CUSTOMER DUE DILIGENCE
CHALLENGES IN THE MIDDLE EAST

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I. **Executive Summary**

Financial institutions based in the Middle East have been increasingly on the regulatory radar. Increased enforcement action and stricter enforcement of regulations coupled with the pace of regulatory change has made institutions more risk averse. Furthermore, the increasing cost of compliance and scarcity of trained resources has resulted in de-risking and has become the order of the day. The risk of de-risking is that it will drive the unregulated sector underground or compel them to use alternate or informal means of payment. It is also likely to affect global growth and financial inclusion.

Due diligence requirements prescribed by regulators worldwide has been increasing over the years and financial institutions have been facing mounting regulatory costs and tighter risk controls. U.S. regulators continue to remain skeptical of the Middle East region's compliance with anti-money laundering (AML) and counter-terrorist financing (CTF) rules and their implementation. There has been greater enforcement action against banks undertaking business in the Middle East or with Middle Eastern clients. Banks have been carrying out remediation work based on business reviews, internal/statutory audit findings or regulatory direction for a skilled person report\(^1\) (Sec.166 reviews in U.K.). Of the nine jurisdictions with strategic deficiencies identified by FATF as of February 2017, three are in the Middle East.

Global banks seem to be growing increasingly risk averse to doing business with Middle Eastern institutions engaged in businesses perceived to pose a higher risk of money laundering such as correspondent banking, trade finance and money service businesses. Banks have been looking to exit client relationships or markets, in order to avoid risk altogether. This could put cross-border banking services at significant risk and isolate these institutions and their clients.

On the other hand, the Gulf Co-Operation Council (GCC) economies have significant financial resources at their disposal, thanks to oil. The sovereign funds from the region are significant investors globally and continue to invest significantly in the U.S. and U.K. amongst other markets. There are huge business opportunities as Iran emerges out of the sanctions regime. Iran is the biggest new market to enter the global economy in over a decade, offering significant opportunities in most sectors, with potential to grow as the market in Iran expands.\(^2\) Business opportunities go hand in hand with risk.

Customer due diligence (CDD) is the heart of any AML program. Transparency, identification of beneficial owners, bribery and corruption, establishing source of funds (SOF) and source of wealth (SOW) and politically exposed persons (PEP) are some of the common problem areas. The approach to CDD has to take account of the regional history, challenges and constraints. There are legislative, structural and cultural differences, which make due diligence very difficult in the Middle East.

The risk appetite of different institutions could be different and the decision to de-risk is ultimately a matter of choice for the institution in question. This white paper seeks to analyze the regulatory requirements in light of the ground realities in the GCC, more particularly in UAE, DIFC and Kuwait. This white paper will also discuss some available options or alternative
approaches to make CDD more comprehensive and targeted. This will enable institutions to avoid de-risking whilst retaining profitable customers and accounts in the Middle East.

II. Background
As financial institutions continue to combat financial crime, there has been increased enforcement action for AML failures. The size of fines has been staggering. There is an increase in risk averseness to dealing with Middle Eastern and African financial institutions.

Regulators continue to demand more due diligence be undertaken by their institutions. The U.S. authorities remain unconvinced of the GCC’s compliance with AML and counter-terrorist rules.\(^3\)\(^4\) Financial institutions find themselves having to cope with tighter risk controls and increased regulatory costs.\(^5\)

Regulatory change has also brought about increased due diligence requirements such as the Foreign Accounts Tax Compliance Act (FATCA), Common Reporting Standards (CRS), and Beneficial Owners disclosure. The European Bankers Federation and the Institute of International Bankers (IIB) estimated the cost of FATCA implementation to run into several billion dollars. The HMRC estimated a one-off cost to U.K. businesses at 2 billion to 3 billion pounds for FATCA implementation.\(^6\) The Organisation for Economic Co-operation and Development’s global initiative of Common Reporting Standards (CRS) imposes similar identification and reporting obligations and comes with significant implementation costs and penalties.

Countries have adopted FATF standards and enacted local legislation to comply with the AML/CTF requirements. However, there are gaps in implementation and some jurisdictions are considered not equivalent to others. For example, the EU maintains a white list of equivalent jurisdictions. However, under the Fourth EU Money Laundering Directive, effective June 26, 2017, this list of equivalent jurisdictions will be discarded and firms will be required to assess the risk of every non-EU jurisdiction against their risk appetite. This could lead to firms evaluating the same jurisdiction and arriving at very different risk assessments and consequently very different due diligence approaches.

Whereas the course of action adopted by every institution is a matter of choice based on their risk appetite and attendant facts and circumstances, it is possible to retain profitable customers in high-risk businesses in the Middle East backed by a comprehensive CDD factoring in the measures discussed in this white paper, with technology doing the heavy lifting.

III. Regulatory Action
Since the September 11 attacks in the U.S., the number and size of fines for non-compliance of AML/CTF obligations have increased significantly. These have been for weak AML controls, lack of robust policies and procedures, politically exposed persons (PEPs), transaction monitoring, sanctions breaches, etc. Some of the notable cases are listed below for reference.
In March 2015, the Bank of Beirut (U.K.) Ltd was fined 2.1 million pounds by the Financial Conduct Authority (FCA) and stopped from acquiring new customers from high-risk jurisdictions for 126 days. In addition, the FCA fined two approved persons at the bank.\(^7\)

The FCA fined Standard Bank PLC 7.60 million pounds in January 2014 for failings relating to its AML policies and procedures over corporate customers connected to PEPs during the December 15, 2007 to July 20, 2011.\(^8\) The FCA fined Barclays 72 million pounds in November 2015 for failure to assess attendant financial crime risks, undertake appropriate due diligence on dealings with certain PEP clients in 2011/12, monitor the financial crime risks associated with the relationship and for failure to meet its recordkeeping obligations.\(^9\)

The Dubai Financial Services Authority (DFSA) imposed a penalty on ABN Amro in November 2015 for failures in the Bank’s AML systems and controls in respect to its private banking international business.\(^10\) In March 2011, the DFSA censured Saxo Bank Dubai Limited (SBDL) for its failure to comply with the DFSA’s Rules regarding the onboarding of clients.\(^11\) In June 2015, the DFSA entered into an enforceable undertaking with Kuwait Turkish Participation Bank (Dubai) Limited for risk management, AML and corporate governance deficiencies.\(^12\)

These fines pale into insignificance considering the size of fines imposed by the U.S. for AML, sanctions breaches or terrorist financing (see chart below).\(^13\)

In November 2016, Agricultural Bank of China was fined $215 million for violating AML laws by the New York Department for Financial Services.\(^14\)
In June 2014, BNP Paribas agreed to enter a guilty plea and pay a fine of $8.9 billion for breach of U.S. sanctions and was barred from U.S. dollar clearing for one year through its NY branch and other affiliates. Apart from payments through satellite banks (Arab banks), which carried out transactions for Sudanese banks, there were also Iran sanctions breaches relating to a Dubai-based petroleum company, which was effectively a front for an Iranian company.\(^{15}\)

Other notable fines for sanctions breaches relate to HSBC USB 1.2 billion in December 2012; ING Bank $619 million in June 2012 and Credit Suisse $536 million in December 2009.

