



FINANCIAL INTELLIGENCE CENTRE

COST OF AML/CTPF COMPLIANCE SURVEY 2022

Uncovering the drivers of the cost of compliance

FOREWORD

The Anti-Money Laundering/Countering Terrorism or Proliferation Financing (AML/CTPF) compliance landscape in Zambia is dynamic and fast changing. The AML/CTPF measures as required by the Financial Intelligence Centre Act No. 46 of 2010 (as amended) (FIC) and should be implemented within a context of social and economic factors that impact compliance. The social and economic factors that create the environment within which AML/CTPF measures are implemented can further be broken down into: public health, labour market, technological, political and cultural elements.

Together these contextual factors constitute the country's framework and could influence the way AML/CTPF measures are implemented and how effective they are. It is important for both regulators and regulated entities to keep sight of how these factors impact at a macro-level the AML/CTPF legal and institution framework, and at a micro-level the AML/CTPF measures implemented by reporting entities.

The FIC is cognizant of the fact that there is need for constant engagements with reporting entities on factors that impact compliance to AML/CTPF requirements. These factors present both opportunities and challenges for competent authorities and reporting entities in their common goal of combating financial crimes in Zambia. It is the intention of the Financial Intelligence Centre (FIC) that the opportunities provided by these factors be leveraged to further the effectiveness of the country's Money Laundering, Terrorism Financing and Proliferation Financing (ML/TF/PF) combating ability.

Conversely, the challenges presented by these factors should be brought to the fore and clearly

known by both the regulators and reporting entities, enable concerted efforts in overcoming the challenges and/or mitigating their negative impact.

It is in light of these realities that the FIC decided to introduce this bi-annual AML/CTPF compliance survey as a tool to further the conversation between the regulator and regulated on factors that will impact AML/CTPF compliance in the country. The objective is that these engagements not only provide a platform for identifying possible interventions by the regulator and/or regulated entities but also provide input into future regulatory developments.

Further, it is the intention of the FIC that this publication will assist reporting entities with planning and resourcing their AML/CTPF compliance efforts, and allowing them to benchmark their own approaches and practices to the wider AML/CTPF compliance industry in Zambia. It is envisaged that this publication will achieve these specific objectives:

- i. To raise awareness on AML/CTPF compliance among reporting entities;
- ii. To provide a basis on which reporting entities can benchmark their AML/CTPF practices and approaches;
- iii. To provide a medium for further interaction and engagement; and
- iv. To provide supervisory authorities with insights on opportunities and challenges as regards AML/CTPF compliance

It will be a great pleasure that the FIC wishes to launch the inaugural AML/CTPF compliance survey 2022.

TABLE OF CONTENTS

1.0 Executive summary	6
2.0 AML/CTPF Compliance challenges	8
2.0 AML/CTPF Compliance initiatives	19
3.0 AML/CTPF Compliance budget and skilled resources.....	21
4.0 Emerging technologies	31
5.0 Liaison with regulators	34
6.0 AML/CTPF Compliance opportunities	37
7.0 Conclusion.....	39
References	39

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ACRONYMS

AML	Anti-Money Laundering
AMLA	Anti-Money Laundering Authority
BoZ	Bank of Zambia
CTPF	Countering Terrorism and Proliferation Financing
CTR	Currency Transaction Report
DNFBPs	Designated Non-Financial Businesses and Professions
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act No. 46 of 2010 (As amended)
LEAs	Law Enforcement Agencies
ML	Money Laundering
PF	Proliferation Financing
STR	Suspicious Transaction Report
TF	Terrorism Financing
TFS	Targeted Financial Sanctions
UNSCR	United Nations Security Council Resolution



EXECUTIVE SUMMARY

The cost of compliance survey focuses on the opportunities and challenges that reporting entities expect to face in the 12 months ahead. The survey generated responses from fifty four (54) reporting entities from the banks, insurance companies, money or value transfer service providers, accounting firms and real estate agents.

The responses to the survey indicated that technology is a big issue that reporting entities expect will impact their AML/CTPF compliance efforts. Keeping up with advancements in technologies is expected to present some challenges to reporting entities. Further, procurement of AML/CTPF system is expected to drive the costs of complying with AML/CTPF requirements.

Technological advancements offer many opportunities to reporting entities to optimize processes, enhance product offering and manage risks for regulatory compliance. However, reporting entities will need to be ready to explain and take full responsibility of Regulatory Technology (RegTech) tools and other new technologies that they adopt. This entails reporting entities being able to demonstrate their understanding of the risks posed by new technologies and applying risk sensitive due diligence measures to business relationships and transactions conducted using new technologies. In this new technological environment it will be critical for reporting entities to find the right balance between automation and manual human intervention. This is particularly important because though new technologies can

optimize AML/CTPF processes, manual review and human input remain very important to achieving a robust AML/CTPF compliance programme. Based on the responses to the survey reporting entities expect the cost of time and resources dedicated to AML/CTPF compliance to significantly increase in the next 12 months. There could be varying reasons driving this expectation; it could be that sectors that have traditionally not been regulated for AML/CTPF purposes such as; accounting firms and real estate agents are now required to put new processes to comply with requirements. Further, it could also be the increasing regulatory scrutiny pushing sectors that have traditionally been supervised for AML/CTPF purposes to allocate more time and resources to stay compliant. Operationalisation of the FIC's administrative sanction regime is another factor that could be pushing reporting entities to realign resource allocated to AML/CTPF compliance.

To manage the increase in the cost of time and resources allocated to AML/CTPF measures, reporting entities should ensure that their AML/CTPF measures are risk based as required by the FIC Act. This means that lesser resources and time should be allocated to areas of low risk. Further, a reporting entity with low risk operations is not expected to implement AML/CTPF measures as complex as one with high risk operations. In performing certain aspects of customer identification and verification reliance on third parties as permitted by the FIC Act may result in reduction of time and resources spent on AML/CTPF.

Some reporting entities discarded potentially profitable business opportunities due to ML/TF/PF risk concerns. However, the survey did require reporting entities to disclose whether it was arising from challenges in completing customer identification processes as guided by Section 16 of the FIC Act or if it was driven by a derisking strategy. Reporting entities are cautioned on the negative effects that derisking may have on the country's efforts to combat ML/TF/PF. Further, a clear customer acceptance policy will guide the reporting entity on when to accept a new business relationship or terminate an existing one.

In the next 12 months reporting entities expect the overall cost of AML/CTPF compliance staff and size of the AML/CTPF compliance team to increase. However, it worth noting that reporting entities expect the level of AML/CTPF compliance staff turnover to remain the same as today in the next 12 months. It is important for reporting entities to adequately staff their AML/CTPF

compliance functions as they are critical in establishing a robust AML/CTPF compliance programme.

Reporting entities indicated that they expected mobile phone money transfer technologies to have the most impact on AML/CTPF compliance in the next five years. Emerging technologies such as virtual assets, artificial intelligence and block chain were also identified as having some impact on the state of AML/CTPF compliance in the next five years.

In conclusion it is clear from the responses provided by reporting entities to the survey that their expectation is there will be a lot of changes to the AML/CTPF landscape and how they have traditionally approached AML/CTPF compliance. It is the FIC's expectation that reporting entities will keep these changes in view and formulate strategies to stay compliant with AML/CTPF requirements.



AML/CTPF Compliance Challenges

AML/CTPF COMPLIANCE CHALLENGES

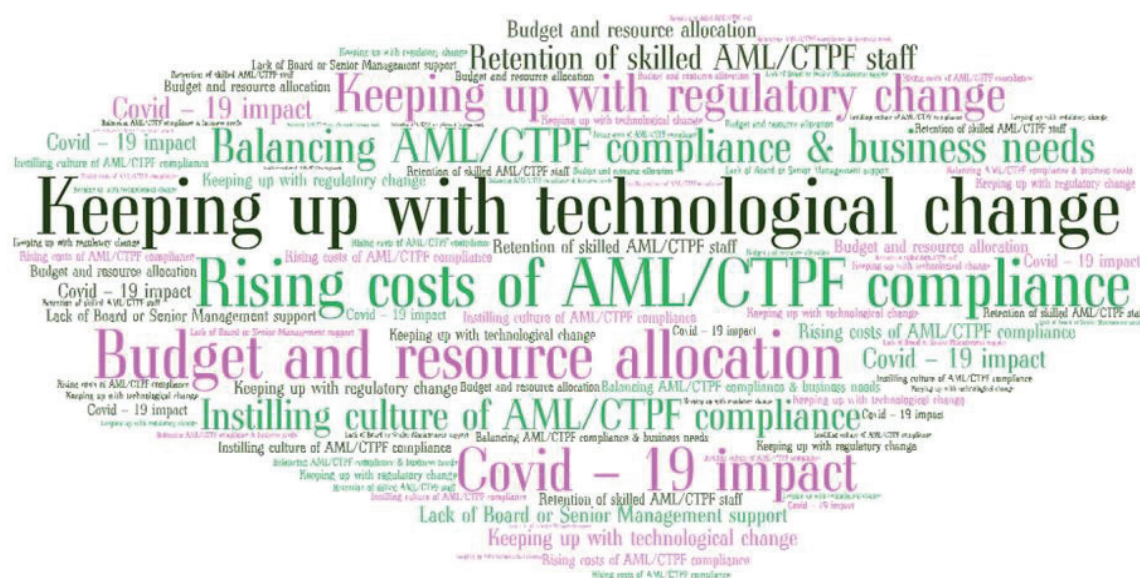
What are the top AML/CTPF compliance challenges you foresee in the next 12 months?

From the survey responses, the top five (5) AML/CTPF compliance challenges that reporting entities foresee in the next 12 months are:

1. Keeping up with technological change;
2. Rising costs of AML/CTPF compliance;
3. Balancing AML/CTPF compliance and business needs;
4. Budget and resource allocation; and
5. Keeping up with regulatory change.

Keeping up with technological changes

Majority of reporting entities saw keeping up with technological change as the top AML/CTPF compliance challenge that they foresee in the next 12 months. This suggests that reporting entities are seeing the need to adopt technology solution to address the increasing AML/CTPF regulatory requirements and business demands. It could be automating a process that has been performed manually, upgrading an already automated process or launching a new way of product delivery.



Technological advancements offer many opportunities to reporting entities to optimize processes and manage risks for regulatory compliance. RegTech and Supervisory Technologies (SupTech) are rapidly changing the regulatory landscape and the way supervisors monitor compliance. Reporting entities will need to be ready to explain and take full responsibility of RegTech tools that they adopt. Further, their internal AML/CTPF infrastructure should be able to respond to SupTech tools that supervisors decide to adopt.

