



**Financial  
Regulatory  
Commission**



# **Money laundering risk assessment report 2018**

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## **I.INTRODUCTION**

The law on combating money laundering and terrorist financing states that the Financial Regulatory Commission (FRC) is the responsible body to monitor and enforce the performance of the obligations of the law by non-bank financial institutions, insurers and insurance experts, investment funds, investment management companies, professional securities market institutions, and savings and credit cooperatives.

In accordance with this responsibility, the FRC conducted an on-site inspection of regulatory agencies operating in Ulaanbaatar and rural areas, between May and July 2018. The FRC assessed the risks of money laundering and terrorist financing activities by capital market participant security companies, insurers and insurance intermediaries, non-bank financial institutions, and savings and credit cooperatives. The assessment was based on qualitative questionnaires and quantitative data that were collected in accordance with methodology to assess the risks of money laundering and terrorist financing activities, developed by International Monetary Fund (IMF) consultants.

### **Securities company**

The inspection included 48 organizations based in Ulaanbaatar and four organizations from rural areas, out of 54 branch companies and 16 securities companies, which operate within the FRC regulation framework. After considering the quality of questionnaires completed by securities companies and the quantitative data, this assessment was conducted based on data of 42 securities companies ,.

### **Insurer and insurance expert**

The inspection included 15 insurance companies, 28 insurance intermediaries, 46 insurance intermediary companies within the regulation framework. This assessment was conducted based on qualitative and quantitative data from 64 insurers and insurance experts.

### **Non-bank financial institution**

The review covers in total of 466 institutions , including 418 institutions of Ulaanbaatar and 48 institutions of rural areas from a total of 534 non-bank financial institutions operating within the regulation. This assessment conducted based on data from 392 NBFIs, taking into account the questionnaire and quality of the non-bank financial institutions.

### **Savings and Credit Cooperative**

In the inspection, from the total of 289 savings and credit cooperatives, 148 were from Ulaanbaatar city and 46 were from rural areas, totalling 194 cooperatives that were covered. The assessment was conducted based on data from 187 SCCs, considering the quality of questionnaire and the introduction of new activities in 2018.

To assess the risks based on quantitative information, the risk rating was calculated based on general information such as, size of the organization and the year in which the operations have been carried out. In addition to that, the business risk of each organization was also assessed by assigning a score between 1-5, with 1 being the lowest risk and 5 being the highest, using the detailed data collected during the inspection. This risk assessment report is comprised of general information and structural risk, the results of the quality evaluation, business risks and integrated results of the evaluation, and conclusions.

## **II. ORGANIZATIONAL RISK**

### **2.1 SECURITIES COMPANY**

There are a total of 54 securities companies operating in Ulaanbaatar and 77.8% of these companies, 42, were covered in the assessment. The level of coverage by district is as follows: 80% in the Bayangol district, 83.3% in the Bayanzurkh district, 83.3% in the Sukhbaatar district, 50% in the Khan-Uul district and 70.59% in the Chingeltei district. Currently, there are no securities companies operating in the remaining districts of Songinokhairkhan, Baganuur and Nalaikh.

Table 1 Level of assessment coverage of Securities

District	Securities companies	Level of coverage
Ulaanbaatar	42	77.78%
Bayangol	4	80%
Bayanzurkh	5	83.3%
Sukhbaatar	20	83.3%
Khan-Uul	1	50%
Chingeltei	12	70.59%

Out of the 42 securities companies who were assessed , 42 provided broker service, 36 provided dealer service, 19 provided underwriter service and 12 provided investment advisory activities service either on their own or jointly.

Table 2 Securities company Categories of activity

<b>Professional participants</b>	<b>42</b>
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1	Broker	42
2	Dealer	36
3	Underwriter	19
4	Investment advisor	12

In accordance with the methodology developed by the consultants from the International Monetary Fund, the size of the organization, ownership type and year of its operations were taken into considerations for the assessment of structural risk of financial institutions. In this chapter, directions of operations have been used instead of organizational ownership type, for the purpose of risk evaluation.

### Size of organization

The total value of the asset was taken from variables indicating the size of the securities companies, and the risk each organization had been assessed between 1-5 based on the assumption that exposure to risk will increase, if the organizations's asset and range of operations are great.

Table 3 Risk level of Securities company, by equity

Capital	Score of risk	Percentage
30-200 million	1	31.0%
200-300 million	2	14.3%
300 million to 1.2 billion	3	33.3%
1.2-1.3 billion	4	-
More than 1.3 billion	5	21.4%

The Financial Regulatory Commission's resolution about minimum capital contribution of certain entities, which are regulated by the securities market, states that investment advisory, brokerage, securities dealers, and underwriting ventures must have minimum capital contributions of 30 million, 100 million, 200 million and 1 billion Mongolian togrogs (MNT) respectively. When these activities are integrated for operations, capital contributions will be the sum of them. Securities companies have the right to engage in investment advisory services when capital contributions are 30 million MNT at a minimum. For a broker and an underwriter services, a brokerage permit is required, and the amount of capital contribution interval is calculated based on these estimates. Among the institutions that were surveyed, 31 percent have assets from 30 to 200 million, 14.3 percent have assets from 200-300 million togrogs, 33.3 percent have assets from 300 million to 1.2 billion togrogs, 21.4 percent have assets that are more than 1.3 billion togrogs, and no companies that have assets between 1.2-1.3 billion togrogs.

### Directions of activities

Directions of operations were also taken into consideration, when assessing the risk of money laundering of securities companies, and ratings were given by following operational types. Investment advisory operation alone- 1. brokerage, or both brokerage and investment advisory operations- 2. both brokerage and dealer's, brokerage, dealer's and investment advisory operations altogether- 3. brokerage and underwriting, or broker, underwriting and investment advisory activities altogether- 4. and a 5 rating for brokerage, dealer's, and underwriting operations altogether or 4 of the above operations altogether.

Table 4 Risk level of Securities company, by functional direction

Functional direction	Number of risk	Percentage
Investment advisor	1	-
Broker ( broker, investment advisor)	2	7.1%
Broker, dealer ( broker, dealer, investment advisor)	3	47.6%
Broker, underwriter ( broker, underwriter, investment advisor)	4	4.8%
Broker, dealer, underwriter, (Broker, dealer, underwriter, investment advisor)	5	40.5%

According to the results of the assessment, 7.1 percent are merely a holding broker or provide broker and investment advisory services, and 47.6 percent are engaged in broker and dealers, or broker, dealer and investment advisory services, and 4.8 percent are broker and underwriter or broker , underwriter, investment advisory services, 40.5 percent are broker, dealer, underwriter or to co-operate all 4 categories.

### Year of operation

One of the structural risk factor is the year of operations, and the assessment is based on the assumption that exposure to risk is likely to be less when an organization has operated for many years. The Financial Regulatory Commission was established in 2006, since then it has been registering securities companies, issuing licenses, and having control over operations. Therefore, the risk is minimum if an organization has been in operation for more than 10 years, and rating interval is chosen to be 1.

Table 5 Risk level of Securities company, by year of operation

Year of operation	Number of risk	Percentage
More than 10 years	1	-
8-10 years	2	69.0%
6-8 years	3	2.4%
2-6 years	4	28.6%
Up to 2 years	5	-

Among the securities companies surveyed, 60 percent have been operating for 8-10 years, 2.4 percent for 6-8 years, 28.6 percent for 2-6 years and there were no securities companies that have been operating with up to 2 years or more than 10 years.

### Consolidated assessment

In assessing an institutions structural risk of money laundering risk, the following has been taken into consideration: size of organization, form of ownership, and year of operation. The following risk measurement was evaluated based on percentages.

Table 6 Rate of structural risk

Risk measurement	
Size of organization	60
Functional direction	30
Year of operation	10

As to the rate of assessment of insurance intermediary companies, more than 40 percent are under the most risky group. In other words, 21.4 percent of the surveyed institutions indicated a very high risk level, 23.8 percent indicated a high risk level, 26.2 percent indicated an average risk level, and the remaining 28.6 percent indicated a low risk level.

Table 7 Assessment of structural risk

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	28.6%
2-3	Average	26.2%
3-4	High	23.8%
4-5	Very high	21.4%

## 2.2 INSURER AND INSURANCE INTERMEDIARIES

There are 15 insurance companies, 28 insurance intermediaries, covered from a total of 17 insurance companies, 46 insurance intermediaries,. This assessment was conducted based on qualitative and quantitative data from 64 insurers and insurance intermediaries.

According to the methodology developed by consultants from the International Monetary Fund, assessing the structural risk of financial institutions is based on the size of the organization, the form of ownership, and the year in which the operations were carried out.

### Organization size

Total value of the asset was taken from variables indicating the size of the securities companies, and the risk the organizations had been assessed between 1-5 points based on the assumption that exposure to risk will increase, if an organizations' s asset and range of operations are great.

Table 8 Risk level of Insurance companies, by insurance income/fee income/ fee charge

Sum of capital	Score of risk	Percentage
Under 100 million	1	13%
100 million to 500 million	2	-
500 million to 1 billion	3	27%
1-5 billion	4	33%
Over 5 billion	5	27%

Among the insurance companies that were surveyed, 13 percent collected less than 100 million, 27 percent collected from 500 million to 1 billion , 33 percent collected from 1 to 5 billion, and 27 percent collected more than 5 billion in revenue. Otherwise, based on insurance income, 60 percent of insurance companies fall underpotentially high risk group.

In estimating such risk, the following evaluation was conducted on a pointscale of 1-5 based on the determined capacity of institutions by fees charged by insurance intermediaries.

Table 9 Risk level of insurance intermediary companies, by intermediary fee charges

Capacity sum	Risk score	Percentage
Under 5 million	1	18%
5 million to 50 million	2	21%
50 million to 500 million	3	25%
500 million to 1.5 billion	4	14%
Over 1.5 billion	5	21%

18 percent of the surveyed insurance intermediaries had a concentrated fee of less than 5 million, 21 percent had a concentrated fee from 5 million to 50 million, 25 percent had a concentrated fee from 50 to 500 million, 14 percent had a concentrated fee from 500 million to 1.5 billion and the remaining 21 percent had a concentrated fee under 1.5 billion. In other words, 35 percent of insurance intermediary companies fall under potentially high risk group based on the capacity of intermediary fee income.

In estimating such risk, the following evaluation was conducted on a pointscale of 1-5 based on the determined capacity of institution by assessment of insurance companies.

**The form of ownership**

The form of ownership was also considered in assessing the money laundering risk for insurance companies and insurance intermediaries and rated based on whether shares are traded openly individually owned, legal entity holdings, foreign companies and individuals owning or having foreign investment, and political affiliation .

