

KNOW YOUR EMPLOYEE (KYE) - EMPLOYEE DUE DILIGENCE (EDD): WHY IS IT IMPORTANT? HOW FAR MUST YOU GO?

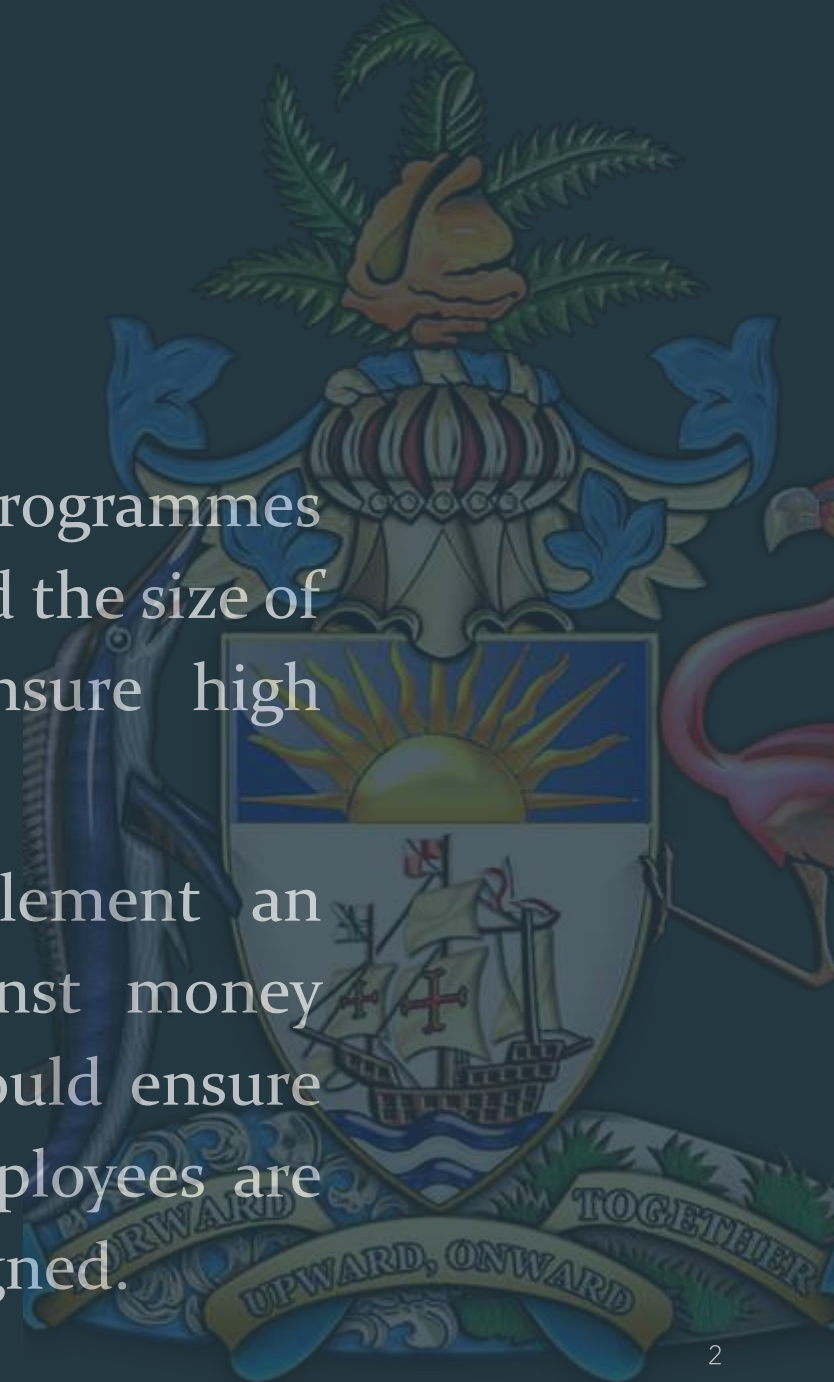
Presented By:

