and remote delivery channels as well.

Currency exchange offices are exchanging large amounts of cash, and their compliance control systems are relatively less developed. However, supervision of offices by the national bank of Georgia has substan-

tially increased in recent years. Moreover, offices do not carry out cash transfer operations and transactions related to money market instruments. Given these circumstances, the risk of money laundering related to the activities of offices was assessed as Medium-Low and the risk of terrorist financing as Low.

In recent years, compliance control systems for microfinance organizations have improved significantly. The NBG communicates closely with the sector and promotes implementation of effective internal control policies and procedures by individual organizations. In addition, through new supervisory activities, manuals, workshops and trainings, the NBG assists microfinance organizations to develop internal control mechanisms needed to better assess and manage risks.

The activities of microfinance organizations mainly consist of issuing small loans to resident clients. A certain number of clients also carry out international money transfers. In recent years, the sector's compliance culture has substantially improved as a

result of the national bank of Georgia comprehensive risk-based supervision. Given these circumstances, the risk of money laundering related to the activities of microfinance organizations was assessed as Medium-Low and the risk of terrorist financing as Low.

The payment service providers sector is growing. Most of the services are provided by remote channels. Internet payments make it difficult to determine the geographic area of the transaction. However, in recent years, supervisory approaches have been significantly tightened, leading to a reduction of the sector's inherent risks and the improvement of compliance control systems. Given these circumstances, the risk of money laundering related to the activities of payment service providers was assessed as Medium and the risk of terrorist financing as Medium-Low.

The size of insurance market in Georgia is small. Insurance companies have not offered investment type products of life insurance to date. Their clients are mostly residents and the number of high risk clients is very small. There is also full-fledged risk-based supervision of the insurance sector. No facts of misusing insurance products for money laundering were identified. Given these circumstances, the risk of money laundering and financing of terrorism in the insurance sector was assessed as Low.

During the year 2021, in light of the identified sectoral threats and weaknesses, on-site inspections focused on the following topics:

For commercial banks:

- The process of classification of clients (including those identified/verified by remote channels) per risk, risk revaluation, and the adequacy of implementation of appropriate preventive measures;
- The process of identifying and verifying beneficial owners of clients with complex ownership structures;
- Knowledge of the bank about clients related to free industrial zones, offshore and high-risk jurisdictions, as well as transactions related to such zones and the parties involved;

- Efficiency of the risk management process associated with internet acquisition;
- Efficiency of the cash flow origination process;
- Efficiency of the process of detecting suspicious/ unusual transactions (including of the process of detecting the use of fictitious companies/transit companies, measures taken to implement UN resolutions (on TF/Proliferation), software adequacy, and bank awareness of transactions by non-profit and charitable legal entities).

For microfinance institutions:

- The process of classification of clients per risk, risk revaluation and the implementation of appropriate preventive measures.
- Knowledge of the institution about international transactions (including offshore and high-risk jurisdictions).
- Efficiency of the process of detecting suspicious/unusual transactions (including measures taken to implement UN resolutions (on TF/Proliferation), and software adequacy).
- Efficiency of the cash flow origination process;
- Verification of the accuracy of filling out reporting forms.

In order to determine compliance with the legislation of Georgia on facilitating the prevention of money laundering and terrorism financing, 39 representatives of the financial sector were inspected in 2021. Furthermore, to correct the deficiencies identified during the inspections, the Money Laundering Inspection and Supervision Department of the National Bank of Georgia conducted remote follow-up inspections of 41 entities under supervision in 2021.

The total amount of fines imposed for violating the legislation of Georgia on facilitating the prevention of money laundering and terrorism financing amounted to GEL 1.709.900. In addition to the fines imposed following on-site inspections, various different corrective measures were applied to the representatives

of the financial sector during 2021; moreover, a number of recommendations were developed over the year based on the results of the on-site inspections.

It is important to note that, Commercial banks were first asked to provide organizational and group risk assessment documents in 2020. In 2021, the Money Laundering Inspection and Supervision Department shared its recommendations based on those documents with commercial banks. The goal was for the banks to improve the perception of risks in their own organizations and to better plan measures to mitigate those risks. In 2021, for the first time, a Commercial Bank Compliance Control System Supervision Questionnaire was distributed and a relevant analysis was prepared. To help financial institutions submit the relevant information, in 2021 the NBG developed a Regulation on Commercial Banks Filling out their Anti-money Laundering and Counter-Terrorism Financing Compliance Control System Supervision Questionnaire [3].

In 2021, the analysis of reports submitted to FMS and additional information obtained from the obliged entities, as well as the data received from open sources and foreign colleagues indicates that the major part of suspicious attempts suspected by financial monitoring service of Georgia were cybercrime in nature, conducted in order to legalize funds obtained via different ways. In these cases, traditionally, criminals were using bank accounts or quick money transfers to move funds. Also, various e-wallets are used for similar purposes. The cases related to obtaining customers' confidential banking information through social engineering and fake websites continued in 2021.

Similar to the previous years, in 2021, the use of legal entities established in Georgia, having similar

names to the legitimate international more or less famous legal entities established abroad, was occurring. This method is used to disorientate foreign traders – victims of fraud, attention during the international transaction. However, it should be noted that the number of such cases showed a decreasing trend during 2021 year.

In 2021, the use of Georgian bank accounts for the transit purposes by both legal and physical entities continued. The bank accounts were used for depositing and then transferring funds in third countries, the turnover frequently amounted equivalent of several million GEL. Per usual, the activities of such legal companies are not in the economical connection with Georgia.

In 2021, the number of transactions conducted by call centers was still high. Those companies are formed mainly to establish contact with potential customers abroad and offer to purchase different kind of products, to make investment, currency binary options trading etc. In some cases of a fraudulent call center, after transferring money, customer (victim) doesn't receive agreed service or receives of a low quality ("boiler Room Scam") or loses the funds made for the investment ("investment Scam").

In 2021, based on the analysis of reports received from the obliged entities and other information obtained, Financial monitoring service of Georgia disseminated according to AML/CFT law to the respective agencies of the Chief Prosecutor's Office of Georgia, the State Security Service of Georgia, the Ministry of Internal affairs of Georgia and Revenue Service of Georgia 84 cases (including 10 cases of potential terrorism financing, and 1 case on possible avoidance of sanctions imposed on one of the countries).

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