



**NATIONAL BANK OF SERBIA**

**AML SUPERVISION CENTRE**

**ANALYSIS OF FINANCIAL LESSORS' RESPONSES TO  
THE QUESTIONNAIRE ON ACTIVITIES REGARDING  
ML/TF RISK MANAGEMENT**

**January – June 2019**

August 2019

## **Introductory note**

In 2010, the NBS established the practice of off-site supervision of financial lessors' activities regarding the management of the risk of money laundering and terrorist financing (hereinafter: ML/TF). The supervision is carried out twice a year based on the data submitted to the NBS by these financial institutions in the form of a filled out Questionnaire on activities regarding ML/TF risk management (hereinafter: Questionnaire).

Questions in the Questionnaire are sorted into ten groups:

Part I: General data on financial lessors

Part II: Clients

Part III: Client composition by the assessed ML/TF risk level

Part IV: Client composition by CDD actions and measures

Part V: Products, services and transactions

Part VI: Outsourcing CDD actions and measures to third parties

Part VII: Employee training

Part VIII: Organisational structure

Part IX: Reporting to the AML/CFT compliance officer and to the Administration for the Prevention of Money Laundering (hereinafter: Administration)

Part X: Internal audit and internal control

The key objectives of the analysis of data from the Questionnaire are as follows:

- getting insight into the state-of-play in terms of identifying, measuring and managing ML/TF risk in financial leasing activities;
- promoting adequate implementation of established rules and principles of the “Know your client” procedure (KYC);
- off-site monitoring of the development of the ML/TF risk management system in financial lessors;
- identifying possible deficiencies and timely alerting financial lessors to potential exposure to the ML/TF risk.

Compared to the previous ones, this Questionnaire has been improved and aligned with the results of the National Money Laundering and Terrorist Financing Risk Assessment. Namely, questions were added regarding data relating to resident legal persons, non-resident legal persons, non-resident natural and legal persons by country. In addition, high-risk clients are specifically covered for a more detailed and complete analysis.

For the reporting period 1 January–30 June 2019 (hereinafter: reporting period), all financial lessors operating in the financial leasing market of the Republic of Serbia submitted their responses to the Questionnaire, so this analysis is based on their responses.



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## **I Key findings**

As at 30 June 2019, 17 financial lessors were licensed to perform financial leasing operations. There were 346 employees in total, of which 154 front-office staff applying some of the CDD actions and measures. Employees in all financial lessors are aware of the consequences of non-compliance with law and the procedures governing the prevention of money laundering and terrorism financing (primarily as a result of trainings).

Resident legal persons were dominant among clients with 68.53%, while non-residents (only 11 of them) have a negligible share of 0.061%. Risk-wise, the majority of clients were assessed as medium-risk, followed by clients in the low-risk category, while those classified as high-risk were in the third place. In relation to this, client composition by CDD actions and measures applied (simplified, general and enhanced) is relatively consistent with the client composition by the assessed ML/TF risk level. Enhanced actions and measures are applied to all clients classified as high-risk, and general CDD to more clients than those classified as medium-risk, meaning that these actions and measures also apply to a part of the low-risk clients. The above highlights a fact that financial lessors understood correctly the significance of proper ML/TF risk assessment, which, coupled with stronger caution, resulted in adequate allocation of human resources, and consequently in high-quality ML/TF risk management.

All financial lessors are familiar with the actions and measures they are obliged to take under provisions of the Law on the Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of Weapons of Mass Destruction (RS Official Gazette, Nos 29/2015, 113/2017 and 41/2018).

All financial lessors use Lists of indicators for detecting suspicious transactions regarding money laundering and terrorism financing, published on the website of the Administration. They also use the lists of designated persons, published by the UN Security Council and other international organisations of which Serbia is a member. Eleven of the financial lessors use some of the commercial databases for filtering the designated persons, including the software of the Administration, as an additional element of client verification. In the reporting period, there were no cases that clients or persons who tried to establish a business relationship or any other person with whom a financial lessor has or had a business or other similar relationship were designated persons.

