

Internal control systems of Latvian financial institutions have been improved substantially, proportionate risk management and risk appetite need to be strengthened

Published: 16.11.2023

Over the past years, the risk level of money laundering and terrorism and proliferation financing (ML/TPF) has decreased substantially at Latvian financial institutions, and their internal control systems have been strengthened considerably; therefore, the introduction of a risk-based approach has to be continued at this point in time. Cooperation between all stakeholders has to lead to proportionate application of the anti-money laundering and countering terrorism and proliferation financing (AML/CTPF) regulation at Latvian financial institutions without hindering the availability of financial services, investment attraction and Latvia's economic growth.

This week, Latvijas Banka participated at a meeting of the Council of the Financial Sector Development during which the National Money Laundering, Terrorism and Proliferation Financing Risk Assessment Report 2020–2022 and the National Strategy for Preventing and Combating Financial Crimes, as well as topical issues of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) of the Council of Europe with regard to the 6th round evaluation were discussed.

Kristīne Černaja-Mežmale, Member of the Council of Latvijas Banka, emphasises: "The keyword in the area of the supervision of financial crime prevention is balance. The work accomplished by Latvia in this area has been commended in the international arena; however, excessive caution practised by credit institutions results in problems related to the

availability of financial services. The supervisory process reveals situations suggesting that the rapid changes experienced by the financial sector have not necessarily led to a proportionate approach to cooperation with customers, particularly with low risk customers or specific customer groups. Latvijas Banka has developed an action plan for the next year to assess the ML/TPF risk management at financial institutions, and its inspections will also focus on the provision of services to low risk customers. Our priority is the availability of financial services."

Along with successful introduction of AML/CTPF standards in Latvia and also in other countries, financial institutions tend to refuse to take risks. Given the global nature of the problem and its relationship with the AML/CTPF regulation, several international organisations have responded to the growing concerns about the fact that credit institutions suspend cooperation with their customers without an adequate basis for doing so and without regard for consequences.

As of 2020, but in particular over the last two years, Latvijas Banka and previously the Financial and Capital Market Commission have extensively dealt with the aspects of practical application of proportionate regulation. They, in collaboration with the sector, have developed the [AML Guide](#), provided detailed explanations, prepared and published examples of good and bad practice, organised mediation processes between credit institutions and their customers, as well as organised educational activities and provided advice.

In response to credit institutions' precaution, Latvijas Banka has come up with amendments to regulation.. Currently, the conditions for the basic account service are being eased and a proposal for the regulation of firms' economic activity account is being developed. In addition to the above, it has been planned to: set up a framework for the supervision of AML/CTPF of crypto-asset service providers; improve the AML Guide; draw up explanations of cases where disproportionate AML/CTPF requirements have been applied and cooperation has been suspended in an unsubstantiated manner to avoid risk; apply the requirements of the sanctions within the public and private partnership; and exchange experience at international level.

The geographical structure of Latvian credit institution deposits continues the

path of recent years – deposits by residents of Latvia and the European Economic Area (EEA) – are continuing to increase. In the second quarter of 2023, the share of deposits made by Latvia's customers in total deposits attracted by credit institutions reached 87.8%, but deposits by customers of EEA countries stood at 8.2%. Despite the regular inspections, credit institutions have been fined much less frequently, as their awareness of risk management has increased substantially.

When planning the priorities of the financial sector supervision for the following year, Latvijas Banka has compiled key information on the supervision of AML/CTPF.

