



Financial
Intelligence Centre

Assessment of the inherent money
laundering and terrorist financing risks

TRUST SERVICES PROVIDERS' SECTOR

March 2022

CONTENTS

1. INTRODUCTION	3
2. SCOPE, LIMITATIONS AND METHODOLOGY OF THE RISK ASSESSMENT	4
3. OVERVIEW OF THE TRUST SERVICES PROVIDERS' SECTOR	6
3.1. Nature and regulation of the industry	6
4. MONEY LAUNDERING RISKS ASSOCIATED WITH THE TRUST SERVICES PROVIDERS' SECTOR	7
5. REPORTING BY TRUST SERVICES PROVIDERS UNDER THE FIC ACT	10
5.1. The volume of reports received from the trust service providers	10
5.2. Types of regulatory reports filed	11
6. RISK BASED ON THE SECTOR SURVEY AND RESEARCH	11
6.1. Products and services risk.....	11
6.2. Client risks.....	12
6.3. Transaction Risks.....	13
6.4. Risks relating to delivery channels	14
6.5. Geographical Risk	14
6.6. Terrorist financing risk.....	15
7. INDICATORS OF MONEY LAUNDERING ACTIVITIES	15
7.1. Red flag scenarios.....	15
7.2. Trust involvement.....	16
8. CONCLUSIONS	17

1. INTRODUCTION

Money laundering can be described as the process whereby criminals attempt to conceal the proceeds of their criminal activities from the actual crime. This gives the proceeds an appearance of legitimacy. This may be done by investing in different immovable and movable assets. The provision of services such as registration, administration and acting as trustees for trusts is one of the professions that has been identified by the international anti-money laundering community as being potentially vulnerable for the laundering of money from illegitimate sources. Terrorist financing is the process by which individual terrorists and terrorist organisations obtain funds to commit acts of terrorism.

The Financial Intelligence Centre (FIC) conducted a preliminary risk assessment of the inherent money laundering and terrorist financing (ML and TF) risks of trust services providers in South Africa. The risk assessment included a survey that was sent to the trust services providers that were registered under Item 2 of Schedule 1 of the Financial Intelligence Centre Act, 2001 (Act 38 of 2001)(FIC Act) to ascertain their views on the sector's vulnerability to money laundering and terrorist financing. This report provides feedback on the trust sector risk

assessment conducted, including responses received from trust services providers and contains open-source information on national and international money laundering risks of trust services providers. In addition, the FIC's regulatory knowledge of the sector and the analysis of the financial intelligence reports submitted by trust services providers to the FIC were also considered.

The report is aimed at offering valuable insights into the risk facing private sector participants in the sector, the relevant industry bodies and the FIC. While it is understood that the inherent ML and TF environment may change over time, the risks drawn from this survey and open-source information, which have been incorporated into this sector risk assessment report are nonetheless important for the sector and for the FIC.

The inherent money laundering and terrorist financing risks refers to the level of ML and TF risks within the sector before actions are taken to alter the impact or likelihood of these risks. The residual risk is the remaining level of risk following the development and implementation of risk management and risk mitigation measures by institutions in the sector.

2. SCOPE, LIMITATIONS AND METHODOLOGY OF THE RISK ASSESSMENT

- 2.1.** The FIC has issued public compliance communication (PCC) 6 to provide clarity on the scope of the sector represented by Item 2 of Schedule 1 of the FIC Act. This PCC clarifies that Item 2 of Schedule 1 covers an institution that, as a regular feature of its business, provides services to trusts relating to administration, advice and acting as trustees of trusts. It does not include trusts, but rather institutions providing services to trusts. It also does not include trustees who are performing such actions in their private capacity without compensation e.g. as trustees of family trusts.
- 2.2.** Where reference is made in this report to clients, transactions and/or FIC Act obligations in general, it must be regarded as including the services provided by the trust services providers and also transactions entered into and clients conducting business with the trust.

