

## AML/CFT/CPF Communication 1 of 2025

Banks and Mutual Banks: Compliance with the Financial Intelligence Centre Act 38 of 2001

### Anti-money laundering, counter-financing of terrorism and counter-proliferation financing awareness communication

#### ***Objective of this Communication***

This communication provides feedback to the banking industry on the key observations (deficiencies) identified by the Prudential Authority (PA) through its anti-money laundering, counter-financing of terrorism and counter-proliferation financing (AML/CFT/CPF) supervision during the 24-month period from 1 April 2022 to 31 March 2024.

#### **1. Application**

- 1.1 This communication is applicable to banks and mutual banks.

#### **2. Introduction**

- 2.1 The PA is the designated supervisory body<sup>1</sup> responsible for ensuring that banks comply with the provisions of the Financial Intelligence Centre Act 38 of 2001 (FIC Act).

#### **3. Purpose of this communication**

- 3.1 The purpose of this communication is to provide feedback to banks on the key observations and areas requiring improvement identified by the PA through its AML/CFT/CPF supervision of banks during the 24-month period from 1 April 2022 to 31 March 2024.
- 3.2 The PA periodically updates the accountable institutions<sup>2</sup> under its purview on key observations (deficiencies) emanating from its risk based supervisory activities (e.g. thematic reviews, inspections, questionnaires etc.). The communications are published on the website of the South African Reserve Bank under the heading: 'Financial Sector Awareness'<sup>3</sup>. The previous communication in this regard was issued on 10 November 2023.

<sup>1</sup> [Schedule 2 of the FIC Act.](#)

<sup>2</sup> [Schedule 1 of the FIC Act](#)

<sup>3</sup> [Financial sector awareness communications](#)

## **4. Legislative requirements**

4.1 Section 42(2)(q) of the FIC Act states that a risk management and compliance programme (RMCP) must provide for the manner in which:

- (i) the RMCP is implemented in branches, subsidiaries or other operations of the institution in foreign countries so as to enable the institution to comply with its obligations under the FIC Act;
- (ii) the institution will determine if the host country of a foreign branch, subsidiary or other operation permits the implementation of measures required under the FIC Act;
- (iii) the institution will inform the Financial Intelligence Centre (FIC) and supervisory body concerned if the host country contemplated in sub-paragraph (ii) does not permit the implementation of measures required under the FIC Act; and
- (iv) taking into consideration the level of risk of the host country, the institution will apply appropriate additional measures to manage the risks if the host country does not permit the implementation of measures required under the FIC Act.

4.2 Section (qA) of the FIC Act provides for the manner in which and the processes by which group-wide programmes of an accountable institution for all its branches and majority-owned subsidiaries situated in the Republic of South Africa is implemented to enable the institution to comply with its obligations under the FIC Act.

## **5. Supervision of banks**

5.1 The PA follows a risk-based approach (RBA) to the AML/CFT/CPF supervision of banks using a range of supervisory tools.

5.2 In 2022, the PA developed a money laundering, terrorist financing and proliferation financing (ML/TF/PF) risk return for banks to complete and submit to the PA on a quarterly basis<sup>4</sup>. The ML/TF/PF return requires banks to provide the PA with a host of risk relevant data, some of which encompasses the following:

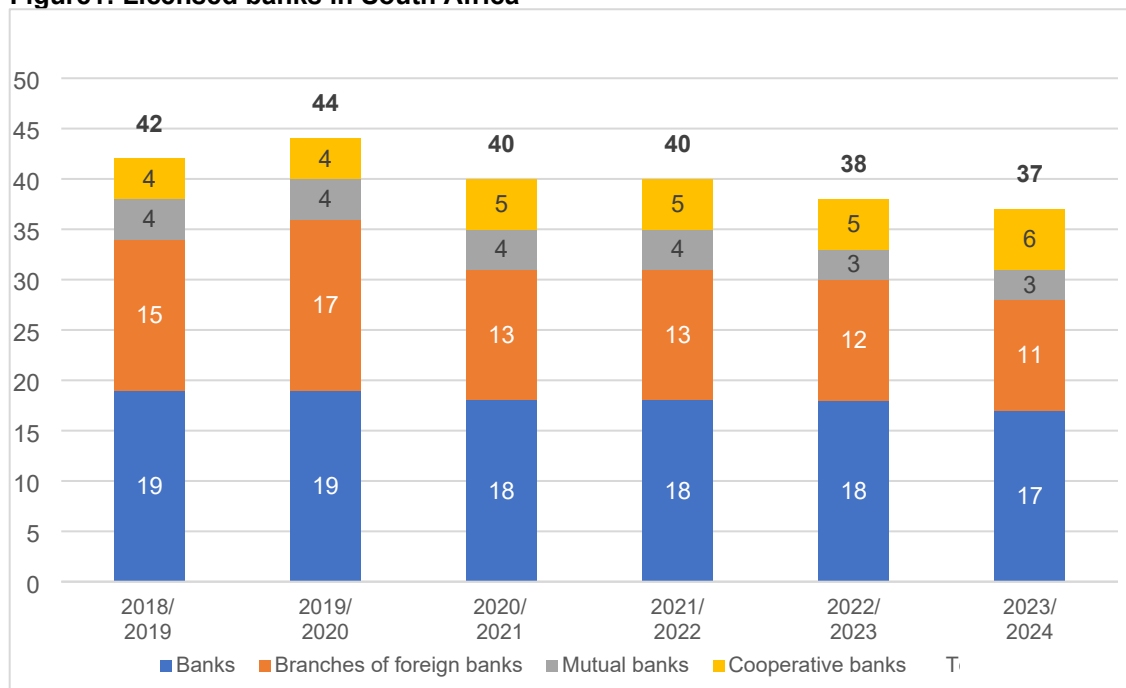
- a. product offerings;
- b. customer types and classifications;
- c. customer due diligence information;
- d. statistics in respect of reporting obligations to the FIC;
- e. training; and
- f. governance.

