

AML/CFT/CPF Communication 3 of 2025

Cross-border banking operations owned by South African licensed 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 cross-border banking operations (CBBOs) owned by South African licensed banks on the key observations (deficiencies) identified by the Prudential Authority (PA) through its Financial Intelligence Centre Act¹ supervision during the 24-month period from 1 April 2022 to 31 March 2024.

1. Application

- 1.1 This communication is applicable to CBBOs owned by South African licensed banks.

2. Introduction

- 2.1 The PA is the designated supervisory body² responsible for ensuring that banks, mutual banks, co-operative banks, life insurers (hereinafter referred to as accountable institutions³ (AIs) and CBBOs owned by domestic 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 AIs on the key observations and areas requiring improvement as identified by the PA through its FIC Act supervision of CBBOs during the 24-month period from 1 April 2022 to 31 March 2024.
- 3.2 The PA periodically updates the key observations (deficiencies) emanating from its supervision. The communications are published on the South African Reserve Bank's website under the heading: 'Prudential Regulation: AML/CFT/CPF'.

¹ Financial Intelligence Centre Act 38 of 2001

² [Schedule 2 of Financial Intelligence Centre Act 38 of 2001, as amended.](#)

³ [Schedule 1 of Financial Intelligence Centre Act 38 of 2001, as amended](#)

4. International standards

- 4.1 Core Principle 12 of the Core Principles (BCPs) for Effective Banking Supervision issued by the Basel Committee on Banking Supervision states that an essential element of banking supervision is that supervisors supervise the banking group on a consolidated basis, and adequately monitor and, as appropriate, apply prudential norms to all aspects of the business conducted by the group worldwide.
- 4.2 Financial Action Task Force (FATF) Recommendation 18.3 states that financial institutions should be required to ensure that their foreign branches and majority-owned subsidiaries apply AML/CFT/CPF measures consistent with the home country requirements, where the minimum AML/CFT/CPF requirements of the host country are less strict than those of the home country, to the extent that host country laws and regulation permit. If the host country does not permit the proper implementation of AML/CFT/CPF measures consistent with the home country requirements, financial groups should be required to apply appropriate additional measures to manage the money laundering and terrorist financing (ML/TF) risks and inform their home supervisors.
- 4.3 Furthermore, FATF Recommendation 26 dealing with supervision and regulation, inter alia, states that for financial institutions subject to the BCPs, the regulatory and supervisory measures that apply for prudential purposes, and which are also relevant to ML/TF, should apply in a similar manner for AML/CFT/CPF purposes. This should include applying consolidated group supervision for AML/CFT/CPF purposes.

5. National legislative requirements

- 5.1 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.
- 5.2 Section (qA) of the FIC Act provides for the manner in which and the processes by which group-wide programmes of an AI for all its branches and majority-owned subsidiaries situated in the Republic of South Africa is implemented so as to enable the institution to comply with its obligations under the FIC Act.

6. Supervision of cross-border banking operations

- 6.1 The PA follows a risk-based approach (RBA) to the supervision of the CBBOs using on-site and off-site supervisory tools.
- 6.2 The five large banking groups within South Africa have established or hold interests in CBBOs. As at 31 March 2024 they collectively held interest in 50 CBBOs. **Figures 1 and 2** provide salient details pertaining to the CBBOs.