Trust service providers should therefore monitor, assess and mitigate risks applicable to the sector and also apply other FIC Act obligations in respect of their own transactions with the trusts (as their clients) and also where they act as trustees, as well as transactions conducted by the trusts with other entities or individuals. In practice, this entails that, where applicable, a trust service provider should be aware, informed and vigilant to be able to identify possible money laundering, terrorist financing, tax evasion or other fraudulent activities in its relations with other trustees, beneficiaries, founders, as well as clients entering into transactions with trusts for which they provide services.

- 2.3.** The vast majority of transactions entered into by trusts and trust service providers, are likely to make economic sense and be perfectly legal. There may, however, be instances where certain transactions may be entered into, wittingly or unwittingly, with the express purpose of concealing illegal activities such as ML, TF and tax evasion. The use of offshore trusts or the conclusion of transactions with clients from foreign jurisdiction, and the practice to allow trusts to be created and dissolved very easily, may result in trusts possibly being used to conceal the source of funds and ownership.

- 2.4.** This sector risk assessment report addresses principally the inherent ML risk factors of trust services providers, pertaining to products and services, clients, transactions, delivery channels, and geographical areas and the potential mitigation of these inherent risks by complying with the FIC Act. The risk factors are not exhaustive while terrorist financing risk was addressed to a limited extent.
- 2.5.** Although it is recognised that the ML and TF risks could be mitigated by introducing processes and procedures in accordance with the requirements of the FIC Act, such mitigation factors were not included in this report, as the sector risk assessment report focuses on the inherent ML and TF risks.
- 2.6.** The FIC intends to enrich the information in this preliminary report on the inherent ML and TF risks in the sector for trust service providers with further monitoring in the form of consulting with law enforcement, private sector role players and the South African Revenue Service. When finalised, it is envisaged that this report will substantially improve the FIC's understanding of the ML and TF risks in the sector and will thereby also assist in determining the steps to be taken by the FIC to monitor and improve compliance and address shortcomings in this sector. Such steps could include inspections, compliance reviews and awareness sessions.
- 2.7.** As a result of changes in the nature of products and services, technology, geographic factors and legislative requirements, the ML and TF risks of institutions and sectors will change over time. It is therefore envisaged that this report will, at a later stage, be updated to reflect possible changes in the inherent risk areas identified in the report.

3. OVERVIEW OF THE TRUST SERVICES PROVIDERS' SECTOR

3.1. Nature and regulation of the industry

- 3.1.1. A trust is not a legal person and can be described as a legal relationship which has been created by a person (the founder) through placing assets under the control of another person (the trustee) for the benefit of beneficiaries, who are either identified by name or by inference. A trust as described above, must be distinguished from trust service providers who are providers of administration and advisory services in respect of the establishment and maintenance of a trust. A trust service provider may, in some instances, also act as a trustee for trusts – either on its own or together with other trustees.
- 3.1.2. Although, the services provided by different trust services providers are substantially different, it is recognised by the Financial Action Task Force¹ (FATF) and other international anti-money laundering and combating the financing of terrorism bodies that these services providers are often involved in some way in the establishment and administration of trusts. Accordingly, in many jurisdictions, they play a key role as the gatekeepers for the financial sector. It is also for this reason that trust services providers are regarded as sufficiently important to be included under the designated non-financial businesses and professions referred to in the FATF's Recommendations and other documentation.
- 3.1.3. Trusts in the South African context include testamentary trusts, formed upon the death of the founder or “inter-vivos trusts” which are formed during the lifetime of the founder. A description of trusts can also be based upon the rights of the beneficiaries and ownership of trust property. In this regard, a distinction must be made between a bebind trust, (where the beneficiaries acquire ownership of trust assets but, the control and administration of the assets are transferred to trustees) and a discretionary trust (where the beneficiaries do not have ownership or vested rights over the trust assets and the income or capital they may receive is purely based on the discretion of the trustees). In addition, trusts can be described in relation to their

¹ The Financial Action Task Force is the international standard setting body for combating money laundering and the financing of terrorism and proliferation. South Africa is a member of FATF and has to comply with its standards.

purpose, for example trading trusts, asset protection trusts, special trusts and charitable trusts.

