

**Public Finance Management (PFM) Reform Program Trust Fund (TF073110)/ Lao PDR:
Financial Sector Development TA (P160715)**

Aide Memoire (October 31, 2019)

**Risk Based Approach to Anti-Money Laundering Supervision of Financial Institutions Mission
(October 21-24, 2019)**

I. Introduction

1. As part of the Public Finance Management (PFM) Reform Single Donor Trust Fund (SDTF), which is financed by the European Union (EU) and implemented by the World Bank, a World Bank team¹ visited Lao PDR from October 21-24, 2019 for a third mission to continue delivery of advisory support on a risk-based anti-money laundering supervision framework to the Anti-Money Laundering Intelligence Office (AMLIO). The officials from Cambodia joined the mission on October 21, 2019 to share their experience in implementing a risk-based supervision framework in the banking sector and the early stages of putting in place a risk-based supervision framework in the casino and real estate sectors (see attached presentations).
2. The objectives of the mission were to discuss and review: (i) the priority reporting entities already risk assessed; (ii) the criteria used to determine the step by step process of risk analysis; (iii) the updated work plan for making requests for additional information to prepare for onsite visits to high and selected medium-risk reporting entities; (iv) the time frame on when the Anti-Money Laundering Intelligence Office (AMLIO) expects reporting entities to be in compliance with AML/CFT measures; (v) study about Cambodia's experience in developing and implementing the risk-based approach in the banking and casino sectors; and (vi) explore development of an AML/CFT examination manual for AMLIO.
3. The experience and lessons shared by Cambodia counterparts was well received, leading to many questions and constructive discussions from AMLIO counterparts.
4. The team had productive and fruitful interactions with AMLIO counterparts on the progress made in conducting desk risk analysis for banks, life insurance firms and securities firms. The team reviewed and provided detailed feedback and guidance on the work done and plans for the next several months.
5. Officials responsible for conducting AML/CFT examinations participating in this hands-on mission work were from AMLIO, Ministry of Finance (Life Insurance), Lands Management (Real Estate), Ministry of Planning and Investment (Casino) and Securities Commission Office.
6. On the margin of this mission, a meeting was held with the Ministry of Agriculture and Forestry to share with the ministry a new module the World Bank has developed and is piloting on assessing the risk of environment related crimes such as wildlife trafficking, illegal logging and similar crimes.

¹ The World Bank Group's Finance, Competitiveness and Innovation team comprised Stuart Yikona (Senior Financial Sector Specialist, Team Lead) and Pramita Moni Sengupta (Senior Financial Sector Specialist). The team was joined by Mr. Sun Dymo (Deputy Director Compliance, Cambodia FIU) and Mr. Dalene Ngor (Deputy Director, Cambodia Ministry of Economy and Finance). The team was supported by Vidaovanh Phounvixay (Financial Sector Analyst) and Souksavanh Sombounkhanh (Program Assistant).

II. Key findings:

Review of Offsite Risk Analysis of banks, life insurance and securities firms

7. Following the May 2019 mission during which AMLIO and officials from other relevant supervisory agencies were trained on the risk-based approach tool, AMLIO had initially decided to focus on only 4 priority banks; 4 life insurance firms; and all 4 securities firms. However, notwithstanding this initial approach, AMLIO decided to conduct offsite risk analysis of all 42 banks; all 14 life insurance firms; and all the securities firms (which are only 4). This off-site risk analysis work is even more impressive considering that it was completed as scheduled at the end of September 2019 for the original subset of financial institutions. It confirms that Laotian counterparts have increased their skill and understanding of how to carry out a risk-sensitive analysis of their reporting entities and what it entails.
8. In conducting the off-site risk analysis, AMLIO created its own sub-indicators to elaborate the 19 indicators covered in the risk-based approach tool. The sub-indicators reflect the Lao PDR local context. AMLIO presented a sample of 5 banks; 2 life insurance firms; and 2 securities firms to the team. One key feedback the team gave AMLIO was to err on the side of being more conservative in their risk analysis of the reporting entities. For example, out of the 42 banks, only 2 were identified as being high risk. However, a review of information collected for 2 medium/high-risk banks indicated that they warranted consideration as high risk. AMLIO agreed to revisit the off-site analysis for the banking and life insurance reporting entities for potential reclassification. The risk analysis of the securities firms was a fair assessment and nothing more needs to be done.
9. Overall, the offsite risk analysis done, including the sampling exercise, was thorough and comprehensive, demonstrated a good understanding of the risk-based approach and provides a sound basis for conducting meaningful onsite-examinations of selected entities. Moreover, some of the cross-cutting issues identified in the risk analysis related to gaps regarding measures on compliance functions; staff training; institutional risk assessment; corporate governance; and customer due diligence effectiveness. Indeed, to follow up on these issues, during the week of October 28, 2019, AMLIO is conducting an onsite examination of one of the 2 high-risk banks identified during the risk analysis exercise. The plan of AMLIO is to conduct onsite examinations of all high-risk banks and selected medium risk banks by June 2020.
10. With respect to the life insurance sector, the team emphasized the need for AMLIO and the Ministry of Finance to clearly describe the type of life insurance products that are offered in the Laotian market with a view to determine their vulnerability to criminal abuse. This in turn will inform them further in the level of overall risk rating for some of the life insurance firms.
11. In terms of the securities firms, the market in Lao is small and without a viable secondary market for shares. Moreover, there is only one product offered, namely, shares. As such there is very low, if nil, expectation of any potential concern of criminal abuse of the securities firms. Indeed, the risk analysis completed confirms this assessment.
12. In view of the scheduled mutual evaluation of Lao PDR's AML/CFT to be done by the Asia Pacific Group on Money Laundering in the last quarter of 2020, the team worked with AMLIO on an outline of an elaboration of the risk-based framework being developed. The brief to be prepared by AMLIO in the coming months will cover the work done on the national risk assessment, the work done and completed on the risk-based approach, how the risk-analysis was conducted including the criteria and indicators used, the onsite examinations done and what the findings were including cross cutting

issues across the institutions/sectors examined and plans for other financial and non-financial institutions.