Figure 1: Domestic banks holding interests in CBBOs

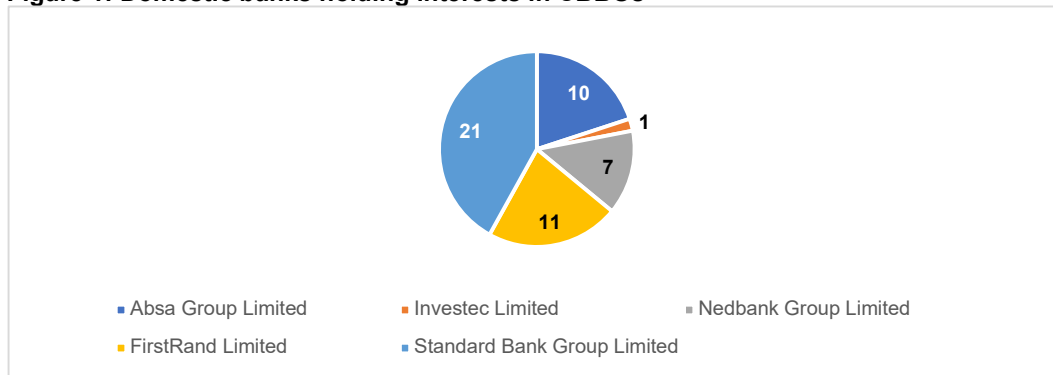
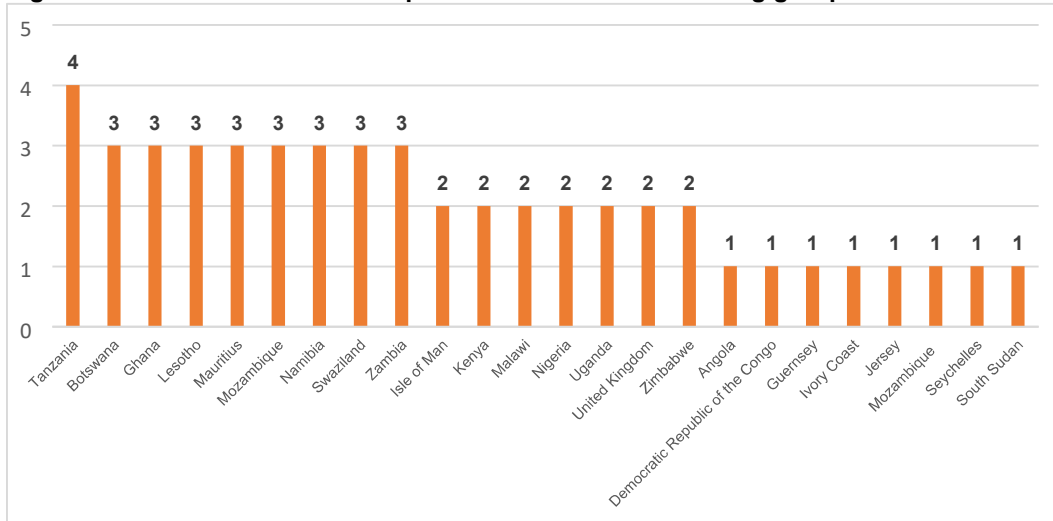


Figure 2: International CBBO footprint of South African banking groups



6.3 The establishment of all cross-border interests by banks and/or bank controlling companies require the prior approval of the Prudential Authority (PA) in terms of section 52 of Banks Act 94 of 1990.

6.4 The FATF in its feedback to supervisors post the 2019/2020 Mutual Evaluation (ME) inter alia advised that the PA should enhance its supervision over CBBOs'. In this regard, the PA in 2022 developed a money laundering, terrorist financing and proliferation financing (ML/TF/PF) risk return for CBBOs to complete and submit to the PA on a quarterly basis⁴. The ML/TF/PF return requires CBBOs 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. reporting obligations to the foreign financial intelligence unit (FIU);
- e. training; and
- f. governance.

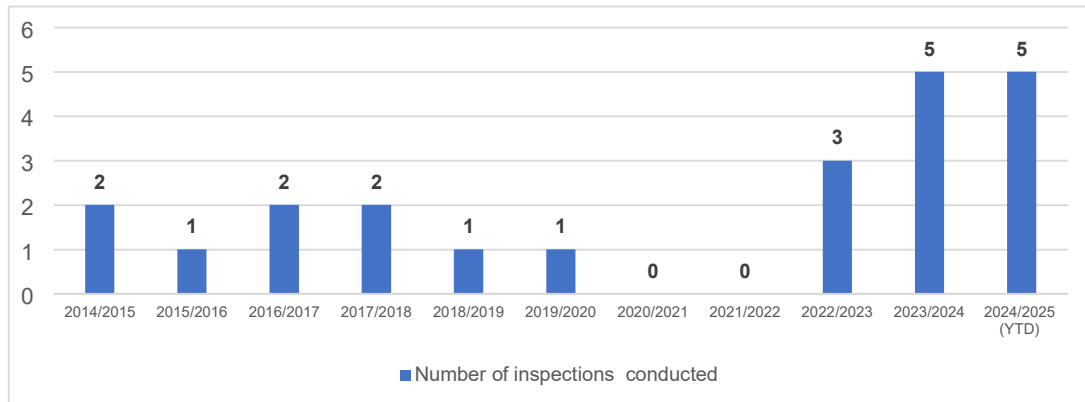
6.5 **Figure 3** provides salient details pertaining inspections conducted by the PA at CBBOs since 2014. Figure 3 inter alia reflects an increase in the number of onsite inspections conducted at CBBOs which is in line with the PA's objectives to implement the recommendations outlined in the FATF's ME Report issued in June 2021⁵. No on-site