- 3.1.4. Trust services providers are not, as such, licensed in South Africa and as there is no designated supervisory body (as envisaged in Schedule 2 of the FIC Act), the FIC supervises the trust services providers in terms of the FIC Act. Currently, trust services providers are accountable institutions under the FIC Act by virtue of the definition of Item 2 of Schedule 1 of the FIC Act which is:

“A board of executors or a trust company or any person that invests, keeps in safe custody or administers trust property within the meaning of the Trust Property Control Act, 1998 (Act 57 of 1998).”

- 3.1.5. It must be noted, however, that in South Africa, trust services are often provided by legal services providers (legal practitioners), banks, accounting firms, and, in some instances, financial services providers. These service providers are regulated in their own right and under their own legislation and are in many instances, also accountable institutions under the FIC Act.

4. MONEY LAUNDERING RISKS ASSOCIATED WITH THE TRUST SERVICES PROVIDERS' SECTOR

- 4.1. Notwithstanding the different forms that trusts may take in the South African context, the important issue from a ML or TF perspective is that trust services providers, whether acting as trustees or just providing administration services to the trust, must at all times ensure that the trust is not used to remove legal ownership of proceeds of crime from a possible criminal while such criminal still enjoys the benefits of the proceeds of crime through him or her being a beneficiary. The circumstances in which a trust can be used to hide the benefits derived from criminal activities can be compared to an instance where a trust is used to conceal ownership of assets (not necessarily derived from criminal activities) while, in fact acting as an alter ego for the real owners who want to conceal their ownership of the assets, e.g. from creditors or family members. This illustrates that, although a trust may be established within the

parameters of all the appropriate legislation and therefore comply with all the legal requirements, it may still be abused by the parties involved in criminal or other nefarious activities, which contributes to the risks posed by such an arrangement. Such abuse may happen over time and may not necessarily change the object or the business of the trust or be in contravention of the trust deed. It may, for example, just be the receipt of illicit funds in the trust's bank account.

- 4.2.** The abuse of legal arrangements for illicit purposes is a growing concern in world economies and thus this sector needs to be regulated and monitored. The risks associated with such abuse can be mitigated by knowing or being able to determine who the beneficiaries of the legal arrangement are. The true purpose for which the trust was formed, knowledge regarding the source of trust funds, including donations and the manner in which the trust acquires assets, is important information to obtain and evaluate as far as it is possible.
- 4.3.** In order to assess the existence of a ML risk, an assessment of transactions and information on the trust's clients may also provide indications that help raise red flags and trigger reporting obligations.
- 4.4.** Some areas that contribute to the increase in the risks associated with trusts include the following:
 - 4.4.1. The international clients and the associated focus on new "growth markets" (including countries with a high risk of corruption)
 - 4.4.2. The focus on very high net worth clients
 - 4.4.3. Financial consulting and planning and the associated risks in establishing the business relationship (beneficial owners and effective control)
 - 4.4.4. Deficits in reporting behaviour in cases of suspicion and the plausibility check of complex transactions
 - 4.4.5. Lack of comprehensive risk-based supervision.

