

EDD for High-Risk Customers: A Step-by-Step Approach for DNFBPs





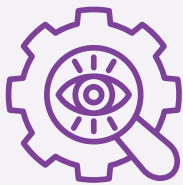
Enhanced Due Diligence (EDD) plays a vital role in countering financial crimes like money laundering, financing terrorism, and proliferation financing (ML/FT and PF). Regulated entities take EDD measures while onboarding customers (including natural or legal persons, suppliers, business partners or associates).

Let us first understand what Customer Due Diligence (CDD) is to appreciate the difference between CDD and EDD.



Table Of Content

What is EDD	01
What are High-Risk Customers	06
When should DNFBPs take EDD measures	09
A step-by-step approach for taking EDD measures	12
Challenges in implementing EDD measures	22
EDD Automation	29
Consequences of failing to take EDD measures	36
Conclusion	38
About RapidAML	40



What is **EDD**



Customer Due Diligence (CDD) contains steps that aid Designated Non-Financial Businesses and Professions (DNFBPs) in identifying their customers, verifying their identities, and assessing the money laundering risks posed by such customers to their business. Implementation of a CDD process helps businesses guard against potential fraud and fulfil regulatory compliance requirements as required by the UAE federal laws.

EDD, in alignment with existing CDD measures, calls for businesses to take additional or extra measures to identify and mitigate the risk posed by high-risk customers. EDD measures constitute obtaining thorough and complete knowledge regarding the customer, their businesses, and financial standing, as well as understanding the purpose behind transactions while ensuring that such high-risk customer profiles are monitored on a regular basis and kept up-to-date with regulatory requirements.





Components of EDD

In simple terms, the EDD process, as prescribed under UAE federal laws and guidelines for DNFBPs, generally involves stricter implementation of CDD measures that include components such as follows:

- ◆ Increased investigation, exploration and stricter standards of customer identification, verification, and documentation from verified independent sources;
- ◆ Deeper inquiry and assessment of the nature and purpose of the business relationship and ensuring alignment with the customer's source of funds and source of wealth;
- ◆ Enhanced monitoring of the business relationship, which includes steps such as seeking senior management approval, frequent monitoring of transactions, and regular review and updation of CDD information.





Comprehensive AML/CFT Program Guidelines for EDD

The DNFBPs operating in the UAE are required to have an AML/CFT program which contains policies, procedures, systems and controls specifying the implementation of EDD measures based on a risk-based approach (RBA) recommended by the Financial Action Task Force (FATF) to which the UAE is a signatory.





The DNFBP's policies and procedures must clearly mention the procedures around EDD implementation, such as follows:

Enterprise-Wide Risk Assessment, which identifies ML/FT and PF risks

Customer identification, verification, customer risk assessment, customer risk classification, and rating

Situations under which the EDD will be carried out, including the timing of EDD

Details as to the measures and steps to be that constitute EDD

Level of frequency of reviewing and updating information of High-Risk Customers

Depth and frequency of conducting ongoing monitoring of business relationships established with high-risk customers

Carrying out background checks and screening customers' names across sanctions lists, targeted and other international financial lists for indication of involvement in criminal activity or other negative information



What are high-risk customers



Any customer who brings along or denotes risk due to:

- ◆ **being who they are;**
 - such as Politically Exposed Persons (PEP), legal persons who have complex ownership structures where identification of UBO is difficult or Non-resident customers who do not have valid ID;
- ◆ **the type of business activity they are engaged with;**
 - such as cash-intensive businesses and businesses with unknown third parties whose identities cannot be verified.
- ◆ **the nature of business relationships it has with other individuals or entities; or**
 - such as associations with PEPs or being a part of complex business structures involving complex transactions and ambiguous economic objectives.
- ◆ **type of geographical area they belong to;**
 - such as belonging to a high-risk country such as a blacklisted, greylisted or sanctioned country or country that has embargoes imposed on it.

are known as high-risk customers.





