

Insights Article

The Addition of Nigeria and South Africa to the FATF Grey List

and the Potential Impact to Financial Institutions

On February 23, 2023, Nigeria and South Africa were placed on the Financial Action Task Force (FATF) grey list due to the countries' inadequate anti-money laundering and counter-terrorism financing (AML/CFT) regimes. This is a significant event for the international banking community, as it requires financial institutions (FIs) to reassess their risk profiles and compliance programs when dealing with Nigerian and South African FIs, clients, and transactions.

Both Nigeria and South Africa have made high-level political commitments to work with FATF and other regional bodies to strengthen the effectiveness of their AML/CFT regimes; however, until these countries are removed from the grey list FIs must understand the AML/CFT challenges these countries are facing and the impact on regulatory compliance and risk mitigation.

However, increased risk does not stop with just these two countries. Other countries or entities alike can be added to the grey list or even the blacklist. Additions to these lists will most certainly cause concern for FIs conducting business with or through these countries by use of various channels or transactions, such as correspondent banking, lending activities, and wire transfers.

Read on to learn more about what Nigeria and South Africa are doing to mitigate FATF's concerns, what financial institutions can do to reassess the risks, and how Actimize can assist FIs with these challenges.

Progress made by Nigeria and South Africa

Nigeria has already made progress on some of the recommended actions from its Mutual Evaluation Report (MER), including improving its legislative framework and strengthening its implementation of Targeted Financial Sanctions (TFS).

Nigeria aims to implement its FATF action plan by addressing issues such as:

- Enhancing formal and informal international cooperation
- Improving AML/CFT risk-based supervision of FIs and Designated Non-Financial Business and Profession (DNFBPs)
- Conducting risk-based and targeted outreach to Non-Profit Organizations (NPOs) at risk of Terrorist Financing (TF) abuse
- Demonstrating an increase in Money Laundering (ML) investigations and prosecutions

Similarly, South Africa has made significant progress on many of their recommended actions including:

- Developing national AML/CFT policies and amending its legal framework for TF and TFS
- Demonstrating a sustained increase in outbound Mutual Legal Assistance (MLA) requests
- Improving risk-based supervision of Designated Non-Financial Businesses and Professions (DNFBPs)
- Enhancing its identification, seizure, and confiscation of proceeds and instrumentalities of a wider range of predicate crimes

Beneficial Ownership Remains a Key Focus for AML/CFT

Both Nigeria and South Africa recognize the importance of timely access to accurate and up-to-date Beneficial Ownership (BO) information on legal persons and arrangements and applying sanctions for breaches of violation by legal persons to BO obligations. They also aim to increase investigations and prosecutions of different types of ML/TF activities in line with their risk profiles, as well as to ensure the effective implementation of targeted financial sanctions.

What actions can FIs take to mitigate these risks?

In recognition of the increased risks associated with Nigeria and South Africa cited by FATF, the international banking community must engage in certain mitigation actions. Banks throughout the world should consider some of the below actions:

- Banks should conduct a thorough **review of their existing risk assessments and compliance programs** in relation to Nigeria and South Africa. This review should take into account the latest information on Nigeria and South Africa's AML/CFT regime and assess the impact of the grey list on the bank's existing and potential clients. Banks should update their risk assessments and compliance programs to reflect the increased risk associated with doing business in Nigeria and South Africa and with Nigerian and South African financial institutions.
- Banks should **enhance their due diligence procedures** when conducting business with Nigerian and South African clients. This includes conducting enhanced due diligence on high-risk clients, such as politically exposed persons (PEPs), and increased monitoring of Nigerian and South African transactions for suspicious activity. Banks should also ensure that they have access to up-to-date and accurate information on beneficial ownership (BO) of legal persons, as this is a key area where Nigeria and South Africa need to improve.
- Banks should **strengthen their transaction monitoring and reporting systems** to incorporate the increased risk associated with Nigerian and South African transactions. This will help ensure that suspicious transactions, especially those that may fit the risks identified by FATF, are identified and reported promptly. This includes ensuring that staff are trained to recognize Nigeria and South Africa related red flags and understand the importance of reporting suspicious activities.
- Banks should **enhance their internal controls and governance structures** to ensure that they have adequate measures in place to mitigate the risks associated with doing business with Nigeria and South Africa. This includes ensuring that they have robust policies and procedures in place, regular training for staff, and independent audits to assess the effectiveness of their AML/CFT controls.
- Banks should maintain **close contact with their regulators and share information** on the updates they are making to their risk assessments and compliance program to mitigate the increased risk of doing business in or with Nigeria and South Africa. This includes communicating with the relevant authorities and cooperating with law enforcement agencies in their investigations.