Figure 1 reflects year-on-year changes in the number of banks licensed with the PA for the prior six financial years.

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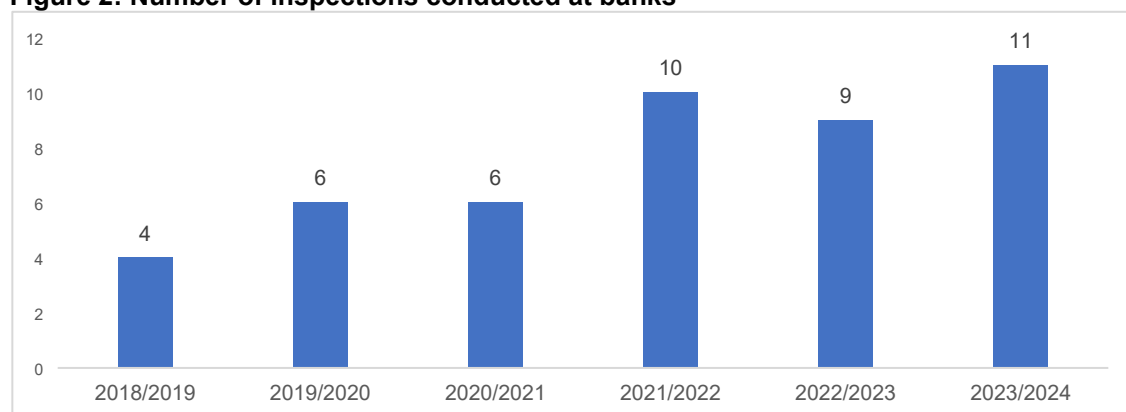
<sup>4</sup> [Directive D4/2022 dated 21 June 2022](#)

**Figure1: Licensed banks in South Africa**



**Figure 2** reflects details pertaining inspections conducted in terms of section 45B of the FIC Act by the PA at banks during the past 6 financial years.

**Figure 2: Number of inspections conducted at banks**



Changes (enhancements) to the supervisory approach of the PA includes the appointment of additional resources, which has enabled it to increase the number of inspections conducted during the prior three financial years.

## 6. Expectations of the Prudential Authority

### 6.1 The PA expects banks to:

- take note of the deficiencies; and
- scrutinise their AML/CFT/CPF frameworks with a view of enhancing their respective RMCPs where it is necessary to improve effectiveness in terms of AML/CFT/CPF controls in place to mitigate the corresponding levels of risk posed and to ensure compliance with FIC Act obligations.

## **7. Key deficiencies identified through supervision**

- 7.1 Annexure A attached hereto provides details of the deficiencies identified for the 24-month period from 1 April 2022 to 31 March 2024.

Fundi Tshazibana  
**Chief Executive Officer**

Date:

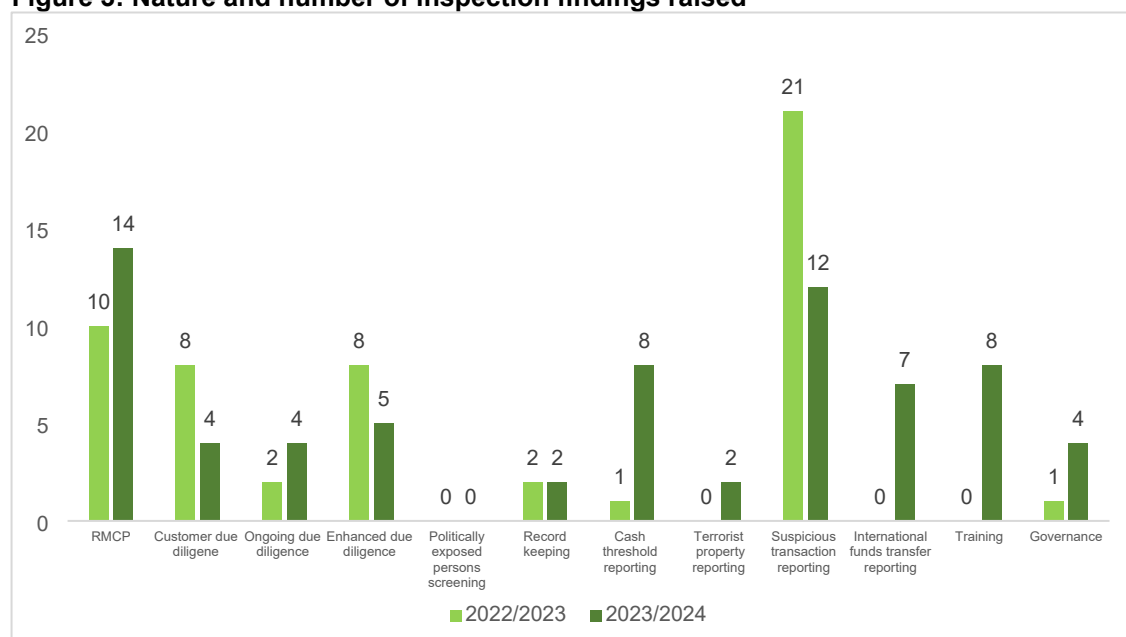
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## Observations arising from AML/CFT/CPF supervision by the Prudential Authority

### A. Analysis of inspection findings in respect of the prior two<sup>5</sup> financial years

**Figure 3** provides details of the nature and number of inspection findings per FIC Act obligation raised. A total of 53 (9 banks inspected) and 70 (11 banks inspected) inspection findings were raised during the 2022/2023 and 2023/2024 financial years, respectively. It should be noted that obligations such as risk management and compliance programme (RMCP), customer due diligence (CDD) and suspicious transaction reporting (STR) regularly formed part of obligations assessed during the inspections.

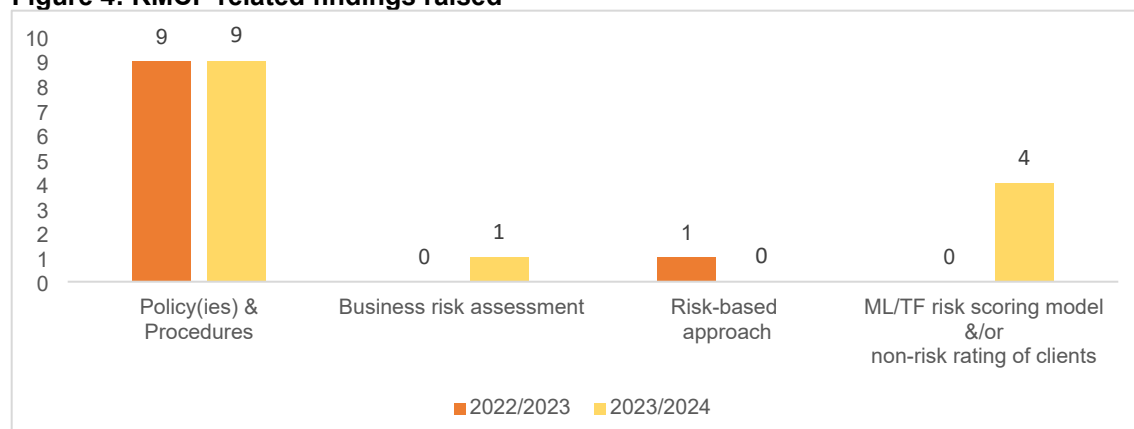
**Figure 3: Nature and number of inspection findings raised**



#### A.1 RMCP

**Figure 4** provides an indication of RMCP related findings raised.

**Figure 4: RMCP related findings raised**



<sup>5</sup> A financial year covers the period from 1 April to 31 March

More detailed information pertaining to RMCP related findings is outlined below.

**Policies and procedures**

- a. Inadequate documenting of FIC Act obligations.
- b. Infrequent review of the RMCP and or the policies and procedures.
- c. Trigger events indicating when the RMCP needs to be referred to a governance forum /board of directors for approval were not documented.
- d. The RMCP had not been signed off by senior management as prescribed in the RMCP.