The change in technology may also arise from introduction of new technologies to support product delivery or business process reengineering. In this context, reporting entities will be expected to demonstrate their understanding of the risks posed by new technologies and apply risk sensitive due diligence measures to business relationships and transactions conducted using new technologies.

The need for provision of information in a timely manner is pushing both regulators and reporting entities to leverage new technologies. Obviously, keeping up with the technological changes will have some ‘headwinds’ that reporting entities will have to navigate. The Financial Action Task Force (FATF) in their publication *“Opportunities and Challenges of New Technologies”* (2021) highlighted some regulatory and operational challenges that reporting entities may encounter with new technologies. The cost of investing in new technologies and expertise are some of the challenges that regulated entities may encounter in adopting new technologies. Also the lack of data harmonization among jurisdictions was also cited as a cost driver because “the costs of investing in new technologies and expertise increase exponentially if these systems required fine-tuning and adjustment to different jurisdictional requirements and formats”. New technologies will require reporting entities to invest in training for staff and board members. Even if a new technology claims to be “user-friendly,” all employees and board members still need to be trained. The FATF also indicated that in some cases supervisors may be slow to adjust regulatory practices to accommodate the new technologies; this may negatively impact a reporting entity’s capacity to fully optimize new technologies.

According to the FATF the adoption of tools by reporting entities that are based on new technologies such as machine learning and artificial intelligence, is likely to fuel a conversation among supervisors as whether the “providers (vendors) of these tools should fall under additional scrutiny, for example, as service providers to regulated entities

or via separate regulation and supervision”.

However, reporting entities should be aware that though new technologies can optimize AML/CTPF processes, manual review and human input remain very important to achieving a robust AML/CTPF compliance programme.

The efficiency and accuracy of new technologies plus the knowledge and analytical skills that human experts possess are essential to a robust AML/CTPF compliance programme (FATF, 2020).

Rising costs of AML/CTPF compliance

Rising costs of AML/CTPF compliance was ranked second by reporting entities among the top AML/CTPF compliance challenges in the next 12 months. With the strengthening of the country’s AML/CTPF regulatory framework, reporting entities that have not been traditionally regulated for AML/CTPF purposes will need to invest in new processes and staff in order to be compliant. This will undoubtedly push their cost of compliance upwards. Supervisory authorities in the country are looking to start and/or strengthen AML/CTPF supervision activities in their respective sectors. The drive to start and/or strengthen supervision activities is on the back of significant weaknesses which were identified in the 2019 Mutual Evaluation Report on the effectiveness of the country’s supervision regime. Supervisors of financial institutions and designated non-financial businesses and professions (DNFBPs) are strengthening their AML/CTPF supervision framework.

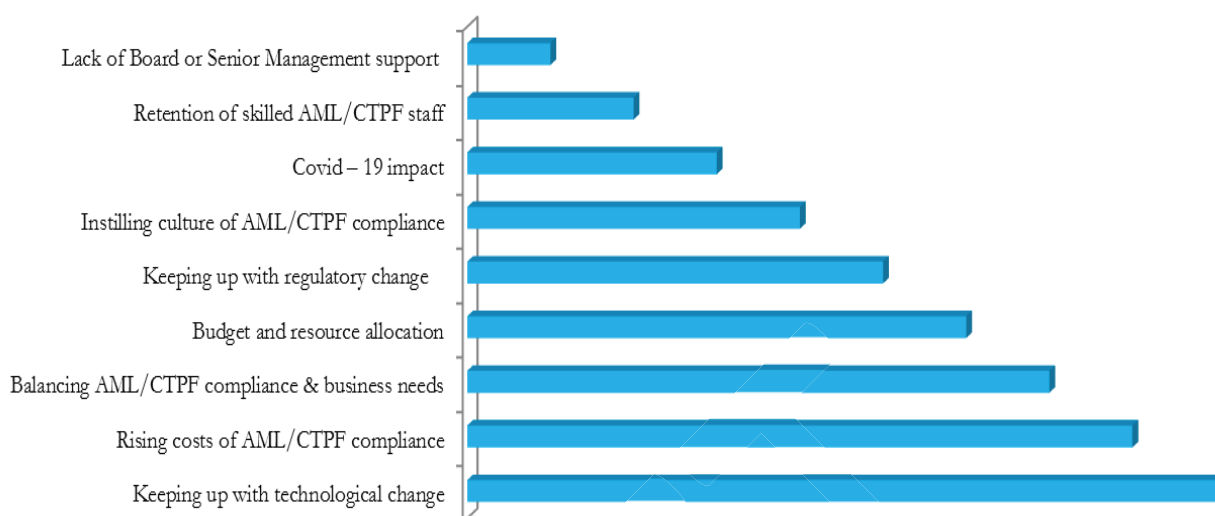
Reporting entities should be aware that increasing

regulatory scrutiny will require them to provision for staff training, continuous updates, integration of new regulations into existing processes and continuous review of compliance with the new regulations. Supervisors will require reporting entities to demonstrate how well they are applying AML/CTPF measures and mitigating ML/TF/PF risks. To demonstrate this, reporting entities will need to document their ML/TF/PF risk assessment, AML/CTPF policies, customer identification procedures, AML/CTPF training programmes, transaction monitoring procedures and independent reviews on their compliance programme. Further, a reporting entity's trend in meeting reporting obligations will be critical in determining how well it is applying AML/CTPF measures. Reporting entities may need to engage external expertise to develop the various components of an AML/CTPF compliance programme. The AML/CTPF regime in the country provides sufficient room for reporting entities to outsource development of some of the components of an

AML/CTPF compliance programme. Reporting entities that may need more information on which components of the AML/CTPF compliance programme can outsource or should get in touch with their primary supervisory authority or the FIC.

These factors will undoubtedly push the cost of compliance upwards. Reporting entities should be advised that the structure and complexity of an AML/CTPF compliance programme should be based on the size and nature of business that the entity is engaged in. In this context, the complexity and structure of an AML/CTPF compliance programme for a financial institution and DNFBP will differ. Aligning the AML/CTPF compliance programme to the size and nature of business of a reporting entity will be an important factor in managing the rising costs of AML/CTPF compliance. The table below shows the ranking of the challenges from the most challenging to the least challenging:

Chart 1: AML/CTPF Compliance challenges in the next 12 months



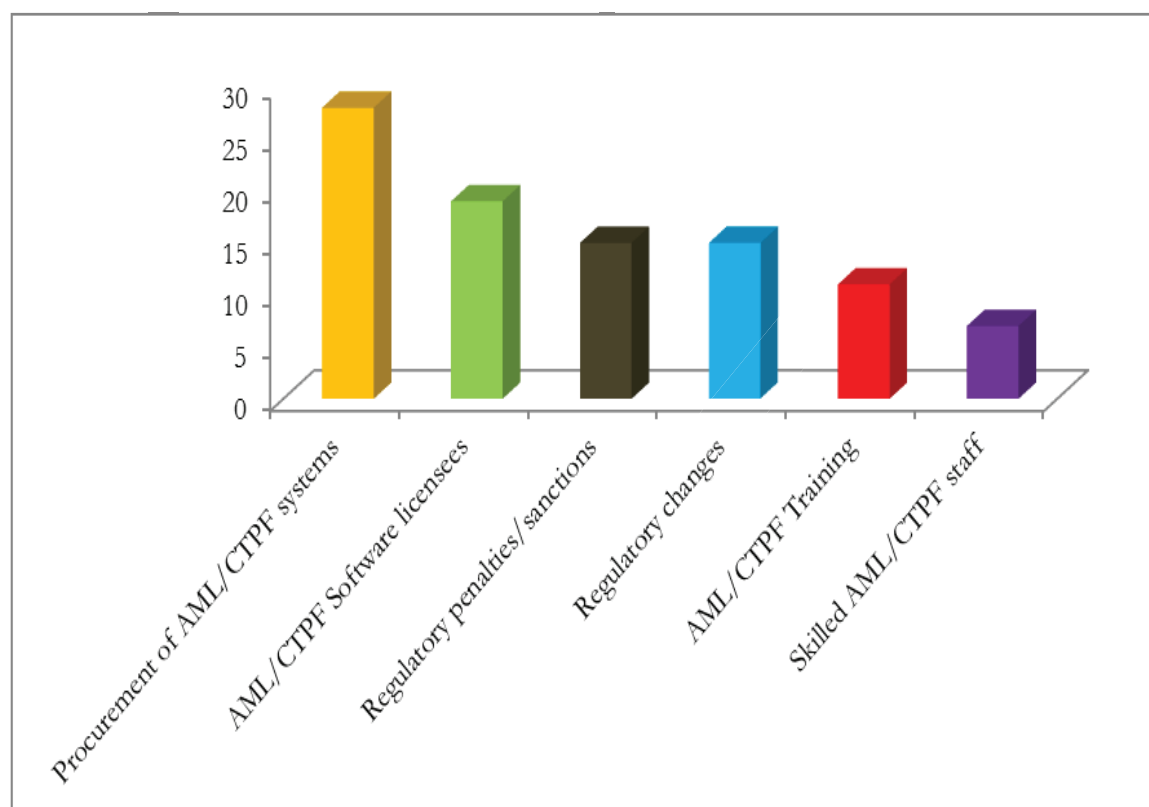
At sector level it was observed that there were differences across sectors in the prioritization of challenges anticipated in the next 12 months. The differences in the prioritization/ranking could be attributed to the levels of maturity of the AML/CTPF measure that reporting entities in the respective sector have employed. The financial institutions particularly the commercial banks who have more mature AML/CTPF measures relative to the other sectors ranked *“keeping up with technological changes”* as the number one challenge they anticipate in the next 12 months. The real estate agents ranked *“balancing AML/CTPF compliance & business needs”* as number one, whilst the accounting and audit firms ranked *“instilling a culture of AML/CTPF compliance”* as number one. The two sectors; real estate agents and accounting

and audit firms have traditionally not been subject to AML/CTPF supervision and therefore their AML/CTPF compliance programmes are in their early stages.

What in your view will be the top drivers of the cost of AML/CTPF compliance in the next 12 months?