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

⁵ <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Mer-south-africa-2021.html>

CBBO inspections were undertaken in 2021 and 2022 due to the Covid 19 pandemic and resultant travel restrictions.

Figure 3: Number of inspections conducted at CBBOs since 2014



- 6.6 Inspections conducted at CBBOs were conducted in collaboration with host AML/CFT/CPF supervisors. Some of the inspections were also attended by representatives from the in-country FIU.
- 6.7 The in-country AML/CFT/CPF supervisor is responsible for ensuring full remediation of post inspection findings, however the PA is also kept abreast of developments in this regard through the receipt of copies of progress reports. When required, enforcement action in respect of CBBOs for instances of non-compliance should be undertaken by the host regulator post each cross-border inspection.

7. Expectations of the Prudential Authority

- 7.1 The PA expects CBBOs owned by South African banks to:
- take note of the deficiencies;
 - scrutinise their AML/CFT/CPF frameworks with a view to enhancing their 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
 - ensure the implementation of the higher of host or home requirements.

8. Key deficiencies identified through supervision

- 8.1 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

Fundi Tshazibana
Chief Executive Officer

Date: 2025-12-02

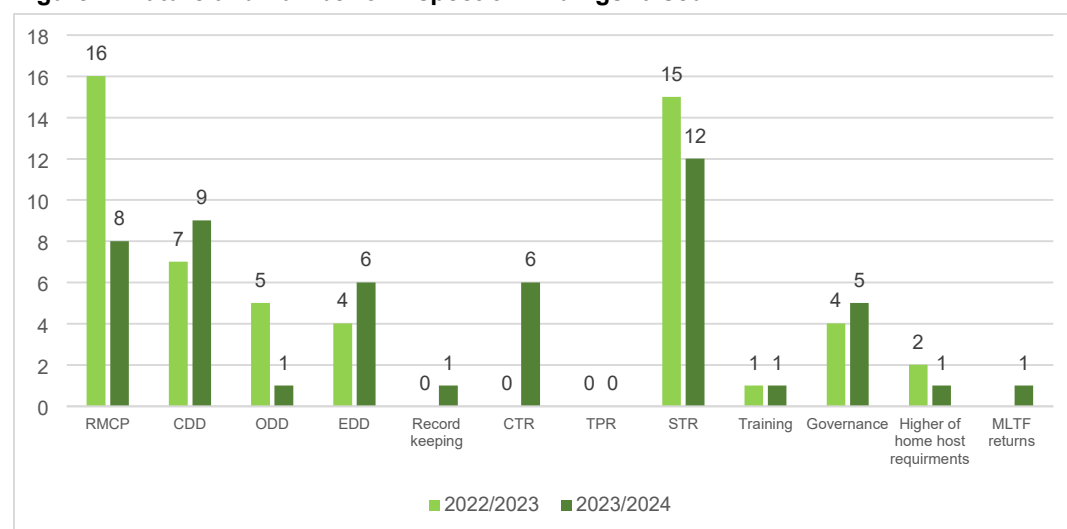
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Observations arising from anti-money laundering, counter-financing of terrorism and counter-proliferation financing supervision by the Prudential Authority

A. Analysis of inspection findings observed in respect of the past two financial years

A total of 54 (3 CBBOs inspected) and 51 (5 CBBOs inspected) inspection findings were raised during the 2022/2023 and 2023/2024 financial years, respectively. **Figure 4** provides details of the nature and number of inspection findings raised. It should be noted that obligations such as having an effective risk management and compliance programme, customer due diligence and suspicious transaction reporting regularly formed part of areas assessed during the inspections.