Table 10 Risk level of companies, by form of ownership / Insurance companies/

Ownership form	Risk score	Percentage
Shares are traded openly	1	-
Individually owned	2	-
Legal entity owned	3	53%
Foreign investment	4	7%
Political affiliation owned	5	40%

53 percent of the surveyed insurance companies are owned by legal entity, 7 percent have foreign investment, and 40 percent have political affiliation.

Table 11 Risk level of companies, by form of ownership /Insurance intermediary companies/

Ownership form	Risk score	Percentage
Shares are traded openly	1	-
Individually owned	2	-
Legal entity owned	3	11%
Foreign investment	4	25%
Political affiliation owned	5	64%

11 percent of the surveyed insurance intermediary companies are owned by legal entity, 25 percent have foreign investment, and 64 percent have political affiliation.

### Year of operation

One of the structural risks is year of operation and based on assumptions that many years of business operations are less likely to become at risk.

*Table 12 Risk level of companies, operating years /Insurance companies/*

Year of operation	Risk score	Percentage
Over 50 years	1	7%
40-50 years	2	-
10-40 years	3	80%
5-10 years	4	13%
Up to 5 years	5	-

7 percent of the insurance companies have been operating for more than 50 years, 80 percent have been operating from 10 to 40 years, 13 percent have been operating from 5 to 10 years.

*Table 13 Risk level of companies, operating years /Insurance intermediary companies/*

Year of operation	Risk score	Percentage
Over 50 years	1	-
40-50 years	2	-
10-40 years	3	4%
5-10 years	4	39%
Up to 5 years	5	57%

4 percent of the insurance intermediary companies have been operating for 10 to 40 years, 39 percent have been operating from 5 to 10 years, 57 percent have been operating for less than 5 years.

### Consolidated assessment

In assessing an institutions structural risk of money laundering risk, the following has been taken into consideration: capacity of organization, form of ownership, and year of operation. The following risk was evaluated based on percentages.

*Table 14. Rate of structural risk*

Risk measurement	Rate
Capacity of organization	33.(3)
Form of ownership	33.(3)
Year of operation	33.(3)

As to the rate of assessment of insurance companies, 60 percent were identified as being in the riskiest group. 60 percent of the surveyed institutions posed a high risk, 27 percent posed an average risk, and 13 percent posed a low level of risk.

*Table 15. Rate of structural risk /Insurance companies /*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	13%
2-3	Average	27%
3-4	High	60%
4-5	Very high	-

As to the rate of assessment of insurance intermediary companies, 89 percent were identified as having the most risk. 18 percent of the surveyed institutions posed a very high risk level, 71 percent posed a high risk level, and 11 percent posed an average level of risk.

*Table 16. Assessment of structural risk /Insurance intermediary companies /*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	-
2-3	Average	11%
3-4	High	71%
4-5	Very high	18%

As to the rate of assessment of insurance assessor companies, 81 percent were identified as having the most risk. 81 percent of the surveyed institutions posed a high level of risk and 19 percent posed an average level of risk.

## 2.3 NON-BANK FINANCIAL INSTITUTIONS

Out of the 392 surveyed non-bank financial institutions, about 8 percent, (31), operate in rural areas. As of the end of 2017, 70 non-bank financial institutions have been operating in rural areas, accounting for about half of the assessments of the money laundering risk.

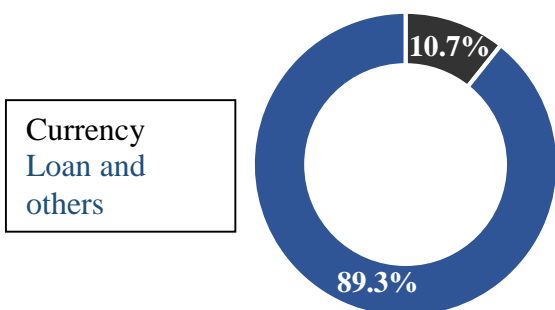
The Central and Eastern regions are about 50 percent, while the Khangai region is 38.1 percent and the Western region is 36.4 percent.

Table 17 Level of assessment coverage of companies

Region/District	NBFI's number	Coverage level
Bayangol	54	83.1%
Bayanzurkh	38	84.4%
Songino Khairkhan	9	75.0%
Sukhbaatar	136	86.1%
Khan-Uul	19	61.3%

Chingeltei	102	68.9%
Baganuur	2	100.0%
Nalaikh	1	50.0%
Rural areas	31	44.3%
Western region	4	36.4%
Khangai region	8	38.1%
Central region	13	50.0%
Eastern region	6	50.0%
total	392	73.4%

Picture 1. Number of organizations, by activity type



In total, 464 non-bank financial institutions are operating in Ulaanbaatar, of which 361 or 80 percent have been surveyed. Of total coverage, Bayangol district has 83.1 percent, Bayanzurkh district 84.4 percent, Songino Khaikhan district 75.0 percent, Sukhbaatar district 86.1 percent, Khan-Uul district 61.3 percent, Chingeltei district 68.9 percent, Baganuur district 100 percent, and Nalaikh district 50 percent.

Risk assessment of the companies, as shown by their assets, indicates average risk rate of non-bank financial institutions, 10.7 percent of surveyed institutions engaged in foreign exchange trading, while the remaining 89.3 percent engaged in loan services and other services. In accordance with the methodology developed by consultants of the International Monetary Fund, size of the organization, ownership type and year of its operations have been taken into considerations for the assessment of structural risk of financial institutions. In this chapter, directions of operations have been used instead of organizational ownership type, for the purpose of risk evaluation.

### Size of organization

The total value of the asset was taken from variables indicating size of the securities companies, and risk of the organizations were given a score between 1-5 based on the assumption that exposure to risk will increase, if the organizations's asset and scale of activities are great.

Table 18 Risk level of companies, by capital sum

Capital sum	Risk score	Percentage
Under 800 million	1	20.7%
800 million to 1 billion	2	25.0%
1-2.5 billion	3	38.0%

2.5-5 billion	4	11.0%
Over 5 billion	5	5.3%

The Financial Regulatory Commission issued a decision to increase the amount of capital contribution of non-bank financial institutions from 800 million to more than 2.5 billion in stages, the interval between this indicator was less than 800 million, 800 million to 1 billion, and from 1 billion to 2.5 billion. The interval is set at a moderate level of risk that non-bank financial institutions with a net worth of 2.5 billion MNT, based on the results of the survey regarding the amount of equity, it was found that the NBFIs needed a minimum amount of 2.5 billion MNT to participate in the financial market by successfully conducting their operations

20.7 percent of the surveyed non-bank financial institutions have assets of under 800 million, 25.0 percent have assets from 800 million to 1 billion, 38.0 percent have assets from 1-2.5 billion, 5.3 percent have assets of over 5 billion. Overall, 16.3 percent of non-bank financial institutions were assessed a high level of risk.

### **The form of ownership**

The form of ownership was also considered in assessing the money laundering risk for non-bank financial institutions. Non-bank financial institutions are usually founded by individuals through the supply of their assets and rated based on: if shares are traded openly, individually owned, legal entity holds, foreign companies and individuals owning or having foreign investment and political affiliation.

*Table 19 Risk level of companies, by form of ownership*

Ownership form	Risk score	Percentage
Shares are traded openly	1	-
Individually owned	2	81.1%
Legal entity owned	3	14.5%
Foreign investment	4	4.4%
Political affiliation owned	5	-

As of 2017, one non-bank financial institution has publicly traded its shares and the organization did not participate in the evaluation because it did not submit its risk assessment information to the commission. The majority of non-bank financial institutions (81.1 percent) were owned by individuals and the owners were all Mongolian while 14.5 percent are owned by a legal entity. In addition, non-bank financial institutions, which own and own a certain percentage of a foreign-owned legal entity, are 4.4 percent, while there are not any non-bank financial institutions who are affiliated with political parties.

### **Year of operation**

One of the structural risk factor is the year of operations, and the assessment is based on the assumption that exposure to risk is likely to be less when an organization has operated for many years. The Financial Regulatory Commission was established in 2006, since then it has been registering securities companies, issuing licenses and having control over operations. Therefore,

the risk is minimum if an organization has been in operation for more than 10 years, and rating interval is chosen to be 1.

*Table 20 Risk level of companies, by year of operation*

Year of operation	Risk score	Percentage
Over 10 years	1	13.0%
8-10 years	2	8.4%
6-8 years	3	11.0%
2-6 years	4	61.7%
Up to 2 years	5	5.9%

Among the non-bank financial institutions surveyed, 13 percent have been operating for longer than 10 years, 8.4 percent have been operating between 8-10 years, 11 percent for 6-8 years, 61.7 percent for 2-6 years, and 5.9 percent have been operating for up to 2 years.

### **Consolidated assessment**

In assessing an institutions structural risk of money laundering risk, the following has been taken into consideration: capacity of organization , form of ownership, and year of operation. The following risk was evaluated based on percentages.

*Table 21 Rate of structural risk*

Risk measurement	Rate
Capital sum	60
Form of ownership	10
Year of operation	30

As to the level of assessment of structural risk, more than 40 percent indicates the highest level of risk. In total, 5.8 percent of the surveyed institutions were considered to be at a very high level of risk, 37.5 percent at a high level, 33.7 percent at an average level, 23.0 percent at a low risk level. Structure risk levels are usually rated as high, and the low year of operation is largely influenced.

*Table 22 Assessment of structural risk*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	23.0%
2-3	Average	33.7%
3-4	High	37.5%
4-5	Very high	5.8%

## 2.4 SAVINGS AND LOAN COOPERATIVE

22.5 percent of the 187 savings and loan cooperatives (42) that were surveyed operate in rural areas. As of the end of 2017, 98 savings and credit cooperatives have been operating in rural areas which means that 42.9% of the money laundering risk was assessed. In this regard, the Gobi region has the highest (62.5%), the Khangai region is 50.0%, the Western region is 34.4%, the central area is 33.3% and the Eastern region is 30.8%.

*Table 23 Level of assessment coverage of cooperations*

Region/District	SLC number	Coverage level
Ulaanbaatar	145	79.7%
Bayangol	13	92.9%
Bayanzurkh	28	84.8%
Songino Khaikhan	25	86.2%
Sukhbaatar	29	76.3%
Khan-Uul	13	61.9%
Chingeltei	23	71.9%
Baganuur	7	87.5%
Nalaikh	5	100.0%
Bagakhangai	2	100.0%
Rural areas	42	42.9%
Western region	11	34.4%
Khangai region	14	50.0%
Central region	3	33.3%
Eastern region	4	30.8%
Gobi region	10	62.5%
<b>Total</b>	<b>187</b>	<b>66.8%</b>

There are total of 182 savings and loan cooperatives operating in Ulaanbaatar and 80% of these companies, which is 145, were surveyed in the assessment. The level of coverage by districts is as follows: 92.9 % in the Bayangol district, 84.8% in the Bayanzurkh district, 86.2% in the Songino Khaikhan district, 76.3% in the Sukhbaatar district, 61.9% in the Khan-Uul district and 71.9% in the Chingeltei district, 87.5% in the Baganuur district and 100% in the Nalaikh and Bagakhangai districts. There are currently no securities companies operating in the remaining three districts, namely, Songinokhairkhan, Baganuur and Nalaikh districts.