The Compliance Commission of The
Bahamas

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FINANCIAL ACTION TASK FORCE (FATF) RECOMMENDATION 18 & 23 REQUIRES:

- Financial institutions and DNFBPS to implement programmes against ML/TF, which have regard to the ML/TF risks and the size of the business, including screening procedures to ensure high standards when hiring employees.
- Accordingly, registrants have an obligation to implement an employee due diligence program that protects against money laundering and terrorist financing. These measures should ensure that the risk from internal functions such as their employees are mitigated, and the employee is suitable for the tasks assigned.



FINANCIAL ACTION TASK FORCE (FATF) RECOMMENDATION 18 & 23 REQUIRES:

- Experienced, motivated, honest, and educated employees are critical to the success of your business and the effectiveness of the AML program. Implementing high standards for employee due diligence protects against reputational, legal, and operational risks and helps identify red flags.



The coat of arms of the Cayman Islands is positioned on the left side of the slide. It features a shield with a sun rising over a ship, flanked by a blue fish on the left and a pink flamingo on the right. Above the shield is a crest with a pineapple and a blue ribbon. Below the shield is a banner with the motto 'UPWARD, ONWARD' and another banner with 'FORWARD' and 'TOGETHER'.

FINANCIAL ACTION TASK FORCE **(FATF)** **RECOMMENDATION 18 & 23** **REQUIRES:**

- Knowing your employee (KYE) covers the relationship with the employee from the recruitment process, ongoing employee relationship and if need be, termination of employment.
- The AML regime is risk-based, and more stringent screening procedures are required for employees that function in high-risk roles. When an employee is moving to a new role registrants should determine based on their risk assessments and controls whether the new role requires the employee to update or undertake a rescreening process and the frequency. In particular if their role puts them in a position to facilitate the commission of a ML/TF offence. These procedures must be documented and include disciplinary actions if it is detected that that information provided by an employee is false.

FINANCIAL ACTION TASK FORCE (FATF)

RECOMMENDATION 18 & 23 REQUIRES:

To screen prospective employees, you should ask them to provide the following information to assist with determining their suitability.

- ❑ Employment history
- ❑ Reference checks – Character and from previous employers
- ❑ Identify and verify identity.
- ❑ Police certificate
- ❑ Background check by the RBPF or private investigator, as required based on risk assessment.
- ❑ For positions that require technical qualifications and/or practicing certificates, such as a lawyer or an accountant, you may confirm the person is a member of the relevant professional association. Assess the skills and knowledge to determine suitability.

FINANCIAL ACTION TASK FORCE (FATF)