The Arab Bank case, which dragged on for over 10 years, represents the first time a financial institution has ever been held civilly liable for aiding terrorism in a case brought under the Anti-Terrorism Act.\(^{16}\) On October 20, 2016, Arab Bank filed an appeal of a liability verdict in Linde v. Arab Bank, PLC with the Second Circuit Court of Appeals.\(^{17,18}\)

IV. De-Risking

Increased regulatory scrutiny, increased regulatory action and reputation risk have led to the phenomenon of de-risking or “de-banking” entire sectors, portfolios and clients in “high-risk” jurisdictions.

De-risking refers to instances where a financial institution seeks to avoid perceived regulatory risk by indiscriminately terminating, restricting or denying services to broad classes of clients, without case-by-case analysis or consideration of mitigation options.\(^{19}\)

A joint survey was undertaken last year by the Arab Monetary Fund, World Bank and the IMF into the causes and impact of withdrawal of correspondent banking relationships with banks operating in the Arab region. About 40 percent of respondents indicated that U.S. banks were leading in this withdrawal of correspondent banking relationships, followed by the U.K., Germany, the Kingdom of Saudi Arabia and UAE. Twenty percent of the banks have yet to find an alternative correspondent banking arrangement. The primal drivers for de-risking included:

a. Change in risk appetite of the foreign financial institution

b. Changes in legal, regulatory or supervisory arrangements of the foreign financial institution

c. Profitability of products

d. Sovereign risk rating changes

e. Concerns about money laundering/terrorist financing risks in Arab countries’ jurisdictions

About 40 percent of the respondents based in 17 Arab countries indicated that they experienced a significant decline or curtailment in their correspondent banking relationships mainly with respect to their NOSTRO accounts. Concerns about AML/CDD procedures, controls and cost of undertaking CDD, money laundering and terrorist financing concerns in the respective jurisdiction.\(^{20}\)
A. **Risks and Unintended Consequences**

Based on studying the regulatory landscape and assessing the costs and benefits, institutions are choosing to avoid high-risk clients and jurisdictions altogether rather than managing the risks such relationships would entail. This would push these unbanked entities and individuals to take recourse to the shadow banking system posing a huge systemic risk.

B. **Cost of Compliance**

Managing the high-risk relationships requires investing more in compliance, technology solutions and people. However, trained resources are scarce, technology is expensive and financial crime is getting savvier by the day. The findings of the global AML survey by KPMG and the cost of compliance survey by Thomson Reuters are reproduced below for reference.

These findings indicate that compliance costs have been rising year on year at a significant pace, consequently pushing up the cost of doing business. This prompts institutions to undertake a cost/benefit analysis as to whether the risks are worth it or whether they should de-risk.

**Anticipated increase in AML investment over the next three years.**

![Pie chart showing anticipated increase in AML investment over the next three years.](image)

It is estimated that Middle Eastern banks have spent significant sums in IT systems and compliance processes to comply with FATCA. It is pertinent to note that there is no personal tax regime in place in the Middle East, and that FATCA and CRS are seen as unnecessary costs being imposed on the banks in the jurisdiction.
C. **Way Forward**

Owing to de-risking, certain jurisdictions and people are facing financial exclusion or increased cost of doing business, not to mention the negative impact on global growth. Governments and regulators have acknowledged the need to improve guidance and supervision and working with foreign governments to improve their implementation of AML/CTF safeguards. Fundamental to this effort is the quality of CDD information held by financial institutions and in undertaking the appropriate level of diligence. This cannot be overemphasized in the Middle Eastern context. Financial institutions could require their respondent banks to undertake EDD measures discussed herein to obtain more comprehensive CDD information on their customers.

V. **Regulatory Requirements**

It is necessary to understand the regulatory expectations to enable countries to tailor their approach to meeting the regulatory requirements. FATF recommendations lay out the high level standards for countering the risk of money laundering and the financing of terrorism. These have been translated into local legislation by countries and FATF monitors the implementation of its standards by its members.

A. **FATF Recommendations**

The following recommendations relate to customer due diligence. Recommendation 1 refers to the risk-based approach, Recommendation 10 relates to CDD, and Recommendation 12 to PEPs.

**Risk-based approach:** Recommendation 1 requires financial institutions to identify, assess and take effective action to mitigate money laundering and terrorist financing risks.

**PEPs:** Recommendation 12 requires financial institutions to:

(a) Have appropriate risk management systems to determine whether the customer or the beneficial owner is a PEP.

(b) Obtain senior management approval for establishing (or continuing, for existing customers) such business relationships.

(c) Take reasonable measures to establish the source of wealth and source of funds.

(d) Conduct enhanced ongoing monitoring of the business relationship.

The recommendations require financial institutions to take reasonable measures to determine whether a customer or beneficial owner is a domestic PEP or a person who is or has been entrusted with a prominent function by an international organization. In cases of a higher risk business relationship with such persons, financial institutions are required to apply the measures referred to in paragraphs (b), (c) and (d). The
requirements for all types of PEP should also apply to family members or close associates of such PEPs.

B. National Legislation

Full and effective rollout of the standards in all countries is one of the fundamental goals of FATF. Consistent application of the standards is essential to make it more difficult for criminals and terrorists to penetrate the system. Despite the international expectations laid out by FATF, quality of implementation differs from country to country. FATF monitors the progress of its member countries’ implementation of the standards. FATF in collaboration with other international stakeholders works to identify vulnerabilities in countries with a view to protect the international financial system from misuse.

The countries of the West have been in the forefront of the fight against money laundering and terrorist financing. The U.S. dollar being the global reserve currency, most international transactions are denominated in U.S. dollars. Over the last few years, with the global face of terrorism and with changing typologies, there has been increasing emphasis for a more coordinated approach to the fight against money laundering and terrorist financing.

A brief analysis of the legislation in the U.S., EU, U.K., UAE and Kuwait is presented below for information.

The 1970 Bank Secrecy Act (BSA) is the primary AML law in the U.S. It was amended to include certain provisions of the 2001 USA PATRIOT Act relating to terrorist financing. The BSA requires every bank and savings institution in the U.S. to have written board approved program to assure and monitor compliance. The USA PATRIOT Act has far-reaching implications for U.S. and non-U.S. financial institutions conducting business in the U.S. Failure to comply can result in fines, sanctions and regulatory intervention apart from curtailment of business and costly litigation. Some of the key provisions are contained in Section 311 (Special measures for primary money laundering concerns), Section 312 (Correspondent and private banking accounts), Section 313 (Shell Banks), 319(a) (Forfeiture from a US correspondent bank account), Section 319(b) Record relating to correspondent accounts of foreign banks.