What Are High-Risk Customers?





When should DNFBPs take **EDD** measures



DNFBPs in the UAE are required to undertake EDD measures in the situations listed below:

In an event where the customer is identified as a high-risk customer

In an event where there is ambiguity with regard to the accuracy or relevance of any risk rating applied & classification allocated to a customer's profile

In an event where any suspicious activity is observed in alignment with the red-flag indicators of unusual or suspicious transactions or activities

In an event where the presence of an ultimate beneficial owner (UBO) or the establishment of a business relationship in the UAE appears to be illogical

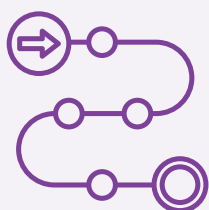
In an event where there is no consistency in the customer's business and the proposed business relationship to be established with the DNFBP

In an event where there is a lack of transparency about the legal structure of a customer or the nature of business transactions



In all situations where EDD measures are applied, DNFBPs are required to ensure that reasonable, appropriate, and adequate measures are taken to collect customer information to carry out EDD proportionate to the degree of ML/FT and PF risks to which the business is exposed.





A step-by-step approach for taking EDD measures



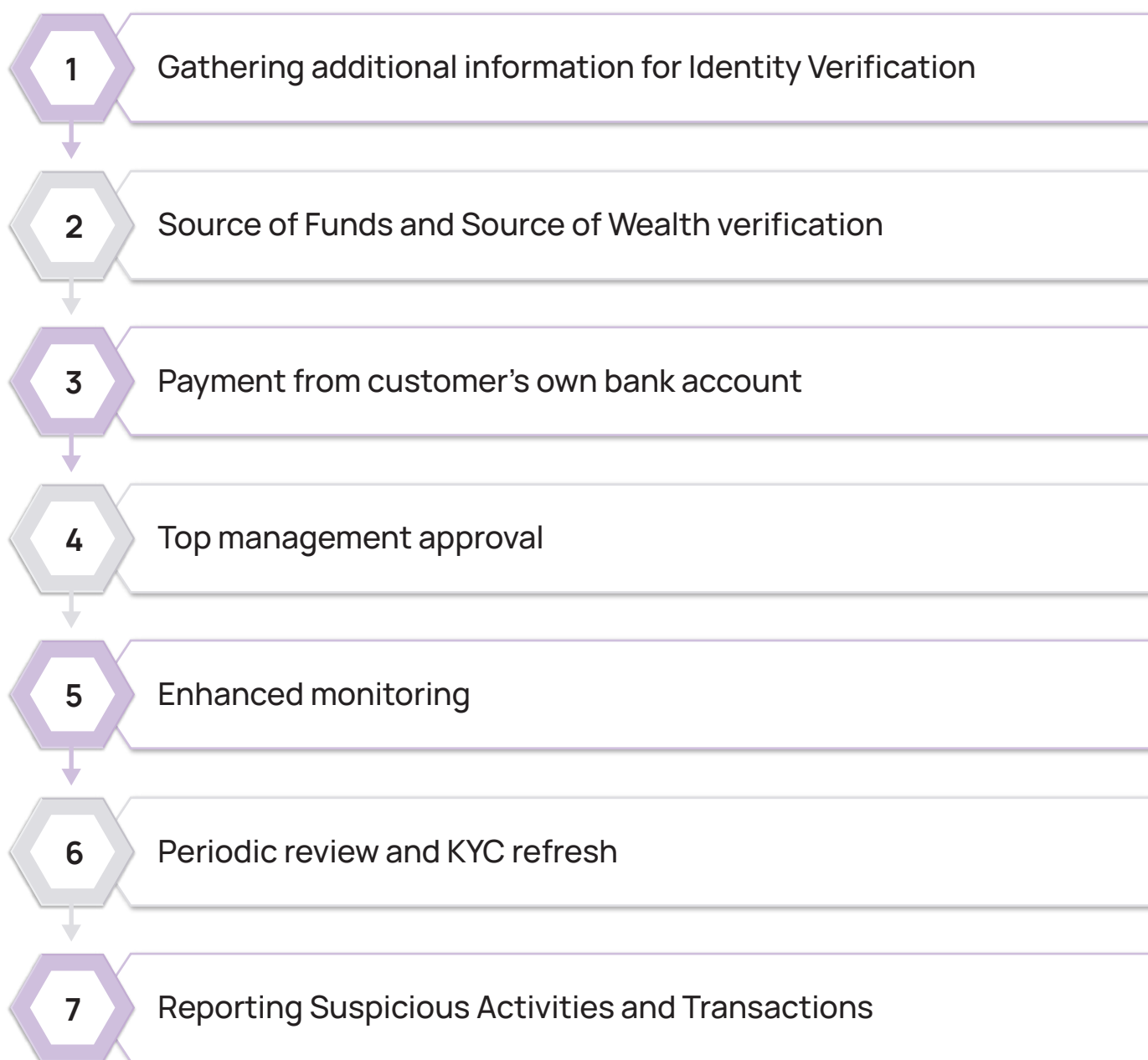
The DNFBPs are required to formulate their AML/CFT compliance policies, procedures, systems, and controls to ensure compliance with the UAE federal laws and FATF recommendations.