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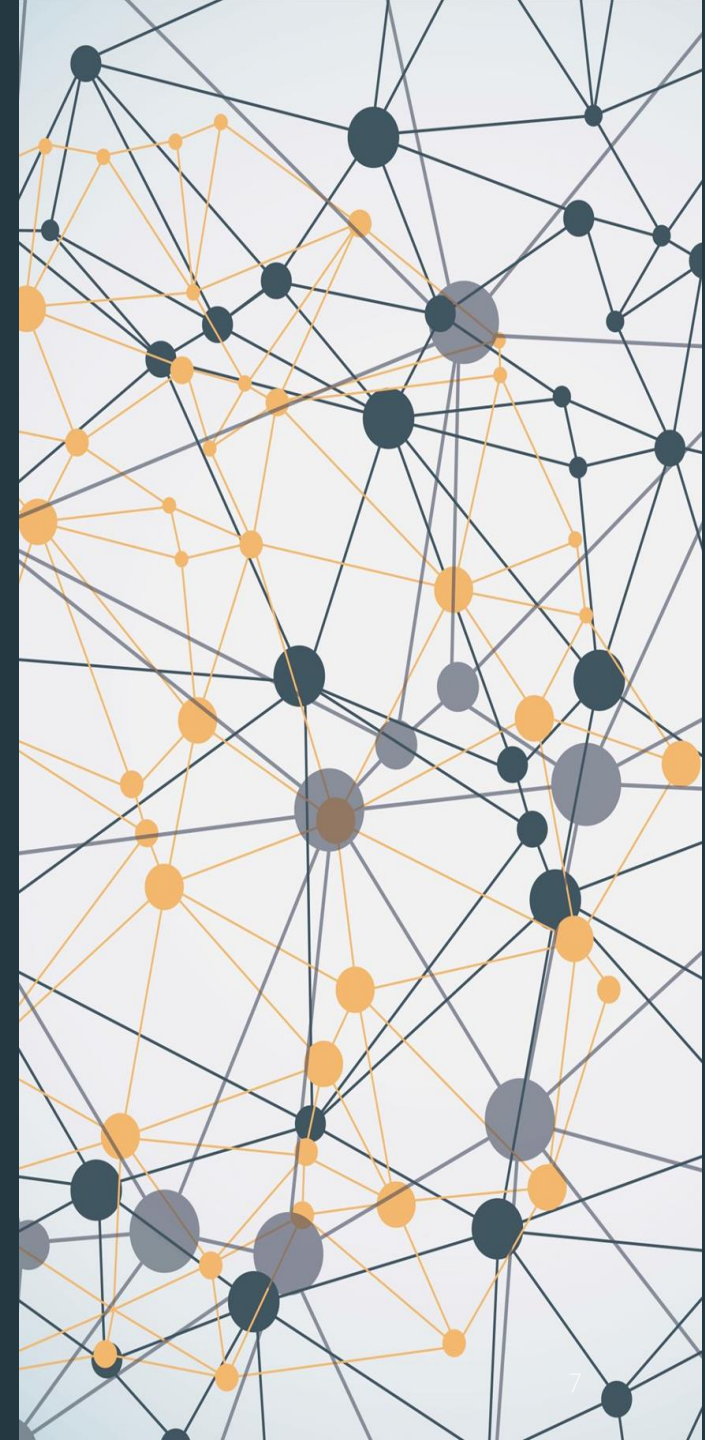
- ❑ Academic qualifications (checking the authenticity of academic qualifications depending on risk of role and knowledge of the prospective employee)
- ❑ Credit check
- ❑ Some companies also use a questionnaire requiring the prospective employee to sign a declaration that the information they have provided is true and correct and they consent to background checks. In addition, issue a Code of Conduct or Ethics that outlines the company's employment conditions including conflict of interest , confidentiality policies and sanctions that employees must sign and attest to understanding each year.

FINANCIAL ACTION TASK FORCE **(FATF)**

RECOMMENDATION 18 & 23 REQUIRES:

Higher risk roles - that pose a higher ML/TF, (for example, an employee that has authority to authorise the investment and release of funds, communicates directly with potential or existing customers, power to change processes and access to highly sensitive business or customer information – require additional EDD measures.

- ❑ A sanctions and PEP check (world check, SafetyNet, KYC screening tools)
- ❑ Adverse media checks
- ❑ Additional checks to verify qualifications & experience, education and professional qualifications.
- ❑ Has the employee lived in high-risk countries or abroad for an extended period that may cause further checks.
- ❑ Subject to any court or legal action.



EMPLOYEE ACCESS

Employees may have access to sensitive information about the affairs of their employers as well as their policies that must be kept confidential. Consequently, company's should put in place controls along the lifecycle of employment to ensure confidentiality.

Trust between an employer and its personnel is based on initial screenng during recruitment (often followed by initial trialling via probation) and years of the employee relationship.



EMPLOYEE LIFE CYCLE STAGES

ONGOING EMPLOYEE RELATIONSHIP

- Exposure to organization policies and procedures through a combination of training and awareness to encourage and enforce compliance.