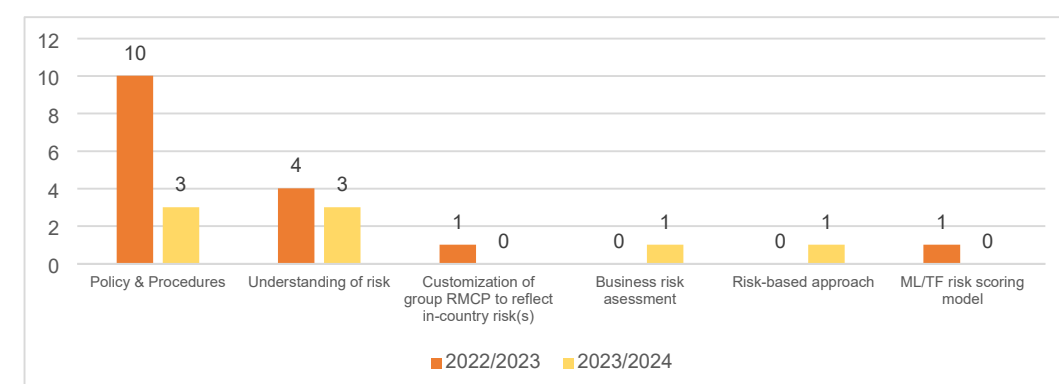
Figure 4: Nature and number of inspection findings raised



A.1 Risk management and compliance programme

Figure 5 provides an indication of risk management and compliance programme (RMCP) related findings raised during the inspections.

Figure 5: RMCP related findings raised



The following issues resulted in the PA raising RMCP related findings:

Policy and procedure

- a. Infrequent review of the RMCP.
- b. The RMCP was not submitted to any appropriate governance forum/board of directors for sign off.
- c. Inadequate customisation of AML/CFT/CPF policies and/or procedures to incorporate the foreign jurisdiction's legislative requirements.
- d. Not all client relationship had been risk scored for ML/TF/PF purposes.
- e. Inadequate documenting of AML/CFT/CPF obligations (terrorist financing and freezing).
- f. Step-by-step procedures relating to the investigation and filing of suspicious transaction reports were inadequate (lacked information /all steps in the process were not duly documented).

Understanding of money laundering, terrorist financing and proliferation financing risks

- a. The CBBO demonstrated a lack of understanding of TF risks inherent to its business.
- b. The CBBO placed a high reliance on the in-country national risk assessment report and was unable to demonstrate that it had customised its ML/TF/PF risk assessment to align to its own business, customer, delivery channels, geography risks to which it could be exposed to.
- c. Inadequate understanding of the ML/TF risk posed by the delivery channels utilised by customers.
- d. No evidence demonstrating the CBBOs understanding of TF risks to which it could be exposed.

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

Table 1 reflects the 2022/2023 and 2023/2024 customer relationships: customer due diligence (CDD), ongoing due diligence (ODD) and enhanced due diligence (EDD) results.

Table 1: Results of CDD/ODD/EDD reviews

	2022/2023 (Consolidated results in respect of 3 inspections)			2023/2024 (Consolidated results in respect of 5 inspections)		
	Total sample	Number of non-compliant relationships	% Non-compliance	Total Sample	Number of non-compliant relationships	% Non-compliance
CDD	60	50	83.33%	130	71	54.62%
ODD	50	49	98.00%	35	32	91.43%
EDD	50	39	78.00%	272	200	73.53%

Although a slight improvement was observed from the 2022/2023 to the 2023/2024 financial year the non-compliance remained high in respect of CBBOs inspected. Reasons for non-compliance included the following:

Customer due diligence

- a. Source of funds information not obtained.
- b. Source of wealth information not obtained.
- c. Inability to produce certain documents (e.g. identity documents, proof of registration, proof of physical or business address).
- d. Lack of evidence that certain information had been verified in accordance with the RMCP of the CBBO.
- e. No evidence of screening of related parties against prescribed sanctions lists
- f. Beneficial owner(s) not identified and or verified.

Ongoing due diligence

- a. Reviews were not conducted at all.
- b. Reviews were not conducted within timeframes stipulated in the RMCP of the CBBO.
- c. Reviews did not meet the requirements stipulated in the RMCP of the CBBO.