The EU has the system of EU Directives and Resolutions. Whereas the Directives operate as a direction to the member countries to transpose the Directive into national legislation, EU resolutions do not require any such transposition. They are automatically binding on the EU member countries.

The EU Third Money Laundering Directive (based on FATF’s 40 Recommendations) was adopted in 2005 and required member states to implement through national legislation by December 2007. The Proceeds of Crime Act, 2002 as amended, Money Laundering Regulations 2007 and the Terrorism Act 2000 contain the requirements of the U.K. AML/CTF regime. Further guidance to the regulated sector is provided by way
of the Joint Money Laundering Steering Group Guidance notes (approved by Treasury) and the Financial Crime Guide (issued by the FCA).

Federal Law no. 7 of 2014 (Combating Terrorism Offences) and Federal Law no. 9 of 2014 (AML amendment law) lay down the legislative framework in the UAE to combat money laundering and terrorist financing and terrorism related offenses. Federal Law no. 4 of 2002 on the criminalization of money laundering was amended by Federal Law no. 9 of 2014. The AML module of the DFSA Rulebook contains all the AML/CTF requirements. The DIFC does not have criminal jurisdiction and the UAE federal law applies in the DIFC as well. Any criminal investigation and resulting penalties would be performed by UAE authorities. SARs have to be filed with the Financial Intelligence unit of the Central Bank of the UAE (Anti-Money Laundering Suspicious Cases Unit – AMLSCU) with a simultaneous notification to the DFSA.

Kuwait’s Law no. 106 of 2013 regarding the combating of money laundering and the financing of terrorism establishes new and improved governing principles and standards to protect local financial institutions from being used to launder money and financing terrorism. The new law addresses the important provisions that were worryingly absent in the previous law. Kuwait has also put in place restrictive disclosure provisions relating to currency or negotiable instruments being carried out of Kuwait.23

C. Risk-Based Approach (RBA)

Countries have different legislative, political, cultural factors, which need to be considered in developing their local standards. Flexibility has to be given to the financial institutions to tailor the approach based on their understanding and analysis of the risks. Where the regulations are too prescriptive, there is the risk of compliance with the letter of the law not the spirit. Recognizing this, Recommendation 1 of the FATF recommendations advocate a RBA that countries and financial institutions should adopt whilst seeking to meet their AML/CTF obligations.1 The idea is that the risk-based approach should be flexible, fit for purpose, proportionate and effective. For a better understanding of the application of RBA, an understanding of the underlying components of risk is essential (briefly listed at Appendix A).

VI. Customer Due Diligence (CDD)

Customer due diligence entails gathering sufficient information about a customer to enable the institution to assess the nature and extent of risks including money laundering and terrorist financing risks, the customer exposes it to. A sound CDD program which factors in the ground realities and sensitivities in the Middle East and tailors its approach accordingly to conduct due diligence and will be able to adopt a pragmatic approach to managing risks whilst meeting regulatory expectations. De-risking is not the only option available to institutions in

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1 For example, in the UK, a financial institution may verify a customer’s identity electronically whereas another may seek to physically verify the photo identity and address proof. In Mauritius, the Code on Prevention of Money Laundering and Terrorist Financing, 2012, provides that a national identity card cannot be used as proof of identity unless it is required to be pre-signed.
high-risk situations. Enhanced due diligence (EDD) may hold the key that could help institutions retain the business whilst better managing risks. Given the different standards in various countries, for a global institution carrying on business in these jurisdictions, a one firm approach and a common policy following the highest standard would present a pragmatic approach. Else chasing the de minimis will leave institutions “constantly running to be at the same spot, like the Red Queen’s race,” having to deal with these regulatory gaps and attendant risks.

**The CDD measures required include:**

a. Identify the customer and verify their identity  
b. Identify the beneficial owner and take reasonable steps to verify their identity  
c. Understand and as appropriate, obtain information on the purpose and intended nature of the business relationship  
d. Conduct ongoing due diligence on the relationship and scrutiny of transactions undertaken throughout the course of the relationship to ensure that transactions being conducted are consistent with the institution’s knowledge of the customer, their business and risk profile and including where necessary, the source of funds.

**When is it to be undertaken**

CDD (Recommendation 10) requires countries to prohibit their financial institutions from maintaining anonymous accounts and accounts in obviously fictitious names. CDD measures are required to be undertaken when:

a. Establishing a business relationship  
b. Undertaking an occasional transaction above the designated threshold or are wire transfers in circumstances covered by the interpretative guidance to Recommendation 16  
c. There is a suspicion of money laundering or terrorist financing  
d. The financial institution doubts the veracity or adequacy of previously obtained customer identification data

**How much CDD is required or how much is too much?**

Based on the analysis of the overall risk posed by a customer, the level of due diligence undertaken may be categorized as simplified, standard or enhanced. This is based on the risk assessment undertaken by the institution.

Simplified due diligence (SDD) is applied in cases where the risk is assessed to be low; and EDD in high-risk cases. Examples where SDD and EDD may be applied are given below.

Firms must have reasonable grounds for believing that the customer, transaction or product relating to such transaction falls within one of the categories set out in the regulations, and may have to demonstrate this to their supervisory authority. In practice, SDD means not having to verify the customer’s identity, or, where relevant, that of a beneficial owner, nor

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2 The *Red Queen’s race* is an incident that appears in Lewis Carroll’s *Through the Looking-Glass* and involves the Red Queen, a representation of a *Queen in chess*, and Alice constantly running but remaining in the same spot.
having to obtain information on the purpose or intended nature of the business relationship. However, it is still necessary to conduct ongoing monitoring of the business relationship. Clearly, for operating purposes, the firm will nevertheless need to maintain a base of information about the customer. There is no exemption from the obligation to verify identity where the firm knows or suspects that a proposed relationship or occasional transaction involves money laundering or terrorist financing, or where there are doubts about the veracity or accuracy of documents, data or information previously obtained for the purposes of customer verification.

A firm must apply EDD measures on a risk-sensitive basis in any situation which by its nature can present a higher risk of money laundering or terrorist financing. As part of this, a firm may conclude, under its risk-based approach, that the information it has collected as part of the customer due diligence process is insufficient in relation to the money laundering or terrorist financing risk, and that it must obtain additional information about a particular customer, the customer’s beneficial owner, where applicable, and the purpose and intended nature of the business relationship. The extent of additional information sought, and of any monitoring carried out in respect of any particular business relationship, or class/category of business relationship, will depend on the money laundering or terrorist financing risk that the customer, or class/category of business relationship, is assessed to present to the firm. When someone becomes a new customer, or applies for a new product or service, or where there are indications that the risk associated with an existing business relationship might have increased, the firm should, depending on the nature of the product or service for which they are applying, request information as to the customer’s residential status, employment and salary details, and other sources of income or wealth (e.g., inheritance, divorce settlement, property sale), in order to decide whether to accept the application or continue with the relationship. The firm should consider whether, in some circumstances, evidence of source of wealth or income should be required (for example, if it is from an inheritance, see a copy of the will). The firm should also consider whether there is a need to enhance its activity monitoring in respect of the relationship. A firm should have a clear policy regarding the escalation of decisions to senior management concerning the acceptance or continuation of high-risk business relationships.

