MONEY LAUNDERING VULNERABILITIES IN THE FINANCIAL ARRANGEMENTS OF NON-TRADITIONAL DNFBPS

EXECUTIVE SUMMARY

The CFATF Risk, Trends and Methods Group (CRTMG) conducted a project aimed at identifying and assessing the vulnerabilities related to money laundering within the financial options available to motor vehicle buyers by non-traditional Designated Non-Financial Businesses and Professions (DNFBPs) in the CFATF region. Although many CFATF jurisdictions have classified motor vehicle dealers as DNFBPs, significant challenges persist due to a lack of comprehensive data on the risk profiles of these entities. Conducting thorough AML risk assessments is vital for effective supervision of these businesses and can help allocate regulatory resources to sectors with higher money laundering risks. Ultimately, this approach can facilitate the development of targeted supervisory plans that address specific vulnerabilities.

INTRODUCTION & BACKGROUND

Non-traditional DNFBPs refer to businesses and activities subject to AML/CFT/CPF measures but not included in the FATF Standards. An example includes motor vehicle dealers.

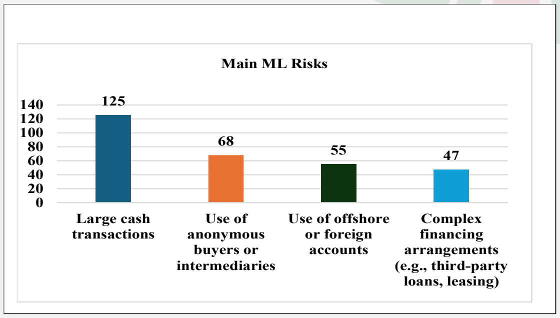
Non-traditional DNFBPs can have the same inherent risks as traditional DNFBPs when they offer similar services and are exposed to the same vulnerabilities. The nature of the services and the potential for exploitation by criminals are key determinants of inherent risk, regardless of whether a business falls into a "traditional" DNFBP category.

METHODOLOGY

- Informed by a literature review of non-traditional DNFBPs in the Global Network and the CFATF Region, the CRTMG collected data from the motor vehicle sales industry and AML supervisors in the Region.
- An Experts' Meeting on June 18, 2024, provided first-hand insights into money laundering vulnerabilities in non-traditional DNFBPs, highlighting their current exclusion from AML frameworks, further informed by 190 questionnaire responses.

KEY FINDINGS & VULNERABILITIES

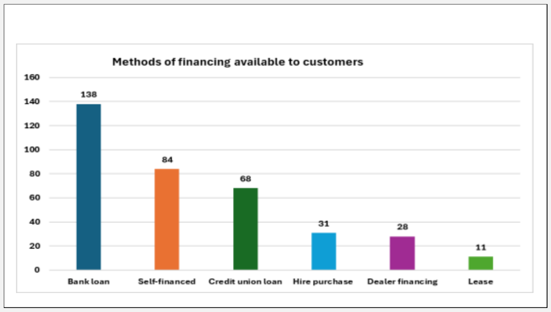
Inconsistent Supervision and Data Gaps: Despite over 50% of CFATF jurisdictions classifying motor vehicle dealers as DNFBPs due to their high-value, cash-intensive operations, many still lack comprehensive data on these sectors, leading to inconsistent supervision and enforcement of AML measures.



Prevalence of High-Risk Financial Practices: The non-traditional DNFBP sector exhibits significant vulnerabilities due to several factors. These include the prevalence of large cash transactions, the involvement of anonymous buyers and intermediaries, financing through offshore or foreign accounts, and complex financial arrangements. All these elements can obscure the true source of funds and make it easier for money laundering to occur.

E-mail: cfatf-rtmg@cfatf.org

Inadequate Customer Due Diligence for Non-Traditional Financing: While existing AML measures address common financing methods, non-traditional DNFBPs offering hire purchase and dealer financing pose significant risks due to insufficient source of funds checks, potential payment structuring, inflated pricing, and weaker AML programs compared to traditional financial institutions.



IMPACT

These vulnerabilities collectively enable illicit financial flows to penetrate the legitimate economy, undermining the integrity of the financial system. The absence of adequate oversight and the reliance on high-risk, untraceable transactions create significant opportunities for criminals to launder money. Addressing these vulnerabilities is crucial to preventing financial crime.

ACTIONABLE STEPS

- Conduct thorough AML risk assessments of non-traditional DNFBPs to justify supervisory resource allocation and implement tailored mitigation plans.
- Enhance oversight and develop tailored regulatory frameworks, including specific Customer Due Diligence guidance for non-traditional financing methods and high-risk transactions.
- Implement continuous training and awareness initiatives for non-traditional DNFBPs and carry out regular sector evaluations to spot emerging vulnerabilities.
- Formalise and strengthen information sharing and collaboration mechanisms among non-traditional DNFBPs, supervisors, and law enforcement agencies.

CONCLUSION

Proactively addressing these identified vulnerabilities is crucial to safeguarding the integrity of the financial system. The non-traditional DNFBP sector must be effectively supervised, with AML measures commensurate with its inherent risks, to prevent its exploitation by illicit financial activities.