In conclusion, FATF placing Nigeria and South Africa on the grey list is a significant event for the international banking community, and FIs should take proactive steps to mitigate the risks associated with doing business with Nigerian and South African clients and transactions. This includes:

- Conducting a thorough review of their risk assessments and compliance programs
- Enhancing due diligence procedures
- Strengthening transaction monitoring and reporting systems
- Enhancing internal controls and governance structures
- Maintaining close contact with the regulators

By taking these steps, international banks can protect themselves from the risks associated with doing business with Nigerian and South African FIs and other entities while maintaining their reputation and integrity in the global financial system.

How Actimize Can Assist FIs

NICE Actimize partners with clients to help them gain insight into their current state, help resolve issues, and create action plans. This can be accomplished through a variety of services that go beyond the standard implementation and upgrade offerings such as:

- Risk Coverage Assessments designed to understand a client's risk profile and appetite based on the current business model. Including, a risk-to-rules mapping ensuring the current transaction monitoring solution comprehensively mitigates risk and that additional roadblocks/pain-points impacting the program are identified and escalated.
- Operational Assessments designed to review existing operating procedures, assess the operational use of the current transaction monitoring solution, and identify any other business operations pain-points. These assessments will often involve detailed walkthroughs of the end-to-end transaction monitoring process to help NICE Actimize identify deficits in the current state.
- Ongoing advisory services that provide FIs with a knowledge and understanding of both industry best practices and the powerful capabilities of NICE Actimize's financial crime solutions. NICE Actimize's subject matter experts ultimately provide clients with a deeper understanding of their solution's resulting in a better ability to mitigate financial crime.
- Training for both the NICE Actimize solution and industry best practices provides FIs with proficiency in their chosen NICE Actimize solutions and subject matter expertise in how to best utilize the solution for their specific needs. NICE Actimize subject matter experts provide tailored trainings on a wide range of financial crime industry best practices.

Benefits Realized by Actimize Clients

NICE Actimize’s professional services clients realize a multitude of benefits. Depending on what services NICE Actimize provides, clients have experienced some of the below:

- **Increased risk mitigation** as potentially suspicious activity not previously identified due to gaps in the transaction monitoring solution’s rules are now being altered
- **Decreased regulatory risks and concerns** when the client’s solutions are updated to better mitigate the unique risks posed by certain geographies and entities lacking strong AML/CFT controls
- **Decreased operational costs** by decreasing the number of false positives and improving the effectiveness of existing alerts in identifying potentially suspicious activity
- **Expanded knowledge for compliance staff** through tailored business and operational trainings improving the efficiency of the client’s AML program

You can find out more about these and other services by scheduling a call with our subject matter experts who can recommend offerings based on your specific business needs. NICE Actimize is here to help you along your journey. To learn more, please visit <https://www.niceactimize.com/services/professional-services/> or contact us at GlobalBusinessconsultants@nice.com.



Joshua Gross, a Lead Business Consultant at NICE Actimize, brings over 8 years of experience in the financial services industry to his role. With his specialization in data services, Joshua provides tailored solutions to clients by identifying their unique NICE Actimize solution data needs. His expertise in data management, integration, migration, quality assessment, governance, ETL advisory, and cloud migration strategy services helps ensure that clients’ data is accurate, reliable, and secure, enabling them to maximize the potential of their NICE Actimize solutions. Joshua’s CAMS certification and AWS certification as a cloud practitioner attest to his commitment to providing exceptional data services to clients ranging from small retail banks to the largest global systemically important banks.



Bob Hager has over 25 years of experience in the financial services industry. He has worked as a Lead Business Consultant with NICE Actimize for over 5 years working with clients to get the most out of their Actimize solutions on various AML projects. Prior to joining NICE Actimize, Bob worked in various roles such as Corporate Compliance, Financial Crimes and Investment Services. Bob served as the BSA/AML Financial Intelligence Unit (FIU) Manager which included the alert, investigation and EDD departments. In addition, he led a BSA/AML Quality Assurance team for a large financial institution with a focus on retail banking. He has experience working with industry regulators and internal audit. Bob’s expertise has been in process and procedural development, private banking, insurance and investment services as a licensed broker and registered principal. He also helped author a KYC/CIP system for a regional bank that is still production today. Bob holds a bachelor’s degree in Public Administration from Auburn University and has achieved the CAMS and CFE certifications and is an AWS Certified Cloud Practitioner. He previously held his insurance license, as well as investment services licenses which included series 7, 24, 63 and 65

About NICE Actimize

NICE Actimize is the largest and broadest provider of financial crime, risk and compliance solutions for regional and global financial institutions, as well as government regulators. Consistently ranked as number one in the space, NICE Actimize experts apply innovative technology to protect institutions and safeguard consumers and investors assets by identifying financial crime, preventing fraud and providing regulatory compliance.

The company provides real-time, cross-channel fraud prevention, anti-money laundering detection, and trading surveillance solutions that address such concerns as payment fraud, cybercrime, sanctions monitoring, market abuse, customer due diligence and insider trading.

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