The U.K. Money Laundering Regulations prescribe three specific types of relationship listed below in respect to which EDD measures must be applied:

i. Customer has not been physically present for identification purposes
ii. A correspondent banking relationship
iii. A business relationship or occasional transaction with a PEP

Based on the information gathered, the customer profile is generated. Effectiveness of AML monitoring is dependent on the quality of customer information gathered by an institution. Institutions should be able to demonstrate how they have reached the conclusions they have reached and ensure that the customer information they hold remains current. Organizations seek to achieve this through various means. Some rely more on technology and others through manual recordkeeping. This depends on the size of the institution and the nature of its business. There cannot be a one-size-fits-all approach and to that end, this is an objective assessment of an otherwise subjective exercise.
VII. Elements of a CDD Program
The main elements of a CDD program are:

a. Full identification of the customer and business entities including source of funds and source of wealth when appropriate
b. Development of transaction and activity profiles for each customer
c. Definition and acceptance of the customer in the context of the products and services
d. Assessment and grading of risks that the customer presents
e. Account and transaction monitoring based on the risks presented
f. Investigation or examination of unusual activity
g. Documentation of findings

VIII. Challenges in the Middle East and Suggested Approach
There are practices and customs typical to the Middle East which pose difficulties where financial institutions seek to undertake due diligence on their Middle Eastern customers. Of the various countries in the Middle East, some member countries of the GCC have made progress in addressing the FATF deficiencies. It is interesting to note that out of the top 100 companies in the Arab world, over 85 percent are based in the GCC.26

Some of the due diligence challenges and suggested alternatives are discussed below. These alternatives will help a financial institution develop a more targeted and comprehensive CDD thereby mitigating regulatory risk.

A. Customer Identification—Individuals and Entities
The idea behind the regulations is to identify the natural living persons who own or control an enterprise, so that effective action can be initiated by financial institutions to mitigate the risk that a regulated firm may be used commit financial crime. It is useful to know the naming conventions for Arabic names.

Whereas in the West, the naming convention followed is “First Name, Middle Name, Last Name” or “Given Name and Last Name,” in the Middle East, it is a full chain of names which details the lineage. Shorter versions would follow the convention of “First Name, Father’s name, Last name.” It is to be noted that naming practices differ among Arab cultures. It is important to understand the local names and naming cultures as well for proper customer identification.3 Traditional Arabic names consist of five parts: “ism, kunya, laqab, nasab and nisba.”

Ism: Given name; Kunya: honorific name, say “Umm/Oum” ‘mother of’ or “abu” – ‘father of’; Nasab – son/daughter of (takes on father’s name) – Ibn/bin or bint as the case may be; Laqab: is an epithet, usually a religious or descriptive one; and Nisba: a surname or family name.27

3 In some parts of India, some people use only their first name and father’s name. Hence, they use their father’s name as their last name.
The names would typically read: “XYZ Bin/Bint ABC Al DEF.” Bin stands for “son of” and Bint for “daughter of; Ibn also means son of; Bin is spelt in some countries as Ben; Abu means “father of.” Al denotes the family. For example, Princess Jawhara Bint Fahd Bin Abdulaziz Al Saud, refers to Princess Jawhara daughter of Fahd who is the son of Abdulaziz and from the Saud family.

Jawhara bint Saad bin Abdul Muhsin Al Sudair refers to Jawhara daughter of Saad who is the son of Abdul Muhsin of the Sudair family. It is a usual practice to refer to three to four generations in a person’s name to identify them more accurately. Arab women do not take their husband’s name after marriage. Arabs in the West have adopted the western naming conventions and are increasingly adopting shorter names.

Arab names can be spelt differently and there can be transliteration challenges. For example, Mahmoud, Mehmood, Mahmood or Mohammed, Muhammad, Mohammad, Mohamad, Muhammed, Mehmet or Mehmed.

B. Name, Address and Date of Birth
Given the naming challenges, it is important to get more detailed information on the customer and their family so that the customer is identified correctly. Interestingly, in the Middle East it is not unusual to find a lot of people born on January 1. This is because in days gone by, it was not usual practice to obtain a birth certificate and childbirth at home was common. Thus, when it was time to apply for a passport, typically the date of birth provided on record used to be January 1.

In addition, in the Middle East, mail delivery is to P.O. boxes and not street addresses. However, for verification of physical address, P.O. box numbers cannot be accepted. Utility bills do not specify the residential address where the utility is supplied. A P.O. Box cannot be accepted as a proof of physical address. Under the circumstances, it would be appropriate to have a documented record of house visit by the relationship manager, obtain a copy of the residential lease agreement, a confirmation of address from another bank or obtain a confirmation of residential address from the employer.

C. Identification of Beneficial Owners
The identification of beneficial owners is not as straightforward as it seems, especially in the Middle East. Whilst identifying controllers, care must be exercised to identify the foreign shareholders as well, since in reality they could be the real persons having control. Use of side agreements and Memorandum of Understanding (MOU) are not uncommon. Typically, the local partner could be a PEP. Institutions should undertake due diligence on both the local partner and the foreign shareholders or persons having control over management of the business.

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4 For example, all companies organised in the UAE are required to have a minimum of % local ownership except in case of free zone companies where foreign shareholding up to 100% is permitted. General partnership interests must be held by UAE nationals and foreign shareholders may hold up to 49% in LLCs.
The Middle East is generally a tax-free jurisdiction. There are no personal or corporate income tax or inheritance taxes except in limited circumstances, e.g. oil companies and foreign companies. Audited financial statements are not easily available from businesses except after significant persuasion and persistence. Opaque ownership structures and poor reporting practices across the Middle East render due diligence difficult for institutions. Peeling through the various layers of corporate structures can be very time consuming and expensive. However, this is necessary to identify the ultimate beneficial owners or persons in control. Hence, the need for a risk sensitive approach that factors the cost and scope.

It is pertinent to note that in the U.K. and U.S., institutions identify the controllers or persons who own or control (directly or indirectly) more than 25 percent of the shares or voting rights of the entity. This was lowered to 10 percent in high-risk cases by most institutions. With FATCA and CRS, the identification threshold has been lowered to 10 percent. UAE Federal AML legislation requires identifying partners and shareholders holding more than 5 percent of the capital of a legal entity.