From the survey responses, the top five (5) drivers of the cost of AML/CTPF compliance in the next 12 months are:

- i. Procurement of AML/CTPF systems;
- ii. AML/CTPF software licenses;
- iii. Regulatory penalties/sanctions;
- iv. Regulatory changes; and
- v. AML/CTPF training.



Procurement of AML/CTPF systems

Majority of the reporting entities surveyed indicated that they anticipated that procurement of AML/CTPF systems would be the main cost driver of AML/CTPF compliance in the next 12 months. This suggests that reporting entities are looking to automate aspects of their internal AML/CTPF measure or replace existing automated solutions with new ones. Typically AML/CTPF processes that reporting entities automate include transaction monitoring, training and customer due diligence. The 2019 Mutual Evaluation Report on Zambia found that large commercial banks and mobile money service providers had automated transaction monitoring systems. Further, they had acquired commercial databases for implementation of

United Nations Security Council Resolutions (UNSCRs) on terrorists and terrorist organisations. However, reporting entities in the DNFBP sector and other small financial institutions had not implemented measures to adequately detect suspicious transaction and UNSCRs targeted financial sanctions. The Mutual Evaluation Report recommended that small-medium financial institutions and DNFBPs should put in place measures to detect suspicious transactions and implement UNSCRs targeted financial sanctions. Small-medium financial institutions and DNFBPs should be advised that these measures need not be automated, depending on the size and complexity of the reporting entity's operations, the measures can be manual. Reporting entity can depending on the volume of daily transactions monitor customer transactions manually, especially for DNFBPs

whose customer transactions are usually spread out and not completed in real time. To maintain a robust manual transaction monitoring process, reporting entity need to continuously invest in AML/CTPF staff training to enable customer facing employees detect suspicious transactions that could be bordering on ML/TF/PF. As regards, UNSCRs targeted financial sanctions (TFS), small-medium financial institutions and DNFBPs can manually screen their customers against the United Nation (UN) Sanction list that is posted on the UN website. The TFS screening can be done at customer onboarding and/or transaction level; customer details or parties to a transaction are checked against the sanction list on the UN website and where there is a positive match, reporting entities are required not to complete the transaction and report to their sector supervisor and National Anti-Terrorism Centre (NATC).

AML/CTPF software licenses

AML/CTPF software licenses were ranked second as a key driver of the cost of AML/CTPF compliance in the next 12 months. This may suggest the high cost of maintaining software solutions. In this regard, reporting entities need to factor in the costs of ongoing license renewal when deciding to invest in automation.

At sector level, the results were similar with the overall picture with most sectors ranking *"procurement of AML/CTPF systems"* number one. This suggests that reporting entities across sectors are considering automating aspects of their AML/CTPF measures.

Over the next 12 months, do you expect the cost of time and resource devoted to AML/CTPF compliance to be:

- i) significantly more than today
- ii) slightly more than today
- iii) the same as today
- iv) slightly less than today or
- v) significantly less than today?

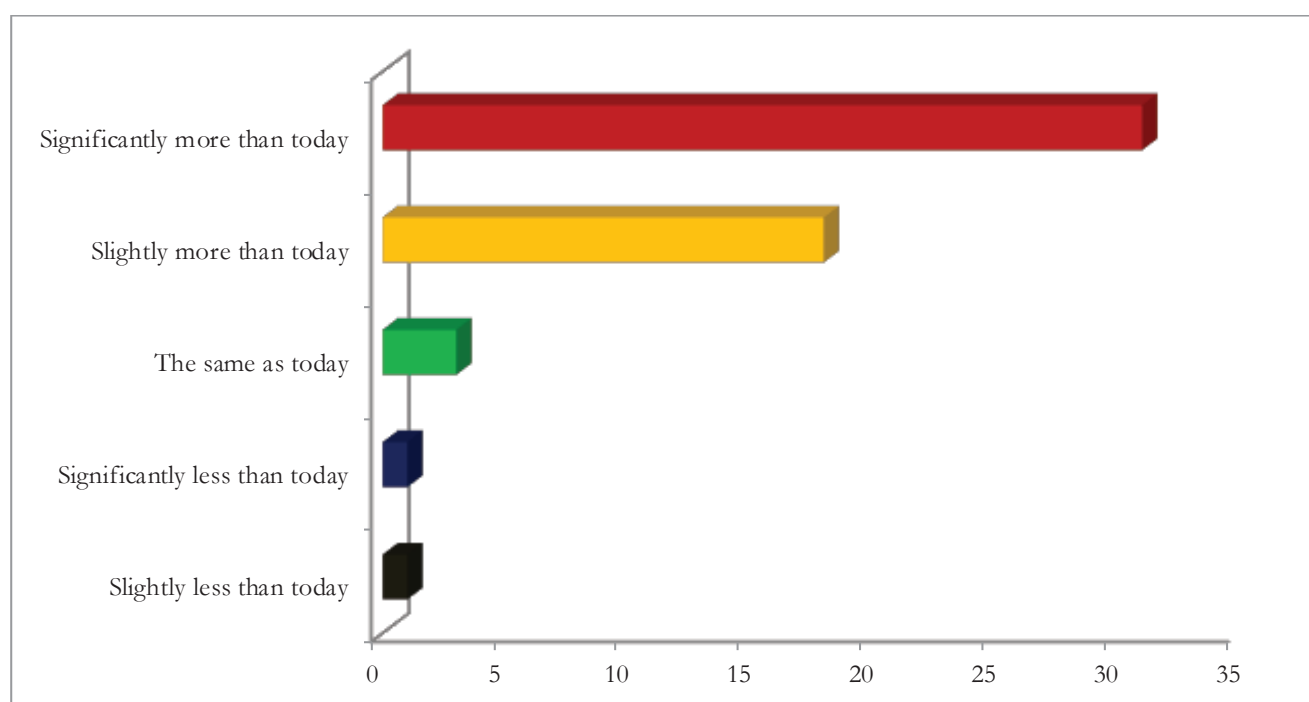
Over the next 12 months, majority of the reporting entities (57%) indicated that they expect the cost of

time and resource devoted to AML/CTPF compliance to be significantly more than today while thirty-one percent (31%) indicated that they expect the cost to be slightly more than today. Six percent (6%) of respondents expect the cost to remain the same as today while four percent (4%) expect it to significantly be less than today and slightly less than today. Table 1 and Figure 2 below illustrate responses provide by reporting entities on the cost of AML/CTPF compliance

Table 1: Cost of time and resource devoted to AML/CTPF compliance in the next 12 months

Cost of AML/CTPF Time and Resource	Response	Percentage
Significantly more than today	31	57%
Slightly more than today	17	31%
The same as today	3	6%
Slightly less than today	1	2%
Significantly less than today	1	2%

Chart 3: Cost of time and resource devoted to AML/CTPF compliance in the next 12 months



Over the next 12 months, do you expect the cost of time and resource devoted to AML/CTPF compliance to be:

- i) significantly more than today**
- ii) slightly more than today**
- iii) the same as today**
- iv) slightly less than today or**
- v) significantly less than today?**

Over the next 12 months, majority of the reporting entities (57%) indicated that they expect the cost of time and resource devoted to AML/CTPF compliance to be significantly more than today while thirty-one percent (31%) indicated that they expect the cost to be slightly more than today. Six percent (6%) of respondents expect the cost to remain the same as today while four percent (4%) expect it to significantly be less than today and slightly less than today. Table 1 and Figure 2 below illustrate responses provide by reporting entities on the cost of AML/CTPF compliance.

Their responses when analyzed may indicate respondent's perceived increased dedication to AML/CTPF compliance over the next 12 months. Traditionally, majority of the reporting entities in the country have not been regulated for AML/CTPF purposes. With the expansion of the AML/CTPF regulatory universe, reporting entities that had in the past not dedicated any time and resources to AML/CTPF compliance are now being required to comply with AML/CTPF requirements. This may be contributing to the increase in the cost of time and resources spent on AML/CTPF compliance relative to the past years. Reporting entities are required to take a risk based

approach to AML/CTPF compliance. The risk based approach is critical in managing the time and resources spent on AML/CTPF compliance. The risk based approach ensures that a reporting entity with low risk spends less time and resources on compliance than a reporting entity with high risk operations. This essentially means that more time and resources are directed towards areas of the highest ML/TF/PF risk. The FIC's guidance to reporting entities on risk based approach requires that reporting entities identify, assess and understand the ML/TF/PF risk associated with their products/services, customers and geographical location. Low risk products/service, customers and geographical location will be subjected to less scrutiny than those rated high risk. This is expected to have an overall positive impact on the time and resource spent on AML/CTPF compliance.

Reporting entities should be aware that Section 17 of the FIC Act provides for reliance on identification by third parties. Essentially the FIC Act permits a reporting entity to rely on an intermediary or third party to perform the customer identification. The FATF Standards permit reliance for the following aspects of customer identification:

- (a) Identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information;
- (b) Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner, such that the reporting entity is satisfied that it knows who the beneficial owner is.

For legal persons and arrangements this should include reporting entities understanding the ownership and control structure of the customer; and

(c) Understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship.

However, according to the FIC General Regulations 2022, the third party should be established in or subject to the jurisdiction of a country that:

- a) has established a financial intelligence unit that is a member of Egmont Group;
- b) is not subject to monitoring by the FATF's . International Cooperation Review Group; and
- c) is not subject to United Nations sanctions or other applicable sanctions.

Further, reporting entities that enter into an agreement with a third party for reliance on customer identification should ensure the third party will maintain customer records for not less than 10 years.

Reliance on customer identification undertaken by a third party may reduce the procedures that a reporting entity would have to conduct thereby positively impacting the cost of time and resources. However, a reporting entity relying on a third party has the ultimate responsibility for compliance with the FIC Act, including all of the due diligence and reporting requirements.

Have you in the last 12 months discarded a potentially profitable business proposition due to money laundering/ terrorism and proliferation financing risk concerns?

The survey revealed that a third (31.48%) of respondents had turned down a potentially profitable business opportunity in the previous year because of ML/TF/PF risk concerns. There are

generally two broad scenarios that a reporting entity can discard a potentially profitable business proposition. Firstly it could arise because of difficulties/failure to complete customer due diligence procedures. Secondly, it could be as a result of derisking.

Section 16(9) of the FIC Act requires reporting entities that are unable to comply with customer due diligence requirements to not proceed with opening an account, commencing a business relationship or performing the transaction, and where appropriate, it shall terminate the business relationship. The FIC Act further requires the reporting entity to make a suspicious transaction report in relation to the customer. Reporting entities should document the reasoning behind all such decisions and aim to learn lessons, whether they were connected with the use of third parties, failure by the customer to provide information, product design, undue complexity or other aspects of business activity.