Furthermore, DNFBPs, while undertaking EDD measures, should implement a step-by-step approach.





Step-by-step Approach for Effective EDD Measures





1. Gathering additional information for identity verification

Once it is determined that EDD is required to be carried out for a customer, the DNFBP is required to seek additional information from the customer, such as follows:

- ◆ Details of the customer's core business area, the expected volume of sales, and lists of their major suppliers and business associates;
- ◆ Reasons for deviation from usual business activity for the said transactions, if any.





2. Source of funds and source of wealth

The next step involves ascertaining the sources of funds and source of wealth information for the transaction and collecting the documentation for the same, which includes:

Source of funds

Establishes the origin of funds involved in the transaction; examples include:

- i. Salary or bank statements
- ii. Profit and loss statement
- iii. Loan approval documents, funds lying in escrow account
- iv. Savings, pension, interest on savings
- v. Incomes such as profession, lottery, compensation, etc

Source of wealth

Establishes how wealth/assets were acquired over a period of time or what is the net worth of the customer; examples include:

- i. Documents denoting title to assets owned
- ii. Trust deeds indicating income or capital generated
- iii. Audited financial statements and tax returns
- iv. Gift deed, Inheritance received



3. Payment from the customer's own bank account

As a safe practice, DNFBPs must insist high-risk customers complete the transaction using their own bank account.





4. Top management approval

Additionally, senior management approval must be sought to ensure that high-risk customers are onboarded considering the risk appetite of the entity.





5. Enhanced monitoring

After obtaining senior management approval for establishing a business relationship, the next step is to deploy enhanced monitoring measures, such as ongoing sanctions screening and adverse media alerts, to regularly monitor the degree of risk posed by the high-risk customer so that the EDD measures can be adjusted and further information can be sought if the customer's situation changes. In the context of virtual assets or wire transfers, red flags related to such transactions can be analysed while carrying out ongoing monitoring of transactions.





6. Periodic review and KYC refresh

This step requires the DNFBPs to conduct periodic reviews of customer profiles under EDD to ensure that the KYC information is refreshed as and when there is a change in information and at regular intervals to ensure continuous and timely updation of customer details.





7. Reporting suspicious activities and transactions

If, while carrying out the EDD process as mentioned in the steps above, any unusual activity, deviations, or transactions are observed, reporting such suspicious activity or transaction on the goAML portal to the Financial Intelligence Unit (FIU) is mandatory. Failing to report suspicious activity or transactions will result in a breach of UAE federal laws and will attract punitive fines, penalties, and even imprisonment in certain cases.