13. The team also advised AMLIO to revisit the sector-level risk ratings from the NRA based on the RBA offsite and onsite results.

Examination AML/CFT Manual

14. AMLIO already has an examination manual and inspection procedures that are used when conducting onsite examinations. However, this manual does not incorporate the risk-based approach requirements for offsite and onsite inspections. To assist AMLIO in updating their manual, the team has shared with counterparts' manuals from other jurisdictions.

Cambodia Experience

15. Two officials from the Cambodia Financial Intelligence Unit and the Ministry of Economy and Finance made two presentations on their experience in developing and implementing a risk-based framework in the banking, casino and real estate sectors in Cambodia. The presentations described the tools used in conducting offsite and onsite inspections; the challenges faced including the limited knowledge banks had in what information to provide to the regulator and manual delivery of information. However, for the banking sector, this has now moved to online reporting.
16. Some of the lessons shared when developing a risk-based framework concerned the importance of setting up of a working group; appropriate allocation of human resources; and raising awareness among reporting entities.

Meeting with Department of Forestry, Ministry of Agriculture and Forestry

17. On the margin of this mission, the team met with the Deputy Head for Wildlife Management Division. The purpose of the meeting was to share with the Ministry a new module developed by the World Bank for assessing the risks from environment crimes such as wildlife trafficking and illegal logging and explore the possibility of Lao PDR participating in a pilot of the module. Two pilots have already been conducted in Zambia and Zimbabwe. Feedback from these pilots will be used to enhance the quality of the module.
18. Interest was expressed by the Deputy Head to participate in the pilot and that the department and other agencies involved in combating environmental crimes would benefit from such an assessment. However, in order to proceed with the next steps, communication will have to be made formally to the Ministry so that other agencies can be formally invited to participate as well.

III. Recommendations and next steps

19. World Bank to send a formal letter to Ministry of Agriculture and Forestry requesting Lao PDR's participation in a pilot of the module on assessing wildlife trafficking and other similar crimes.

Table 1: Status of steps agreed from the previous Aide Memoire

	Action	Responsible	Due Date	Status
1	Complete offsite risk analysis of banks, life insurance and securities firms	AMLIO and Bank of Lao PDR	September 30, 2019	Completed
2	Plan and conduct onsite visits to high risk banks, life insurance and all 3 securities firms	AMLIO, Ministry of Finance and Lao Securities Commission Office	First quarter of 2020	Commenced and ongoing
3	Provide guidance to real estate, precious objects, lawyers, auditors and notaries	AMLIO, Department of Land Administration, Ministry of Industry and Commerce, Ministry of Justice, Ministry of Finance	March 2020	Has not commenced yet
4	Outreach to casinos and conduct offsite risk analysis	AMLIO and Ministry of Planning and Investment	October 31, 2019	Outreach done. Risk analysis not done

20. The following next steps were agreed:

Table 2: Summary of agreed actions

No.	Activity	Responsible	Due Date
1	Revisit the risk analysis of the 42 banks to ensure that the appropriate risk rating is assigned to reflect the data collected and analyzed.	AMLIO	November 30, 2019
2	Conduct onsite examinations of the 3 securities firms.	Lao Securities Commission Office, AMLIO	December 31, 2019
3	Conduct the risk analysis of other financial and non-financial institutions including the 5 casino's, precious objects and micro-financial institutions beginning in December 2019.	AMLIO, Bank of Lao PDR, Ministry of Trade	March 31, 2020
4	The team is available as necessary to provide ongoing remote support through Video Conferences and email to provide feedback and guidance to AMLIO.	World Bank, AMLIO	Ongoing

Annex 1: List of Participants

1	Mme. Phengsy Phengmuong	AMLIO
2	Mrs. Phetlasy Sihala	AMLIO
3	Mrs. Khanthaly Vongxayarath	AMLIO
4	Ms. Chindavieng	AMLIO
5	Mr. Khampoun Panyasuk	AMLIO
6	Ms. Malavanh Phounseneouan	AMLIO
7	Mr. Xaysavath Oupalavanh	AMLIO
8	Ms. Phetsakhone Wangphoxay	AMLIO
9	Ms. Souk Thaviphone	AMLIO
10	Ms. Phalitar Saipaseuth	AMLIO
11	Ms. Viphada Ekasone	AMLIO
12	Mr. Souksavat Sivilay	AMLIO
13	Mr. Punyavoud Mounyvong	AMLIO
14	Ms. Latdavan Pilavong	Bank Supervision Department, BOL
15	Mr. Siosavath Thirakul	Lao Securities Commission Office (LSCO)
16	Mr. Soulasith Yodleuxay	Lao Securities Commission Office (LSCO)
17	Mr. Chaipadith Nathavon	SELO
18	Mr. Phoonsavath	Land Department
19	Mr. Keoudom	Land Department
20	Dr. Phonesay Vilaysack	IPD, Ministry of Planning and Investment
21	Mr. Vilak Phongthady	Ministry of Finance