- 4.5** Trust companies in South African can potentially offer a range of services to establish and manage legal persons and arrangements for local and overseas customers. The creation of trusts is a common method used in professionally facilitated schemes for hiding beneficial ownership and to make it difficult to freeze. These services are attractive to money launderers and terrorist financiers because:
- 4.5.1 Professionals or other third parties may provide resident director or trustee services for overseas transactional activities
 - 4.5.2 Legal arrangements are versatile, allowing sale and transfer to other people, along with assets and bank accounts established in the name of a legal entity, and trust
 - 4.5.3 Obscuring beneficial ownership is relatively easy using complex, legal arrangements across multiple jurisdictions
 - 4.5.4 Activities of wider complex structures which trusts may be involved in, could make it difficult to fully understand the purpose and nature of transactions, resulting in the requirement for more tenacious checks for information on both clients and the nature of transactions.
 - 4.5.5 Trust company involvement in international business in various jurisdictions, all of which have varying standards on anti-money laundering and combating of financing of terrorism pose a greater challenge.
 - 4.5.6 Creation of complex structures generate higher fees for trust companies, thereby reducing their ability to associate an increased use of complex structures with a higher ML risk.
 - 4.5.7 Lack of sufficient robust risk framework to mitigate against the increased risk that may be posed by more sophisticated schemes
 - 4.5.8 Allow the names of the settlor and the beneficiaries to be excluded from the trust deed
 - 4.5.9 4.5.9 Permit trusts which are established for non-charitable purposes to have unlimited duration and to be revocable
 - 4.5.10 Permit the creation of cascade arrangements that can successfully conceal the beneficial owner's identity.

5. REPORTING BY TRUST SERVICES PROVIDERS UNDER THE FIC ACT

5.1. The volume of reports received from the trust service providers

The payment and receipt of cash in the form of notes and coins are reportable in terms of section 28 of the FIC Act. This also includes the direct deposit of cash into the bank account of an accountable or reporting institution, which triggers an obligation on the accountable or reporting institution, as well as the bank to submit a report in terms of section 28 of the FIC Act.

From April 2016 to March 2021, a total of 2 100 cash threshold reports (CTRs²) were filed by trust services providers at an average of 420 per year. It must be noted that this number refers to transactions actually reported, and the cash received and paid may be more than the number of transactions reported.

During the same period, trust services providers filed a total of 61 suspicious and unusual transaction reports (STRs³) at an average of 12 per year.

The number of regulatory reports filed by trust services providers with the FIC for each reporting period of 31 April of one year to 31 March of the following year is depicted below.

Reports filed by industry	2016/17	2017/18	2018/19	2019/20	2020/21	Average number of reports
CTRs	407	344	616	469	264	2100
STRs	22	7	15	7	10	61
TPRs	0	0	0	0	0	0
Total reports	429	351	631	476	274	2161
Registered number of institutions	154	173	189	209	221	946
Average number of reports per institution per year	429 / 154 = 2.8	351 / 173 = 2.1	631 / 189 = 3.3	476 / 209 = 2.3	274 / 221 = 1.2	2 161 / 946 = 2.3

² Reports on cash transactions exceeding R24 999.99

³ Reports on transactions that are regarded as unusual and suspicious, as explained in section 29(1) of the FIC Act

5.2. Types of regulatory reports filed

Trust services providers mainly file regulatory reports in terms of section 28, section 28A and section 29 of the FIC Act. The vast majority of regulatory reports submitted in any year period to the FIC are CTRs, filed in terms of section 28 of the FIC Act, which points to the fact that cash is still being used in the trust services industry. The use of cash (sent and received by a trust) in the trust environment makes the trust industry more vulnerable for possible abuse by money launderers.

6. RISK BASED ON THE SECTOR SURVEY AND RESEARCH

The risk factors used in this sector risk assessment report align with those used in Guidance Note 7 issued by the FIC (refer to paragraph 37 of Guidance Note 7) with the addition of risks associated with transactions and terrorist financing.

The risk factors mentioned below were considered in the analysis of the survey and the consideration of open-source information.