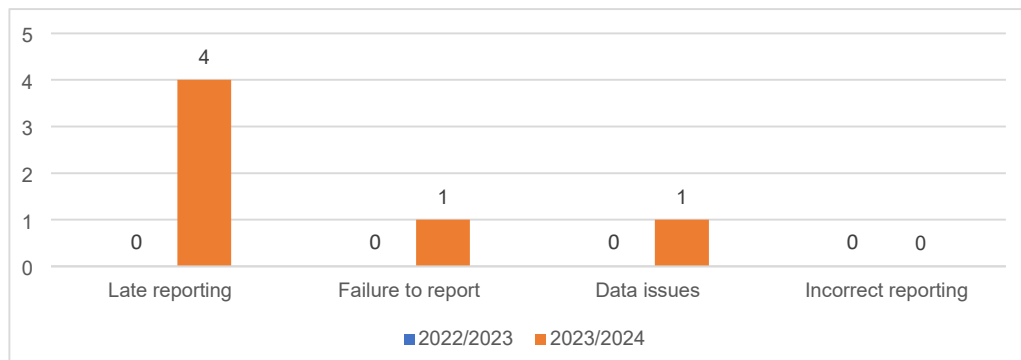
Enhanced due diligence

- a. Reviews were not conducted at all.
- b. No evidence of senior manager sign-off of high-risk relationship.
- c. Reviews were not conducted within timeframes stipulated in the RMCP of the CBBO.
- d. Lack of evidence of scrutiny of historic transactional information as part of the review.

A3. Cash threshold reporting

Figure 6 provides salient details pertaining to cash threshold reporting (CTR) findings. It should be noted that CBBO's level of compliance with CTR obligations were not tested in 2022/2023. Most of the findings were linked to CTRs filed late with the in-country FIU. Generally, the FIUs were aware of the non-compliance and in some instances late reporting was linked to the fact that FIUs only catered for the manual (no automated platform in place) submission of CTRs.

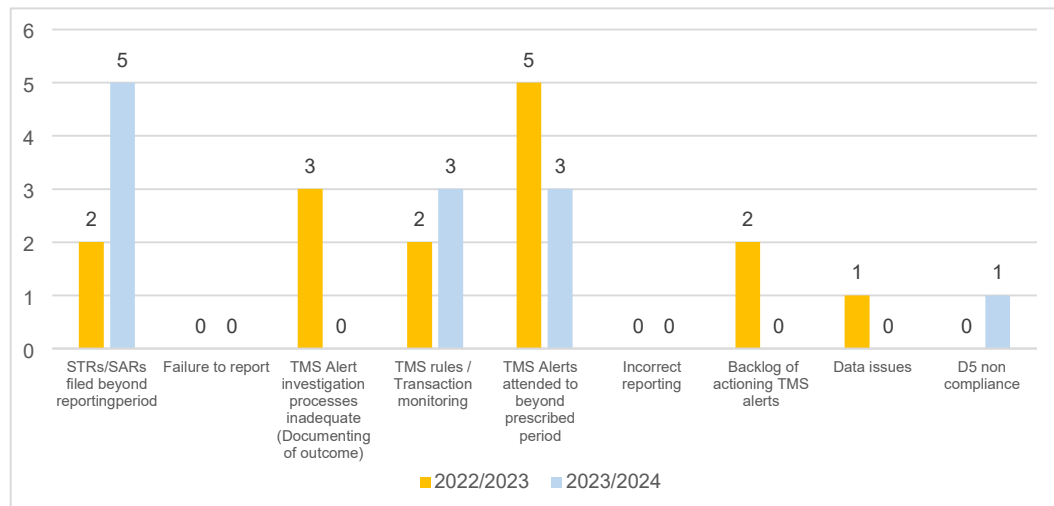
Figure 6: CTR related findings



A4. Suspicious transaction reporting

Figure 7 reflects the outcomes of various tests performed on suspicious transaction reporting (STR) obligations and controls of CBBOs. Several of the tests performed on STR obligations were directly linked to the requirements outlined in FIC Directive 5 of 2019⁶. Most of the findings were made in respect of STRs filed beyond the prescribed reporting periods and transaction monitor system (TMS) alerts attended to beyond the prescribed reporting periods.