Accordingly, it may be concluded that financial lessors have a relatively low exposure to the ML/TF risk. Financial lessors have set up their own ML/TF risk management systems, regulated the internal controls systems by their internal acts and they pay due attention to staff training. However, though the ML/TF risk is low in this area, it should by no means be ignored. Being obligors under the Law on the Prevention of Money Laundering and Terrorism Financing (hereinafter: Law), financial lessors

are obliged to take all actions and measures necessary for detecting and preventing ML/TF.

## II General data on financial lessors

There were 17 licensed financial lessors in Serbia at the end of the reporting period<sup>1</sup>.

Of all lessors, eight operated through branches at the end of the reporting period (47.05%). These eight lessors worked through a total of 13 branches which applied ML/TF risk management procedures.

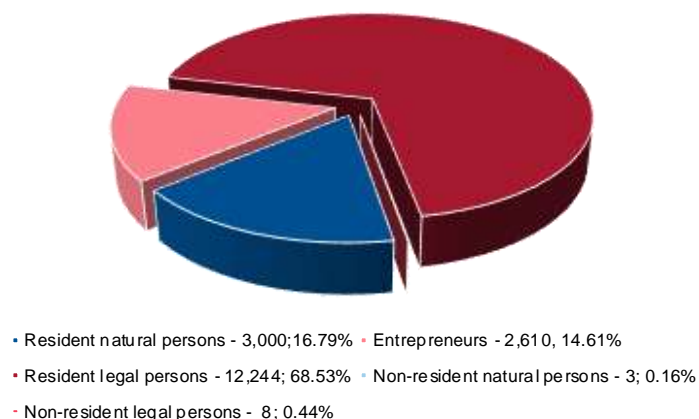
There were 346 employees in total working in the financial leasing sector, of which 154 front-office staff applying some of the CDD actions and measures.

In this context, based on the size of the business network, as a factor affecting the ML/TF risk exposure, the exposure of financial lessors to the ML/TF risk is judged to be low.

## III Clients

The total number of clients at the end of the reporting period was 17,865. Legal persons were dominant among resident clients with 68.53% (total 12,244), followed by resident natural persons with 16.79% (total 3,000), resident natural persons engaged in a business activity with 14.60% (total 2,610), while non-resident persons accounted for a negligible share (three natural and eight legal persons), as shown in Chart 1.

**Chart 1 Client composition in the financial leasing sector as at 30 June 2019**



<sup>1</sup> Four lessors are undergoing voluntary liquidation, approved by the NBS.

All three non-resident natural persons were from countries classified as “other”: two were from France, assessed by financial lessors as a country of low risk, and one from Romania, assessed as a medium-risk country.

There were eight non-resident legal persons, one of which from a high-risk country, as assessed by the financial lessor (other high-risk countries), and seven from the group “other countries” (two from Bosnia and Herzegovina and one from Sweden, Bulgaria, Italy, United Kingdom, Germany and France each). At the end of the reporting period, at the level of the whole financial leasing sector, only one non-resident legal person had persons from high-risk country in its ownership structure and there were none with a trust in ownership structure. On the other hand, resident legal persons had 43 persons with a trust in their ownership structure and 220 persons with persons from high-risk countries in their ownership structure.