6.1. Products and services risk

- 6.1.1. The nature and commercial value of the products and services provided by trust services providers would contribute largely to determining the inherent ML and TF risks.
- 6.1.2. A possible risk relating to the products and services involving trusts is that transactions may result in illegal funds being entered into the trust. Trust services providers that perform the role of a trustee, are also required to ensure that they have the full facts about a transaction and all the parties involved in such transaction, and the natural persons or legal persons who are parties to such transaction with the trust, whether the transaction makes economic or commercial sense, as well as the origin of the funds received from the clients of the trust, where applicable. This information is necessary to make an informed decision about the ML and TF risks associated with such a transaction. Such information would assist a trustee in determining whether there is a possibility that the trust in which he/she is involved is wittingly or unwittingly being used for money-laundering, terrorist financing, tax evasion or any other fraudulent activity.

6.1.3. In instances where services are rendered in respect of trusts performing the services of non-profit organisations (NPOs) or non-government organisations (NGOs), trust services providers must evaluate the risks possibly associated with the stated lawful purposes of such particular trusts not being met and the possible abuse of the trust for laundering the proceeds of unlawful activities or financing terrorist activities.

6.2. Client risks

6.2.1 The client of an institution plays an important role in determining the ML and TF risks associated with that institution.

6.2.2 As accountable institutions under the FIC Act, trust services providers are required to assess, identify, understand and then risk rate the inherent money laundering risks associated with their clients (the trusts), as well as the clients of the trusts. Some clients, such as foreign prominent public officials (FPPOs), complex legal structures or foreigners potentially pose a known higher risk for money laundering. Domestic prominent influential persons (DPIPs) may pose a higher risk for money laundering depending on the identified circumstances. The establishment of complex structures, involving legal persons (companies) and legal arrangements such as trusts and partnerships – including where such structures are named as beneficiaries of a trust or where they are clients of a trust, could possibly be aimed at concealing the identities of the ultimate beneficial owners of the clients or beneficiaries of the trust.

6.2.3 The risks associated with any type of client group are not static and the expectation is that within a client group, based on a variety of factors, individual clients could also be classified into risk categories, such as low, medium-low, medium, medium high or high risk. Measures to mitigate risk should be applied accordingly.

6.2.4 When dealing with their clients, trust services providers, whether establishing a trust or acting as a trustee must, inter alia, be aware of the following possible scenarios that could point to possible money laundering and may have to be further investigated:

- Clients of the trusts are trying to conceal their identities, or the named beneficiaries of the trust could be fronting for other individuals or institutions.

- Entities and individuals (clients of the trust) enter into transactions with the trusts that appear to be inconsistent with their stated income or occupation.
- Clients of the trusts make use of a source of funds that are regarded by the trustees as unusual or suspicious in order to enter into transactions with the trust, or the origin of the trust's assets needs to be further scrutinised.
- Assets of the trust are being offered or acquired by clients of the trust at prices that are obviously not in accordance with the market value thereof.
- Transactions do not have a legitimate reason or do not make sense from an economic point of view.
- Clients of the trust cease their business relationships upon a request for customer due diligence (CDD) information.

6.3. Transaction Risks

- 6.3.1. International research and literature indicates that criminals can potentially use a trust to enter transactions on their behalf, thereby creating an impression of legitimacy to transactions involving the proceeds of crime. Such criminals then directly or indirectly, become the beneficiaries of such trusts. Monitoring of the nature and purpose of these transactions, their values and the means of payments involved, will contribute to understanding and monitoring the ML risks associated with transactions involving trusts.
- 6.3.2. Examples of transactions that are potentially high risk for money laundering include the “reversing” of transactions with a request to repay funds already paid and transactions that do not make economic sense.
- 6.3.3. In addition to considering whether a transaction makes economic and business sense and whether the prices of assets obtained or disposed of, are market-related, a trustee must also consider the use of cash in the buying, selling and renting of properties or other assets by trusts. In South Africa, cash is still used to a large extent, and there are indications that cash transactions occur in the trust environment as is evident by the number of CTRs that were received by the FIC, as mentioned under paragraph 5.1 above. In addition to the receipt of cash in their own trust accounts for services rendered, trust services providers should also be aware of

instances where cash resulting from transactions that involves the trust is paid into the accounts of trusts, trustees or beneficiaries.

