



Банк России

CENTRALIZED IT SYSTEM FOR RISK RANKING OF COMMERCIAL BANKS' CUSTOMERS (KYC PLATFORM)

Bank of Russia

2024





FATF
AML/CFT Standards



Information on risk
levels of all customers



Bank of Russia

Requirements for banks:

- Customer identification
- Customer transaction risk assessment

Risks faced by banks when assessing their customers' risks:

- Unable to see their customers' transactions in other banks. High-risk customers conduct transparent transactions through one bank, and suspicious transactions through another;
- No information on customers' history during the onboarding process. High-risk customers switch between banks;
- The bank needs information on the risk level of its customer's counterparties to carry out an objective assessment of the customer;
- Orchestrators of suspicious transaction schemes are prepared for banks' requests for information and are ready to provide convincing documentation substantiating suspicious transactions.

The advantages the Bank of Russia gains when assessing customers' risks:

- Can see customers' transactions in all banks;
- Can see the overall payment chain and identify suspicious transactions in different parts of this chain;
- Centralized databases of high-risk customers, suspicious transaction schemes and algorithms for their identification;
- High relevance of identified ML/TF risks in customers' transactions;
- Centralized communication with Rosfinmonitoring (Russian FIU) and other regulatory and supervisory authorities.



Customer Risk Ranking



It seemed perfectly logical to establish a centralized IT system, the Know Your Customer Platform (KYC Platform), which has been providing all banks, since mid-year 2022, with daily information regarding suspicious transaction risk ranking (low, medium, high) of legal entities and individual entrepreneurs.

LOW RISK

- ✓ Real business
- ✓ No suspicious transactions

MEDIUM RISK

- ✓ Combine real and shadow economic activities
- ✓ Ensure funneling of high-net-worth clients' funds into the shadow economy
- ✓ Participate in the shadow turnover of off-the-books cash receipts

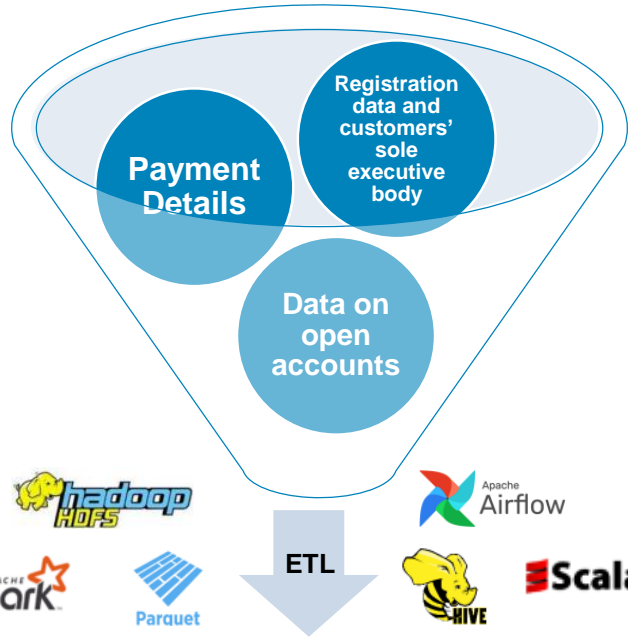
HIGH RISK

- ✓ Conduct no real economic activity
- ✓ Registered in the name of front men and controlled by third parties
- ✓ Hinder or undermine tax and law enforcement authorities' efforts to identify the beneficiaries of suspicious transactions
- ✓ Ensure payments in the shadow economy

The primary objective of the KYC Platform implementation is to shift the focus of banks' compliance functions onto high-risk customers and deny such customers the opportunity to make use of the proceeds of crime.