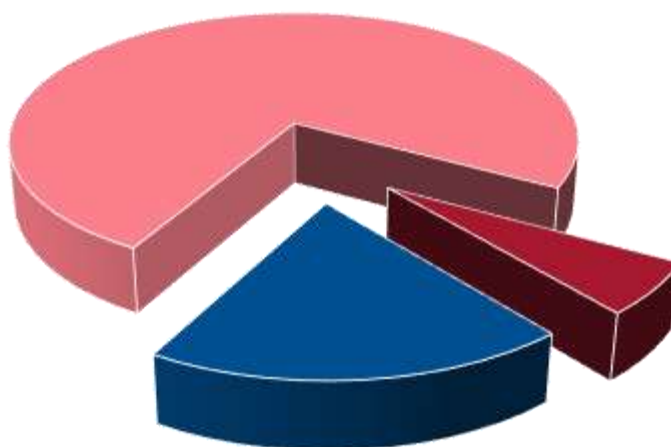
When assessing the clients' structure, as a factor affecting the ML/TF risk exposure, various indicators are taken into account, such as the number of high-risk clients, clients who are officials (domestic and foreign), high-risk legal persons with a complex ownership structure, with persons from off-shore geographical areas or with a trust in their ownership structure, with an official in the governance structure, non-resident natural and legal persons from high-risk and off-shore geographical areas and countries with strategic deficiencies, the number of clients organised as limited liability companies, entrepreneurs. Looking at the above indicators, it can be concluded that the risk exposure is low, given that the individual share of each of them in the total number of clients in the financial leasing sector is low.

#### **IV Client composition by the assessed risk level**

Within the financial leasing sector, clients are divided into three categories, according to the assessed ML/TF risk level: low-risk, medium-risk and high-risk category.

The majority of clients were assessed as medium-risk (total of 13,371) with a share of around 74.85%, followed by clients in the low-risk category (3,440) with the share of 19.25%, while those classified as high-risk (1,054) were in the third place, making up 5.8% of the total number of clients, as shown in Chart 2.

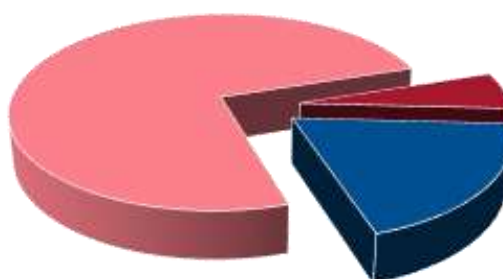
**Chart 2 Client composition by the assessed risk level as at 30 June 2019**



■ Low-risk clients - 3,440; 19.25% ■ Medium-risk clients - 13,371; 74.84% ■ High-risk clients - 1,054; 5.89%

Charts 3 and 4 give an overview of the composition of clients in the financial leasing sector by the risk level – for residents and non-residents.

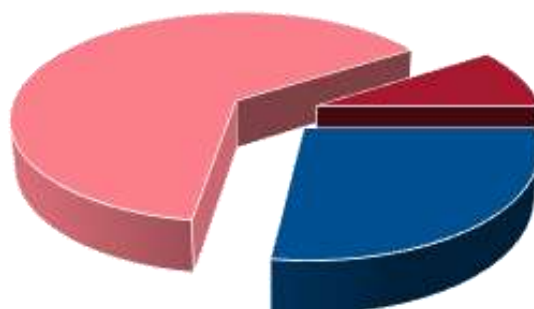
**Chart 3 Resident client composition by the assessed risk level as at 30 June 2019**



■ Low-risk clients - 3,437; 19.25% ■ Medium-risk clients - 13,364; 74.84% ■ High-risk clients - 1,053; 5.89%



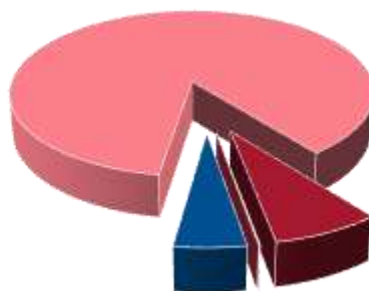
**Chart 4 Non-resident client composition by the assessed risk level as at 30 June 2019**



■ Low-risk clients - 3; 27.27% ■ Medium-risk clients - 7; 63.63% ■ High-risk clients- 1; 9.09%

Chart 5 gives an overview of the composition of high-risk clients.