In accordance with the methodology developed by consultants of the International Monetary Fund, size of the organization, ownership type, and year of its operations have been taken into considerations for the assessment of structural risk of financial institutions. In this chapter, directions of operations have been used instead of organizational ownership type, for the purpose of risk evaluation.

## Size of organization

The total value of the asset was taken from variables indicating the size of the securities companies, and the risk each organization was assessed between 1-5 points based on the assumption that exposure to risk will increase, if the organizations's asset and scale of activities are great.

*Table 24 Risk level of cooperations, by equity*

Capital sum	Risk score	Percentage
Under 100 million	1	27.8%
100 million to 300 million	2	56.7%
300 million to 1 billion	3	6.4%
1-10 billion	4	7.5%
Over 10 billion	5	1.6%

27.8 percent of the surveyed savings and loan cooperatives have assets under 100 million, 56.7 percent have assets between 100-300 million, 6.4 percent have assets between 300 million to 1 billion, 7.5 percent have assets between 1-10 billion, and 1.6 percent have assets under 10 billion. Overall, 9.1 percent of savings and loan cooperatives were seen as having a very high level of risk.

## The form of ownership

The form of ownership was also considered in assessing the money laundering risk for savings and loan cooperatives. Savings and loan cooperatives are usually founded by individuals through the supply of their assets and were therefore rated based on the following: shares are traded openly, individually owned, legal entity holds, foreign companies and individuals owning or having foreign investment, and political affiliation..

*Table 25 Risk level of companies, by form of ownership*

Ownership form	Risk score	Percentage
Shares are traded openly	1	-
Individuals own	2	100.0%
Legal entity owns	3	-
Foreign investment	4	-
Political affiliation own	5	-

All the cooperatives have been assessed at low risk (2) for all savings and credit cooperatives (100.0%) that have been privately held and no other cooperatives in the other.

## Year of operation

One of the structural risks is year of operation which is based on assumptions that companies that have many years of business operations are less likely to be at risk.

*Table 26 Risk level of companies, operating years*

Year of operation	Risk score	Percentage
Over 10 years	1	32.6%
8-10 years	2	2.1%
6-8 years	3	2.7%
2-6 years	4	56.7%
Up to 2 years	5	5.9%

Among the savings and loan cooperatives that were surveyed, 32.6 percent have been operating for longer than 10 years, 2.1 percent for 8-10 years, 2.7 percent for 6-8 years, 56.7 percent for 2-6 years, and 5.9 percent have been operating for up to 2 years.

### **Consolidated assessment**

In assessing an institutions structural risk of money laundering risk, the following has been taken into consideration: capacity of an organization , form of ownership, and year of operation. The following risk was evaluated based on percentages.

*Table 27 Rate of structural risk*

Risk measurement	Rate
Capital sum	60
Form of ownership	10
Year of operation	30

As to the level of assessment of structural risk, less than 4 percent were among the highest risk. Overall, 0.5 percent of the surveyed institutions are considered to have a very high level of risk, 3.2 percent have a high level, 63.1 percent have an average level, and 33.2 percent have a low level of risk. Structure risk levels are usually rated as average, and the ownership of the individual is largely influenced.

*Table 28 Assessment of structural risk*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	33.2%
2-3	Average	63.1%
3-4	High	3.2%
4-5	Very high	0.5%

### III. QUALITY QUESTIONNAIRE ASSESSMENT

The qualitative questionnaire is an important component of an organization's risk assessment of money laundering and is comprised of 57 questions from 7 sections aimed at assessing how the organization conducts anti-money laundering activities and policies. Based on the answers to each question, the inspector, who checked the on site inspection, scored the organizations between 1-5.

#### 3.1 SECURITIES COMPANY

The qualitative questionnaire is an important component of an organization's risk assessment of money laundering and is comprised of 57 questions from 7 sections aimed at assessing how the organization conducts anti-money laundering activities and policies. Based on the answers to each question, the inspector, who checked the on site inspection, scored the organizations on a scale of 1-5.

##### Assessment of corporate governance quality

The quality of corporate governance assessments revealed that more than 70 percent of the institutions are considered to be at risk while 23.8 percent are considered an average risk, and 2.4 percent are considered a low level risk.

*Table 29 Assessment of Corporate governance quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	2.4%
2-3	Average	23.8%
3-4	High	50.0%
4-5	Very high	23.8%

Based on the responses from the organizations that were surveyed, securities companies had implemented a program that developed policies, rules, and regulations to combat money laundering and terrorism, however, the quality of corporate governance issues are inadequate because of the weaknesses of the board's involvement in anti-money laundering efforts and lack of monitoring systems for consumer transactions.

##### Assessment of risk management quality

The risk management to combat money laundering of securities companies is at very insufficient level. 78.6 percent of assessed companies are subject to very high risk groups.

*Table 30 Assessment of risk management quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	2.4%
2-3	Average	9.5%
3-4	High	9.5%
4-5	Very high	78.6%

Only 9.5 percent of the securities companies have branches and divisions of risk management, 4.8 percent conduct risk assessment of money laundering and terrorist financing activities, 2.4 percent have a AML/CFT risk classification system, and 7.1 percent self report on the risk of the AML/CFT to the board and senior management.

### **Assessment of rules, regulations, policy and operational quality**

Assesment of the surveyed securities companies reveals an insufficient risk level of regulation and policy on anti-money laundering and terrorist financing. 81.0 percent of all of the organizations surveyed belong to the average, high, or very high risk groups, while 19.0 percent of those surveyed are considered to have a low risk.

*Table 31 Assessment of rules, regulations, policy and operational quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	19.0%
2-3	Average	31.0%
3-4	High	26.2%
4-5	Very high	23.8%

### **Assessment of Internal controls and internal, external audit quality**

The internal and external controls of the securities companies were also inadequate and 85.7 percent of the surveyed organizations were placed in the high or very high risk level.

*Table 32 Assessment of Internal controls and internal, external audit quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	2.4%
2-3	Average	11.9%
3-4	High	26.2%
4-5	Very high	59.5%

11.9 percent of the surveyed securities companies are monitoring activities through internal audit departments / units and overseeing programs, rules, and policies that implement anti-money laundering terrorism financing . In addition, 76.2 percent of those surveyed did not make independent reviews on external anti-money laundering activities.

### **Assessment of compliance function**

There is an inadequate assessment of compliance function of the organizations with 73.8 percent of the surveyed organizations belong to the high or very high risk group.

*Table 33 Assessment of Complians function quality.*

Risk assessment	Risk level	Percentage
1	Very low	2.4%
1-2	Low	-

2-3	Average	23.8%
3-4	High	9.5%
4-5	Very high	64.3%

23.8% of the surveyed organizations had appointed a compliance officer given the task of ensuring the implementation of rules, procedures, and policies against money laundering. Of those surveyed, 70 percent have been provided compliance staff, yet the activities and reporting of the compliance staff are not sufficient.

#### **Assessment of training and human resource quality**

Training on anti-money laundering, capacity building for human resources is weak for organizations due to the fact that 85.7 percent of the surveyed organizations belong to high and very high levels of risk.

*Table 34 Assessment of training and human resource quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	4.8%
2-3	Average	9.5%
3-4	High	26.2%
4-5	Very high	59.5%

50.0 percent of the securities companies have not organized training programs to combat money laundering and terrorist financing because of insufficient funding for the training.

#### **Assessment of reporting and registration quality**

More than half of the organizations are at a high or very high level of risk in terms of reporting and registration quality. 9.5 percent are at a low level of risk and 28.6 percent are considered to be at an average level of risk.

*Table 35 Assessment of reporting and registration quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	9.5%
2-3	Average	28.6%
3-4	High	28.6%
4-5	Very high	33.3%

Only 2.4 percent of the surveyed securities companies have internal systems for detecting and reporting suspicious activity. 35.7 percent of the organizations said they have a policy to keep / record documents. However, suspicious transactions of money laundering monitoring and accountability for employees who concealed suspicious transactions is inadequate.

## Overall results of quality assessment

On the basis of the quality questionnaire collected from the securities companies, the inspectors evaluated the institutions based on a pointscale from 1-5 points for each question and the average score for each questionnaire was calculated. On the basis of the overall assessment of the qualitative results, the rate of each group is calculated as follows.

Table 36 Rate of quality assessment

No	Groups	Questionnaire number	Rate
1	Corporate governance	12	15
2	Risk management	11	15
3	Rules, regulations, policies and practices	7	20
4	Internal audits, internal and external audits	5	10
5	Complains function	5	15
6	Training and human resources	5	10
7	Reporting and registration	12	15

The qualitative assessment of securities companies is inadequate. 2.4% of the organizations surveyed were low, 19.0% were average, 35.7% were high and 42.9% were very high risk groups. More than 70 percent of securities companies are classified as risky, indicating that the organization's anti-money laundering operations are weak.

Table 37 Result of quality assessment

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	2.4%
2-3	Average	19.0%
3-4	High	35.7%
4-5	Very high	42.9%

Quality risk assessment for each group suggests that anti-money laundering measures among Securities companies were inadequate. Though 90.5 per cent of the assessed Securities Companies have developed internal rules and procedures to combat money laundering, further effective implementation is reconsidered.

## 3.2 INSURER AND INSURANCE INTERMEDIARIES

The qualitative questionnaire is an important component of an organization's risk assessment of money laundering and is comprised of 57 questions from 7 sections aimed at assessing how the organization conducts anti-money laundering activities and policies. Based on the answers to each question, the inspector, who checked the on site inspection, scored the organizations on a scale of 1-5.

### Assessment of corporate governance quality

The quality of corporate governance assessments revealed that more than 27 percent of insurance companies are considered to be at risk, while 40 percent have an average risk, 2.4 percent are low risk and 7 percent are very low risk .

*Table 38 Assessment of Corporate governance quality /Insurance companies /*

Risk assessment	Risk level	Percentage
1	Very low	7%
1-2	Low	27%
2-3	Average	40%
3-4	High	27%
4-5	Very high	-

According to the quality questionnaire of insurance intermediary companies, 68 percent belong to the high to very high risk groups, while 25 percent are an average risk, 4 percent are low risk, and another 4 percent are very low risk.