**Business risk assessment**

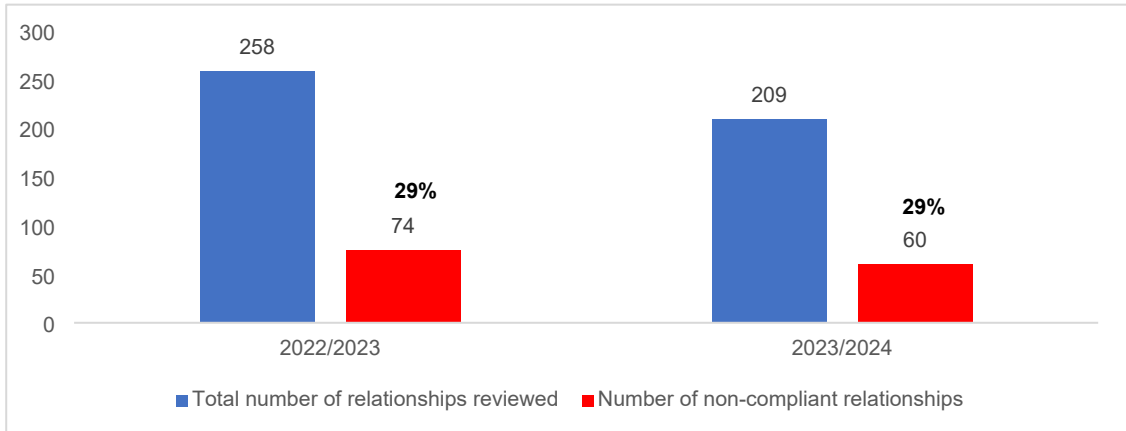
- a. Inadequate documenting of the client risk scoring methodology.
- b. Non-functional risk scoring model.
- c. Certain client relationships were not risk scored for money laundering, terrorist financing and proliferation financing (ML/TF/PF) purposes.
- d. Not all client relationships had been risk-scored for ML/TF/PF purposes.

**A.2 Customer relationships: Customer due diligence, ongoing due diligence and enhanced due diligence**

**Customer due diligence**

**Figure 5** reflects the number of non-compliant client relationships identified during customer due diligence (CDD) assessments conducted during past two financial years.

**Figure 5: CDD deficiencies**



	2022/2023	2023/2024
The number of times CDD obligations were assessed during inspections.	7 out of 9	6 out of 11

The reasons for non-compliance observed in respect of CDD inter alia included the following:

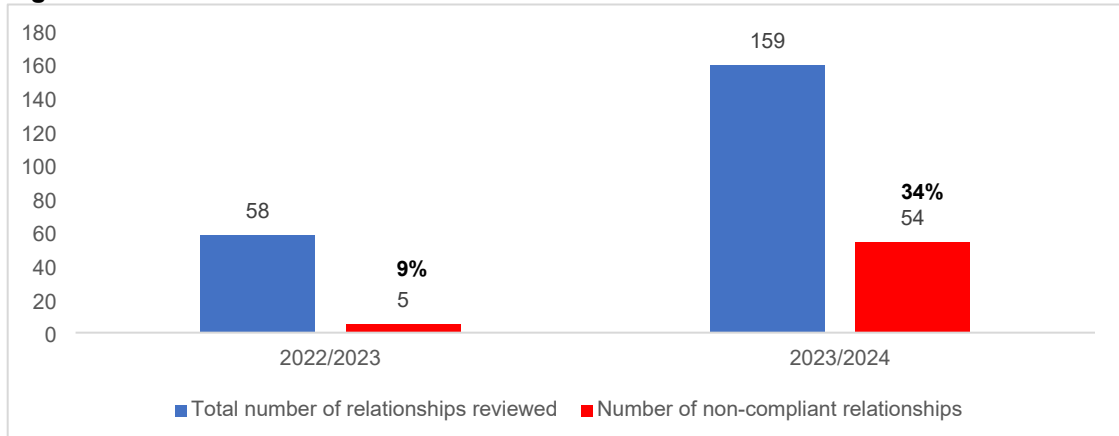
- a. unable to provide CDD information for a client relationship(s);
- b. client onboarding documents were incomplete (as prescribed in the RMCP), that is:
  - i. identity document /entity registration documentation;
  - ii. proof of residence;
  - iii. source of funds;
  - iv. source of wealth;
  - v. beneficial owners (BOs) not identified; and

- vi. Accountable Institution (AI) unable to explain and evidence how the beneficial owners of legal persons had been identified. (no methodology /entity structure on file).
- c. Information captured on the bank's customer information system did not match documentary evidence provided (e.g. electronic copies of proof of residence).

### Ongoing due diligence

**Figure 6** reflects the number of non-compliant client relationships identified during ongoing due diligence (ODD) assessments conducted during past two financial years.