**Chart 5 High-risk client composition as at 30 June 2019**

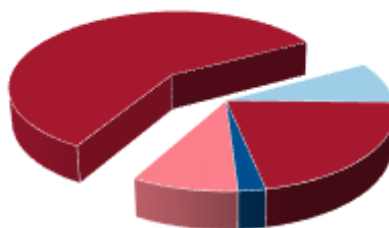


■ Resident natural persons - 54; 5.12% ■ Resident legal persons - 917; 87%  
 ■ Entrepreneurs - 2,610, 14.61% ■ Non-resident natural persons - 3; 0.16%  
 ■ Non-resident legal persons - 8; 0.44%

The majority of high-risk clients are resident legal persons (917 of 1,054), making up 87% of clients in the high-risk category.

Chart 6 gives an overview of resident legal persons assessed as high-risk, based on various indicators for this classification.

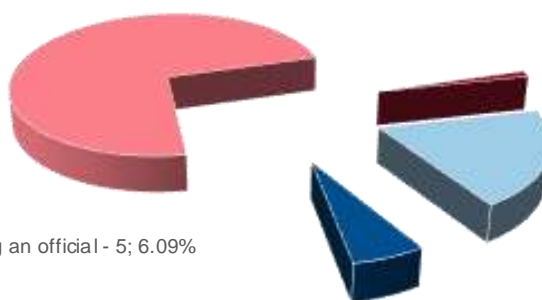
**Chart 6 High-risk clients - Resident legal persons as at 30 June 2019**



- categorised as high-risk due to a complex ownership structure- 18; 1.96%
- categorised as high-risk due to having an official in the ownership/governance structure - 70; 7.63%
- categorised as high-risk due to high-risk activities- 455; 49.61%
- categorised as high-risk due to being a high-risk country (founder/beneficial owner) - 65; 7.08%
- categorised as high-risk due to reporting a suspicious transaction to the Administration for the Prevention of Money Laundering
- categorised as high-risk based on other indicators according to the risk analysis - 165; 17.99%

The bulk of resident legal persons were classified as high-risk, due to their high-risk activities. The majority of entrepreneurs (natural persons engaged in a business activity) were classified as high-risk due to their high-risk activities (Chart 7).

**Chart 7. High risk countries - Entrepreneurs**

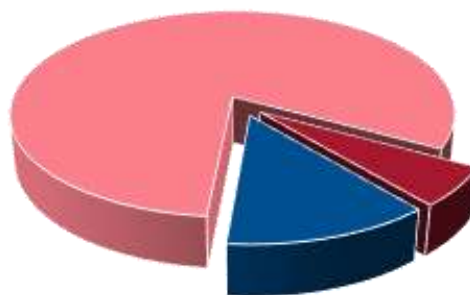


- categorised as high-risk due to being an official - 5; 6.09%
- categorised as high-risk due to their high-risk activities - 60; 73.17%
- categorised as high-risk due to reporting a suspicious transaction to the Administration for the Prevention of Money Laundering - 1; 1.21%
- categorised as high-risk based on other indicators according to the risk analysis- 16; 19.51%

## V Client composition by CDD actions and measures

Simplified CDD actions and measures were applied to 2,245 clients, general CDD to 14,566 clients and enhanced to 1,054 clients. In percentage terms, general CDD was applied to 81.53% of clients, enhanced to 5.89% and simplified to 12.56% of clients.

Chart 8 Client composition by CDD actions and measures applied as at 30 June 2019



· Simplified - 2,245, 12.56% · General - 14,566; 81.53% · Enhanced - 1,054; 5.89%

Table 1 gives an overview of applied CDD actions and measures by residence.