*Table 39 Assessment of Corporate governance quality /Insurance intermediary companies*

Risk assessment	Risk level	Percentage
1	Very low	4%
1-2	Low	4%
2-3	Average	25%
3-4	High	39%
4-5	Very high	29%

The results from the quality questionnaire on assessing the governance of insurance companies showed that 62 percent of the respondents belong to the high to very high risk groups, while 29 percent belong in the average risk group, 5 percent are in the low risk group and another 5 percent are in the very low risk group.

### **Assessment of rules, regulations, policy and operational quality**

Insurance policies, rules, and policies implemented by insurance companies are at high risk, while 33 percent are middle-risk and 60 percent are low risk groups.

*Table 40 Assessment of rules, regulations, policy and operational quality /Insurance companies/*

Risk assessment	Risk level	Percentage
1	Very low	13%
1-2	Low	47%
2-3	Average	33%
3-4	High	-
4-5	Very high	7%

In terms of rules, regulations, and policies implemented by insurance companies, 50 percent of the respondents belong to the average and low risk groups, while 21 percent are considered high risk, and 29 percent are considered to be in the very high risk group.

*Table 41 Assessment of rules, regulations, policy and operational quality /Insurance intermediary companies/*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	29%
2-3	Average	21%
3-4	High	21%
4-5	Very high	29%

In contrast to the rules, regulations, and policies implemented by insurance intermediary companies, 57 percent are in the average and lower risk categories, 19 percent are considered high risk and 24 percent are considered very high risk.

#### **Assessment of risk management quality**

The assessment for risk management of combating money laundering revealed the following results: 40 percent of the surveyed institutions are at an average risk level, 40 percent are at high risk and 20 percent are at very high risk.

*Table 42 Assessment of risk management quality /Insurance companies/*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	-
2-3	Average	40%
3-4	High	40%
4-5	Very high	20%

The risk management of money laundering by insurance intermediary companies is as follows: about 4 percent of the institutions involved in the evaluation have an average risk level, 32 percent are at high risk, and 64 percent are at very high risk.

*Table 43 Assessment of risk management quality /Insurance intermediary companies/*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	-
2-3	Average	4%
3-4	High	32%
4-5	Very high	64%

However, the results for insurance assessors in terms of risk management of money laundering showed a higher percentage of those considered risky. 14 percent of the surveyed institutions have an average risk level, 33 percent have a high risk level and 52 percent have a very high risk level.

### **Assessment of rules, regulations, policy and operational quality**

Internal auditing and internal/external audit quality assessments done by insurance companies were insufficient. 7 percent of the surveyed organizations have very low risk, 7 percent are low risk, 40 percent are average risk, 27 percent are high risk, and 20 percent are very high risk .

*Table 44 Assessment of Internal controls and internal,external audit quality/Insurance companies/*

Risk assessment	Risk level	Percentage
1	Very low	7%
1-2	Low	7%
2-3	Average	40%
3-4	High	27%
4-5	Very high	20%

Internal auditing of insurance intermediary companies and internal and external audit quality assessments showed that 4 percent have low risk, 4 percent are an average risk, 18 percent are high risk and 75 percent are very high risk.

*Table 45 Assessment of Internal controls and internal, external audit quality /Insurance intermediary companies/*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	4%
2-3	Average	4%
3-4	High	18%
4-5	Very high	75%

Internal audits of insurance assessors and the quality of internal and external auditing showed that 5 percent of respondents had average risk, 14 percent had high risk, and 81 percent are very high risk.

### **Assessment of compliance function**

Assessment of compliance function of insurance companies showed that 20 percent have low and very low risk levels, 33 percent have average risk, 33 percent have high risk, and 13 percent have very high risk.

*Table 46 Assessment of Complians compliance function quality /Insurance companies/*

Risk assessment	Risk level	Percentage
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1	Very low	7%
1-2	Low	13%
2-3	Average	33%
3-4	High	33%
4-5	Very high	13%

Insurance intermediary companies have poor quality assessment of compliance functions. 11 percent are considered to be at low risk, 25 percent are an average risk, 18 percent are high risk and 46 percent are considered to be at a very high level of risk.

*Table 47. Assessment of Compliance functional quality /Insurance intermediary companies/*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	11%
2-3	Average	25%
3-4	High	18%
4-5	Very high	46%

In contrast, compliance quality assessments of insurance assessment companies showed that 43 percent were considered to have low or very low risk, 10 percent with average risk, 10 percent with high risk, and 38 percent with very high risk.

### **Assessment of training and human resource quality**

For the majority of insurers and insurance assessors covered by the evaluation, training on anti-money laundering and capacity building for human resources is very insufficient. 13 percent of the insurance companies are considered to be at low risk, 47 percent are an average risk, 7 percent are high risk, and 33 percent are considered to be very high risk.

*Table 48 Assessment of training and human resource quality /Insurance companies/*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	13%
2-3	Average	47%
3-4	High	7%
4-5	Very high	33%

For insurance intermediary companies the numbers are as follows: 14 percent of insurance intermediaries are considered an average risk, 25 percent are high risk and 61 percent are very high risk.

*Table 49 Assessment of training and human resource quality /Insurance intermediary companies/*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	-
2-3	Average	14%
3-4	High	25%
4-5	Very high	61%

In contrast, 10 percent of insurance assessment companies are low risk, 5 percent are an average risk, 10 percent are high risk, and 76 percent are very high risk.

### **Assessment of reporting and registration quality**

The assessment of reporting and registration quality for insurance companies showed the following data: 54 per cent of insurance companies report low or very low risk, 40 percent average risk, and 7 percent belong to the high risk group. Even though insurance companies' reporting and registration levels are above average, there is still a need for improvement.

*Table 50 Assessment of reporting and registration /Insurance companies*

Risk assessment	Risk level	Percentage
1	Very low	7%
1-2	Low	47%
2-3	Average	40%
3-4	High	7%
4-5	Very high	-

Insurance intermediary companies reported the following data: 18 percent of insurance intermediary companies are low risk, 25 percent are considered to be average risk, 29 percent are high risk, and the remaining 29 percent are very high risk. As a result, insurance intermediary companies reporting and registration levels are insufficient.

*Table 51 Assessment of reporting and reistration registration /Insurance intermediary /*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	18%
2-3	Average	25%
3-4	High	29%
4-5	Very high	29%

Insurance assessor companies provided the following results: 14 percent of insurance assessor companies are low risk, 29 percent are an average risk, 29 percent are high risk, and the remaining 29 percent are very high risk.

## Overall results of quality assessment

On the basis of the quality questionnaire collected from the securities companies, the inspectors evaluated the institution on a scale of 1-5 points for each question and the average score for each questionnaire was calculated. On the basis of the overall assessment of the qualitative results, the rate of each group is calculated as follows.

Qualitative assessment of securities companies is inadequate. 2.4% of the organizations surveyed were low risk, 19.0% were average risk, 35.7% were high risk, and 42.9% were very high risk. More than 70 percent of the securities companies are classified as risky, indicating that the organization's anti-money laundering operations are weak.

*Table 52 Rate of assessment quality*

No	Groups	Questionnaire number	Rate
1	Corporate governance	12	25
2	Risk management	11	20
3	Rules, regulations, policies and practices	7	15
4	Internal audits, internal and external audits	5	10
5	Complains function	5	12.5
6	Training and human resources	5	5
7	Reporting and registration	12	12.5

Qualitative assessment of insurer and insurance intermediaries is inadequate. 27 percent of the insurance institution surveyed were low, 60 percent were average, 39 percent were high, and 25 percent were very high risk. As for insurance intermediaries, 36 percent were average, 39 percent were high, and 25 percent were very high level risk, while 5 percent of insurance assessors companies were low, 38 percent were average, 43 percent were high, and 14 percent were very high level risk.

*Table 53 Result of assessment quality /Insurance company /*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	27%
2-3	Average	60%
3-4	High	13%
4-5	Very high	-

*Table 54 Result of assessment quality / Insurance intermediary /*

Risk assessment	Risk level	Percentage
1	Very low	-

1-2	Low	-
2-3	Average	36%
3-4	High	39%
4-5	Very high	25%

**3.3 NON-BANK FINANCIAL INSTITUTION**

The qualitative questionnaire is an important component of an organization's risk assessment of money laundering and is comprised of 57 questions from 7 sections aimed at assessing how the organization conducts anti-money laundering activities and policies. Based on the answers to each question, the inspector, who checked the on site inspection, scored each organization based on a pointscale of 1-5.

**Assessment of Corporate governance quality**

The quality of corporate governance assessments revealed that close to 50 percent of insurance companies are considered to be in a risk category of either very high risk or high risk, while 37.8 percent are average risk, and 12.5 percent are low risk.

*Table 55 Assessment of Corporate governance quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	12.5%
2-3	Average	37.8%
3-4	High	38.5%
4-5	Very high	11.2%

The responses from the organizations that were surveyed found that securities companies had implemented a program that developed policies, rules, and regulations to combat money laundering and terrorism, however, the quality of the corporate governance issues are inadequate because of the weaknesses of the board's involvement in anti-money laundering efforts and a lack of monitoring systems for consumer transactions.

Non-bank financial institutions operating in the marketplace often operate on a limited scale in the possession of citizens therefore few non-bank financial institutions hold regular board meetings.

**Assessment of rules, regulations, policy, and operational quality**

Non-bank financial institutions are relatively well-evaluated in terms of rules, regulations, and policies that work against money laundering and terrorist financing. 71.2 percent of the organizations involved in the survey are considered a low to average risk, 17.3 percent are high risk, and 11.5 percent are very high risk.

*Table 56 Assessment of rules, regulations, policy and operational quality*

Risk assessment	Risk level	Percentage
1	Very low	0.5%
1-2	Low	26.8%
2-3	Average	43.9%
3-4	High	17.3%
4-5	Very high	11.5%

According to the questionnaire, the vast majority of non-bank financial institutions developed procedures for identifying consumers in accordance with the law on combating money laundering and terrorism financing and complying with all levels of the industry.

### **Assessment of risk management quality**

Organizational risk management of money laundering is weak. 78.1% of the institutions surveyed were considered either high risk or very high risk.

*Table 57 Assessment of risk management quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	4.6%
2-3	Average	17.3%
3-4	High	35.2%
4-5	Very high	42.9%

Only 10 percent of the non-bank financial institutions have branches and divisions of risk management, 8 percent conduct risk assessment of money laundering and terrorist financing activities, while less than 7 percent responded that they have a risk classification system. The lack of an organization's risk management rating is largely due to the low level of non-bank financial activities.

### **Assessment of Internal controls and internal, external audit quality**

Internal and external control of non-bank financial institutions that were assessed were deemed inadequate. 60.4 percent of the organizations survey are considered very high risk and 18.4 percent are considered high risk.