The FATF defined de-risking as “the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF’s risk-based approach” (2014). It has been noted that drivers of de-risking including:

- i. ML/TF/PF risk exceed the reporting entity’s risk appetite;
- ii. Lack of understanding of a customer’s business model; and
- iii. The cost of compliance drives a business to exit a relationship.

Reporting entities should be aware that de-risking may create opacity, “forcing clients to use unregulated channels and drives financial activity underground” (Riskscreen, 2022). The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) *Follow Up Report on Derisking* (2021) stated that derisking had the effect of “driving genuine financial transactions into less/non-regulated channels, reducing transparency of financial flows and creating financial exclusion, thereby increasing exposure to money laundering and terrorist financing (ML/TF) risks” (p.7).

The ESAAMLG report indicated that the economic impact had been felt across the region, particularly in “accessing international payment systems and foreign markets for trade, closure of operations by institutions, reduced scale of operations, diminished financial performance and job losses” (p.7, 2021).

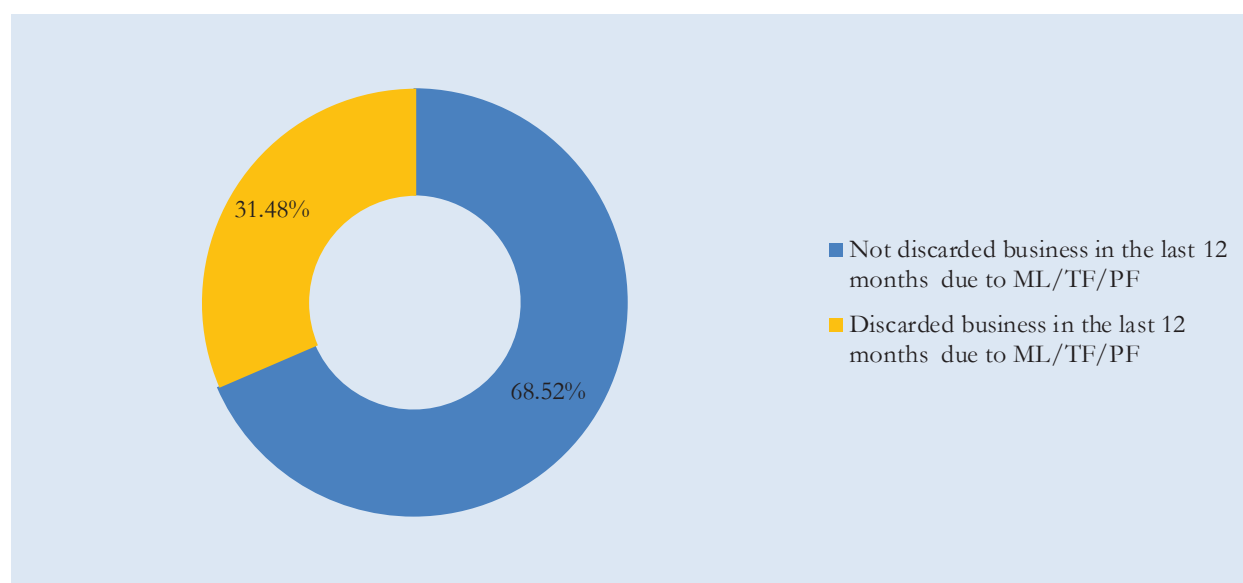
As outlined in various reports, derisking makes it difficult to detect nefarious transactions taking

place in unregulated channels. In this regard, reliance on a case by case risk based approach should guide reporting entity when dealing with customers.

68.52% of the respondents did not discard any business proposition due to ML/TF/PF risk concerns. It is important for reporting entities to develop and implement clear customer acceptance policies and procedures. These will enable them identify customers that may present a high risk of ML/TF/PF. The customer acceptance policy and procedure should define circumstances under which the reporting entities would not accept a new business relationship or would terminate an existing one.

The chart below shows a summary of entities that discarded potentially profitable business as well as those that did not discard potentially profitable business proposition due to ML/TF/PF risk concerns.

Chart 4: Discarded and not discarded potential profitable business in the last 12 months



AML/CTPF COMPLIANCE INITIATIVES

What good practice(s)/initiatives have you implemented to ensure continuity of AML/CTPF compliance during the Covid-19 pandemic?

The FIC in collaboration with supervisory authorities issued “Regulatory guidance on complying with AML/CTPF control requirements for reporting entities in light of Covid-19 measures”¹ in May 2020. The guidelines were aimed at assisting reporting entities navigate the challenges that were posed by Covid-19, whilst remaining compliant with AML/CTPF requirements. In doing so, the guidelines focus of 3 key areas that would be impacted by the Covid-19:

- i. On-boarding of new customers;
- ii. On-going customer due diligence;
- iii. Emerging ML/TF/PF risks;
- iv. Reporting obligations; and
- v. AML/CTPF training programmes.

Responses provided by reporting entities were grouped in four (4) broad categories and these were; technological advancement/digitization,

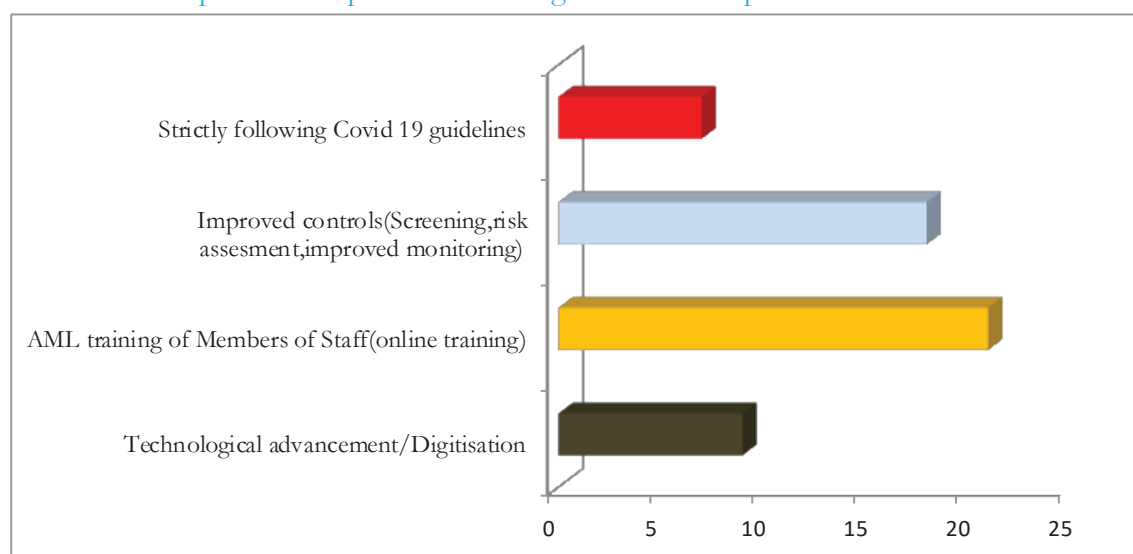
AML training of members of staff (physical or online training), improved controls (screening, risk assessment, improved monitoring), and strictly following Covid-19 guidelines.

The good practices that were outlined by the entities in no particular order of ranking were as follows:

- i. AML/CTPF training for members of staff;
- ii. Improved AML/CTPF controls (screening clients, risks assessment and other controls);
- iii. Technological advancement; and
- iv. Strictly following the covid-19 guidelines.

Reporting entities responded that they usually had AML/CTPF training for members of staff. Majority of the respondents highlighted that the mode of these trainings was usually an online one whereas a few had physical training. Some reporting entities indicated that they had portals where various AML/CTPF short courses and materials were available and the employees were able to undertake these courses at their own pace. This is a good practice as it helps the members of staff to be aware of all AML/CTPF requirements and be able to detect and prevent ML/TF/PF activities.

Chart 5: Good practices implemented during the Covid-19 pandemic



¹ <https://www.fic.gov.zm/reporting>

Reporting entities also highlighted how they had improved the monitoring procedures. This was done through; intensified monitoring of high traffic accounts, account monitoring-post onboarding, internal compliance procedures, thorough client screening, implementation of AML/CTPF policies and keeping up with regulatory changes.

Another good practice that the reporting entities indicated was technological advancement. Reporting entities indicated how they had used technology to enhance most of their manual processes. Some of the areas that the reporting entities had used technology were:

- i. Going digital with some of the services such as online payments in order to avoid the use of cash;
- ii. Digitization of some manual and paper based processes;
- iii. Digital onboarding with instant screening capabilities;
- iv. Enabled remote working and Virtual Private Network,(VPN) access to compliance staff;
- v. Use of electronic platforms and Enterprise resource planning (ERPs) to disseminate informa-

tion, alerts about new policies; and

- vi. Increased automation/use of online tools to ensure continuity of monitoring and reporting.

Furthermore, reporting entities highlighted the following good practices that they had adopted to support strict adherence to Covid 19 guidelines issued by the Ministry of Health:

- i. Enhanced Know Your Customer/Client (KYC) through improved systems developed for remote work;
- ii. Attending to regulatory requests online ;
- iii. Providing wider access to name screening while working from home;
- iv. Conducting most meetings using virtual platforms as opposed to physical meetings;
- v. Development of robust systems to allow remote working;
- vi. Online loan application and virtual approvals; and
- vii. Adherence to the five (5) Covid-19 golden rules in the work place and by customers whenever they visit the branches.