D. Politically Exposed Persons
Identification of PEP remains a challenge in the Middle East. Exclusive reliance on commercial database is a risky approach as these are not necessarily comprehensive or reliable. These should at best be treated as additional sources of information. With constant changes, these cannot be relied on as being up-to-date. It should be supplemented by independent inquiries and checks. Institutions must ask difficult questions to their customers and obtain information about any politically exposed customers or beneficial owners. Customers should be asked to confirm whether they are PEPs. Information should be sought about their family members. Political connections of customers and associated individuals should be obtained and documented by the institutions. Reliance on PEP databases should be supplemented by open source checks and inquiries. The primary source of information must be the customer. Customer linkages should also be continuously updated to ensure that attendant risks are monitored in a timely manner. In March 2017, the FCA issued a guidance consultation paper on the treatment of PEPs under the money laundering, terrorist financing and transfer of funds (information on the payer) regulations. This lays out guidance on how firms can take a risk based, proportionate and differentiated approach to meeting their obligations under the regulations. The Financial Crime Guide of the FCA also provides some useful guidance in that regard.

The risk of dealing with PEPs being the proceeds of bribery and corruption being used in the relationship, institutions are moving toward following a policy of “once a PEP, always a PEP.” Following the higher standard saves time in finding out when someone became a PEP and when they ceased to be one. In the Middle East it is not uncommon for people in power to also carry on their own successful businesses. It is important to find out sufficient background information about the PEP, their linkages, establish their SOF and SOW whilst analyzing the risk posed by these relationships.
E. **Source of Funds and Source of Wealth**

Source of funds refers to the source of investible funds to be used in the business relationship or occasional transaction envisaged and source of wealth describes how the customer or beneficial owner acquired his wealth. Source of funds and source of wealth present one of the major challenges to financial institutions in the Middle East for reasons explained below.

Given the opacity, reluctance to volunteer information and the culture of secrecy, institutions have a challenging task. The first line of business has a significant responsibility in this regard as they own the business relationship. In case of high-risk relationships and in the case of PEPs, institutions should conduct EDD. One of the key components of EDD is establishing the source of wealth. Institutions need to satisfy themselves on a risk sensitive basis, that the funds dealt with do not represent proceeds of crime. Institutions need to consider available information and evidence and form a judgement as to whether the source of funds and source of wealth are consistent with the information provided by the customer or whether they throw up more questions.

In a tax-free jurisdiction with limited government or regulatory reporting (and given the regional challenges), independent verification of source of wealth becomes more difficult. There cannot be a blanket approach in such cases. Each case must be looked at holistically, considering all the individual risk components. In such cases, detailed and appropriate documentation of the source of wealth is important.

Appendix B contains a possible approach to documenting the source of wealth and EDD. This would greatly assist in enhancing the quality and completeness of CDD information held by the financial institutions and in meeting regulatory expectations. Depending on the overall quality of CDD information and the relative risk appetite, institutions may decide to retain profitable Middle Eastern customers or accounts even in high-risk businesses. Institutions must approach due diligence with reasonable skill, care and caution depending on the circumstances of each case. The position to that end is similar to the expectations of an auditor—"An auditor is a watchdog and not a bloodhound." ⑤

Institutions may consider denying access to specific products or services in high-risk cases depending on the nature of risk and available information/evidence. Keeping the risk sensitive approach in mind, correspondent banking is moving from KYC to know your customer’s customer. It is important to know the product offering of the client, the jurisdictions dealt with, AML/CTF controls, the reputation of the customer, resources committed to compliance, the frequency of customer information updated, the type of customer, the overall customer concentration based on product, and quality of regulatory supervision, etc. It is important to know the degree of regulatory oversight that the institution in question is subject to and when and what were the

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⑤ Lopes L. J. in Re Kingston Cotton Mill Co. (No. 2) [1896] 2 Ch 279 CA.
findings of the most recent regulatory visit. Though not prescribed under law, banks are increasingly moving in this direction in all eagerness to mitigate risk.

F. Cultural Factors and Data Privacy

Despite non-disclosure agreements, individuals and businesses generally remain hesitant to disclose personal or business information. There is discomfort answering probing questions. There is a great discomfort about disclosure of confidential information and legal remedies in case of breach of confidentiality. The UAE does not have specific federal laws on data privacy. However, reliance is placed on other pieces of legislation. Article 31 of the UAE Constitution provides for freedom of communication and secrecy of such communication. Articles 378 and 379 of the Federal Law no. 3 of 1987 (the Penal Code) set out statutory offenses and punishment for publication of private matters or the unauthorized disclosure of private information. Federal Law no. 5 of 1985 (the Civil code) provides that a person may be liable for causing harm, including those resulting from unauthorized use or publication of any private or personal information of another person. This includes cases where industrial or trade secrets of an employer or third party are disclosed without consent. The UAE labor law, the penal code and industry specific laws cover data protection in the region. The Dubai International Financial Centre (DIFC) has its own specific Data Protection Law applicable to firms within the financial center. The law is comparable to EU standards.

Throughout the Middle East, Sharia or Islamic law has a significant influence on the legal code. In the absence of specific national law, cases may be decided under Sharia law. Under Sharia law, disclosure of information without the data subject’s consent is prohibited except when such disclosure is of public interest. Penalties for breach range from imprisonment and/or a fine. Consequently, non-disclosure as opposed to protecting confidentiality of data is considered a safer option. This also creates difficulties whilst gathering information on a customer and explains general reluctance to provide information.

Lavish gifts and entertainment are considered normal in a culture driven by relationships and integral to the business. It is customary for businesses to reciprocate. This creates conflicts of interest and Bribery Act and FCPA compliance issues for Western businesses.

G. Islamic Banking

Islamic banks operate in more than 70 countries and with the exception of Iran and Sudan, they co-exist with conventional banks. As of October 2014, there were nearly 400 Islamic banking institutions worldwide with assets estimated to have reached more than $1.4 trillion. The assets of Islamic financial institutions are currently concentrated in the Middle East (mostly in Iran and member countries of the GCC) and in Southeast Asia (mainly in Malaysia) and constitute a small but growing sector of the overall financial industry. The main principle of Islamic finance is usury free financing in addition to avoiding excessive risk or speculation, ethical investing by avoiding specified industries or business sectors and risk sharing. Islamic finance products are typically based on the principle of risk sharing. For example, Mudarabah financing is an investment partnership contract with profit sharing by partners and loss being borne by the provider of capital alone. Musharakah financing is an
investment partnership contract with profit sharing in a predetermined ratio and losses being borne in proportion to the capital contributed. Murabaha financing is a case of cost-plus financing of commodities or assets where the bank buys the goods required by the customer and re-sells them at a mutually agreed mark-up on the purchase price. Whereas in conventional banking the other party to the transaction is the customer, in Islamic banking the other party is the partner. This literal interpretation does raise the question whether FATF regulations are applicable to Islamic banking. An analysis of the substance of the transaction would make it abundantly clear that there may be differences in “form” but in substance, the “partner” is the customer on whom due diligence must be undertaken. There is no evidence to suggest that the AML/CTF risks in Islamic Banking are different from conventional banking.