*Table 58 Assessment of Internal controls and internal, external audit quality*

Risk assessment	Risk level	Percentage
1	Very low	0.3%
1-2	Low	5.9%
2-3	Average	15.0%
3-4	High	18.4%
4-5	Very high	60.4%

40.5 percent of non-bank financial institutions have no internal control unit and about 50 percent do not have proper control over the implementation of their anti-money laundering practices, rules, and regulations. In addition, 76.6 percent did not conduct audits on anti-money laundering activities and did not obtain external audits.

### Assessment of complex functional quality

Assessment of complex functional quality of institutions is also insufficient. Among the non-bank financial institutions surveyed, 66.8 percent are considered to be at either high risk or very high risk.

*Table 59 Assessment of Computing functional quality*

Risk assessment	Risk level	Percentage
1	Very low	1.5%
1-2	Low	12.8%
2-3	Average	18.9%
3-4	High	34.4%
4-5	Very high	32.4%

34.9% of the surveyed organizations had appointed a compliance officer tasked with the job of ensuring the implementation of rules, procedures, and policies against money laundering. Overall, 70 percent have created a compliance staff, yet the activities and reporting of the compliance staff are not sufficient.

### Assessment of training and human resource quality

Training on anti-money laundering and human resource capacity building are weak for the organizations that were surveyed. 82.7 percent of the institutions are considered to be a high level or very high level risk for training and human resource policy evaluations.

*Table 60 Assessment of training and human resource quality*

Risk assessment	Risk level	Percentage
1	Very low	0.8%
1-2	Low	3.8%
2-3	Average	12.8%
3-4	High	23.0%
4-5	Very high	59.7%

65.4 percent of non-bank financial institutions do not have organized training programs to combat money laundering and terrorist financing. Currently, there is no sufficient budget for the training.

In addition, only 20 percent of the surveyed organizations have organized training on anti-money laundering that has occurred over the last 6 months.

### Assessment of reporting and registration quality

Quality assessment of reporting and registration is at the average level. 40.3% of the surveyed organizations indicate average risk, 28.1% indicate high risk, and 10.7% are part of the very high level risk group.

*Table 61 Assessment of reporting and registration quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	20.9%
2-3	Average	40.3%
3-4	High	28.1%
4-5	Very high	10.7%

As to Non-bank financial institutions, keeping of the records, documentation and ability to provide necessary quantitative data are sufficient, however some measures such as monitoring of suspicious transactions and sanctions for those who concealed suspicious transactions are considered insufficient.

### **Overall result of quality assessment**

For non-bank financial institutions who participated in the survey, their answers were evaluated by the inspectors and give a score between 1-5. The average score for each questionnaire was calculated. On the basis of the overall assessment of the qualitative results, the rate of each group is calculated as follows.

*Table 62 Rate of quality assessment*

No	Groups	Questionnaire number	Rate
1	Corporate governance	12	25
2	Risk management	11	20
3	Rules, regulations, policies and practices	7	15
4	Internal audits, internal and external audits	5	10
5	Complains function	5	12.5
6	Training and human resources	5	5
7	Reporting and registration	12	12.5

The qualitative assessment results of non-bank financial institutions were shown to be inadequate. 4.8 percent of the participants showed a low risk, 30.9 percent are an average risk, 46.9 percent are high risk, and the remaining 17.3 percent belong to the very high risk group.

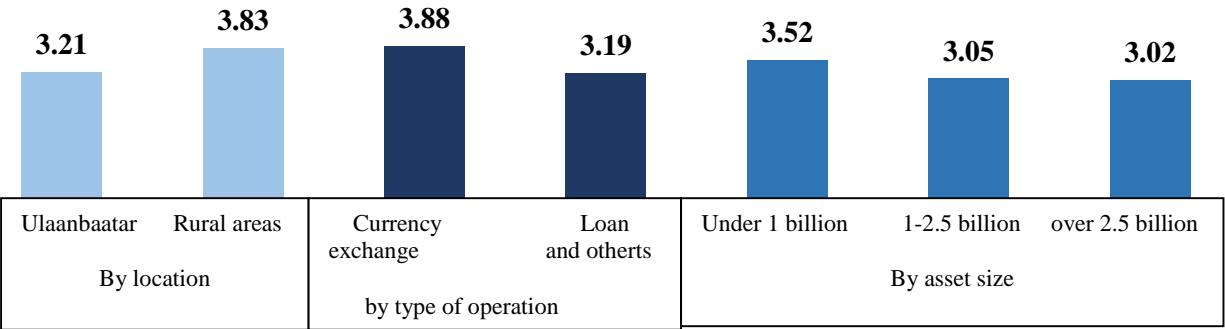
More than 65 percent of non-bank financial institutions are classified as risky, indicating that the organization's anti-money laundering operations are weak. On the other hand, non-bank financial institutions operate in small quantities in small holdings, and the scope of operations, lack of personnel, and resources may have contributed to this inadequacy.

*Table 63 Result of quality assessment*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	4.8%
2-3	Average	30.9%
3-4	High	46.9%
4-5	Very high	17.3%

The answers to the quality questions show that non-bank financial institutions are not adequately operating against money laundering, which is evident from the evaluation results of each group. Most of the surveyed securities companies developed internal rules and regulations against money laundering, but the implementation of the rules and regulations should be further enhanced.

Picture 2. Organizational quality assessment and classification



Looking at the result of the qualitative evaluation of the non-bank financial institutions by location, the level risk in the rural are is higher. It is also higher than those in foreign exchange trading institutions. However, as the level of risk is less than 1 billion togrog, 1-2.5 billion and over 2.5 billion togrog, the average risk level of non-bank financial institutions with the largest amount of 2.5 billion togrog is the lowest.

**3.4 SAVINGS AND CREDIT COOPERATIVES**

The qualitative questionnaire is an important component of an organization's risk assessment of money laundering and is comprised of 57 questions from 7 sections aimed at assessing how the organization conducts anti-money laundering activities and policies. Based on the answers to each question, the inspector, who checked the on site inspection, scored each organization based on a pointscale of 1-5.

**Assessment of Corporate governance quality**

The quality of corporate governance assessments revealed that more than 64 percent of instutions are considered to be high or very high risk, while 31 percent are considered an average risk, and 4.8 percent are low level risk.

*Table 64 Assessment of Corporate governance quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	4.8%
2-3	Average	31.0%
3-4	High	32.1%
4-5	Very high	32.1%

The responses from the organizations that were surveyed found that savings and loan cooperatives have implemented a program that develops policies, rules, and regulations to combat money laundering and terrorism. However, the quality of corporate governance is inadequate because of involvement lack of involvement by the board in anti-money laundering efforts and a lack of monitoring systems for consumer transactions.

### **Assessment of rules, regulations, policy and operational quality**

The rules, regulations, and policies implemented by savings and credit cooperatives are poorly rated. About 40 percent of the surveyed institutions have a low to average risk level, while 21.4 percent are considered high risk and 39.0 percent are considered very high risk.

*Table 65 Assessment of rules, regulations, policy and operational quality*

Risk assessment	Risk level	ЭЗЛЭХ ХУВЬ
1	Very low	-
1-2	Low	7.5%
2-3	Average	32.1%
3-4	High	21.4%
4-5	Very high	39.0%

According to the questionnaire, the section is insufficient because the majority of cooperatives did not develop procedures for identification of consumers and are not in compliance with the law on anti- money laundering and terrorist financing Also, the resposnes did not reflect the required provisions.

### **Assessment of risk management quality**

Assessment of risk management to combat money laundering of institutions is showed extreme risk levels. 70.6% of the institutions are considered very high risk while another 21.4% are considered to be high risk.

*Table 66 Assessment of risk management quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	1.1%
2-3	Average	7.0%
3-4	High	21.4%

4-5	Very high	70.6%
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Only 7 percent of the savings and loan cooperatives have branches and divisions of risk management . They do not adequately assess the risk of money laundering or terrorist financing activities and do not have a risk classification system.

Organizations' risk management assessment is very poor because savings and loan cooperatives service range is very limited and they serve only their members..

### **Assessment of internal control and internal, external audit quality**

The internal and external controls of the savings and credit cooperatives that were surveyed show inadequacies. 58.3 percent of the surveyed institutions have been assessed as very high risk and 26.2 percent have high risk ratings.

*Table 67 Assessment of internal controls and internal, external audit quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	5.3%
2-3	Average	10.2%
3-4	High	26.2%
4-5	Very high	58.3%

66.8% of the surveyed institutions do not have internal control units and 70% do not have proper control over the implementation of their anti-money laundering activities, rules, and regulations.

### **Assessment of compliance function quality**

Evaluation of the cooperative's compliance function is also inadequate. 74.3% of the surveyed savings and credit cooperatives are considered either high risk or very high risk.

*Table 68 Assessment of complians compliance function quality*

Risk assessment	Risk level	Percentage
1	Very low	1.1%
1-2	Low	4.8%
2-3	Average	19.8%
3-4	High	23.5%
4-5	Very high	50.8%

30.0 percent of the surveyed organizations have appointed a staffing officer to ensure that rules, procedures, and policies are being implemented against money laundering, yet the operational and reporting activities of the staff are not sufficient.

### **Assessment of training and human resource quality**

Anti-money laundering training and human resource capacity are poorly insufficient for most of the cooperatives covered by the assessment. 75.9 percent of those surveyed are considered to be very high risk, while another 18.7 percent have a high risk level.

*Table 69 Assessment of training and human resource quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	0.5%
2-3	Average	4.8%
3-4	High	18.7%
4-5	Very high	75.9%

83.4% of the cooperatives do not have training programs to combat money laundering or terrorist financing, and they do not provide sufficient funding for the training.

### **Assessment of reporting and registration quality**

The assessment of reporting and registration quality also showed inadequacies. 25.7 percent of the surveyed institutions have a very high risk level and another 48.1 percent are considered high risk.

*Table 70 Assessment of reporting and registration quality*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	7.0%
2-3	Average	19.3%
3-4	High	48.1%
4-5	Very high	25.7%

Savings and loan cooperatives, have an insufficient system to detect and report suspicious activity. Also, they do not have control of account information and transactions to prevent members from suspicious transactions. Also, administrative penalties for workers who do not follow the rules and procedures are inadequate.

### **Overall result of quality assessment**

On the basis of the quality questionnaire collected from the savings and loan cooperatives, the inspectors evaluated the institution on a pointscale of 1-45 for each question and the average score for each questionnaire was calculated. On the basis of the overall assessment of the qualitative results, the rate of each group is calculated as follows.