AML/CTPF Compliance
budget and skilled
resources

AML/CTPF COMPLIANCE BUDGET AND SKILLED RESOURCES

Over the next 12 months, do you expect the size of your AML/CTPF compliance team to

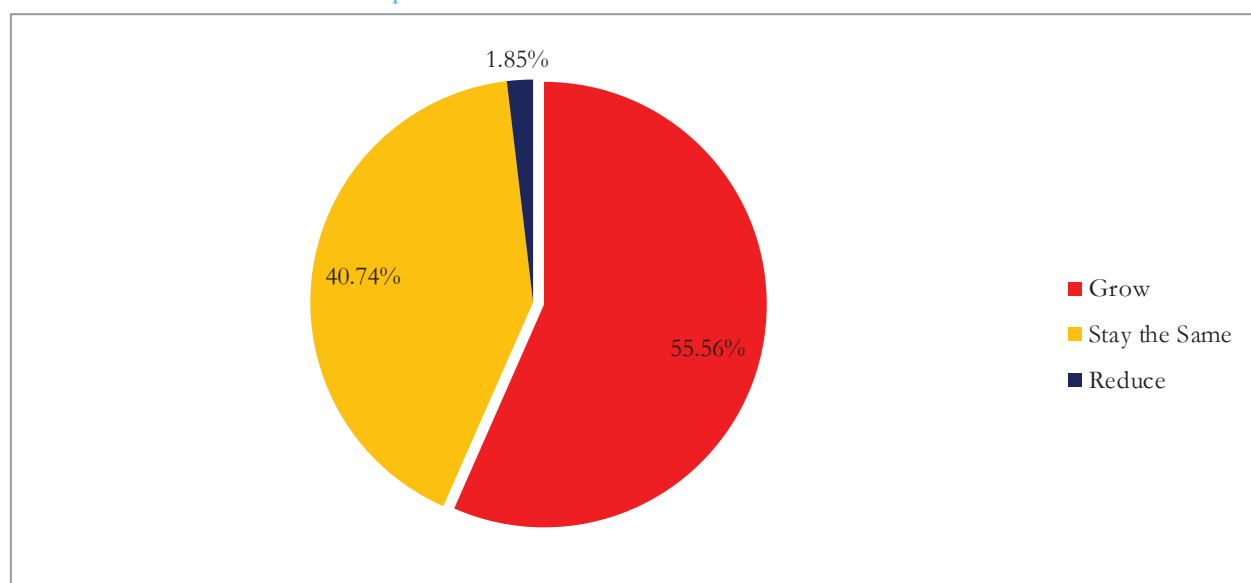
- i) grow
- ii) stay the same or
- iii) reduce?

It is a core function of the AML/CTPF compliance function to liaise with regulators and stay current with regulatory issues and leading practices. The AML/CTPF team will typically have its core of functions spread among six (6) areas of responsibility —identification, prevention, monitoring and detection, resolution, training and advisory. To effectively deliver on the six (6) areas of responsibilities the AML/CTPF teams should be well resourced.

The entities were requested to indicate what their expectation was on the size of their AML/CTPF compliance team for the next twelve (12) months. The majority of the respondents expected that the size of their AML/CTPF compliance team will grow in the next 12 months. 55.56% expected that their compliance team would grow, 40.74% said it would remain the same while 1.8% had an expectation that it would reduce.

The Chart below shows the results:

Chart : Size of AML/CTPF Compliance team in the next 12 months



The expectation by the majority of reporting entities that their AML/CTPF compliance team would increase in the next 12 months could be a result of the changing AML/CTPF regulatory scrutiny in the

country. It is imperative for reporting entities to have a well-resourced AML/CTPF function to remain compliant. Sector specific guidelines issued by the FIC require reporting entities to tailor their

compliance programmes to their specific needs. The size of the AML/CTPF compliance team should be driven by the reporting entity's size and nature of operations. A DNFBP could have an AML/CTPF compliance team with one staff, whilst a financial institution could have a team of five (5) or more. AML/CTPF compliance programmes are not "one size fits all" – they must be customized to the needs and challenges faced by each reporting entity.

In resourcing their AML/CTPF compliance teams, reporting entities should strike a balance between automation and manual processes. Automating some processes may moderate the size of the team required and optimize the processes.

A well resourced AML/CTPF compliance team provides the benefits of moving the reporting entity from being reactive to proactive in identifying, preventing, monitoring, detecting, resolving, training and advisory for ML/TF/PF. Further, they reduce the reporting entity's exposure to regulatory fines or penalties. Regardless of how well resourced an AML/CTPF compliance team is, its success is partly dependent on the support received from the reporting entity's senior management. Senior management plays a critical role in the reporting entity's AML/CTPF compliance programme by setting the right "tone at the top" and supporting the activities of the AML/CTPF compliance team.

Over the next 12 months, do you expect the overall AML/CTPF compliance team budget to be:

i) significantly less than today

ii) slightly less than today

iii) the same as today

iv) slightly more than today or

v) significantly more than today

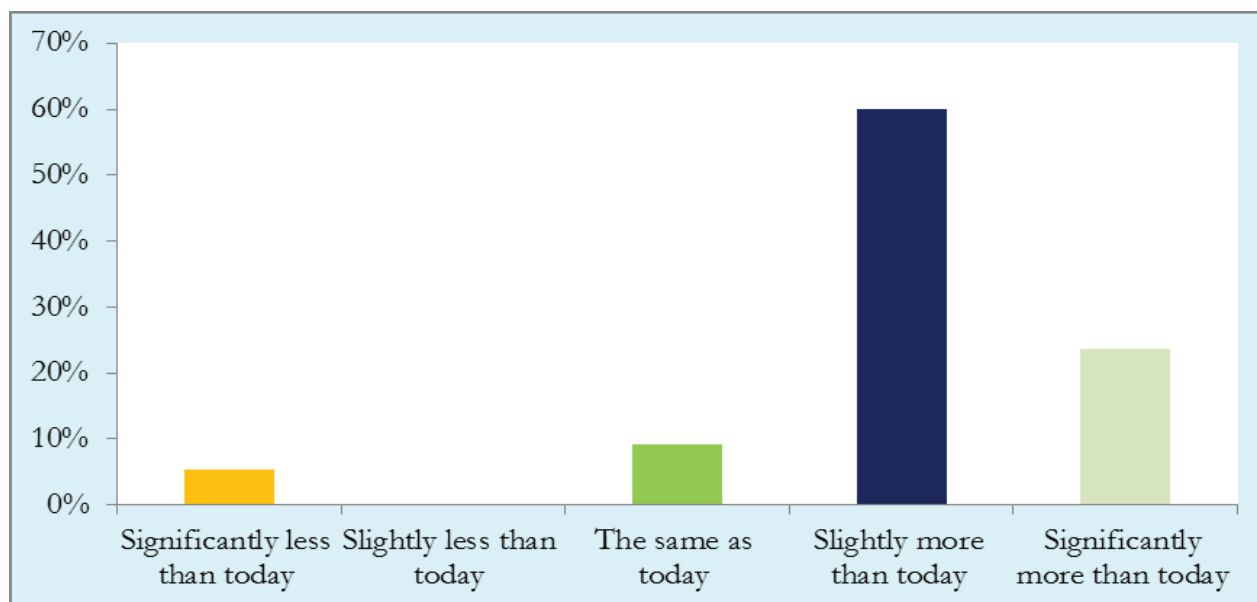
Majority of reporting entities indicated that they expected the AML/CTPF compliance budget to be slightly more than today. 61.8% indicated that the budget will be slightly more than today, while 23.6% of the reporting entities expected the budget to be significantly more than today. Only 5.4% responded that they expected their AML/CTPF compliance budget to be significantly less than today.

These results are aligned to the reporting entities' expectations on the other questions raised under this section.

Though reporting entities are expecting to spend more on AML/CTPF compliance than in the past, there are benefits to investing in compliance. Aside from reducing the reporting entity's exposure to regulatory fines and penalties it has been argued that AML/CTPF compliance drivers increased understanding of customers. This insight in customer profiles can support product/service offering. Further, some surveys have argued that a reputation for strong AML/CTPF compliance also "improves the credibility" of the reporting entity in the eyes of their customers.

The table below is an illustration of the responses provided by the reporting entities.

Chart 7: Overall AML/CTPF compliance team budget in the next 12 months



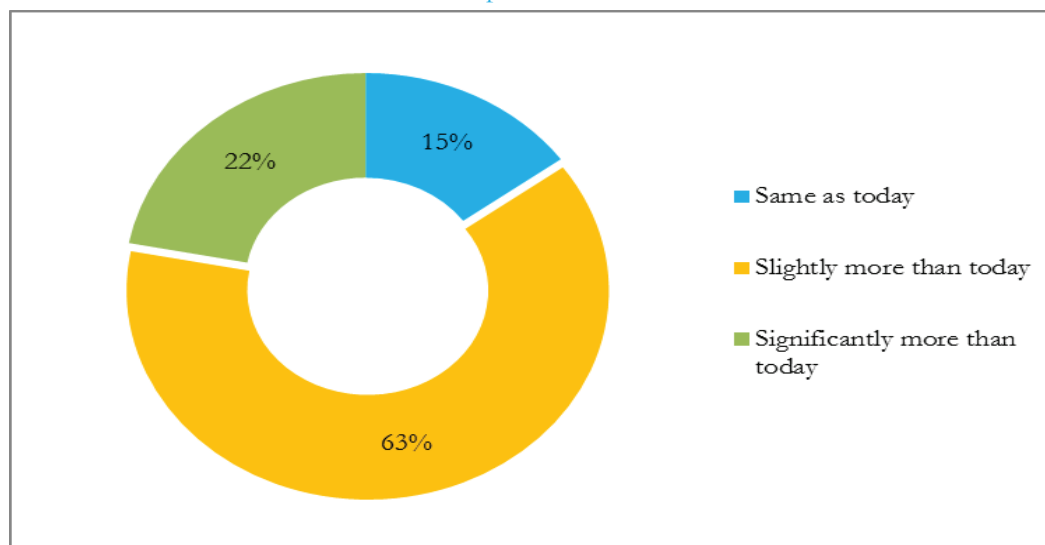
Over the next 12 months, do you expect the overall cost of AML/CTPF compliance staff to be:

- i) same as today
- ii) slightly more than today or
- iii) significantly more than today?

The AML/CTPF compliance functions must have access to appropriate experts and skilled resources, to enable the management and mitigation of

ML/TF/PF risks that the organisation is exposed to. Majority of reporting entities indicated that they expected the overall cost of AML/CTPF compliance staff to increase slightly more than today. 63% expected the cost to increase slightly more than today, 22% expected the overall cost to increase significantly more than today and 15% expected the cost to be the same as today.