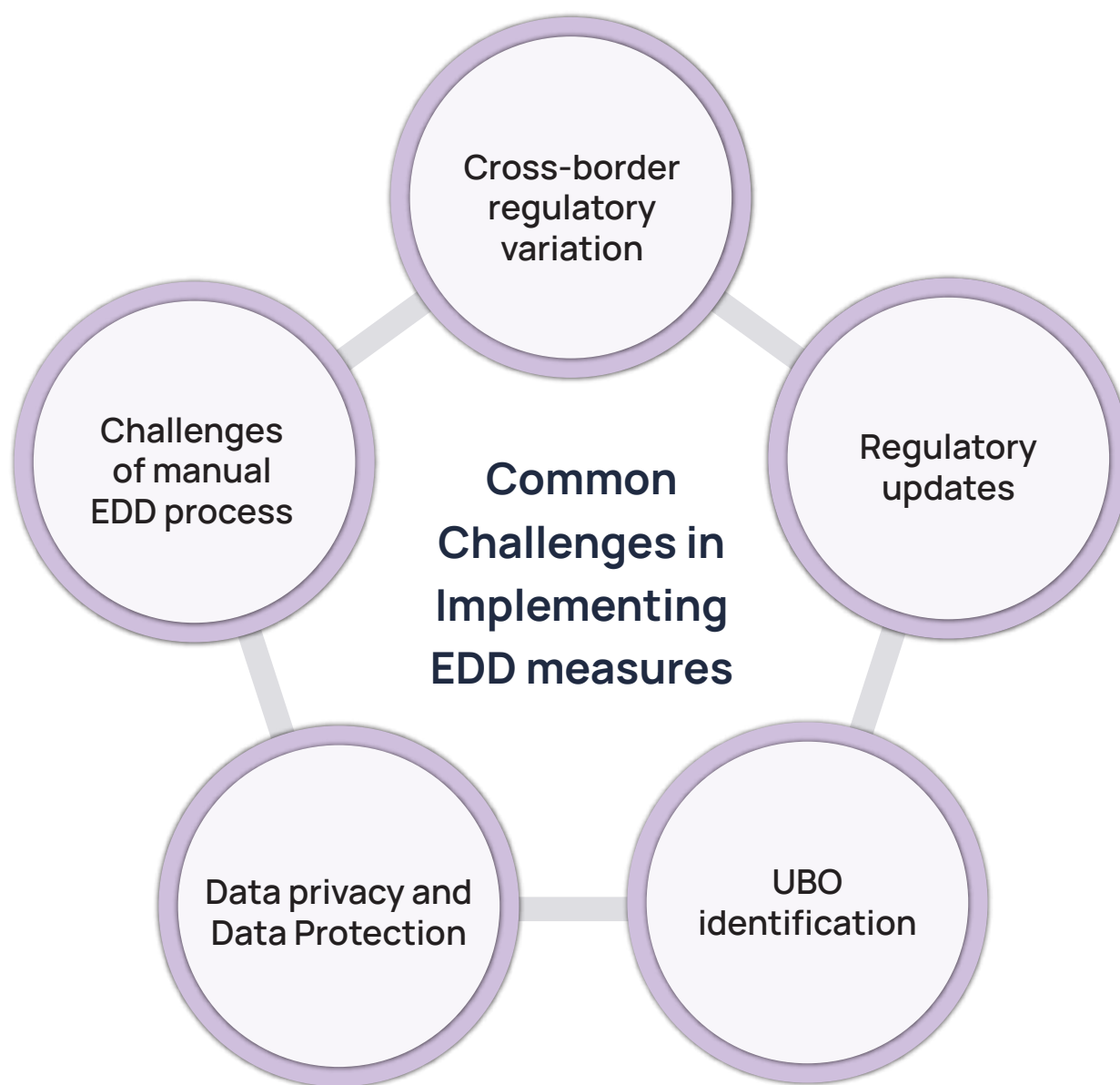




Challenges in implementing EDD measures



EDD strengthens DNFBPs' compliance framework. However, DNFBPs face various challenges in implementing EDD measures effectively. It is crucial for businesses to address these challenges.