*Table 71. Rate of quality assessment*

No	Groups	Questionnaire number	Weight
1	Corporate governance	12	25
2	Risk management	11	20
3	Rules, regulations, policies and practices	7	15
4	Internal audits, internal and external audits	5	10
5	Complains function	5	12.5
6	Training and human resources	5	5
7	Reporting and registration	12	12.5

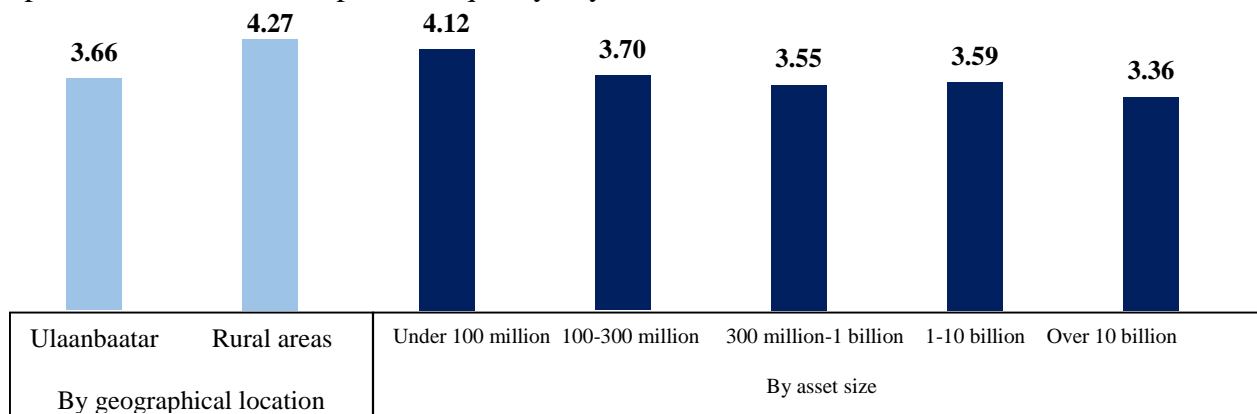
The results of the quality assessment of savings and loan cooperatives are insufficient. Only 1.6% of the surveyed institutions are seen as low risk, 12.8% have an average risk, 44.9% are high risk, and 40.6% are very high risk. 85.5 percent of the savings and loan cooperatives are classified as risky, indicating that cooperative anti-money laundering activities are weak. On the other hand, savings and loan cooperatives have little effect on the ownership of small and average-sized enterprises, and the range of these operations, lack of personnel, and resources, may have been inadequate.

Table 72 Results of quality assessment

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	1.6%
2-3	Average	12.8%
3-4	High	44.9%
4-5	Very high	40.6%

The answers to the quality questions show that the cooperatives have not been able to counter money laundering activities. Most of the savings and credit cooperatives surveyed in the evaluation have developed rules and procedures against money laundering internally, but they need to increase the implementation and requirements of the rules and regulations.

Graph 2. Assessment of cooperatives quality, by classification



Observing results of the qualitative assessment of the savings and credit cooperatives, the risk level of cooperatives in rural areas is higher than those in the city.

The risk level is based on the classification of cooperatives with assets of less than 100 million, assets from 100-300 million, assets from 300 million to 1 billion, assets from 1-10 billion, and those with assets of more than 10 billion. Here shows that the average risk level of savings and credit cooperatives with the largest savings of up to 10 billion togrogs is the lowest compared to other classification of asset.

#### IV. BUSINESS RISK ASSESSMENT

##### 4.1 SECURITIES COMPANIES

In assessing business risk of securities companies, three categories of risk were identified with data available from 2017:

- Customer risk
- Product and service risk
- Delivery channel risk

##### Customer risk

In estimating risk associated with customer involvement in money laundering operations, the following evaluation was conducted on a point scale from 1-5. Four types of customers were identified for evaluation purposes: resident natural persons, resident legal persons, non-resident natural persons, non-resident legal persons.

*Table 73 Percentage of legal arrangements by number*

No	Customer Types	1	2	3	4	5	Rate
1	Resident natural persons	Under 500	500-1000	1000-2500	2500-5000	Over 5000	15
2	Resident legal persons	Under 100	100-250	250-500	500-1000	Over 1000	25
3	Non-resident natural persons	Under 100	100-250	250-500	500-1000	Over 1000	25
4	Non-resident legal persons	Under 100	100-250	250-500	500-1000	Over 1000	35

Legal arrangements less than 500 conducted by surveyed Securities Companies with resident natural persons amount to 61.9% whereas arrangement less than 100 conducted with resident legal persons, non-resident natural persons and legal persons amount to 88.1% 92.9% 92.9% respectively.

*Table 74 Quality assessment of legal arrangements by numbers*

Risk assessment	Risk level	Percentage
1	Very low	52.4%
1-2	Low	40.5%
2-3	Average	2.4%
3-4	High	2.4%
4-5	Very high	2.4%

52.4% of the surveyed institutions indicate a very low risk, 40.5% indicate a low risk and 2.4% represents average, high and very high level risks separately.

### **Transaction risk**

In estimating transaction risk affecting money laundering operations, the following evaluation was conducted on a pointscale from 1-5 specifying four types of customer: resident natural persons, resident legal persons, non-resident natural persons, non-resident legal persons.

*Table 75 Rate of commerical transactions*

No	Customer Type	1	2	3	4	5	Хувийн жин
1	Resident natural persons	Under 500 million	500 million- 1 billion	1-2.5 million	2.5-5 billion	over 5 billion	15
2	Resident legal persons	Under 100 million	100-250 million	250-500 million	500 million- 1 billion	Over 1 billion	25
3	Non-resident natural persons	Under 100 million	100-250 million	250-500 million	500 million 1 billion	Over 1 billion	25
4	Non-resident legal persons	Under 100 million	100-250 million	250-500 million	500 million 1 billion	Over 1 billion	35

59.5% of the surveyed institutions represents the amount of commercial transaction less than 500 million affiliated with resident natural persons while 85.7% 90.5% 88.1% each represents the amount of commercial transaction less than 100 million affiliated with resident legal persons, non-resident natural and legal persons.

*Table 76. Quality assessment of commercial transactions*

Risk assessment	Risk level	Percentage
1	Very low	52.4%
1-2	Low	33.3%
2-3	Average	4.8%
3-4	High	7.1%
4-5	Very high	2.4%

52.4% of the surveyed institutions showed a very low risk, 33.3% are low risk, 4.8% are an average risk, 7.1% are high risk, and the remaining 2.4% are very high risk.

#### **Product and service risk**

In assessing such risk, the following evaluation was conducted on a pointscale from 1-5 based on the transaction amount of service provided by broker, dealer, and underwriter.

*Table 77 Rate of Product and Service*

No	Service Types	1	2	3	4	5	Rate
1	Broker	Over 500 million	500 million-1 billion	1-1.5 billion	1.5-2 billion	Over 2 billion	50
2	Dealer	Over 250 million	250-500 million	500 million-1 billion	1-1.5 billion	Over 1.5 billion	25
3	Underwriter	Over 250 million	250-500 million	500 million 1 billion	1-1.5 billion	Over 1.5 billion	25

Out of the 42 securities companies that were surveyed, 42 provided broker service, 36 provided dealer service, and 19 provided underwriter service either on their own or jointly. Broker certification is required in order to carry out functions of dealer and underwriter.

*Table 78. Product and service risk assessment*

Risk assessment	Risk level	Percentage
1	Very low	59.5%
1-2	Low	9.5%
2-3	Average	11.9%
3-4	High	11.9%

4-5	Very high	7.1%
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The assessment of the institutions that were surveyed indicates very low level of product and service risk. With reference to overall companies, 59.5% makes up the very low risk group, 9.5% makes up the low risk group, 11.9% makes up the high risk group and the remaining 7.1% goes to the very high risk group.

At lower risk level, 76.2 percent of dealers services were lower than 250 million togrog, while 59.5 percent of brokerage services were less than 500 million togros and 90.5 percent of the online service was lower than 250 million togros.

### **Delivery Channel Risk**

The estimation of such risk was based on the amount of commercial trasactions specifying two types of delivery channels: central office and local office.

*Table 79 Percentage of Delivery Channel Risk*

No	Delivery Channel	1	2	3	4	5	Percentage
1	Central Office	Under 500 million	500 million-1 billion	1-1.5 billion	1.5-2 billion	Over 2 billion	70
2	Local Office	Under 250 million	250-500 million	500 million-1 billion	1-1.5 billion	1.5	30

Surveyed insititions deliver the services through central offices, of which, only 14.3% delivered service through local offices.

*Table 80 Delivery Channel channel Risk risk Assessment assessment*

Risk Assessment	Risk Level	Percent
1	Very low	59.5%
1-2	Low	7.1%
2-3	Average	4.8%
3-4	High	23.8%
4-5	Very high	4.8%

As to the delivery channel risk, securities companies pose low level of risk. 59.5% of the institutions that were surveyed are considered to be at very low risk level, 7.1% at low risk level, 4.8% at avergae risk level, 23.8% at high risk level, and 4.8% at very high level risk. 59.5% of the surveyed institutions carried out transactions of less than 500 million through central banks whereas 95.2% carried out transactions of less than 250 million through local offices.

### **Overall Risk Assessment**

In assessing business risk that institutions might encounter in money laundering operations, the following percentages were used in the evaluation. Customer risk, transaction risk, product/service risk, delivery channel risk and geographical risk were all taken into consideration for the assessment.

*Table 81 Percentage of Business risk*

Risk Types	Percent
Customer risk	30.0%
Transaction risk	30.0%
Product/service risk	30.0%
Delivery channel risk	10.0%

As to the business risk, securities companies pose below-average risk. 73.9 percent of the securities companies surveyed pose a below-average risk, 19.0 percent have an average risk level, 4.8% pose high risk level, and 2.4% pose very high risk.

*Table 82 Business risk Assessment assessment Resultresult*

Risk assessment	Risk level	Percent
1	Very low	42.9%
1-2	Low	31.0%
2-3	Average	19.0%
3-4	High	4.8%
4-5	Very high	2.4%

## 4.2 INSURER AND INSURANCE INTERMEDIARIES

In assessing business risk of insurer and insurance intermediaries, the following four types of risks were identified.

- Product and service risk
- Customer risk
- Geographical risk
- Delivery channel risk

### Product and service risk

In estimating such risk, the following evaluation was conducted on a pointscale from 1-5 based on fee income of insurer and insurance intermediaries.

*Table 83 Rate of product and service risk /Insurance companies/*

No	Service Types	1	2	3	4	5	Rate
1	Personal Accident	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	20

2	Property	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	40
3	Driver responsibility	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	40

In assessing product and service risk of the insurance companies, data reported from 2017 of personal accident insurance, property insurance, vehicle insurance, and driver responsibility insurance fee income were analyzed.