Figure 7: STR obligations and controls



Transaction monitoring system rule deficiencies

Issues identified relating to TMS rules included the following:

- a. certain rules did not trigger any alerts during a sample period(s) reviewed;
- b. TMS rules were insufficient and did not put the FI in a position to detect certain suspicious and unusual behaviour by clients; and
- c. TMS rules linked to threshold limits did not address the predicate offences and/or ML/TF risks for which it was implemented as the threshold limits were too low and, in some instances, insignificant in terms of the low value of the foreign currency selected for the TMS rules.

A5. Anti-money laundering, counter-financing of terrorism and counter-proliferation financing training

Figure 8 shows that training deficiencies were limited to training provided late thus the training was not provided in accordance with the requirements stipulated in the RMCP of the CBBO. There was also an instance where ongoing training was not evidenced.

⁶ [2019-DIR-Directive-5-of-2019-ATMS.pdf](#)

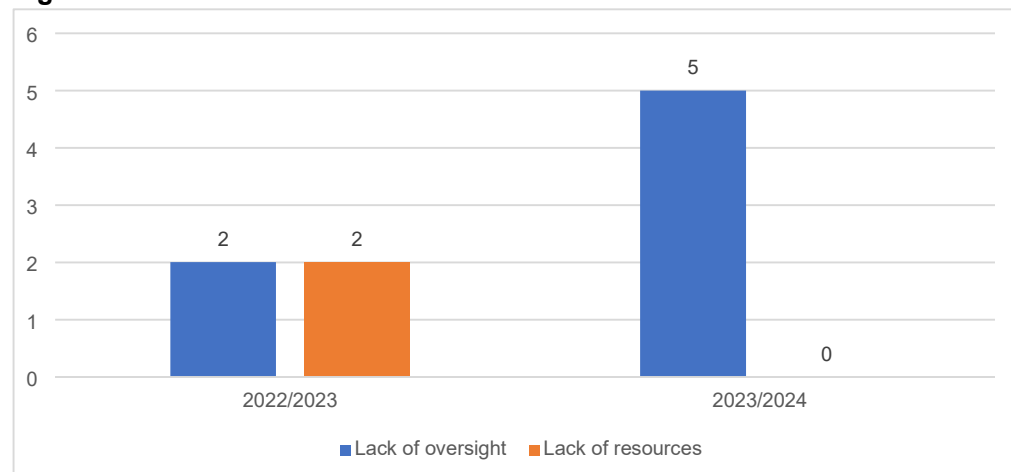
Figure 8: AML/CFT/CPF training deficiencies



A6 Governance

Non-compliance with AML/CFT/CPF governance requirements were directly linked to poor or inadequate oversight performed by senior management and or the board of directors of CBBOs. **Figure 9** is testimony to the above statement. There was also one instance where the inspection team was of the view that the CBBO had not appointed sufficient staff to meet its AML/CFT/CPF obligations.

Figure 9: AML/CFT/CPF Governance deficiencies



A7. Other findings

Money laundering, terrorist financing and proliferation financing return

As part of the onsite inspections, the data captured in the ML/TF/PF returns were compared with data provided to the inspection team as part of an inspection. In some instances, it was observed that the data was not aligned. CBBOs must be aware that the declarations accompanying completed ML/TF/PF returns require confirmation that information provided in a ML/TF/PF return is accurate and complete.

Higher of home or host requirements⁷

It was observed that some of the CBBOs could not demonstrate that:

- a. they had implemented measures⁸ to consider the higher of home or host requirements on an ongoing basis; and
- b. RMCPs reflected the outcomes of CBBOs adopted RBA (decisions) following a gap analysis performed on the guidance instruments⁹ issued by the FIC, the PA and or the South African Reserve Bank on a periodic basis.

Finally, the PA wishes to reiterate that guidance instruments outline an acceptable standard to indicate the level of effort expected of institutions, to comply with the provisions of AML/CFT/CPF legislation. CBBOs are required to consider all guidance products issued by South African regulators and or supervisors and implement such requirements in their in-country AML/CFT/CPF programmes to the extent possible. Where the CBBO is unable to implement South African requirements/standards the CBBO must be able to provide documentary evidence (reasons) why it is unable to do so/or opted not to implement such requirements.

⁷ [Section 42\(2\)\(q\) of the FIC Act](#) and FATF Recommendation 18

⁸ Evidence in the form of the outcomes of gap analysis

⁹ Directives, guidance notes and public compliance communications relating to AML/CFT/CPF compliance