**Figure 6: ODD deficiencies**



	2022/2023	2023/2024
The number of times ODD obligations were assessed during inspections.	2 out of 9	4 out of 11

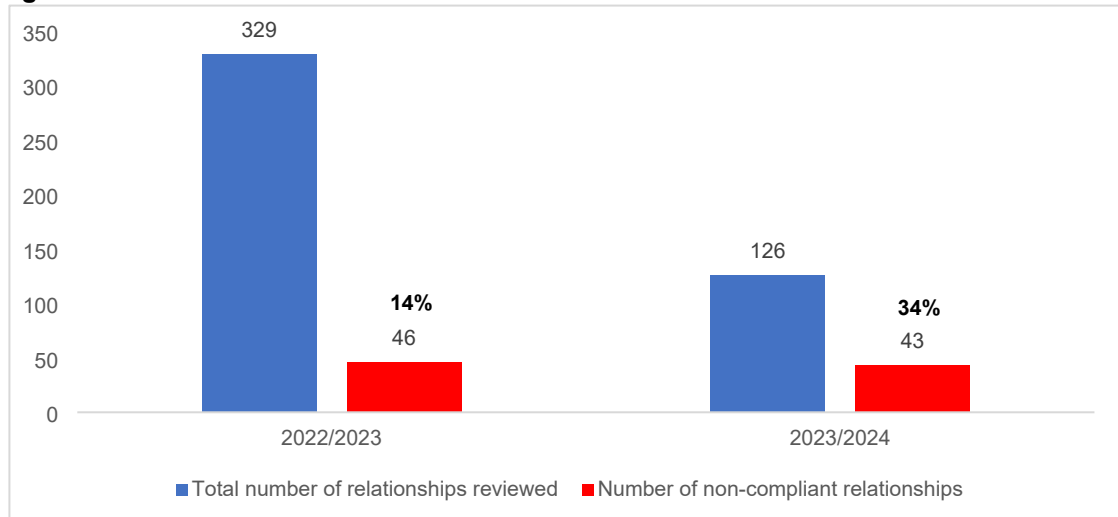
The reasons for non-compliance observed in respect of ODD inter alia included the following:

- a. ODD review not conducted at all; and
- b. ODD review not completed in accordance with requirements stipulated in the RMCP:
  - i. not completed within stipulated timeframes;
  - ii. updated documents not obtained;
  - iii. no evidence of contacting the client (per RMCP requirement);
  - iv. no review undertaken on transactional data to confirm that the client's behaviour is in line with expected/documented behaviour; and
  - v. source of income information does not correlate with information obtained at onboarding.

### Enhanced due diligence

**Figure 7** reflects the number of non-compliant client relationships identified during enhanced due diligence (EDD) assessments conducted during past two financial years.

**Figure 7: EDD deficiencies**



	2022/2023	2023/2024
The number of times EDD obligations were assessed during inspections.	7 out of 9	5 out of 11

The reasons for non-compliance observed in respect of EDD inter alia included the following:

- a. EDDs not performed.
- b. EDDs not signed off by senior management.
- c. EDDs not completed in accordance with RMCP requirements.
  - i. source of funds not verified;
  - ii. EDD not completed within prescribed timeframes; and
  - iii. no evidence of adverse media checks having been performed.

**Other observations:**

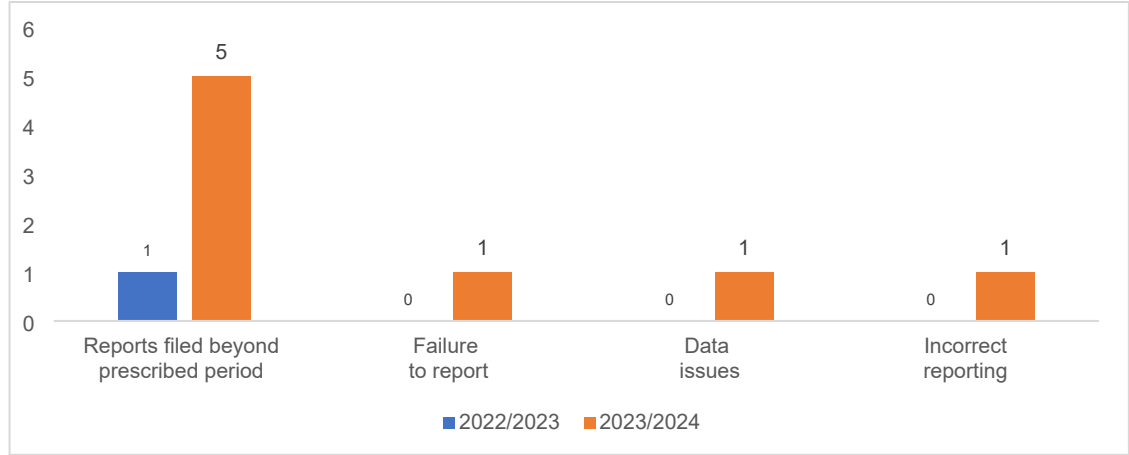
- a. Backlog(s) in completing EDD reviews.
- b. Inaccurate (conflicting) information maintained, e.g. a schedule provided to the PA indicated that a relationship(s) is/are high risk vs the bank subsequently advising that the client risk score is not high and thus the relationship need not have been subjected to an EDD process.