6.4. Risks relating to delivery channels

- 6.4.1. Trust services providers must be aware of the delivery channels used to attract and deal with clients. Delivery channels that may obscure or conceal the true identity of the client or that result in clients not being on-boarded face-to-face, may increase the risk of the trust services providers being abused by criminals to launder the proceeds of crime. Where an intermediary is used to on-board clients, or where shell companies or nominee companies are used, a trust services provider must do proper due diligence on these entities and their business and be familiar with the risk-mitigation processes and procedures such intermediary or entity may have in place.
- 6.4.2. Modern technology is also, to a larger extent, used to advertise services and to conduct business. Where social media platforms and third-party service providers are used to share information on products or services or to on-board clients, a trust services provider must ensure that such clients are properly identified and verified and that all the relevant information pertaining to the risks posed by such clients are obtained.

6.5. Geographical Risk

- 6.5.1. Because some foreign jurisdictions pose a higher risk for money laundering, it is important that a trust services provider be aware of the risks posed by clients from such foreign geographic areas and that the necessary risk mitigation processes are put in place. This risk is exacerbated by the fact that modern day transactions can take place electronically across provincial and international borders.
- 6.5.2. The geographic location of a trust services provider, the domestic or foreign jurisdiction where the trust is registered, the parties involved in the trust as well as the location of the assets acquired by the trusts, are all important factors that determine the money laundering risks to the trust services provider. International and domestic experience has indicated that criminals are attracted to high value assets, particularly high-end immovable property in exclusive or seaboard areas in South Africa, and

therefore trust services providers need to be vigilant when conducting business in areas where such assets are acquired.

6.5.3. Trust services providers must be aware of the potential higher risks posed by clients from the areas mentioned below and must be familiar with the jurisdictions that fall within these descriptions:

- Countries that are subject to a travel ban
- Countries the FATF regards as a high ML risk
- Countries that are regarded as high secrecy jurisdictions
- Countries or jurisdictions regarded as “tax havens”
- Countries known to have high levels of organised crime, corruption or from which terrorist organisations are known to operate.

6.6. Terrorist financing risk

6.6.1 Where trust services providers conduct business with NPOs and NGOs or assist with the establishment of trusts for charity or other community service purposes, they should ensure that the use of the funds and the properties involved are in accordance with the stated objectives of these organisations.

Trust services providers should also be aware of the appropriate compliance obligations in section 28A as well as section 26A of the FIC Act. Trust services providers must know how to access the referenced lists and determine whether they are conducting business with individuals and institutions on such lists.

7. INDICATORS OF MONEY LAUNDERING ACTIVITIES

7.1. Red flag scenarios

Scenarios that may point to money laundering and terrorist financing activities in the sector and that would have to be subjected to closer scrutiny.

Based on the history and experience of the FIC with the trust services providers' industry in South Africa, as well as international experience and expertise, the FIC has identified the following risk areas within the sector:

- Inability to conduct proper customer due diligence, the multi-jurisdictional and/or complex structure of corporate entities
- Complex legal structures that are beneficiaries of the trust or clients of the trust
- The client of the trust is a politically exposed person
- The client of the trust sets up a shell company with nominee shareholders and/or directors for conducting business with the trust
- Client is known to have a criminal background or media reports may point to possible criminal activities
- Client uses or produces identification documents with different names
- Structuring cash deposits below the reporting threshold, or purchasing properties with sequentially number checks or money orders
- Accepting third-party payments from the clients of the trust, particularly from jurisdictions with known ineffective money laundering controls, such as jurisdictions identified by FATF or FATF-style regional bodies as having weak ML and TF controls or jurisdictions that are subject to UN sanctions
- The client of the trusts makes large cash deposits into the trust's bank account for assets acquired from the trust
- Complex financial transfers or property transactions
- The movement of money across international borders
- Transactions which are unusual for the type of business.