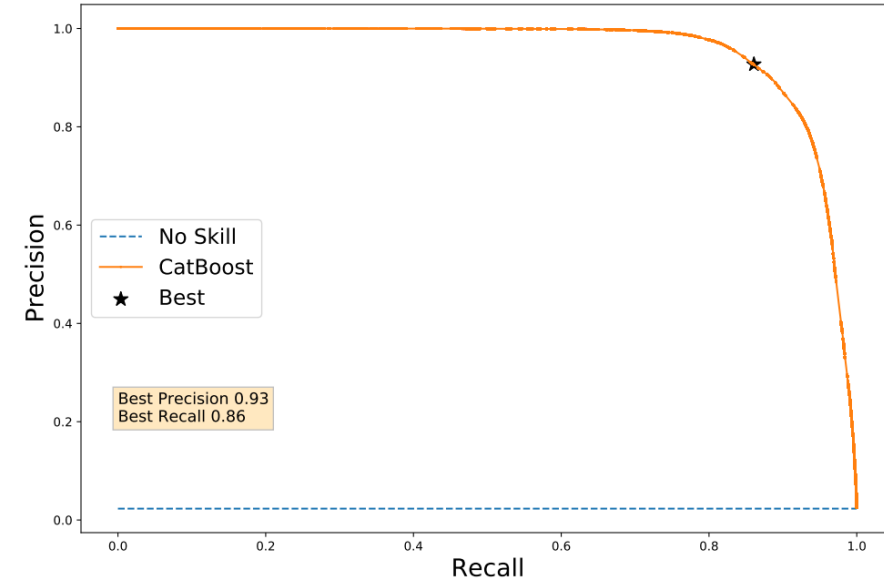
KYC Platform Operating Algorithm



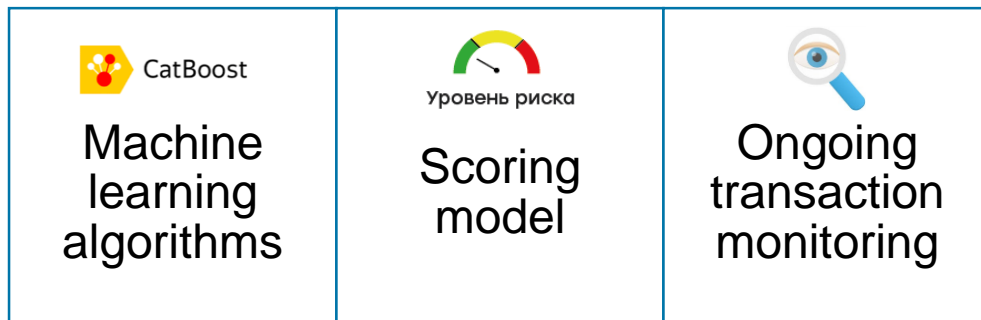
Machine learning algorithms:

- ✓ Use of machine learning algorithms to calculate risk levels (gradient-boosted decision trees)
- ✓ Proactive implementation of new scenarios for calculating risk levels on the KYC Platform
- ✓ Continuous fine-tuning of risk assessment models (updates and readjustments)

PR-Curve for CatBoost model



KYC Platform risk assessment models



Communication of risk levels to all banks



Restrictive measures imposed by banks:

- ✓ Cash withdrawals prohibited
- ✓ Account balance “frozen”
- ✓ Access to payment services denied

Right to defense:

- ✓ Customers have the right to file an appeal against the restrictive measures to the Bank of Russia’s Interagency commission.
- ✓ If customers do not agree with the decision taken by the Interagency commission, they have the right to appeal the decision in court.

Striking high-risk legal entities off the Uniform State Register of Legal Entities:

- ✓ If the customer hasn’t exercised its right to defense, or hasn’t been rehabilitated, such entity is subject to compulsory liquidation.
- ✓ Natural persons that used to hold managerial positions or used to be shareholders of high-risk legal entities are not allowed to register new companies (become individual entrepreneurs) during a three-year period.

40%

Decrease in the number of low-risk (“green”) customers’ transaction requests refused

4 times

Increase in the number of high-risk (“red”) customers’ transaction requests refused

Up to 1-2 days

Shorter period of operation of “red” customers





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THANK YOU FOR YOUR
ATTENTION!

Bank of Russia

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