**A3. Cash threshold reporting obligations and controls**

**Figure 8** provides salient details pertaining to cash threshold reporting (CTR) related findings.

The finding in respect of incorrect reporting in 2023/2024 was raised because CTRs filed with the FIC on goAML did not adhere to the prescribed reporting format as stipulated in the goAML schema specifications, business rules and the Money Laundering and Terrorist Financing Control Regulations. The finding in respect of data issues in 2023/2024 pertains to incomplete data information provided to the PA, resulting in the PA not been able to perform all requisite compliance tests on CTR obligations.

**Figure 8: CTR related findings**

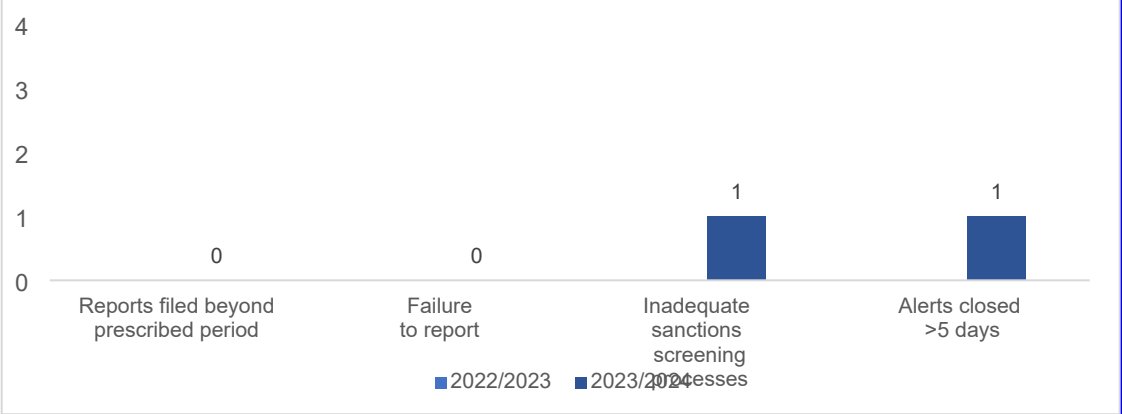


	2022/2023	2023/2024
The number of times CTR obligations were assessed during inspections.	1 out of 9	6 out of 11

**A4. Terrorist property reporting obligations and controls**

**Figure 9** provides salient details pertaining to terrorist property reporting (TPR) related findings.

**Figure 9: TPR related findings**



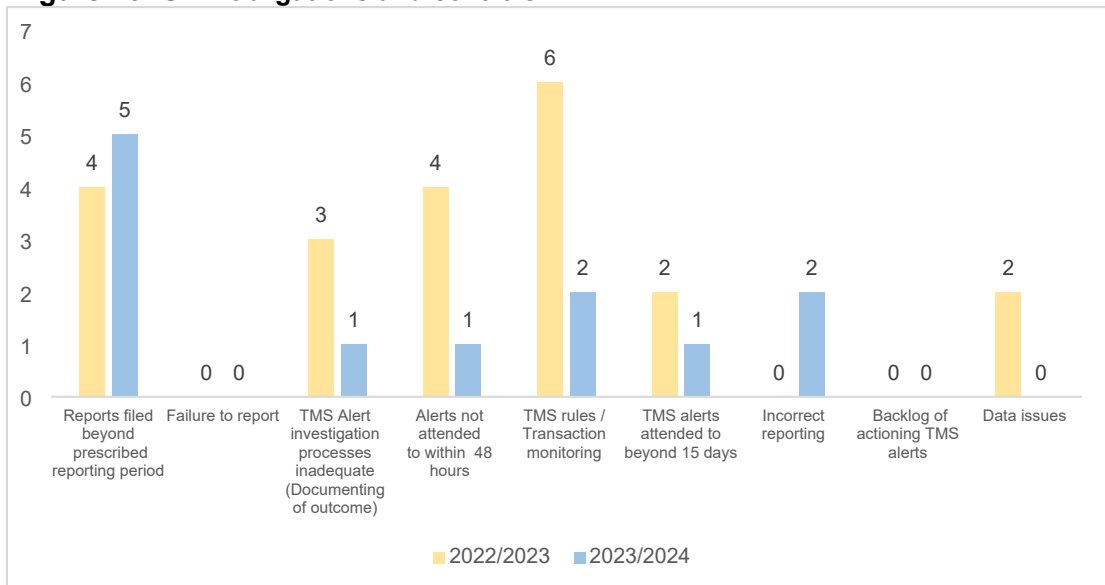
	2022/2023	2023/2024
The number of times TPR obligations were assessed during inspections.	0 out of 9	3 out of 11

The TPR finding relating to inadequate sanctions screening processes was raised because the sanction screening system (SSS) deployed by the AI did not generate alerts against certain manipulated sanctioned names appearing on United Nations Security Council Resolution 1267. A sample prepared by the PA containing details of manipulated names (natural and legal persons) of sanctioned persons was used to test the fuzzy logic capabilities of the AIs SSS.