7.2. Trust involvement

Cases where trusts were involved in the committing of financial crimes to illustrate the role trust services providers may play in detection and reporting thereof 8.1 Through analysis of reports received, the FIC identified prominent Influential persons (PIPs) who were paid a bribe by a private sector institution to influence the awarding of a contract for the supply of goods to the government. The PIPs did not want to receive this money directly as they wanted to benefit from this money while avoiding detection. Instead of directly paying the PIPs, the private sector institution paid Company X under the cover of a consultancy contract. Company X was managed and administered by a company services provider on behalf of the associates closely connected to the PIPs. The shares of Company X were settled into a Mauritius-based trust administered by a trust company. The beneficiaries of the trust consisted of members of the family related to the PIPs so that they were able to indirectly enjoy the proceeds of the bribe payment.

The FIC established that the illicit funds held in a trust distances the corrupt PIPs from ownership of the funds, with control vested in the hands of third parties to avoid any obvious links.

A PIP was paid a bribe for providing confidential information to Company B about the proposed privatisation of a large government entity. By analysing financial information at its disposal, the FIC was able to establish that Company B paid a PIP the equivalent of R700 000 for this information. The PIP had instructed the Company to deposit the cash into several bank accounts in country C and one of those accounts was a trust account. The PIP was the beneficiary of that trust account and as such, was able to access the illicit funds. Because the funds in the trust are transferred via country three, it was difficult for the authorities to trace the source of funds back to the PIP as the use of a shell company in country two further complicated the money trail.

8. CONCLUSIONS

- 8.1.** Trusts services are provided by a range of institutions and persons, such as legal practitioners (attorneys), financial advisors, professional trust service providers and banks. These institutions are also accountable institutions under the FIC Act and, in addition, may also be regulated by supervisory bodies in terms of other legislation. Trust services providers as accountable institutions are supervised by the FIC in terms of the FIC Act.
- 8.2.** Although the use of cash in the trust industry may be relatively low, the amounts of cash as part of the trust money invested in and held by trusts is potentially very high, which increases the ML and TF risk profile of trusts. The number of regulatory reports received from the trust industry is very low, which is of concern, and could possibly, among other reasons, point to a lack of compliance awareness, resulting in reportable transactions not being reported.
- 8.3.** It is evident from the analysis of the regulatory reports received by the FIC, that illicit funds may end up in trusts and that determining the ultimate beneficial owner may be a challenge – especially when foreign trusts are involved.

8.4. In conclusion, the overall inherent ML and TF risk for trust services providers operating in South Africa, based on national and international experience is classified as medium

Money laundering risk factors for trust services providers institutions

Money laundering risk factor	Likelihood	Consequence	Overall risk rating	Priority
Compliance: Lack of mitigating circumstances through compliance – e.g. CDD, training, record-keeping	2	3	9	3
Products and services /delivery channels – Use of cash, online platforms, transaction size	3	3	13	1
Risk/threats associated with clients – PEPS, source of funds, complex structures	4	3	17	1
Risk/threat associated with geographical area – sales to clients outside geographic area, sales to clients in restricted area	3	4	18	2

Overall money laundering risk of trust services providers institutions – Rating heat map

LIKELIHOOD SCALE (PROBABILITY)	5 Almost certain likelihood/ probability	11	16	20	23	25
	4 Highly probable likelihood	7	12	17 Clients risk	21	24
	3 Possible likelihood	4	8	13 Products/ services / distribution channels	18 Geographic risk	22
	2 Unlikely probability	3	5	9 Compliance Risk	14	19
	1 Improbable likelihood	1	2	6	10	15
		1 Low impact	2 Minor impact	3 Moderate impact	4 Major impact significant	5 Severe impact
CONSEQUENCE SCALE (IMPACT)						