Table 1 Overview of applied CDD actions and measures by residence

Clients	Simplified CDD action: and measures	General CDD actions and measures	Enhanced CDD actions and measures
Resident natural persons	615	2,331	54
Resident legal persons	1,312	10,016	917
Natural persons engaged in a business activity	315	2,212	82
Non-resident natural persons	2	1	0
Non-resident legal persons	1	6	1
<b>Total</b>	<b>2,245</b>	<b>14,566</b>	<b>1,054</b>

Table 2 shows a comparative overview of the number of clients by risk level and CDD actions and measures as at 30 June 2019.

**Table 2 Structure of banking sector clients by risk level and CDD actions and measures applied**

Risk level	No of clients	Share in %	Applied measures	No of clients	Share
Low	3,440	28.99%	Simplified	2,245	12.56%
Medium	13,371	74.84%	General	14,566	81.53%
High	1,054	5.89%	Enhanced	1,054	5.89%
	<b>17,865</b>	<b>100%</b>		<b>17,865</b>	<b>100%</b>

Based on the analysis of the data from the Questionnaire, it can be concluded that financial lessors do not apply simplified CDD to all low-risk clients, but only to 65.26% of them, enhanced CDD is applied to all high-risk clients, while the bulk of clients are subject to general CDD. Accordingly, client composition by CDD actions and measures applied mostly corresponds to client composition by the assessed ML/TF risk level, given that enhanced CDD actions and measures are applied to all clients classified as high-risk, and general to more clients than those classified as medium-risk, meaning that these actions and measures are also applied to a part of low-risk clients.

In the reporting period, there were no cases of termination of a business relationship due to the impossibility to apply CDD actions and measures referred to in Article 7, paragraph 1, items 1–5 of the Law. In the reporting period, one financial lessor refused the offer to establish a business relationship due to the impossibility to apply CDD actions and measures referred to in Article 7, paragraph 1, items 1–5 of the Law. There were no clients on which financial lessors submitted data to the Administration at its request. Also, in the reporting period, none of the financial lessors received from the Administration any requests for the submission of data on clients.

## **VI Transactions and products**

The total number of lease agreements concluded in the reporting period was 8,971. The total number of lease agreements concluded with high-risk clients at the level of the financial leasing sector was 1,405, making up 15.7% of the total number of lease agreements concluded in the said period.

The total number of lease agreements in which the amount of the lease payment exceeds EUR 1,000 for natural persons is 105, while those in which the payment exceeds EUR 5,000 is 299.

In the reporting period, 11 financial lessors had cases in which third parties provided a guarantee for the lessee, whereby the relationship

between the lessee and the guarantor was clear. The total number of agreements in which a guarantee was provided in the reporting period was 4,222. Taking into account all the above and the fact that the scope of financial lessors' activities is rather limited and includes financial intermediation between financial lessors and lessees, the risk based on the products and services offered by the financial leasing sector is judged to be low.

## **VII Outsourcing CDD actions and measures to third parties**

Only two financial lessors entrusted some of the CDD actions and measures to third parties. At the level of the financial leasing sector, third parties provided data and documentation for 17 clients in total. In the prior observed period, three financial lessors entrusted some of the CDD actions and measures to third parties, which provided data for 12 clients in total.

Given that only a small number of financial lessors entrusted CDD actions and measures to third parties, it is estimated that the ML/TF risk exposure on this account is low as well.

## **VIII Employee training**

Based on the responses to the Questionnaire, it can be concluded that all employees from the financial leasing sector are aware of the consequences of non-compliance with law and procedures regulating AML/CFT. Training in financial lessors is usually carried out by compliance officers and their deputies. According to the AML Law, a compliance officer means a person employed with an obligor in a position with the powers allowing for effective, prompt and quality execution of tasks prescribed by this Law, who has not been convicted by a final judgement or has not been prosecuted, and who is professionally trained for AML/CFT operations and familiar with the obligor's operations in areas that are vulnerable to ML/TF risks. These conditions must also be met by the compliance officer deputy. The training usually implies workshops, or a combination of workshops and E-learning, at least once a year. Training of compliance officers/their deputies is organised in various manners and carried out in the form of presentations, direct trainings, seminars, conferences and lectures.