Chart 8: Overall cost of AML/CTPF compliance staff in the next 12 months



These expectations are in line with the trajectory of the AML/CTPF regulatory landscape in Zambia. Since the Mutual Evaluation of 2008 the country has made significant strides towards ensuring that the AML/CTPF legal and institutional framework is compliant with FATF standards. The country has among others developments established a financial intelligence unit as required by Recommendation 29 and designated supervisory authorities for financial institutions and DNFBPs as required by Recommendation 26 and 28 of the FATF standards. The country is currently working on addressing the deficiencies that were observed in the Mutual Evaluation of 2019 such as strengthening supervision and enforcement action. Supervisory authorities are required by FATF standards and FIC Act to mete out effective, proportionate and dissuasive sanctions on non-compliance with AML/CTPF requirement. It is anticipated that supervisory authorities will increase their AML/CTPF supervisory activities to address findings of the Mutual Evaluation of 2019 and as the country becomes due for a 3rd round mutual evaluation. Furthermore, Section 23(4)c requires the FIC to certify AML/CTPF compliance professionals. The FIC is currently making consultations on how the certification framework can be implemented. These regulatory developments and others underscore the need for reporting entities to invest in appropriately qualified staff to ensure that they remain compliant with AML/CTPF requirements. The increase in AML/CTPF regulation is expected to put a premium on well

qualified AML/CTPF compliance professionals in Zambia. Reporting entities need to factor into their overall staff budgets the expected upward trend in the cost of AML/CTPF compliance staff. Further, supervisory authorities need to take into consideration the increasing costs of AML/CTPF compliance staff when designing and implementing their supervisory interventions.

Do you expect the overall cost of AML/CTPF compliance staff to increase because of:

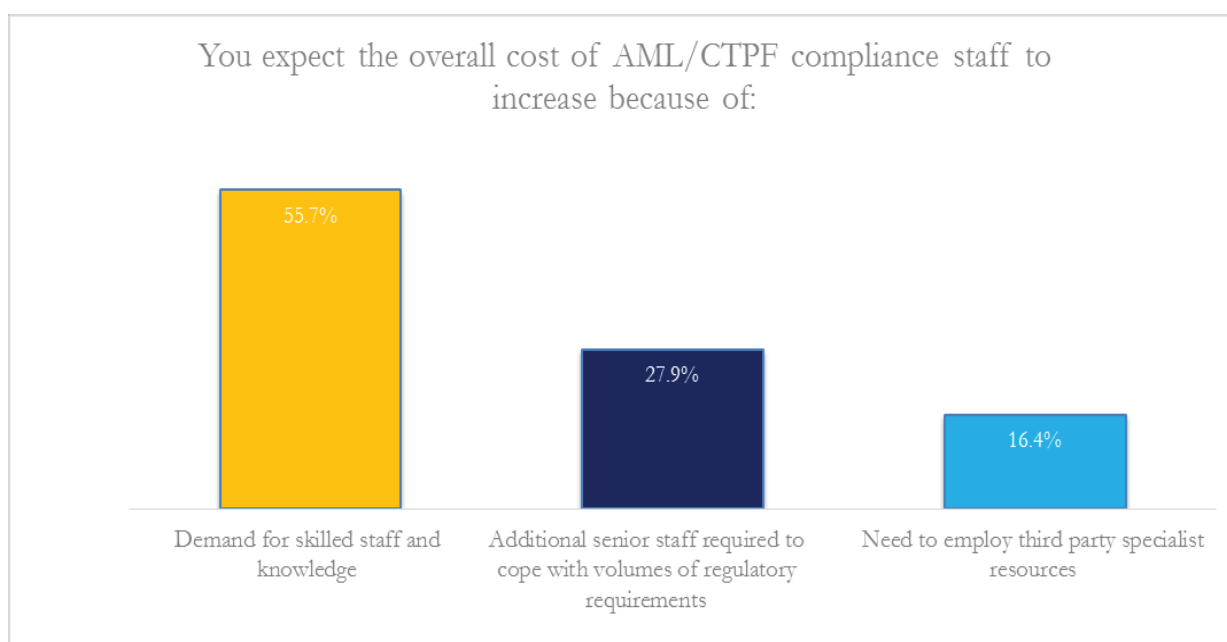
- i) demand for skilled staff and knowledge**
- ii) additional senior staff required to cope with volumes of regulatory requirements or**
- iii) need to employ third party specialist resources**

From the respondents, it was observed that more than fifty percent (55.7%) of reporting entities in Zambia expect the cost of AML/CTPF compliance staff to increase due to demand for skilled staff and knowledge. 27.9% expect the cost to increase due to additional senior staff being required to cope with volumes of regulatory requirements. This is in comparison to 16.4% of reporting entities that expected that the cost of AML/CTPF compliance to increase due to need to employ third party specialist resources. From the above results, it can be deduced that reporting entities will require skilled AML/CTPF compliance staff in order to implement the obligations of reporting entities. In this regard, reporting entities should invest in skills development and training for their AML/CTPF compliance staff. Further,

compliance professionals who wish to pursue AML/CTPF compliance as their career, will need to also invest in various training and certification programs that will enhance and develop their skills. It is noteworthy that majority of reporting entities do not expect the overall cost of AM-

L/CTPF compliance to increase because of use of third-party specialist resources. This therefore may be indicative that the majority of entities in the next coming years will prefer to develop and use in house resources as opposed to outsourced resources.

Chart 9: Overall cost of AML/CTPF compliance staff in the next 12 months



Over the next 12 months, do you expect the turnover of AML/CTPF compliance staff to:

- i) grow**
- ii) stay the same or**
- iii) reduce?**

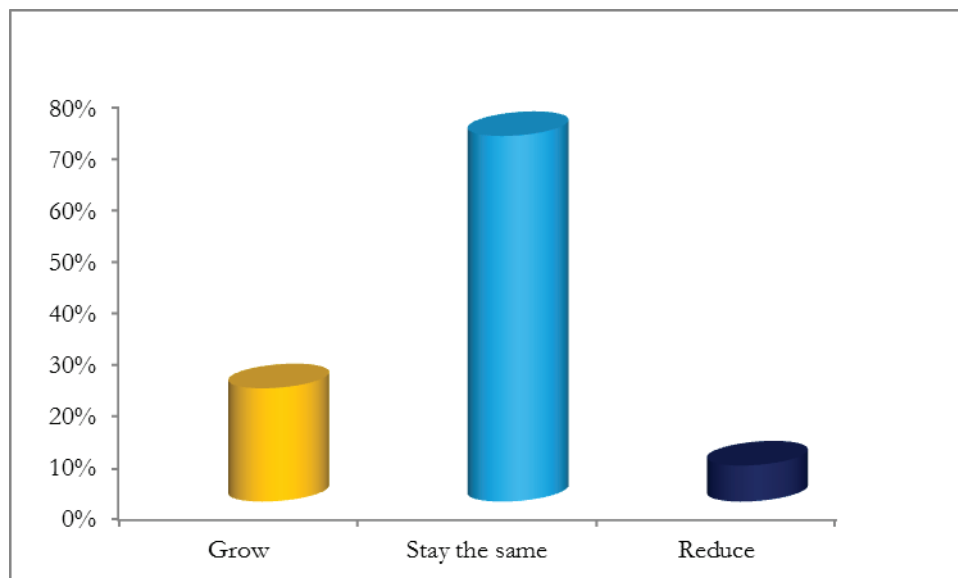
The survey results show that the majority of reporting entities expect the rate of turnover for AML/CTPF compliance staff to remain the same over the next 12 months. Seventy percent (70%) of

reporting entities expect the turnover of AML/CTPF compliance staff to stay the same, 22% expect the turnover to grow and 8% expect it to reduce. High turnover of AML/CTPF compliance staff negatively impacts a reporting entity's efforts to prevent and detect ML/TF/PF. Staff turnover generally increases the reporting entity's staff costs in terms of recruitment costs, learning curve and training.

There are varied reasons that can contribute to staff turnover in a profession or sector. However, the scope of this survey did not cover the causes

of staff turnover. With the increase in regulatory scrutiny reporting entities need to ensure they strengthen their staff retention strategies.

Chart 10: AML/CTPF compliance staff turnover in the next 12 months



What are the three key skills required for an ideal AML/CTPF compliance officer in the next 12 months?

The top skills ideal for an AML/CTPF compliance officer in the next 12 months were:

- i. Integrity;
- ii. Succinctly interpret regulatory change; and
- iii. Business understanding.

Integrity is conducting oneself in a manner that is above reproach and does not compromise the reputation of the reporting entity. Integrity being the top skill, it is a known fact that the AML/CTPF compliance officer must possess high levels of integrity in order to carry out the functions of the office in a professional manner. According to KYC360, integrity entail not just knowing what the right thing is, but also to possess the “courage of

your convictions; the confidence to speak out; the determination to see things through” (2020).

The AML/CTPF compliance officer must ensure that a reporting entity complies with external regulatory requirements and internal policies; this constant oversight demands the officer to have an impartial and unbiased view of all affairs of the reporting entity. The AML/CTPF compliance officer must be able

to put the reporting entity’s needs above their own and operate without fear or favour. Reporting entities should ensure that AML/CTPF compliance officers are sufficiently senior in the structure of the organisation with access to all applicable information and the Board of Directors.



The ability to succinctly interpret regulatory change is a top skill needed in the next 12 months. The role of the AML/CTPF compliance officer involves the teaching and guidance of the members of staff of any AML/CTPF regulatory changes in the business environment. The FIC issued the Financial Intelligence Centre (General) Regulations 2022 and Financial Intelligence Centre (Prescribed Thresholds) Regulation 2022 in August 2022. Among other areas, the regulation expands on the requirements that were introduced by the FIC (Amendment) Act No. 16 of 2020, particularly, obligations of non-profit organisations, virtual asset service providers and accountable institutions. In this regard, the AML/CTPF compliance officer needs to be able to interpret any regulatory changes to management and staff in a simplified manner through training sessions and meetings to enable reporting entities implement the requirements. Further, the AML/CTPF compliance is expected to lead the domestication of new regulatory require-

ments.

The AML/CTPF compliance officer must understand the business and all regulatory instruments which affect its operations and existence. AML/CTPF compliance officers must engage with all business units and management to ensure guidelines and policies are formulated to mitigate the risk of breaching AML/CTPF regulations and laws. The AML/CTPF compliance officer is responsible for the implementation of, and ongoing compliance with the FIC Act by a reporting entity. Failure in this role may result in the reporting entity facing sanctions due to breach of the regulations and laws.

Key skills needed for an AML/CTPF compliance officer include interpersonal/management skills, digital/technology understanding, analytical skills, strong risk management skills, subject matter expertise, proactive, good communication skills, critical thinker, strong project management skills, detail oriented and flexibility.

The background is an abstract composition of geometric shapes. A large, vibrant red shape dominates the right side, featuring several parallel diagonal lines in a slightly darker shade of red. On the left, there are three overlapping chevron-like shapes pointing right, colored in a gradient from light grey to a bright orange. A thin, dark green line runs diagonally across the top left, parallel to the grey shapes.