2023

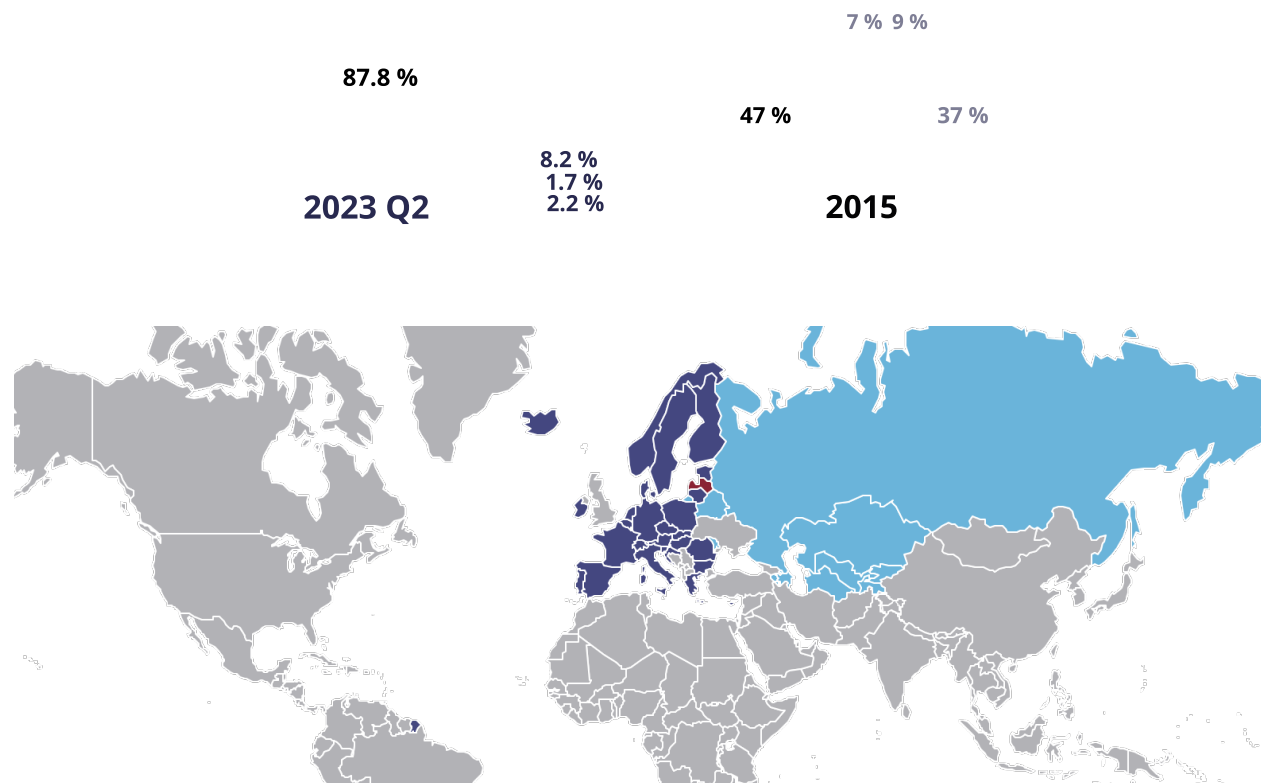
Work accomplished in the supervision of financial crime prevention

Risk level has substantially decreased at credit institutions

There are no high-risk credit institutions in the financial sector of Latvia

	High risk	Medium high risk	Medium low and low risk
Market share in terms of assets, %			
Market share in terms of credit turnover, %	41	18	77 84 89 90
	26	12 10 9 9	62 41
	13 7 7 1	4	

Geographical structure of deposits received by Latvian credit institutions



Supervision focused on dialogue with the financial sector

1

AML Guide has been developed and constantly updated in cooperation with the sector

2

Regular dialogues and training workshops for representatives of the supervised sectors

Active supervision

2022

- 5 full-scope on-site inspections
- 14 targeted on-site inspections
- 9 targeted off-site inspections

2023

- 7 full-scope on-site inspections
- 4 targeted on-site inspections
- 38 targeted off-site inspections

Targeted inspections were conducted on topical issues, including risk assessment, management of sanction risks, and the efficiency of sanction screening IT tools. **The purpose** of these inspections was to compile both good and bad practices of financial market participants and share the findings among market participants.

Considerably lower prevalence of fines, as banks' awareness of risk management has increased

2023

0 fines

none

2021-2022	3 fines	7.5 million euro
2016-2020	21 fines	19.7 million euro

Supervisory measures strengthen a risk-based approach

Work accomplished	Achievements
Regulations on in-depth examination have been revised, thus ensuring the application of a risk-based approach	Banks' awareness of the risk assessment target and the assessment quality have increased
Recommendations for remote identification of customers have been developed	Banks' skills to apply a risk-based approach in the operation of the internal control system have been strengthened
Frequency of external audits has been revised, aligning it with the institution's risk profile and the supervisor's inspection plan	Quality of banks' internal legal acts has improved
AML Guide has been supplemented with current problem situations	Training quality and content have improved
Dialogue with the financial sector within the public and private partnership	IT systems and tools used for the management of credit institutions' money laundering and terrorist and proliferation financing risk have been improved
Regular sectoral and individual risk assessment	Audit results have improved
Explanations for the application of the requirements of the sanctions imposed by the EU	Active remediation of shortcomings is ongoing in compliance with inspection results and audit recommendations

Future directions of supervision

Top priorities in AML supervision

Reduce derisking	Develop a supervision framework for crypto-asset service providers	Application of sanctions against Russia and Belarus
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Improvement and application of regulation	Development of supervision
<ul style="list-style-type: none"> Improvement of the AML Guide, incorporating low risk cases and explanations pertaining to sectors into it Explanations in cases of the application of exaggerated AML demands; assessment of de- 	<ul style="list-style-type: none"> Exchange of experience with financial sector supervisors of other countries Improvement of employees' knowledge

risking

- Explanations regarding the application of sanction requirements within the public and private partnership

- Improvement of the internal methodology and automation of data analysis processes

* AML Guide is Guidelines on the Establishment of the Internal Control System for Anti-Money Laundering and Countering Terrorism and Proliferation Financing and Sanctions Risk Management, and on Customer Due Diligence



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