Nine financial lessors have a special AML programme, i.e. application, in which they perform AML/CFT activities. In seven financial lessors, the said programme allows for the classification of clients by the risk level.

All financial lessors use the lists of indicators for detecting suspicious AML/CFT-related transactions, published on the website of the Administration. Apart from the mentioned indicators, seven financial lessors included their own indicators in the mentioned lists. In the reporting period, 13 financial lessors prepared official notes on the performed

transactions analysis. The total number of the prepared official notes on the performed transactions analysis was 564.

All financial lessors use the lists of designated persons, published by the UN Security Council and other international organisations of which Serbia is a member. Eleven of the financial lessors use some of the commercial databases for filtering designated persons, including the software of the Administration, as an additional element of client verification. Twelve financial lessors have defined internal procedures for dealing with the freezing of assets. In the reporting period, there were no cases that clients or persons who tried to establish a business relationship or any other person with whom a financial lessor has or had a business or other similar relationship were designated persons.

The financial leasing sector established efficient ML/TF risk exposure identification and assessment processes, as well as adequate employee training programmes on the aforementioned risk. The sector has adequate information systems with regular reporting on ML/TF risk to appropriate management levels and relevant employees responsible for managing the said risk.

## **IX Organisational structure**

All compliance officers and their deputies, who should exclusively perform activities in detecting and preventing ML/TF, as defined by the Law, also perform other activities on a daily basis. In percentage terms, the churn rate of AML or front-office staff in the observed period was mostly below 10% in almost all financial lessors, while it was between 10% and 50% in three lessors. Mostly, there were no major changes – in four financial lessors, the number of employees decreased due to the fact that they were undergoing liquidation, and one financial lessor stressed that the continued periodic downsizing of employees was the result of a change in the founders' business policy, which is reflected in the ban on establishing new business relationships and a focus on servicing the existing portfolio.

Given that the financial leasing sector has defined clear lines of responsibilities in identifying, measuring, monitoring and reporting on ML/TF risk, and that the risk management system is based on adequate human and technical resources, it is estimated that the ML/TF risk exposure in this context is low.

## **X Reporting to the AML/CFT compliance officer and to the Administration**

The total number of internal reports on suspected money laundering that the employees in financial lessors submitted to compliance officers was 106. Of this number, 103 were submitted to compliance officers, while data from three reports were forwarded also to the Administration. Besides,

no internal reports on suspected terrorism financing were submitted to compliance officers.

## **XI Internal audit and internal control**

During the past year, ten financial lessors carried out internal audit, while the remaining seven carried it out two or three years ago. Within these audits, eleven financial lessors identified irregularities, which were removed in ten of them (in 90.9% of cases), while in one financial lessor the deadline has not yet expired.

Fifteen of seventeen financial lessors declared that compliance officers and their deputies participate in the implementation of internal control. In all 15 financial lessors, the compliance officer reports to the management on the results of the internal control. Fifteen financial lessors carried out internal control in the last year, while two lessors carried it out three years ago.

Within these controls, 10 of 17 financial lessors didn't identify any irregularities, while in six of them irregularities were identified. The term irregularities implies: outdated KUS forms, incomplete ownership structure with all relevant data, incomplete documentation on the beneficial owner, etc.

The board of directors was informed about AML/CFT-related audit findings in 14 lessors, while the findings of the external auditor regulated this area in seven lessors. None of the financial lessors or their employees is being prosecuted for ML/TF-related matters, and one disciplinary proceeding is conducted due to problems with employee integrity (participation in fraud, theft, corruption, etc.). It can be concluded therefore that an adequate and comprehensive internal controls system is in place in the financial leasing sector with mechanisms to ensure that appropriate levels of management are timely informed about any deviations from the application of procedures so that they can take the necessary measures. Financial lessors also periodically carry out internal audits covering the key elements of ML/TF risk management and control.

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