*Table 84 Risk assessment of product and service /insurance companies/*

Risk assessment	Risk level	Percentage
1	Very low	13%
1-2	Low	13%
2-3	Average	20%
3-4	High	20%
4-5	Very high	33%

Assessment of surveyed insurer and insurance companies indicate high levels of risk of which 53% refers to the high and very high level risk groups, while 20% refers to average level of risk, and the remaining 26% refers to the low and very low risk groups.

*Table 85 Rate of product and service risk /Insurance intermediary companies/*

No	Service Types	1	2	3	4	5	Rate
1	Property insurance	Under 100 million	100-500 million	500-1.5 billion	1.5 - 3 billion	Over 3 billion	40
2	Vehicle insurance	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	10
3	Mandatory Insurance of Driver Responsibility	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	50

In assessing product and service risk of insurance intermediary companies, data reported from 2017 of personal accident insurance, property insurance, vehicle insurance, and driver responsibility insurance fee income were analyzed.

*Table 86 Risk assessment of product and service /Insurance insurance intermediary companies/*

Risk assessment	Risk level	Percentage
1	Very low	64%

1-2	Low	32%
2-3	Average	4%
3-4	High	-
4-5	Very high	-

Assessment of surveyed insurer and insurance intermediary companies indicated low risk, of which, 64% refers to the very low level risk group, 32% to the low level risk group, and 4% to the average level risk group.

*Table 87 Risk assessment of product and service /Insured estimation companies/*

Risk assessment	Risk level	Rate
1	Very low	95%
1-2	Low	5%
2-3	Average	-
3-4	High	-
4-5	Very high	-

Assessment of product and service risk of the insured estimation companies that were surveyed indicate low level risk, of which 95% refers to the very low risk level group and 5% to the low level risk group.

### **Customer risk**

In estimating risk associated with customer involvement in money laundering operations, the following evaluation was conducted on a pointscale from 1-5 and depended on the customer types of insurer and insurance companies: nationals and domestic entities.

*Table 88. Rate of customer risk /Insurance companies/*

Nº	Service Types	1	2	3	4	5	Rate
1	Nationals	Under 1000	1000-10000	10000-50000	50000-100000	Over 100000	85
2	Domestic entities	Under 1000	1000-10000	10000-50000	50000-100000	Over 100000	15

The assessment of insurance companies indicates high levels of customer risk. 47% were deemed to have high or very high level risk, 20% belong to the average risk group, and 33% belong to the low or very low level risk groups.

*Table 89. Customer risk assessment /Insurance companies/*

Risk assessment	Risk level	Percentage
1	Very low	20%
1-2	Low	13%
2-3	Average	20%
3-4	High	27%

4-5	Very high	20%
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The following rating was conducted for two specific types of customers of insurance intermediary companies: resident natural persons, resident legal persons.

*Table 90 Rate of customer risk /Insurance Intermediary companies/*

№	Service types	1	2	3	4	5	Rate
1	Resident natural persons	1000 доош	1000- 10000	10000- 50000	50000- 100000	Over 100000	88
2	Resident legal persons	Over 1000	1000- 10000	10000- 50000	50000- 100000	Over 100000	12

The assessment of the insurance companies indicates low levels of customer risk, of which 64% belong to the very low level risk group, 21% belong to the low level risk group, and 14% belong to the average level risk group.

*Table 91 Table 104. Customer risk assessment /Insurance intermediary companies/*

Risk assessment	Risk level	Percentage
1	Very low	64%
1-2	Low	21%
2-3	Average	14%
3-4	High	-
4-5	Very high	-

The following rating was conducted specifically for two types customers of insured estimation companies: resident natural persons, resident legal persons.

*Table 92 Customer risk assessment /Insured Estimating Companies/*

Risk assessment	Risk level	Rate
1	Very low	64%
1-2	Low	21%
2-3	Average	14%
3-4	High	-
4-5	Very high	-

### **Geographical risk**

In estimating geographical risk, following rating was conducted based on a pointscale from 1-5 according to the allocation of provided service of intermediaries and collected fee income, throughout the geographical area.

Geographical risks of insurance companies are divided into two parts: Ulaanbaatar and rural areas.

*Table 93 Rate of geographical risk /Insurance companies/*

No	Geographical region	1	2	3	4	5	Rate
1	Ulaanbaatar the Capital City	Under 500 million	500-1 billion	1-2 billion	2 -5 billion	Over 5 billion	69
2	Rural areas	Under 500 million	500-1 billion	1-2 billion	2-5 billion	Over 5 billion	31

The assessment of insurance companies in terms of geographical risk indicates that 33% of the respondents are either high risk or very high risk, 20% have an average level of risk, 47% are considered to have low or very low level of risk.

*Table 94 Geographical risk assessment /Insurance Companies/*

Risk assessment	Risk level	Percentage
1	Very low	27%
1-2	Low	20%
2-3	Average	20%
3-4	High	20%
4-5	Very high	13%

The following table demonstrates Ulaanbaatar as a sole region to pose geographical risk of insurance intermediary companies.

*Table 95 Rate of geographical risk /Insurance Intermediary Companies/*

No	Geographical region	1	2	3	4	5	Rate
1	Ulaanbaatar the Capital City	Under 500 million	500-1 billion	1-2 billion	2 -5 billion	Over 5 billion	100

The assessment of insurance intermediary companies indicates low level of risk. In regards to all of the companies surveyed, 64% have very low risk level, 7% have low risk level, 14% have average risk level, and 14% have high risk level.

*Table 96 Geographical risk assessment /Insurance Intermediary Companies/*

Risk assessment	Risk level	Rate
1	Very low	64%
1-2	Low	7%
2-3	Average	14%
3-4	High	14%

4-5	Very high	-
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The following evaluation of geographical risk of insured estimating companies identified 2 key geographical regions: Ulaanbaatar and rural areas.

In estimating such risk, service centers, intermediaries, internet banking, and mobile phonebanking were identified as means of delivery channels.

*Table 97 Rate of the Delivery channel risk /Insurance companies/*

No	Location types	1	2	3	4	5	Rate
1	Insurance representative	Under 500 million	500-1 billion	1-2 billion	2 -5 billion	Over 5 billion	10
2	Insurance intermediaries	Under 500 million	500-1 billion	1-2 billion	2-5 billion	Over 5 billion	30
3	Branch	Under 100 million	100-500 million	500-1 billion	1 -2.5 billion	Over 2.5 billion	10
4	Central Office	Under 500 million	500-1 billion	1-2 billion	2 -5 billion	Over 5 billion	50

Delivery channel risk of the insurance companies is considered to be at or below the average level. From the total number of companies that were surveyed, 47% belong to the very low risk group, 40% belong to the average risk group. The high and very high risk groups shared the remaining 14%.

*Table 98 Delivery channel risk assessment /Insurance Companies/*

Risk assessment	Risk level	Percentage
1	Very low	47%
1-2	Low	-
2-3	Average	40%
3-4	High	7%
4-5	Very high	7%

Insurance service is provided through central office and insurance intermediary institutions.

*Table 99 Rate of Deliver delivery channel risk /Insurance intermediary companies/*

No	Location types	1	2	3	4	5	Rate
1	Central Office	Under 100 million	100-500 million	500-1 billion	1-2.5 billion	Over 2.5 billion	100

Delivery channel risk of insurance intermediary companies is considered to be at a low level. From the total number of companies that were surveyed, 64% of respondents are part of the low or very low risk groups, 7% of respondents are part of the average level group, while the high and very high risk groups claim the remaining 28%.

*Table 100. Delivery channel risk assessment /Insurance Intermediary Companies/*

Risk assessment	Risk level	Percentage
1	Very low	43%
1-2	Low	21%
2-3	Average	7%
3-4	High	21%
4-5	Very high	7%

Insurance intermediary companies provide complete service (100%) through their own offices.

### **Overall business risk assessment**

In assessing business risk that institutions might encounter in money laundering operations, the following rates were used in the evaluation, taking into consideration customer risk, transaction risk, product/service risk, delivery channel risk and geographical risk.

*Table 101 Rate of business risk*

Risk types	Rate
Product and service risk	40
Customer risk	40
Geographical risk	10
Delivery channel risk	10

The business risk for the insurance companies is considered to be at average level. Risk rates are assigned as follows: very low (7%) low (20%) average (40%) high (33%). Product/service risk and customer risk played a major role in the overall high rate of business risk.

*Table 102 Business risk assessment /Insurance Companies/*

Risk assessment	Risk level	Percentage
1	Very low	7%
1-2	Low	20%
2-3	Average	40%
3-4	High	33%
4-5	Very high	-

The business risk for insurance intermediary institutions is considered to be at a low level. From the total number of companies that were surveyed, risk rates are assigned as 61% at a very low risk level and 39% at a low risk level.

*Table 103 Business risk assessment /Insurance Intermediary Companies/*

Risk assessment	Risk level	Percentage
1	Very low	61%
1-2	Low	39%
2-3	Average	-
3-4	High	-
4-5	Very high	-

The business risk for insured estimating companies is considered to be low level. From the total number of companies that were surveyed, 86% belong to the very low risk group and 14% belong to the low risk group.

#### **4.3 NON-BANK FINANCIAL INSTITUTION**

In assessing business risk of non-bank financial institutions, the following 4 types of risks were identified:

- Product and service risk
- Customer risk
- Geographical risk
- Delivery channel risk

##### **Product and service risk**

In estimating such risk, the following evaluation was conducted using a pointscale from 1-5 based on the sum of the amount of money used for remittance service, government and financial institutions funds, and foreign currency exchange service.

*Table 104 Rate of product and service risk*

No	Service Types	1	2	3	4	5	Rate
1	Money remittance amount	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	50
2	Trust service payment	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	20
3	Foreign currency exchange amount	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	30

In estimating product and service risk of NFBI, the annual report of money remittance amount, trust service payment, and foreign currency exchange amount was analyzed for the 2017 year. As of 2017, the number of NFBI holding a money remittance service license was 15, of which 4 participated in the survey. As to the trust service providers, out of 28 institutions holding licenses, 22 were involved with trust service payments and 15 of them participated in the survey. As to the foreign currency exchange service providers either on their own or jointly, the number of institutions holding licenses was 147, but only 79 of them provided the service.

*Table 105 Product and service risk assessment*

Risk assessment	Risk level	Percentage
1	Very low	81.9%
1-2	Low	6.9%
2-3	Average	10.7%
3-4	High	0.5%
4-5	Very high	-

The assessment of product and service risk of the surveyed institutions indicates very low risk. Very low risk of product and service accounted for 81.9% of those surveyed, low risk accounted for 6.9% of those surveyed, average risk accounted for 10.7%, and high risk accounted for the remaining 0.5%.

### **Customer risk**

In estimating risk associated with customer involvement in money laundering operations, the following evaluation was conducted on a pointscale from 1-5, which accounted for transaction amounts made by main operations, inclusive of loan service and foreign exchange, either on their own or jointly in conjunction with specific customer types.