## A5. Suspicious transaction reporting obligations and controls

**Figure 10** reflects the outcomes of various tests performed on suspicious transaction reporting (STR) obligations and the effectiveness of the controls.

**Figure 10: STR obligations and controls**



	2022/2023	2023/2024
The number of times STR obligations were assessed during inspections.	7 out of 9	6 out of 11

More detailed information pertaining to STR related findings is outlined below:

- suspicious and unusual transaction/activity alerts were closed without adequate reasons relating to the decision taken not to report the alerts as the STRs or SARs with the FIC;
- the AI filed reports with the FIC as an STR(s) instead of a SAR(s) or vice versa;
- ineffective transaction monitoring system rules – the rule did not create any alerts for the period reviewed by the PA; and
- the PA could not conduct certain tests because incomplete date information was provided.

## A6. International funds transfer reporting

**Figure 11** provides salient details in respect of international funds transfer reporting (IFTR) deficiencies. The IFTR obligation was effective from February 2023. Reviews by the PA of AIs compliance with IFTR obligations commenced towards the latter part of 2023.

**Figure 11: IFTR related deficiencies**



	2022/2023	2023/2024
The number of times IFTR obligations were assessed during inspections.	0 out of 9	8 out of 11

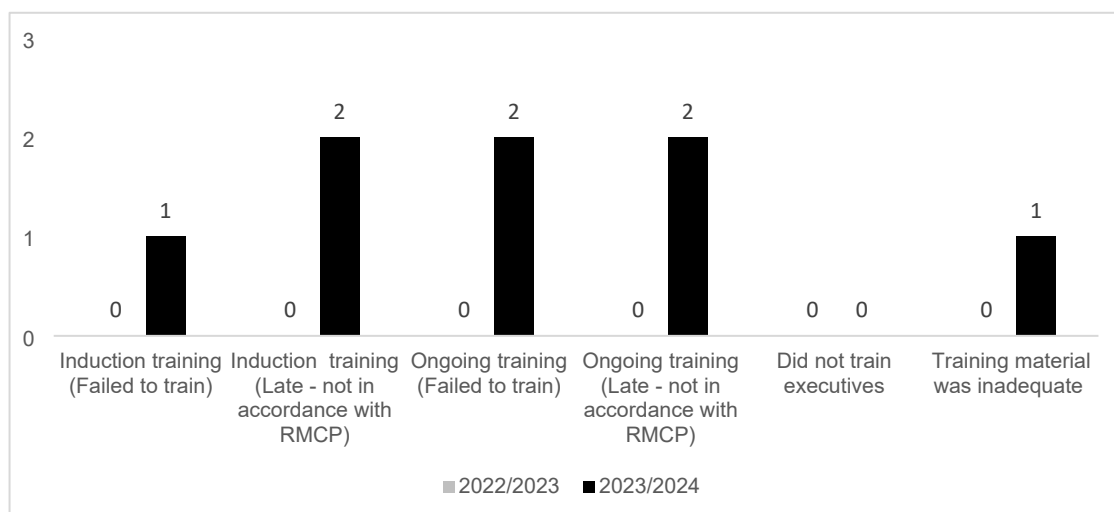
#### A7. Anti-money laundering, counter-financing of terrorism and counter-proliferation financing training

**Figure 12** provides salient information pertaining to training deficiencies observed by the PA. The finding in respect of inadequate training material was raised due to training material (induction and ongoing) not addressing manual processes to be followed by staff when escalating suspicious client behaviour and or suspicious and unusual transactions to the relevant forum, that is the training material did not include the following:

- the manner(s) of escalation (e.g. via an email message, via a hyperlink provided within the AIs Intranet platform etcetera);
- the nature of or minimum information that should accompany a “manual” report; and
- the timeframe(s) within which escalations should be done.

The above finding was inter alia raised because the PA, during an inspection found that the AI had not received or processed any manual escalations from staff. It was concluded that since the training material did not include the above procedure, staff members were unaware that they should escalate suspicious activities and behaviour to an appropriate division/function for possible reporting to the FIC in terms of section 29 of the FIC Act.