THE RECRUITMENT PROCESS

- Interview
- Background Verification
- Communicating confidentiality obligations and the importance of new employees having a clear understanding of their information security obligations and sanctions

TERMINATION OF EMPLOYEE

- Financial institutions should have human resources policies and processes related to termination of engagement that protect sensitive information and ensure confidentiality of information is maintained beyond employment

THE RECRUITMENT PROCESS

- **Interview**

- ☐ Must underscoring the importance of information security, confidentiality, and importance of not taking actions to cause reputational or legal or operation risks to the firm. Assessing the integrity of the person. Guard against hiring dishonest staff.

- **Background Verification**

- ☐ Proportional to the confidentiality and access to sensitive data and perceived risks of the role - this may involve security vetting by the police dept. Which is a more intense suitability check to get a good understanding of an individual's background and character - common with regulators or government jobs. Vetting should be time-bound and refreshed when there is a significant change in the personnel's role, or they move to a more sensitive position.
- ☐ Some organizations use private firms to conduct suitability & character checks to weed out toxic personalities and persons associated with criminals.
- ☐ In small countries like The Bahamas the saying is “ we know who the criminals are”.

THE RECRUITMENT PROCESS

- **Communicating Confidentiality Obligations And The Importance Of New Employees Having A Clear Understanding Of Their Information Security Obligations**
 - ❑ This may include signing and acknowledging understanding of the company codes of conduct including confidentiality provisions that include penalties/sanctions for disclosure of company information and ethics training.



ONGOING EMPLOYEE RELATIONSHIP

- During employment, the personnel should receive regular exposure to the organization policies and procedures in practice, through a combination of training and awareness to encourage and enforce compliance.