Cross-border regulatory variation

The challenge of cross-border regulatory variation comes up when the DNFBP has its business operations in multiple jurisdictions, and each jurisdiction has distinct customer onboarding and EDD requirements. It is important for such a DNFBP to ensure that its EDD process is streamlined across jurisdictions to avoid breaches of regulatory requirements.





Regulatory updates

The EDD procedures deployed by a DNFBP must be updated regularly to ensure continuous compliance with the frequent regulatory updates. Not updating AML/CFT policies and procedures in a timely manner would lead to potential non-compliance with updated regulations.





UBO identification

The inability to ascertain the UBO of a legal person poses a huge challenge to DNFBPs due to opaque corporate structures, complex chains of ownership, and the existence of shell companies, tax havens, and offshore bank accounts. This leads the EDD process into a lengthy investigation with no definite conclusion as to the identity of the UBO.





Data privacy and data protection

When it comes to collecting and storing the customer's personal data, the DNFBP is required to ensure that it obtains consent to do so from its customer in an explicit manner by publishing the use and storage of data for the regulatory compliance process and ensuring compliance with the UAE and global data protection regulatory requirements.



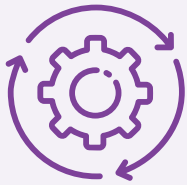


Challenges of manual EDD process

Some of the challenges faced by DNFBPs when conducting EDD processes manually are listed as follows:

- ◆ A lot of time is consumed when seeking additional documents for EDD by sending email and phone call reminders to customers to complete the EDD process.
- ◆ Errors and inaccuracies may occur due to human elements, such as a wrong risk rating, unnecessary EDD of low-risk customers, onboarding of high-risk customers with regular CDD measures, errors while carrying out name screening, adverse media, etc.
- ◆ Non-integration with similar repetitive AML compliance and operational processes drains business resources such as time, man-hours, and money.





EDD automation



UAE federal law explicitly recommends that DNFBPs use technology to streamline their AML compliance process. EDD automation is one such tool that enables DNFBPs to carry out customer identification and verification, risk assessments, additional data seeking, and case management, specifically fulfilling EDD requirements.

Role of AI and ML

Artificial Intelligence (AI) and Machine Learning (ML) play a significant role in the automation of the EDD processes. AI and ML can help with carrying out various repetitive tasks such as customer identification and verification and assigning risk ratings based on the automation part of AI and the self-evolving feature of ML. AI and ML help customise the adverse media screening, PEP screening, and sanction screening process according to the needs of the DNFBPs.

Role of data analytics

Data analytics helps in deriving insights and drawing connections to ascertain the nature of complex business structures and identify UBOs. It also enables DNFBPs to identify risks and trends of high-risk customers.





Role of robotic process automation (RPA)

RPA enables DNFBPs to automate repetitive tasks that involve sequential steps such as clicking, selecting from the drop-down menu, etc., involved with EDD processes such as sending notifications requesting additional information to customers and automating data entry components for various records and reports.

This results in lesser human involvement and reduced man-hours behind repetitive tasks.