**Figure 12: AML/CFT training deficiencies**



	2022/2023	2023/2024
The number of times training obligations were assessed during inspections.	0 out of 9	3 out of 11

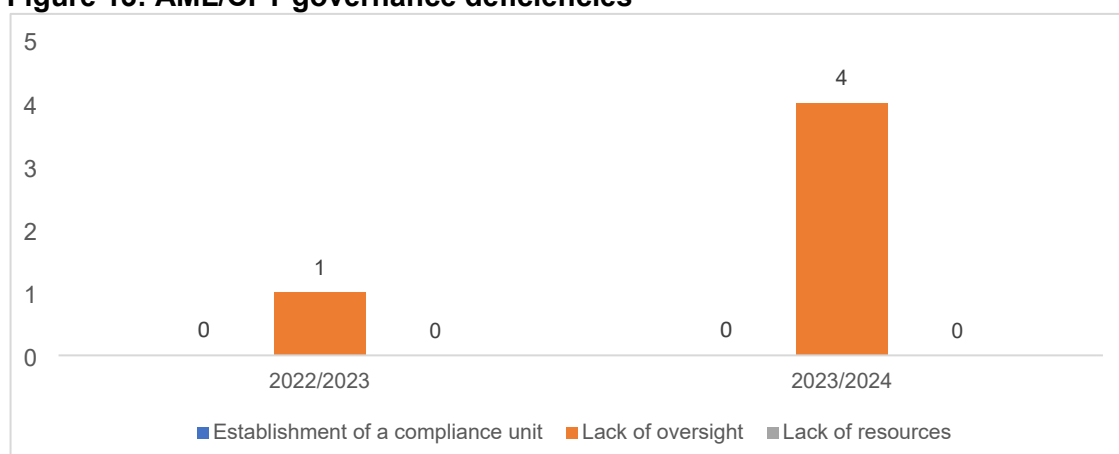
## A8. Governance

**Figure 13** provides salient details pertaining to governance issues identified during the inspections conducted at banks.

The PA inter alia found that:

- a. the board, senior management and/or the compliance function had not performed adequate oversight and monitoring relating to the LIs FIC Act obligations;
- b. monitoring plans did not cater specifically for coverage of FIC Act obligations linked to cash threshold reporting, in line with 2022 amendments to the FIC Act; and
- c. no formal tracking tool had been implemented to ensure that all non-compliant compliance monitoring findings were remediated.

**Figure 13: AML/CFT governance deficiencies**



	2022/2023	2023/2024
The number of times training obligations were assessed during inspections.	2 out of 9	5 out of 11

## A9. Assessment of money laundering terrorist financing and proliferation financing business risk assessments

During the period July to September 2022, a third-party service provider assisted the PA to assess the money laundering terrorist financing and proliferation financing (ML/TF/PF) business risk assessments (BRAs) undertaken by a sample of banks and life insurers. The purpose of the review was to determine whether banks and life insurers demonstrated an improved understanding of ML/TF/PF risk from December 2021 to June 2022.

In 2023, service provider again assisted the PA to conduct a second review of ML/TF business risk assessments of 16 banks included in the original sample and 10 banks not included in the original sample. The PA and the service provider reviewed each of the banks' 2023 ML/TF/PF BRAs against the same criteria used in the 2022 assessments.

### Continued areas for enhancements to business risk assessment

Despite significant progress, the 2023 assessment found some areas for improvement that banks should prioritize to comply with financial crime compliance standards to improve effectiveness of the understanding of risk.

The most significant issues related to the fact that several banks mapped controls against risks to determine a residual risk score, and in so doing, failed to conduct an individual assessment of control design and effectiveness.

In certain cases, banks provided methodology related documents that identified mitigating measures without detailing how such controls were weighted, scored, and evaluated in the context of deriving residual risk, thus making it difficult to assess how banks arrived at their enterprise-level residual risk score.

### **Assessing the nature and effectiveness of mitigating controls**

Although many banks mapped mitigating controls to specific inherent risks in supplemental risk matrices provided, and in this context, evaluated risk mitigation measures associated with certain controls (such as CDD/KYC, suspicious activity reporting and monitoring, recordkeeping, and training), banks often did not individually evaluate the design and effectiveness of controls within their risk assessments.

Certain banks individually scored their controls within separate risk matrix spreadsheets, showing a positive trend to evaluating controls; however, very few institutions assigned a weighting to specific controls based on the importance that the bank placed on that control.

Most banks also did not include remedial actions in their risk assessments when controls were highlighted as either:

- a. not designed or operating effectively; or
- b. did not exist.

### **Determination of residual risk**

Banks experienced limited improvement with respect to their treatment of residual risk, thus indicating that this is a continued area for enhancement and focus. Although generally banks appropriately explained the concept of residual risk in their methodology documents, many banks did not demonstrate how their enterprise-level residual risk score took into account both their inherent risk and control scores. In certain cases, the residual risk score(s) appeared to be a qualitative judgment unsupported through calculations and sufficient analysis.