

Thailand's ML/FT Risk Profile by Sector: An Excerpt from the NRA Conducted with the IMF's Technical Assistance between 2011 - 2012

ML Risk

Banks and other deposit takers

The financial system in Thailand is bank-centered, with domestically-owned and Government-owned specialized banks dominating the landscape. The Bank of Thailand (BOT) is the licensing and supervisory agency and it conducts on-site examinations of licensed banks. Banks and deposit-takers are assessed as having a *higher* net ML risk on the basis of a *higher* likelihood of substantial ML occurring (they were assessed as having the best AML controls). By their very nature, banks offer a diverse range of products and services through a variety of delivery channels that could facilitate ML.

Cash transactions are the most important payment mechanism in Thailand although there is increasing use of electronic stored value cards in Thailand. Data provided suggests that the size and volumes of cash transactions conducted through banks is substantial. The number of cash transactions in a typical banking outlet in excess of \$1,000 (THB 30,000) exceeds 10,000 per day.

In addition to cash transactions, which are not subject to any regulatory limit other than a reporting requirement for transactions over a statutory threshold, banks also offer wire transfer services and other payment mechanisms (e.g. ATM networks). Again there are no statutory limits on transaction size although banks have internal limits on the size and number of transactions that can be conducted through ATMs and other non-face-to-face mechanisms such as internet banking.

There are around 7,000 cooperatives institutions, which are established by groups of persons with similar economic interests, operating in Thailand. The types of cooperatives operating in Thailand are: agricultural; fishery; consumer; thrift and credit. The inherent likelihood of substantial ML occurring in the cooperative sector is *lower* and the level of ML risk is assessed as *lower*, reflecting the limited nature of services and products that they offer.

Securities sector

The securities sector is assessed as having a *medium* net risk on the basis of a *medium* likelihood of substantial ML occurring. The securities sector in Thailand comprises 77 securities advisors, 46 securities firms, 25 asset management companies and seven derivatives firms. These firms are licensed

and regulated by the Securities and Exchange Commission (SEC). The SEC requires all firms to have AML/CFT policies and procedures and the SEC supervises these entities for AML/CFT through both onsite examinations and offsite surveillance.

In 2010, SEC inspected 12 securities firms and 5 asset management companies. Major deficiencies identified during these inspections included: failure to specify beneficial owners; no enhanced KYC/CDD for high risk customers; no KYC/CDD on corporate customers; insufficient on-going KYC/CDD; no risk management on AML/CFT; and systems to identify suspicious transactions were not adequate or efficient.

Securities firms are assessed as having a *higher* inherent likelihood of substantial ML occurring. Securities firms do not accept cash to settle transactions and clients wishing to operate accounts with securities firms must first open an account with the firm and deposit funds into the account through a bank. To some extent this reduces the inherent ML risk faced by securities firms although firms must perform CDD when first establishing the business relationship.

Insurance sector

The insurance sector has the lowest assessed net ML risk, combined with a view that the short-term consequences of ML transactions conducted through the sector are *minor*. The majority of them are Thai-owned; foreign ownership is limited to 25% and requires approval by the OIC and this includes fit and proper requirements.

The OIC requires firms to have AML/CFT policies and procedures but the OIC, given its priority to strengthen the supervisory framework, has had limited opportunity to conduct ML/FT examinations of insurance companies. Where the OIC has included a ML/FT component in its onsite supervisory activities no sanctions have been imposed where deficiencies were identified.

Overall inherent ML likelihood for the insurance sector is increased because of the distribution network – insurance is sold through a network of agents and brokers that are not subject to direct oversight by authorities. To mitigate this risk, insurers have oversight of brokers and agents and all insurance companies operating in Thailand have compliance departments/units which ensure compliance with the insurance company's policies and procedures, including those related to AML/CFT.

Money Services Business

The money services business (MSB) sector includes money changers, money transfer agents and card issuers and e-payment service providers.

Entities in this sector are subject to supervision by the Bank of Thailand. There are approximately 1,000 licensed MSBs operating in Thailand.

The inherent ML likelihood of substantial ML occurring through MSBs is assessed as higher, reflecting a number of factors including their diverse customer base, which includes ‘walk-in’ customers and tourists and non-residents. Another factor that contributes to the perceived ML likelihood in the MSB sector relates to the small size of entities and their ability to access adequate resources to enable them to effectively implement an AML/CFT risk management framework.

DNFBPs

The DNFBPs are assessed as having a medium level of net ML risk.

Dealers in precious metals and stones (DPMS) are assessed as having a medium net ML risk. There are nearly 29,000 antiques stores and shops selling gold jewelry, but only about 13,000 are registered with the Ministry of Interior. Gold and diamonds are seen as most vulnerable to being used for ML due to their capacity to store and transport value. Buddha amulets were identified by some authorities and the private sector as a potential ML vehicle. Retailers’ delivery channels include face-to-face, mail order and sales through the internet, and payment for amulets is usually settled in cash as well as electronic payment through the internet. Despite amulets perceived vulnerability, no specific ML Thai typology or ML investigation has included amulets.

Real estate agents are assessed as having a medium net ML risk. NRA indicated most real estate transactions are settled through banks. Controls are in place regarding real estate purchases conducted by the non-Thais. Non-Thais cannot own certain types of real estate (such as houses) in their own names. The use of nominees is therefore very prevalent.

Professionals (accountants, auditors and lawyers) are assessed as having a medium net ML risk (driven predominantly by the authorities’ views that professionals are involved in facilitating financial transactions on behalf of clients and have a broad customer base including higher risk sectors such as real estate).

FT Risk

The banking and MSB sectors have the highest inherent FT likelihoods with much higher and higher likelihoods, respectively, of being directly or indirectly involved with substantial FT-related transactions. Moreover, the abysmal CFT controls for NPOs indicates they are almost certainly abused for FT.