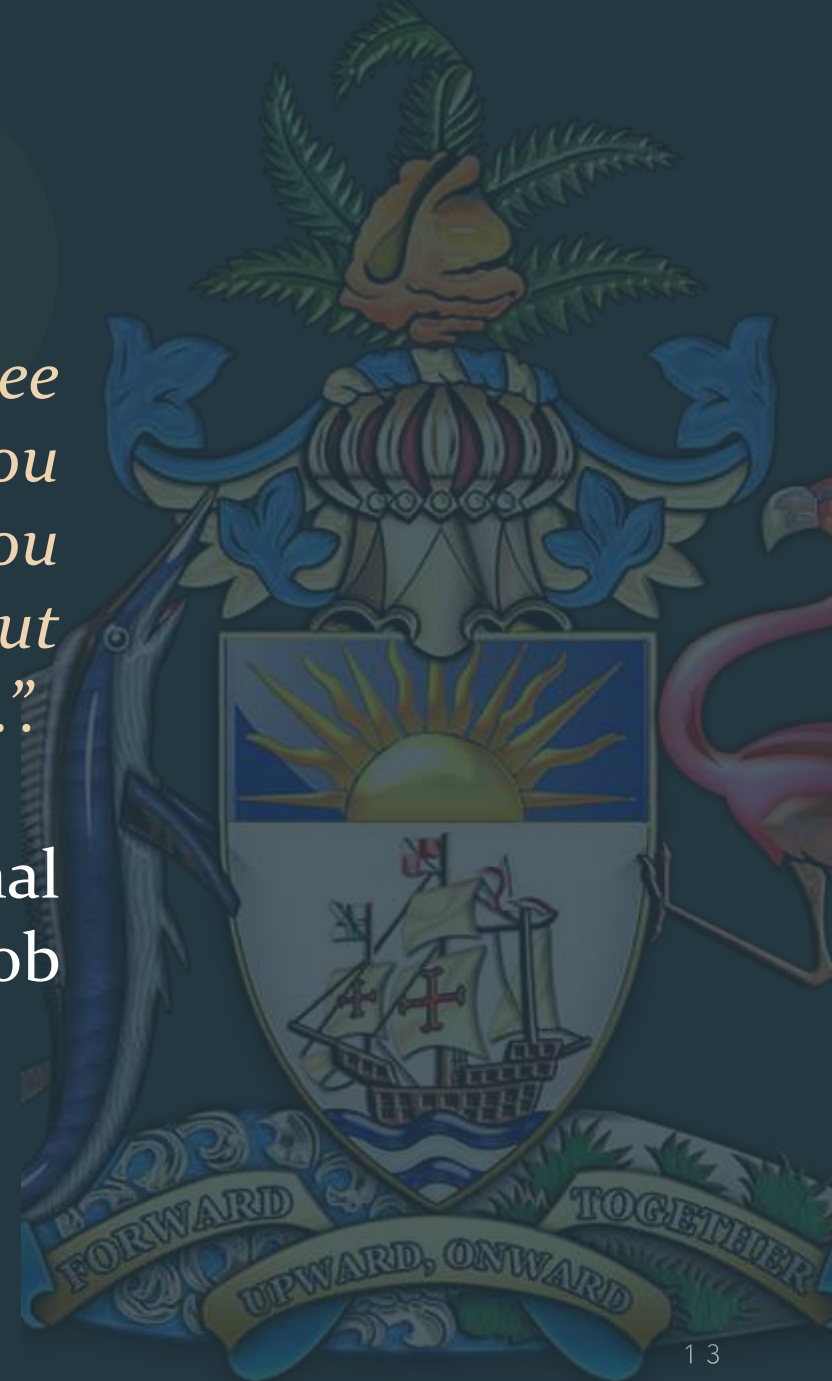
TERMINATION OF EMPLOYMENT

- DNFBP's should have human resources policies and processes relating to the termination of engagement that protect sensitive information and ensure that the confidentiality of the information is maintained beyond employment.

EMPLOYEE INTEGRITY

- Warren Buffet once said that
“.... in looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don't have the first, the other two will kill you. You think about it; it's true. If you hire somebody without [integrity], you really want them to be dumb and lazy.”
- Buffet urges us to weigh the personal and organizational value of integrity the heaviest when assessing job candidates during the interview process.

Integrity = Trust



EMPLOYEE INTEGRITY

Interviewing for integrity will sift out job candidates who:

- ☐ Embellish their qualifications
- ☐ Fabricate stories
- ☐ Blatantly lie

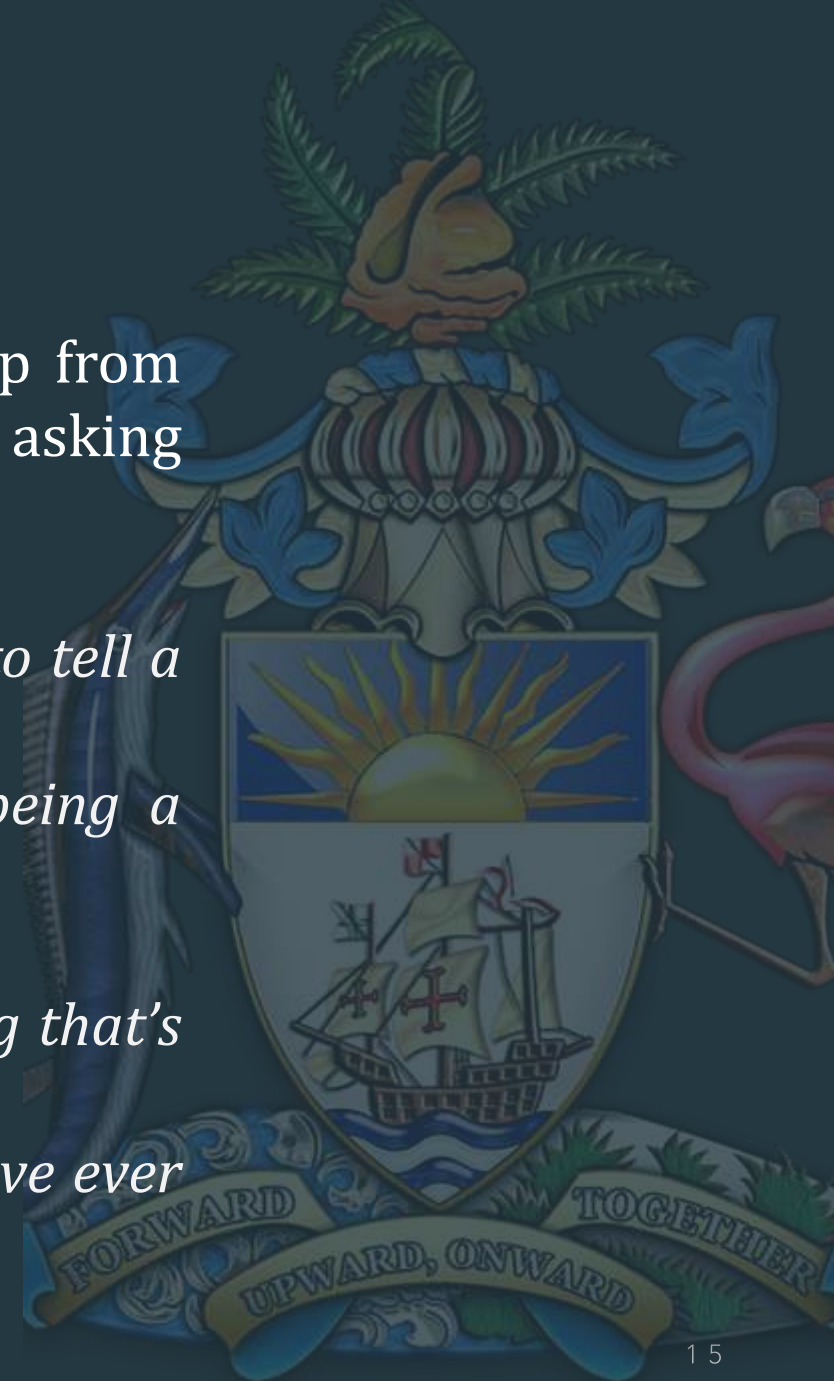
- Billionaire Warren Buffet maintains that his success is largely depended on hiring the right talent. On top of Buffet's list of qualifications deems as non-negotiable, you'll find one trait elevated above all job-related skills and qualifications – INTERGRITY!
- Not interviewing for integrity is especially risky during periods of fast growth or high turnover, where hiring managers become desperate to fill positions and rush to judgement by overlooking unwanted behaviors and toxic personalities.

EMPLOYEE INTEGRITY

Assessing For Integrity

Marcel Schwantes, founder and chief human officer, leadership from the core stated that when assessing for integrity, it starts with asking the right questions to get to the core of a person's character:

- ☐ *If we ever got into a bind with a client, would you be willing to tell a white lie to help us out?*
- ☐ *Describe how being an employee of integrity differs from being a company of integrity.*
- ☐ *If the situation called for it, would you ever lie on my behalf?*
- ☐ *Tell me the story of you, but the thing you can't say is anything that's on your resume.*
- ☐ *What are the characteristics exhibited by the best boss you have ever had?*



REGULATORS EXPECTATIONS

For all employee's, continued monitoring is encouraged to ensure they remain fit for employment.

Employers should consider monitoring employees who are suspected of being linked to:

- ☐ *Unusual transaction activities;*
- ☐ *Unusual increases in business activities; and*
- ☐ *Persons known to be involved in illegal activities or associated with individuals of known questionable character.*

REGULATORS EXPECTATIONS



The most effective KYE programme should be complemented by a sound on-going training programme which includes staff awareness. Employees should be aware of penalties and sanctions that apply in case of confidentiality breaches or bad behavior.

Regulators expect registrants & or licenses to meet the FATF standards and maintain screening procedures to ensure high standards when hiring employees.



Thank you!