Emerging Technologies

EMERGING TECHNOLOGIES

What emerging technologies do you expect to have the most impact on AML/CTPF compliance in the next 5 years in Zambia:-

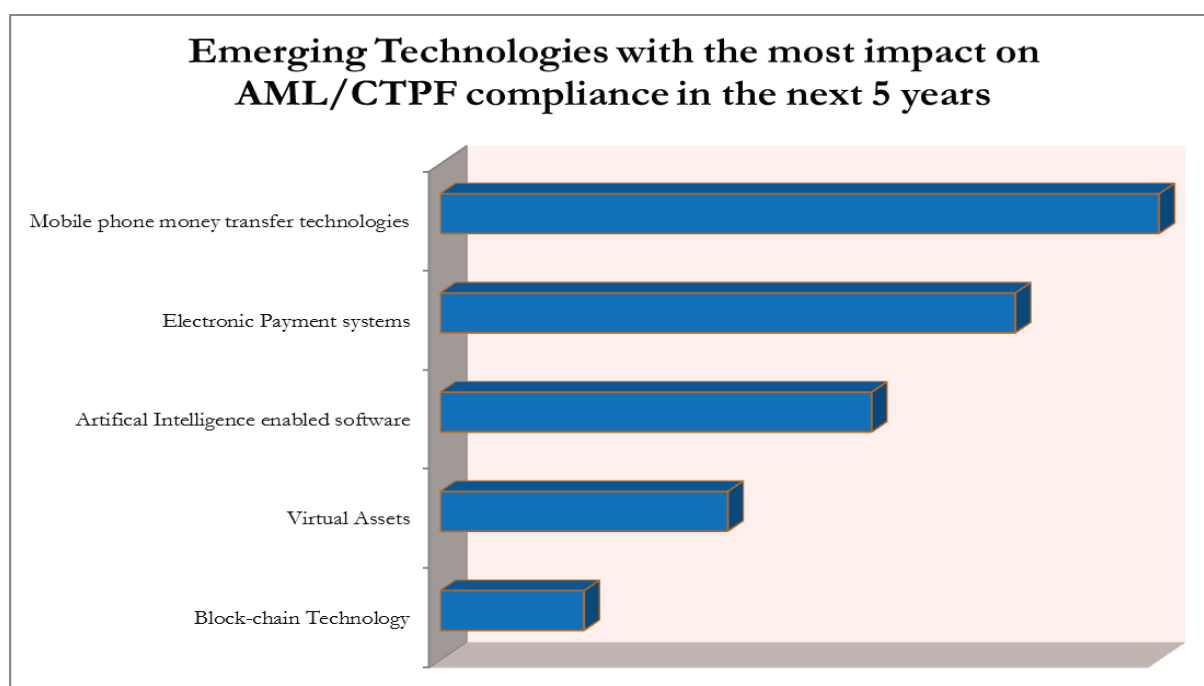
Emerging technologies improve the convenience of conducting business for the customers while improving efficiency in service delivery for the reporting entities. In spite of their benefits, emerging technologies may present some ML/T-F/PF risks that reporting entity need to identify, assess and understand. The FATF recommendations require reporting entities to identify and assess the ML or TF risks that ‘may arise in relation

to (a) the development of new products and new business practices, including new delivery mechanisms, and (b) the use of new or developing technologies for both new and pre-existing products’ (2012). As such the regulation and supervision of these technologies must reflect threats as well as opportunities.

Majority of respondents to the survey indicated that mobile phone money transfer technologies would have

the most impact on AML/CTPF compliance in Zambia in the next 5 years.

Chart 11: Emerging technologies in the next 5 years



In recent years the mobile money sector, has seen an increase in the volumes and values of transactions; the volume of transactions increased by 11.73% (from 747 million to 834 million) from 2020 to 2021, similarly the value of transactions increased by 60.4% (from ZMW 105.6 billion to

ZMW 169.4 billion) from 2020 to 2021 (Bank of Zambia, 2021). The mobile money sector has become one of the major payment channels for small and medium sized enterprises, as well as a payment channel for utility services such as electricity, water, and TV subscriptions.

The increase in the usage of mobile money transfer technologies has presented both opportunities and challenges. Opportunities presented by this technology have included fostering financial inclusion and ease of payments in the economy.

However, there existed potential of abuse of these technologies for ML/TF/PF and other serious financial crimes. In 2018 ML/TF Trends Report the FIC noted an increase in the number of fraud cases on mobile money platforms. The FIC has issued Non-Bank Financial Institutions Reporting Guidelines to assist sub-sector such as the money or value transfer services comply with AML/CTPF requirement. Compliance with these guidelines will mitigate the risk of Money or Value Transfer Services (MVTs) being exploited for ML/TF/PF.

Electronic payment systems were also highlighted as one of the technologies that will impact AML/CTPF compliance. The ability to purchase goods and pay for services electronically has increased since the Covid-19 pandemic; the pandemic period saw a rise in the usage of electronic payment platforms in order to limit the usage of cash. The use of electronic payment platforms was encouraged by the Bank of Zambia Circular of 2020 that outlined measures that financial institution would take to limit the spread of Covid-19.

In response to the business environment, financial institutions have introduced digital payment

services to assist their customers to conduct business away from the traditional brick and mortar building. This increase in electronic services also poses a ML/TF/PF risk. Reporting entities need to ensure they strengthen their customer identification procedures and transaction monitoring measures to mitigate the ML/TF/PF risks that arise with electronic payment systems.

Artificial intelligence was another technology that respondents to the survey indicated would impact AML/CTPF compliance in the next five (5) years. Artificial Intelligence (AI) is valuable when performing repetitive tasks, reducing the time and effort spent allowing a resource to focus on high priority tasks. AI enabled software allow us to expand the complex operations performed in AML/CTPF compliance ranging from Customer Due Diligence (CDD), Enhanced Due Diligence (EDD) and to Transaction Monitoring. AI enhanced Transaction Monitoring systems provide the opportunity to reduce the number of false positives flagged by conventional transaction monitoring systems. The AI enabled systems are able to provide a more holistic view of a customer's profile based on financial activities from other sources of information integrated in the system. However, the FATF observed that there could be challenges in the explainability and interpretability of new technologies such artificial intelligence based solutions. This could stem from the limited availability of relevant expertise and a lack of awareness of

innovative technologies from both industry and government. Reporting entities investing in artificial intelligence based technologies should be in a position to fully take responsibility and explain how those technologies fulfil the AML/CTPF requirements.

With the entrance of virtual assets and block-chain technology in the Zambian economy, AML/CTPF compliance measures and regulatory practices will need to be enhanced to accommodate the new technologies. The FIC Act has designated

virtual asset service providers as reporting entities. Virtual assets promise to reduce barriers to entry, bring more people into the financial system, and create greater inclusivity across the globe. Block-chain technology promises to improve the process of customer on-boarding and transaction monitoring. The space of AML/CTPF compliance is set to experience changes as emerging technologies are incorporated into business operations within the coming years.

The background features a complex geometric design. A large, vibrant red shape, resembling a stylized arrow or a series of overlapping triangles, dominates the right side. On the left, a light grey diagonal band runs from the top-left towards the bottom-right. Within this grey band, there are three parallel orange lines that form a chevron-like pattern. A thin, dark green line is also visible, running parallel to the top edge of the grey band. The overall composition is modern and abstract.

Liaison with regulators

LIAISON WITH REGULATIONS

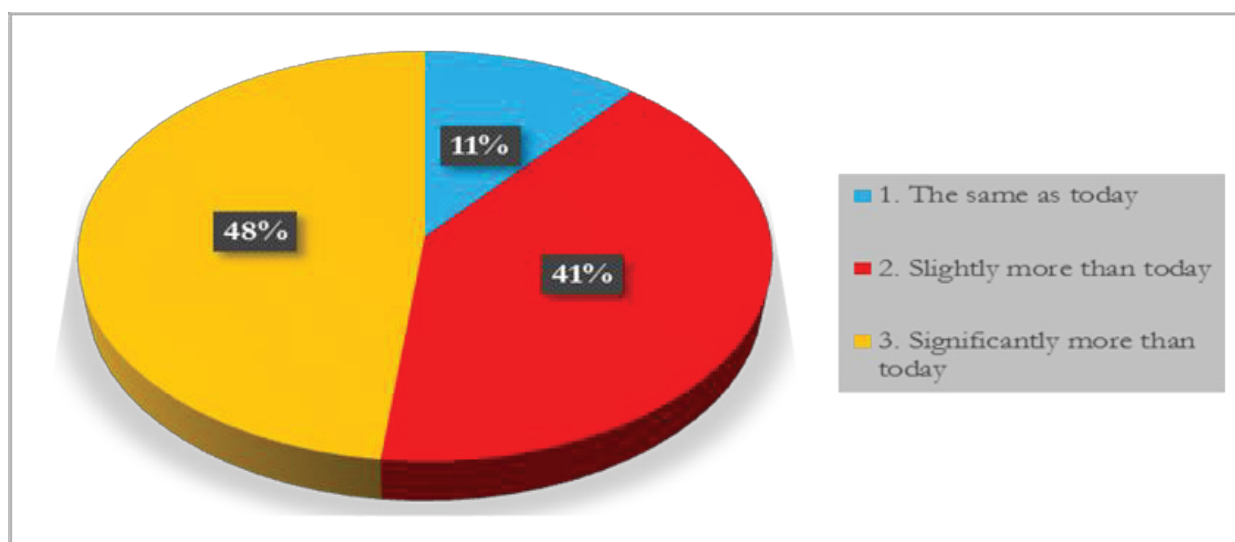
Over the next 12 months, do you expect the amount of AML/CTPF regulatory information published by your supervisor/regulators to be:

- i) same as today
- ii) slightly more than today or
- iii) significantly more than today?

Regulators publish regulatory information mainly to assist regulated entities comply with the regulatory requirements that have been promulgated by regulatory authorities. Further, the regulatory information is published to also make regulated entities be aware of new developments and to enable them track and analyse new regulatory initiatives and changes. It was noted from the reporting entities that were sampled that 48% of them

expected the amount of AML/CTPF regulatory information published by the supervisors/regulators to be significantly more in the next 12 months than what it currently was. Further, 41% indicated that they expected AML/CTPF regulatory information published by the supervisors/regulators to be slightly more than today. These results are indicative that reporting entities anticipate AML/CTPF regulators to publish more information in guiding them and providing clarity on new regulatory requirements. Regulatory authorities should also respond to these results by being more proactive in releasing regulatory information that responds to the needs of the regulated entities.