While the money laundering (ML)/terrorist financing (TF) risks of conventional financial sector activities have been the subject of numerous studies and publications on methods, trends and typologies prepared by FATF and FATF-style regional bodies (FSRB) and their members, there are no corresponding studies in the field of Islamic finance. No ML/TF typologies or indicators related to Islamic financing have been published by AML/CTF agencies or FSRBs, and there is no common understanding of the typologies and techniques used for ML/TF in Islamic banking.

Some specific features of Islamic banking could present vulnerabilities that require a different approach in the design of AML/CTF regimes. The following areas merit further study:

(i) Specific nature of the relationship between a financial institution and its customers

(ii) Modus operandi of Islamic financial institutions and the complexity of certain transactions

(iii) Management of the high volume of Zakat by Islamic financial institutions

Some products may require greater analysis and understanding though. For example, Murabaha transactions, which interpose a commodity trade, could be used by criminals. Furthermore, the use of special purpose vehicles (typically offshore domiciled), is very common in Islamic financing.

Another factor common to the Middle East is charity or zakat. Zakat is an important pillar of Islam. Zakat is intended to be a poverty reduction and income redistribution scheme. It is the customary giving of a specified portion of one’s wealth to charity. Sadaqat is voluntary charity. Zakat and Sadaqat funds are collected in large volumes, managed and disbursed by Islamic institutions. Such high volume of activities in the absence of sound ML/TF risk management processes can increase the exposure of banks to serious risks, especially reputational, operational, compliance and concentration risks. The U.S. Department of the Treasury in June 2008 designated the Kuwait-based Revival of Islamic Heritage Society (RIHS) for providing financial and material support to al-Qaeda and al-Qaeda affiliates, including Lashkar e-Tayyiba, Jemaah Islamiyah, and Al-Itihaad al-Islamiya. RIHS has also provided financial support for acts of terrorism.31
Arab bank is a case in point where it was alleged that the bank provided material support to Hamas by providing banking support to a dozen Hamas controlled organizations (including charities and zakat societies).

H. Audit and Financial Statements

Most of the Middle East is generally a tax-free jurisdiction. The audit of small businesses is not mandatory in most jurisdictions. They do not get their financial statements audited unless they have a special requirement, such as a bank borrowing or a loan covenant. In the UAE, for DIFC incorporated companies, audit is mandatory. In mainland UAE, companies are required to file their audited accounts with the Department for Economic Development. However, third parties do not have access to these financials. In Kuwait, the government website does not have any register of companies’ data. The Kuwait Chamber of Commerce has a companies and institutions registry, which features names, dates of registration, addresses and company registration numbers. Financial statements generally available even on Zawya (a Thomson Reuters company) are outdated. Therefore, due diligence remains highly dependent on the strength of relationships. The validation of information requires patience, greater dependence on relationships or contacts and local introductions. Reliance has to be placed on interviews especially where little or no information is available on businesses. In specific cases, independent third-party reports may be requested.

I. Adverse Media: Meta Search Engines, Limitations on Information Gathering

Metasearch engines and translate utilities are helpful in identifying and verifying information. Given the name challenges and difficulties in identifying linkages, very often reliance is placed on providers of PEP data. However, reliance cannot be placed on these completely. It is useful to check using metasearch engines such as Dogpile, Duckduckgo, Google, Lexis Nexis, Webcrawler or Yandex. Google image or Yahoo image are useful for image checks and Tineye is a useful website for reverse image checks. Very often, information available in the Arabic language media is not available in English. In case there are Arabic names, it is useful to check only on a combination of first and last names and eliminate false positive matches. If the exact full name with all extensions is used, this may not generate relevant hits in an open source check. It may be useful to translate names into Arabic and check using the meta search engines for possible hits. Considering data privacy challenges in the region, information may not be easily available.

J. Transparency, Bribery and Corruption

The Middle East continues to be recognized as a highly corrupt region with five of the 10 most corrupt countries in the world are from the region. Failure to fight corruption is reflected in the sharp drop of most Arab countries in the Corruption Perception Index 2016. Gulf States have dropped in the index, as ruling families continue to hold power politically and economically, public freedoms are oppressed, and an active independent civil society is absent. The military involvement of these states in regional coalitions has raised the levels of secrecy and ambiguity of public expenditure and state budgets. Transparency and accountability are major concerns. Business is
substantially relationship driven and the use of intermediaries or agents is very common. In many cases, the lines between public and private interests are not clear. Political office is held by many sheikhs who continue to run their successful businesses. Countries such as Saudi Arabia and Oman are absolute monarchies whereas Qatar, Kuwait and Bahrain are constitutional monarchies where members of the royal family hold key ministerial positions or positions of power in sovereign wealth funds. “Wasta” or cronyism or the ability to get things done by favoritism as opposed to merit or use of contacts for getting things done is common in the Middle Eastern region. Hence, it is important to gather as much information on the client as possible, including political connections or affiliations. Institutions should consider obtaining third-party due diligence reports, where appropriate.

K. Regional History

Regional history can provide useful information. For example, in the latter part of the 18th and early 19th century, Kuwait was a major international trading port of call and pearl was the only natural resource. This changed after oil was discovered in 1938. After the invasion of Kuwait in 1990, many wealthy residents fled the country. Very often, obtaining documentary evidence becomes very difficult and circumstantial evidence must be gathered or relied upon. It is not unusual to be informed that records were lost at the time of the Iraqi invasion. About 85 percent of the citizens are Muslim of whom about 70 percent are Sunni and 30 percent are Shia. There are different interpretations of Sharia law amongst Shias and Sunnis. Furthermore, there are differences in inheritance laws amongst these sects. Knowledge of these nuances will enable more meaningful CDD.

The UAE federation was constituted in 1971 and comprises seven emirates. Islam is the main religion and it was a major trading port and pearling center until oil was discovered. Today the UAE is a major tourist and business center and one of the stable countries in the region. It is a hereditary federal absolute monarchy with Islam as the main religion. Its population is ethnically diverse with a large expatriate base.

In strife torn countries, due diligence will be quite difficult. Very often, local history can provide useful background information. The key vulnerabilities in the Middle East are bulk cash smuggling, trade-based money laundering, hawala and vulnerabilities of free trade zones in the region.

L. Commissioning Independent Third-Party Reports

It may be useful to seek an independent internal or external intelligence report to supplement the institutions’ knowledge of the customer and source of wealth especially in high-risk cases. This is especially useful where very little open source information is available (i.e., there is limited digital footprint of the customer or the veracity of information in the public domain is questionable). These accounts will have to be subject to regular monitoring and follow up and any adverse media information relating to criminal conduct should be fully examined. Local knowledge in high-risk cases is invaluable.
M. **Ongoing Monitoring of the Relationship**
A holistic view of the customer relationship should be taken by the institution, given the challenges, risks and opportunities. Considering the jurisdiction risk and GCC non-equivalence, these countries continue to be rated as high risk. Transaction monitoring taking into account the source of funds and source of wealth, expected activity and up-to-date customer information is crucial. Senior management should be closely involved in the resolution of alerts in high risk and PEP cases including explanations from business and/or corroboration from the customer. Good quality CDD information will enable a more focused customer monitoring and review.