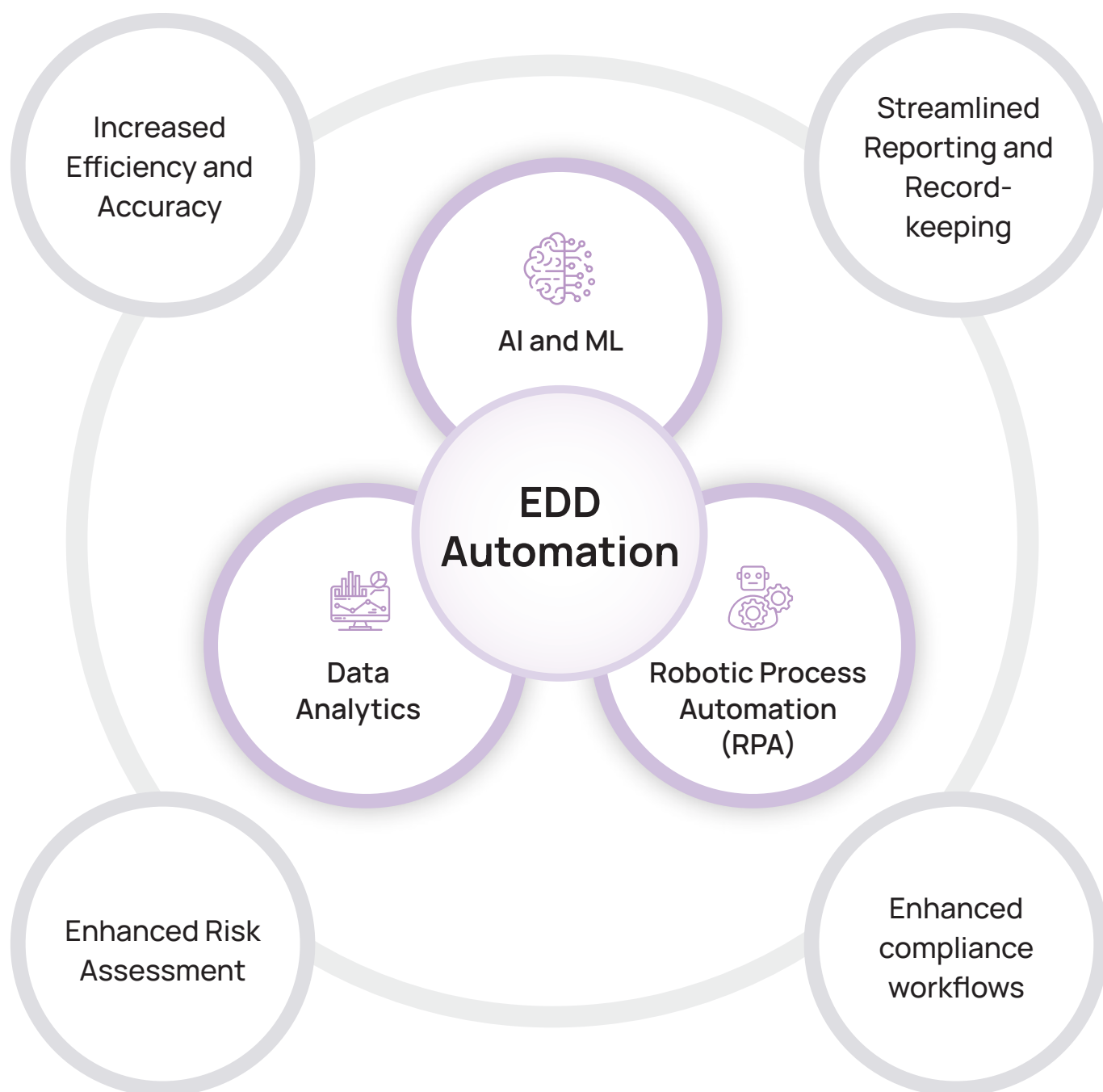
The RPA, while using AI and ML, can automate processes such as:

- ◆ ID verification for customer onboarding, verifying updated KYC information of customers under EDD.
- ◆ Relying on technology such as two-factor authentication (2FA checks) for verifying customers' identity when accessing previously conducted CDD/EDD by sending notifications to customers' cell phones and requesting approval for the use of their information and relying on NFC (near field communication) chips for ID verification to interpret encrypted data stored in the chip embedded in the ID documents, this helps in preventing the use of counterfeit ID documents.





Virtual Representation of EDD Automation





Benefits of EDD automation

EDD is a crucial element for DNFBPs in managing ML/FT and PF risks, complying with regulations, and effectively detecting and preventing financial crimes. To optimise EDD practices, DNFBPs are progressively adopting automation. The benefits of leveraging EDD Automation are multifold, offering enhanced efficiency and effectiveness in detecting and preventing financial crimes.