Chart 12: Increase in publication of regulatory information



Over the next 12 months, do you expect the time spent liaising and communicating with AML/CTPF supervisors and regulators to be:-

- i) slightly less than today**
- ii) significantly less than today**
- iii) the same as today**
- iv) slightly more than today or**
- v) significantly more than today**

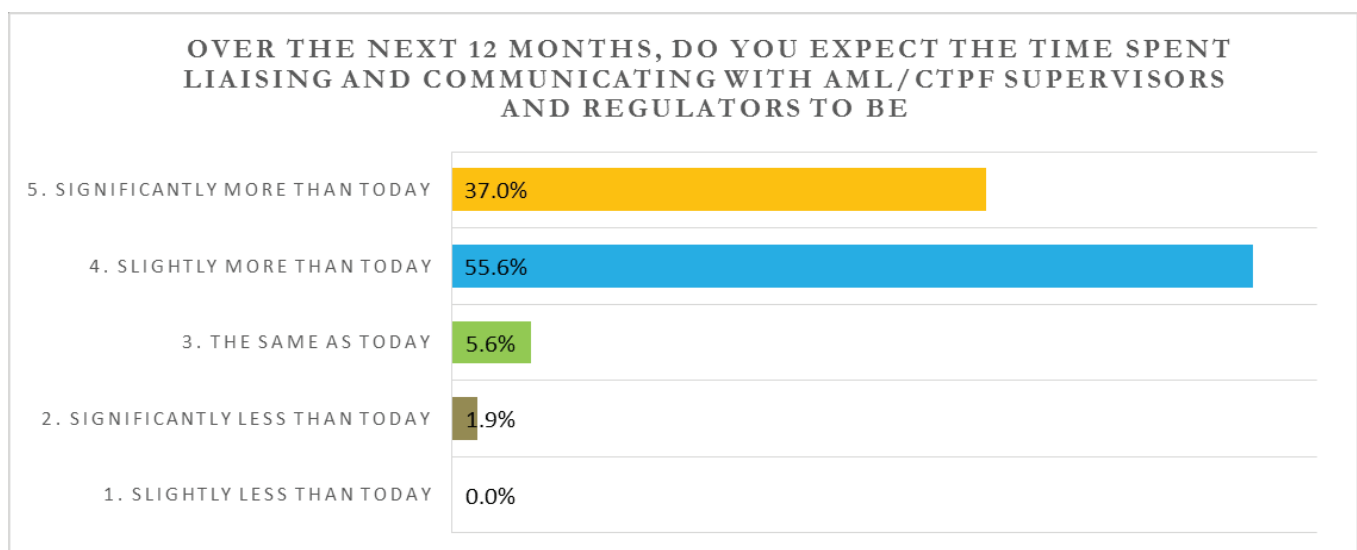
Reporting entities liaise and communicate with regulators for so many reasons among which include; the need to understand changing regulatory expectations, increased information requests from regulators, more onerous regulatory and reporting requirements. Regulatory authorities have a duty to ensure that they regulate in a manner that achieves public policy objectives as well as not impede private sector business. 55.5% of the reporting entities sampled indicated that they expected the time spent liaising and communicat-

ing with supervisors and regulators to be slightly more than it is today. 37.0% expect the time spent liaising and communicating with supervisors and regulators to be significantly more than today. These results shows that 92.6% of reporting entities are expecting the interaction between the regulators and them to increase in the next twelve months.

Based on these results, it is inevitable that there is continuous need to promote public-private sector dialogue in the fight against ML//TF/PF.

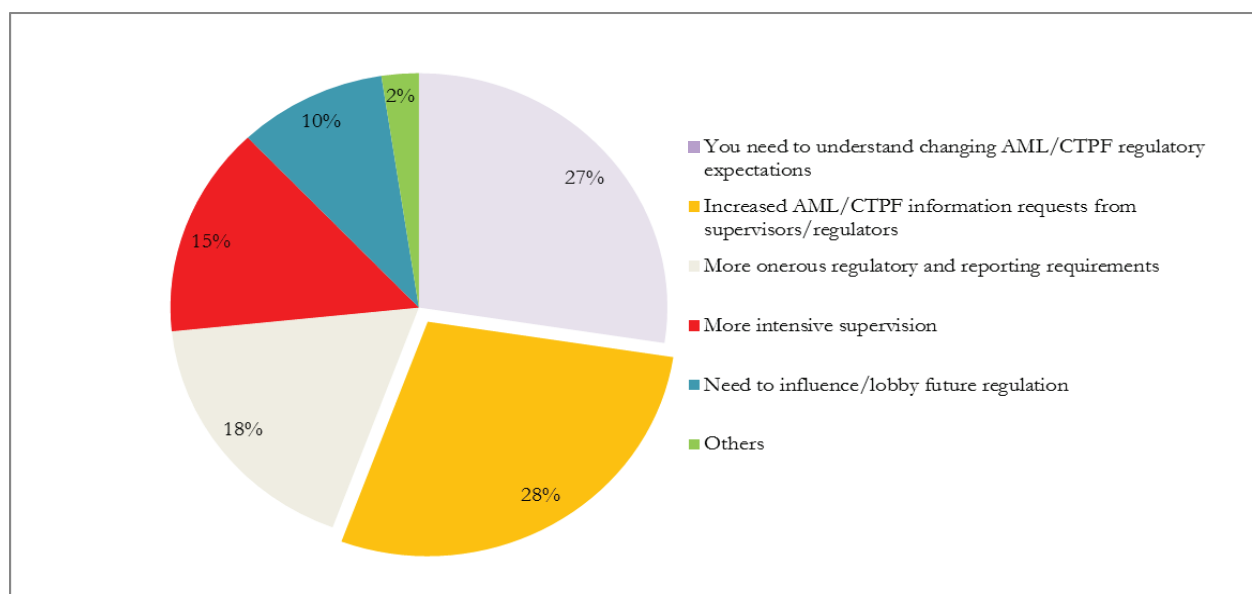
Private sector is encouraged to come-up with programmes and forums that bring onboard both the private sector and government agencies (regulatory authorities) to discuss pertinent issues that affect them. Automating some of the regulatory and supervisory tools by leveraging on technological developments will also go a long way to ensure that the supervision of entities is seamless.

Chart 13: Time spent liaising and communicating with supervisors



If you expect the time spent liaising and communicating with supervisors/regulators to increase, what will be the top drivers of this increase:-

Chart 14: Top drivers of increasing time spent liaising and communicating with supervisors



The survey revealed that reporting entities expected that increased AML/CTPF information requests from supervisors/regulators would be the main driver in the increase in time spent liaising and communicating with supervisors. This result suggests that reporting entities are aware of their obligations under the FIC Act on responding to information requests by supervisors. Reporting entities provide information to supervisors for varying reason. The information would be for purposes of meeting reporting obligations and/or demonstrating compliance with the AML/CTPF requirements. The FIC plans to scale up its supervision activities in the next 12 months and its expected that other supervisory authorities will be doing the same. This directly means that there will be increased requests for information from report-

ing entities. Reporting entities need to ensure that they develop and implement systems that enable them to share information with supervisory authorities in a timely manner.

Reporting entities also responded that the need to understand changing AML/CTPF regulatory expectations would be the second main driver in increasing time spent liaising and communicating with supervisors. As the country strengthens its AML/CTPF legal framework it is expected that reporting entities will need to engage supervisors on the changes to the regulatory framework. In 2022, the FIC issued the General Regulations 2022 and Prescribe Threshold Regulations 2022. Reporting entities will need to acquaint themselves with these regulations and ensure their operations are compliant.



AML/CTPF Compliance Opportunities

AML/CTPF COMPLIANCE OPPORTUNITIES

Over the next 12 months, what opportunities do you see to enhance your organisation's AML/CTPF compliance?

The survey responses were categorized in 3 categories as follows; policies and procedures, technology and training. The majority of opportunities that reporting entities see to enhance their organisation's AML/CTPF compliance efforts hinge on leveraging technology. The survey results are in keeping with the view globally that technology offers arguably the most opportunities for organisations to enhance their compliance efforts.

With increasing local regulatory requirements driven by the international standard on AML/CTPF, reporting entities will need to leverage opportunities that new technologies such as artificial intelligence, natural language processing, distributed ledger technology, application programming interfaces and digital solutions for customer due diligence. In their publication *"Opportunities and Challenges of New Technologies for AML/CFT"* FATF encouraged the use of new technologies such as artificial intelligence by reporting entities to improve risk assessments, onboarding practices, relationships with competent authorities, auditability, accountability and overall good governance whilst cost saving (2021).

However, the FATF noted that reporting entities would encounter some operational challenges in adopting new technologies such as adapting the existing processes and practices to new and in certain instances technological solutions that are untested by the market. Further, issues around training staff and replacing legacy systems would need to be anticipated by reporting entities in implementing new technologies. Supervisors will need to create a regulatory environment that encourages development and adoption of new technologies by reporting entities. Reporting entities need to ensure that they are able to explain and remain responsible for the new technologies that they deploy.

Training of staff in AML/CTPF was noted by reporting entities as another area providing opportunities within the next 12 months to ensure compliance within legal requirements. Knowledgeable and skilled employees are essential to developing an effective AML/CTPF compliance programme. The reporting entities' training programme should be directed at staff based on their role in the institutions. Further, the training programme should also encompass agents of the reporting entities. The FIC continues to provide AML/CTPF awareness for reporting entity staff. Reporting entities can also take advantage of the availability of private sector players that provide AML/CFT training.

CONCLUSION

The FIC as the “regulator of last resort” on AML/CTPF requirements is committed to ensuring that reporting entities are provided with regulatory support to achieve compliance. The FIC does this through provision of awareness training, regulations, guidelines, circulars and feedback on compliance levels.

Reporting entities are expected to engage the FIC or their primary supervisory authority where there is need to clarification or guidance towards compliance. Further, reporting entities have an obligation to ensure that they put in measures to comply with the AML/CTPF requirements.

This survey has shown that there will be changes in technology, staffing requirements, budgets, AML/CTPF regulations and overall time spent liaising with supervisory authorities. Reporting entities are encouraged to plan for these changes to ensure that they are not caught unaware and found non-compliant with AML/CTPF requirements.

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