N. **Purpose and Intended Nature of the Relationship**
Very often, businesses are keen on onboarding a customer without specific products in mind. The money laundering risk must be assessed keeping in mind the purpose and intended nature of the relationship. For example, a basic bank account presents a different risk to one where online bank transfers can be affected and a private banking relationship. The importance of this cannot be overemphasized. Where there are multiple layers in the ownership structure or corporate directors/secretaries, the rationale for such structures should also be inquired into and documented.

O. **Other Factors**
In the Middle East, UAE, Qatar and Saudi Arabia have updated their AML/CTF legislation and have invested significantly in improving the regulatory framework. Kuwait came off the observer status in 2013 after amending its laws to criminalize terrorist financing. UAE updated its Federal Law no. 4 on money laundering and terrorist financing in 2014 to bring it in line with international laws. However, geographical proximity to less stable countries in the region makes the GCC vulnerable to money laundering and terrorist financing. Furthermore, there are not many typologies or history of ML/TF cases available. However, recently MENAFATF has begun publishing typologies reports specific to the region. This is a positive development.\(^{32}\) The DFSA published its Trade Finance 2016 report (Trade based Money Laundering thematic review) in October 2016. This contains some useful guidance that firms could incorporate as part of their systems and controls.

P. **Future**
CDD is not prescriptive, but dynamic. Institutions must develop their records of customer history. Sharing of typologies through the financial intelligence units will be useful in this area. There is a need for increased information sharing amongst institutions without compromising confidentiality. There is a shift toward shared KYC between financial institutions and increased use of technology. These changes are here to stay as businesses adapt to the CDD challenges in a dynamic business environment.
IX. Conclusion

Considering the foregoing, in the Middle East a tick-box approach to CDD will not work. Considering jurisdiction risk, enhanced due diligence will have to be undertaken. There is a lack of reliable information, including data and metrics, at both the state and regional level as to the scale, scope and nature of AML/CTF activity. Structural impediments include cash-based economies and existence of diverse payment systems including informal value transfer systems, weak regulation of financial institutions, deficiencies in enforcement of existing AML regulations and deficiencies in corporate governance.

With the EU Fourth Money Laundering Directive, effective June 26, 2017, EU institutions will have to undertake their own jurisdictional risk assessments for non-EU jurisdictions in the context of their own activities, products and risk appetite, and the EU equivalent jurisdictions list is being withdrawn. Once a jurisdiction is identified as high risk, all customers from that jurisdiction will have to be subjected to EDD. Third parties in high-risk jurisdictions cannot be relied on for introductions. However, banks may place reliance on their group units. This will in all likelihood, lead to a more conservative approach. It would not be surprising if institutions were to categorize the entire Middle East as high-risk jurisdictions and apply EDD requirements in all cases without exception, significantly pushing up compliance costs and the cost of doing business. With privacy concerns and secrecy surrounding business in the Middle East, de-risking is likely to increase.

On the other hand, sovereign funds of the GCC economies continue to remain significant investors worldwide.33 There are huge business opportunities as Iran emerges out of the sanctions regime. Iran is the biggest new market to enter the global economy in over a decade, offering significant opportunities in most sectors, with potential to grow as the market in Iran expands.

“A more balanced approach to risk that avoids mass de-risking is achievable but requires the acceptance of a new paradigm for Customer Due Diligence and EDD. Institutions must recognise that the traditional risk assessment categorisation of low-medium and high risk customers does not accurately reflect enterprise wide risk on an on-going basis. It merely provides a static point-in-time view of customer risk rather than capturing hidden risk in a dynamic environment where customer, web and other information sources change daily.

In the new paradigm technology drives dynamic risk management model with a daily surveillance model capable of screening entire customer databases for sanctions, PEPs and REPs (Reputationally Exposed Persons) found in negative media. The ability to efficiently identify REPs obviates the need for wholesale de-risking. Only institutions willing to embrace the new paradigm will discover an optimal balance of risk mitigation and efficiency that enables them to maintain and monitor profitable accounts in high risk businesses while technology does the heavy lifting to keep compliance costs within reason.”34
Appendix A
Components of RBA

A one-size-fits-all approach to fighting financial crime will not work. Countries are dissimilar on account of geography, political and economic climate and the state of economic development, regulatory frameworks, etc. Consistent implementation of global standards of AML/CTF require an in-depth understanding of the components of a RBA so that the approach can be tailored to suit ground realities. It would be useful to briefly touch upon the components of a RBA for a better analysis and understanding of the requirements.

1. **Geographical risk**

   This refers to jurisdiction risk posed by the country of residence or incorporation of the customer and the geographical linkages on account of locations where business is conducted with suppliers or where products and services are provided or the place of origin or residence of persons in control of the enterprise. In practice, institutions refer to a variety of information sources such as the FATF list of non-cooperative countries and territories, Basel Institute of Governance’s Basel AML index, Transparency International’s Corruption Perception Index, HM Treasury Sanctions lists, MoneyVal evaluations, etc. The FCA issued a list of high-risk jurisdictions in August 2014, which was subsequently withdrawn. However, most firms continue to refer to this list as well in addition to the other sources of country risk information. The EU White list of equivalent jurisdictions, which has been done away with under the Fourth EU Money Laundering Directive. Financial institutions are expected to undertake their own risk assessments on third country jurisdictions in the context of their business, products and client profile.

2. **Customer risk**

   Institutions analyze the risk posed by various types of customers such as individual, corporate, trusts, PEPs and regulated or unregulated entities, pooled accounts or omnibus accounts, etc.

3. **Product risk**

   Financial institutions are required to analyze on a risk sensitive basis the risk posed by their products. For example, investment funds available for daily subscription and redemption pose a different risk from close-ended lock-in funds; products with no apparent economic purpose, correspondent banking, trade finance, money transfer services, etc.

4. **Delivery channels**

   Financial institutions should consider the risks posed by their product delivery channels. For example, different risks are delivered by non-face-to-face relationships, dealings through regulated/unregulated intermediaries and pooled accounts held by intermediaries including gatekeepers, private banking, etc.
Financial institutions are required to establish a source of wealth of their clients, including details of how the funds were acquired, to assess whether the actual transaction pattern is consistent with the expected transaction pattern and whether the transactions or activities lead to any suspicion of money laundering.

The matrix below is intended as a guide to obtain relevant supporting documentation and undertake enhanced due diligence (especially when it is not possible to collect supporting documentation) to establish the source of wealth or income. Given the challenges in the Middle East, it becomes difficult to obtain documentary evidence in all cases. Here appropriate documentation of the source of wealth can help mitigate the risk. Absence of evidence renders independent verification difficult. In such cases, this should be escalated to the onboarding committee or the high-risk customer committee or the like of which the MLRO should be a member. Depending on the kind of supporting evidence available, available information, products and services offered may be restricted keeping in mind the attendant risk. Relevant evidence of public internet searches, website, trade register, company profile/ any other information obtained when conducting enhanced due diligence should be retained on record.