Enhanced risk assessment

The quality of risk assessment carried out by automated process is significantly higher than the manual EDD process. Through automation, the assessment becomes more thorough and precise, leveraging advanced algorithms to scrutinise data comprehensively. This helps streamline the process and ensures a more robust evaluation of potential risks.

Increased efficiency and accuracy

The accuracy of automated and system-generated EDD results is significantly higher than that of manual EDD processes, as the element of human error is removed, thus significantly increasing the efficiency of the EDD process.





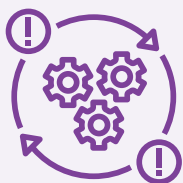
Streamlined reporting and record-keeping

EDD automation, when integrated with Integration with other AML compliance software such as AML reporting and AML record-keeping solutions, reduces the turn-around -time as the data entry process can be automated for purposes of reporting and record-keeping requirements, thus providing accessibility to audit logs.

Enhanced compliance workflows

When EDD automation is integrated with other operational software solutions, such as CRM, payment solutions, etc., the DNFBP can use such a solution to complete multiple tasks using one platform and have a workflow that ensures compliance with various regulatory requirements.





Consequences of failing to take EDD measures



The failure of DNFBPs to ensure compliance with the EDD requirements results in a breach of UAE AML federal laws and regulations, leading to fines, penalties, and even imprisonment or a ban from conducting business in certain cases. The loss of reputation and brand trust is an unpleasant consequence.





Conclusion



The DNFBPs in UAE, by adhering to EDD requirements prescribed by Federal laws, sector-specific guidelines, and FATF recommendations, can ensure that criminals involved in ML/FT and PF activities do not use DNFBP's business as a vehicle to further their criminal activities.

Relying on technological advancements such as EDD automation is the need of the hour as manual processes are outdated, time-consuming, and less efficient, rendering them obsolete. On the other hand, the ability of EDD solutions to be customised in accordance with the business's RBA to meet its specific individual needs, its scalability, customisation, and versatility to be integrated with other AML compliance solutions and operational solutions make EDD automation the ideal choice for DNFBPs intending to ensure continuous EDD compliance in UAE.





About RapidAML



RapidAML is an AML software designed to support the compliance tasks of the **DNFBPs and the VASPs**, offering an advanced and secured technology platform

Who we are

Facctum, founded in 2021 by a group of enthusiasts who have experience in banking, financial crime risk management technology, data science, etc., specialises in building risk management solutions with new-age technology.





Our Mission

We understand the significance of AML compliance and recognise its complexity. Addressing this issue is our mission at RapidAML.

Our solution focuses on simplifying the intricate regime of AML compliance with advanced technology. We aim to help the regulated entities, specifically the DNFBPs and the VASPs, smoothen their AML efforts with RapidAML's end-to-end AML software.

Our Vision

Our vision is to develop next-gen AML software that offers an affordable and complete solution to all the AML compliance-related issues of every DNFBP and VASP worldwide.





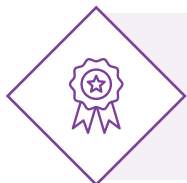
Our Core Values

We live by these guiding principles that guide our progress



Customer Focused

We are committed to offering quality AML support to exhibit a constructive effect on the customer's business



Elevated Excellence

With a comprehensive, tech-driven financial crime compliance solution, we nurture customer's efforts and ignite brilliance to AML function.



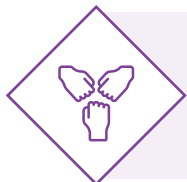
Innovation Is The Key

We strive for healthy competition, bringing out the best version of the AML tools and technologies with continuous research and improvement.



Integrity

We value our customers, our team, and our society, and we build trust with our committed honesty and transparency.



Together We Win

With inclusiveness and a sense of collaboration, we assist our customers in accomplishing compliance and developing a sense of shared achievement.



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