<table>
<thead>
<tr>
<th>Nature of source of wealth or income</th>
<th>Supporting documentation</th>
<th>Factors to be considered for Enhanced Due Diligence, where supporting evidence is not available</th>
<th>Detailed note to be provided by the business [Relationship manager (RM); private banker; first line of defence]</th>
</tr>
</thead>
</table>
| Income from employment/ performance incentives | • Salary Certificate  
• Income Statement self-attested copies  
• Tax Returns  
• Copy of Bank Statements/ Pay slip | • Employer’s profile; information available in public domain  
• RM’s knowledge of customer profile  
• Individual’s profile / resume  
• Independent market reports issued by global recruitment consultants  
• Information from competitors | • Employer details/ nature and size of business  
• Professional qualification/ expertise/ education qualifications of the customer  
• How long has the customer worked with the employer and position held  
• Specifics of amounts – salary/ bonus/ incentives  
• Is the above amount reasonable in context of profession and market intelligence obtained? |
<table>
<thead>
<tr>
<th>Nature of source of wealth or income</th>
<th>Supporting documentation</th>
<th>Factors to be considered for Enhanced Due Diligence, where supporting evidence is not available)</th>
<th>Detailed note to be provided by the business [Relationship manager (RM); private banker; first line of defence]</th>
</tr>
</thead>
</table>
| Professionals/ Consultants          | • Audited Financial Statement  
• Business Profile  
• Copy of Bank Statements | • Reference checks from known contacts in market  
• Personal visit  
• Professional society membership  
• RM’s knowledge of customer profile  
• Other information available in public domain | • What is the client's area of expertise?  
How long has the client been in this profession?  
Does the client operate from an office or place of business separate from his residence?  
Does the client have any other partners or business associates?  
What has been the annual revenue/income of the client from this profession? |
| Self Employed / Business Ownership  | • Audited Financial Statement  
• Self-attested copies of the Financials  
• Sample of Trade Documentation or any other supporting document | • Company Profile  
• Company website information  
• Trade register  
• Chamber of Commerce registration  
• RM’s knowledge of the customer  
• Reference checks from known contacts in markets  
• Personal visit  
• Information available in public domain  
• Third party due diligence reports | • Nature of Business/ Industry category  
• Client’s ownership percentage  
• When and how was the business established  
• What has been the approximate turnover and profitability of business for the last 3 to 5 years  
• Number of Employees/ Number of Locations/ Details of any international presence  
• Any further details on Bankers/ Auditors/ Solicitors |
| Inheritance                         | • Copy of will with Grant of Probate (including value of estate)/ Lawyer’s confirmation | • Reference checks from known contacts in market  
• Information available in public domain | • Inherited from  
• Date received  
• Total amount  
• Please provide sufficient background |
<table>
<thead>
<tr>
<th>Nature of source of wealth or income</th>
<th>Supporting documentation</th>
<th>Factors to be considered for Enhanced Due Diligence, where supporting evidence is not available</th>
<th>Detailed note to be provided by the business [Relationship manager (RM); private banker; first line of defence]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retiree / Housewife / Student</td>
<td>• Copy of bank statement</td>
<td>• RM’s knowledge of customer profile</td>
<td>information including source of wealth of the person whose monies have been inherited</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• How long has the client been a housewife / retiree &amp; what was the client’s previous occupation? Do the funds proposed to be invested or used in the relationship belong to some other person?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• If client is a student then details of income coming from other person (identity, occupation and income source)</td>
</tr>
<tr>
<td>Individual’s wealth from Sale of company</td>
<td>• Copy of contract/Letter from Chartered Accountant</td>
<td>• Media coverage</td>
<td>• Name of company</td>
</tr>
<tr>
<td></td>
<td>• Copy of bank statement</td>
<td>• Information available in public domain</td>
<td>• Date of sale</td>
</tr>
<tr>
<td></td>
<td>• Tax returns</td>
<td>• RM’s knowledge of customer profile</td>
<td>• Total amount</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reference checks from known contacts</td>
<td>• Principal activity of company</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Applicant’s share of sale proceeds</td>
</tr>
<tr>
<td>Redemption of Investments/ Savings and/ or Sale of Shares</td>
<td>• Copy of bank statement</td>
<td>• RM’s knowledge of customer profile</td>
<td>• Date funds received</td>
</tr>
<tr>
<td></td>
<td>• Redemption Certificate</td>
<td></td>
<td>• From which company</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Total amount</td>
</tr>
<tr>
<td>Gift</td>
<td>• Copy of bank statement</td>
<td>• RM’s knowledge of customer profile</td>
<td>• Date received</td>
</tr>
<tr>
<td></td>
<td>• Donor’s source of wealth</td>
<td>• Reference checks from known contacts</td>
<td>• Total amount</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Reason for gift</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Relationship to applicant</td>
</tr>
<tr>
<td>Nature of source of wealth or income</td>
<td>Supporting documentation</td>
<td>Factors to be considered for Enhanced Due Diligence, where supporting evidence is not available</td>
<td>Detailed note to be provided by the business [Relationship manager (RM); private banker; first line of defence]</td>
</tr>
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<td>-------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Property sale                       | • Copy of contract/ Letter from Real Estate Agency/ Lawyer  
• Copy of bank statement  
• Tax Return  
• Relationship to client  
• If the amount is reasonable in context of family wealth profile  
• Copy of Gift deed | • RM’s knowledge of customer profile  
• Reference checks from known contacts  
• Information available in public domain | • Address of property  
• Date of sale  
• Total amount |
| Loan                                | • Loan Agreement  
• Loan Statement | | • Date of loan  
• Total amount  
• Name & nature of loan provider |
| Legal Entities - Corporate (Public/ Private) | • Audited Financial  
• Self attested copy of the abridged financial account | • Company Brochure/ Profile  
• Company website  
• Trade register  
• RM’s knowledge of customer profile  
• Reference checks from known contacts in markets  
• Personal visit  
• Information available in public domain | • Nature of Business/ Industry category  
• When and how was the business established and profile of business owners  
• What has been the approximate turnover and profitability of business  
• Number of Employees/ Number of Locations/ Details of any international presence  
• Any further details on Bankers/ Auditors/ Lawyers |
| Other Income                        | • Depending on the source of other income  
• Copy bank statements showing income | • RM’s knowledge of customer profile  
• Reference checks from known contacts | • Nature of the income  
• From whom received |
<table>
<thead>
<tr>
<th>Nature of source of wealth or income</th>
<th>Supporting documentation</th>
<th>Factors to be considered for Enhanced Due Diligence, where supporting evidence is not available)</th>
<th>Detailed note to be provided by the business [Relationship manager (RM); private banker; first line of defence]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>• Tax returns</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Copy of Portfolio Statement</td>
<td></td>
</tr>
</tbody>
</table>
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