*Table 106 Rate of customer risk*

№	Customer types	1	2	3	4	5	Хувийн жин
1	Resident natural persons	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	10
2	Resident legal persons	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	15
3	Non resident natural persons	Under 100 million	100-500 million	500 million - 1 billion	1-1.5 billion	Over 1.5 billion	15
4	Non resident legal persons	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	25

5	Persons related to politics	Under 100 million	100-500 million	500 million - 1 billion	1-1.5 billion	Over 1.5 billion	35
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*Foreign exchange amount was assessed in same interval as product risk*

The majority of the NBFIs that were surveyed provided loan services to resident natural persons, leaving 35.2% to resident legal persons, only 2.8% to non-resident natural persons, 0.5% to non-resident legal persons, and 0.3% to persons related to politics. As for the institutions rendering sole service of foreign currency, such service was provided to only resident natural persons.

*Table 107 Customer risk assessment*

Risk assessment	Risk level	Percentage
1	Very low	12.2%
1-2	Low	86.5%
2-3	Average	1.3%
3-4	High	-
4-5	Very high	-

Customer risk assessment provided the following data: 12.2% of those surveyed belong to the very low risk group, 86.5% belong to the low risk group, and the remaining 1.3% belong to the average risk group. The small loan amounts given to individuals is considered to be a causal link to the low risk rate.

### **Geographical risk assessment**

In estimating geographical risk, the following evaluation was conducted on a pointscale from 1-5 depending on the allocation of the loan service rendered throughout the geographical area.

*Table 108. Rate of geographical risk*

№	Geographical region	1	2	3	4	5	Rate
1	Ulaanbaatar the Capital city	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	20
2	Rural areas	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	15
3	Economic free zone	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	20
4	Countries listed by FATF	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	30

5	Other foreign countries	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	15
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Great part of loan was granted in Ulaanbaatar city by the NBFIs. Only few institutions that operate in rural areas and that have branches such areas, provided loan service in rural areas. As for the economic free zones and other foreign countries, no NBFIs provided service to those areas.

*Table 109. Geopgrpahical rsik risk assessment*

Risk assessment	Risk level	Percentage
1	Very low	12.0%
1-2	Low	87.0%
2-3	Average	1.0%
3-4	High	-
4-5	Very high	-

Geographical risk for NBFIs is considered to be at low level. From the total number of surveyed institutions, 12% holds very low risk, 87% holds low risk and 1% holds average risk.

### **Delivery channel risk**

In estimating such risk, service centers, branch/intermediaries, internet banking, and mobile banking were identified as delivery channel types.

*Table 110 Rate of delivery channel risk*

№	Delivery channel types	1	2	3	4	5	Rate
1	Service centers	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	15
2	Branch, intermediaries	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	25
3	Internet banking	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	25
4	Mobile banking	Under 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Over 1.5 billion	35

The majority of the surveyed NBFIs renders the service through their central offices and only 4.1% provided the service through their branches. There are two NBFIs that offer internet banking and mobile banking services, however, data was not reported to the commission.

*Table 111 Delivery channel risk assessment*

Risk assessment	Risk level	Percentage
1	Very low	12.0%

1-2	Low	85.7%
2-3	Average	2.3%
3-4	High	-
4-5	Very high	-

Delivery channel risks of the NBFIs are also rated low. Low risk level groups attribute to 85.7% while very low and average risk groups attribute to 12% and 2.3% respectively.

### Overall business risk assessment

In assessing business risk that institutions might encounter in money laundering operations, the following rates were used in the evaluation, taking into consideration customer risk, transaction risk, product/service risk, delivery channel risk, and geographical risk.

*Table 112 Rate of business assessment*

Risk types	Rate
Product and service risk	40
Customer risk	40
Geographical risk	10
Deliver channel risk	10

Overall business risk for NBFIs is rated low. Among the surveyed institutions, the low risk group is made up of 88.5% of those surveyed, the very low risk group has 10.2% of respondents, and the average risk group claims the remaining 1.3%.

*Table 113. Business risk assessment*

Risk assessment	Risk level	Percentage
1	Very low	10.2%
1-2	Low	88.5%
2-3	Average	1.3%
3-4	High	-
4-5	Very high	-

## 4.4 SAVINGS AND LOAN COOPERATIVE

In assessing the business risk of savings and loan cooperatives, the following four types of risks were identified:

- Product and service risk
- Customer risk
- Geographical risk
- Delivery channel risk

### Product and service risk

In assessing such risk, the following evaluation was conducted on a pointscale from 1-5 based on the amount of savings and loans the institutions have.

Table 114. Rate of Product and service risk

№	Service Types	1	2	3	4	5	Хувийн жин
1	Savings amount	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	50
2	Loan amount	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	50

The assessment of product and service risk for savings and loan cooperatives was based on data gathered from the annual report of 2017 on savings and loans.

Table 115 Product and service risk assessment

Risk rate	Risk level	Percentage
1	Very low	25.7%
1-2	Low	49.7%
2-3	Average	15.5%
3-4	High	2.1%
4-5	Very high	7.0%

Overall product and service risk among the surveyed cooperatives is at a low level of risk., Almost half of the respondents, 49.7%, are viewed as low level risk, another 25.7% are very low risk, 15.5% have average risk, 2.1% belonging to the high risk level group and the remaining 7% are very high risk.

### Customer risk

In estimating the risk associated with customer involvement in money laundering operations, the following evaluation was conducted on a pointscale from 1-5, specifying four types of members.

Table 116 Weight of Customer risk assessment

№	Customer types	1	2	3	4	5	Weight
1	Resident natural persons	Under 50	50-100	100-500	500-1000	Over 1000	10
2	Resident legal persons	Under 50	50-100	100-500	500-1000	Over 1000	15
3	Non resident natural persons	Under 50	50-100	100-500	500-1000	Over 1000	15
4	Non resident legal persons	Under 50	50-100	100-500	500-1000	Over 1000	25

5	Persons related to politics	Under 50	50-100	100-500	500-1000	Over 1000	35
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The number of SLC members who are resident natural persons reached 176 which translates to 93.5% and the remaining 12 are comprised of both resident natural and legal persons. The minimum number of members in SLC is 1 and 9203 is the maximum.

*Table 117 Customer risk assessment*

Risk rate	Risk level	Percentage
1	Very low	30.5%
1-2	Low	69.5%
2-3	Average	-
3-4	High	-
4-5	Very high	-

Out of the surveyed cooperatives, 30.5% makes up the very low risk group while 69.5% contribute to the low risk group. This low risk rating can be attributed to the fact that their members are classified as resident natural persons.

### **Geographical risk**

In estimating geographical risk, the following evaluation was conducted on a pointscale from 1-5 based on the allocation of services provided or loans granted by savings and loan cooperatives throughout the geographical area.

*Table 118 Weight of geographical risk*

No	Geographical region	1	2	3	4	5	Weight
1	Ulaanbaatar the Capital city	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	20
2	Rural areas	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	15
3	Economic free zone	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	20
4	Countries listed by FATF	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	30
5	Other foreign countries	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	15

The majority of the loans granted were in Ulaanbaatar city whereas cooperatives operating in rural areas rendered loan services in such areas. Service provided by those SLCs in economic free zones and other foreign countries did not exist.

*Table 119. Geographical risk assessment*

Risk rate	Risk level	Percentage
1	Very low	28.3%
1-2	Low	71.7%
2-3	Average	-
3-4	High	-
4-5	Very high	-

Geographical risk of SLC is at a low level. The surveyed institutions are composed of 28.3% at a very low risk and 71.7% at a low risk.

### **Delivery channel risk**

In estimating such risk, service centers, branches/intermediaries, internet banking, and mobile banking were identified as delivery channel types.

*Table 120 Weight of delivery channel risk*

No	Delivery channel types	1	2	3	4	5	Weight
1	Service centers	Under 50 million	50-100 million	100-500 million	500 million-1 billion	Over 1 billion	15
2	Branch/intermediaries	Under 50 million	50-100 million	100-500 million	500 million-1 billion	Over 1 billion	25
3	Internet banking	Under 50 million	50-100 million	100-500 million	500 million-1 billion	Over 1 billion	25
4	Mobile banking	Under 50 million	50-100 million	100-500 million	500 million-1 billion	Over 1 billion	35

The majority of the surveyed SLCs provided services through their central office and only 1.6% provided services through their branches.

*Table 121 Delivery channel risk assessment*

Risk rate	Risk level	Percentage
1	Very low	28.3%
1-2	Low	71.1%
2-3	Average	0.5%
3-4	High	-

4-5	Very high	-
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Delivery channel risk of savings and loan cooperatives is also at a low level. 28.25 of the surveyed institutions have very low risk, 71.1% have low risk, and 0.5% have average level risk.

### Overall business risk assessment

In assessing business risk that institutions might encounter in money laundering operations, the following weights were used in the evaluation, taking into consideration customer risk, transaction risk, product/service risk, delivery channel risk, and geographical risk.

*Table 122 Weight of business risk*

Risk types	Weight
Product and service risk	40
Customer risk	40
Geographical risk	10
Delivery channel risk	10

The business risk rate of savings and loan cooperatives is at a low level. Among the total number of surveyed institutions, assigned weights of very low risk group, low risk group and average risk group are 17.1%, 73.8%, and 9.1% respectively.

*Table 123 Business risk assessment*

Risk assesment	Risk level	Percentage
1	Very low	17.1%
1-2	Low	73.8%
2-3	Average	9.1%
3-4	High	-
4-5	Very high	-

## V. SUMMARY OF OVERALL RISK ASSESMENT

### 5.1 SECURITIES COMPANIES

Overall risk of money laundering and financing terrorism operations is calculated according to the following weights.

*Table 124 Weight of money laundering risk assessment*

№	Assessment types	Weight	
1	Quality assessment	40	85
2	Business risk	60	
3	Structrual risk		15

This assessment was conducted in order to study the level of money laundering risk of securities companies. This assessment is comprised of qualitative and quantitative assessment. Quality assessment is directed to evaluate how the securities companies prevent money laundering risks which resulted in 78.6% being high risk or unsatisfactory. Furthermore, quantitative data was gathered in order to assess the level of money laundering risk. Such evaluation revealed that 71.4% of the companies pose above-average structural risk and 92.9% of the companies pose below-average business risk.

According to the overall assessment, among all the surveyed companies, 4.8% belonged to low risk, 85.7% belong to average risk and 9.5% belonged to the high risk group.

*Table 125. Result of overall risk assessment*

Risk rate	Risk level	Percentage
1	Very low	-
1-2	Low	4.8%
2-3	Average	85.7%
3-4	High	9.5%
4-5	Very high	-

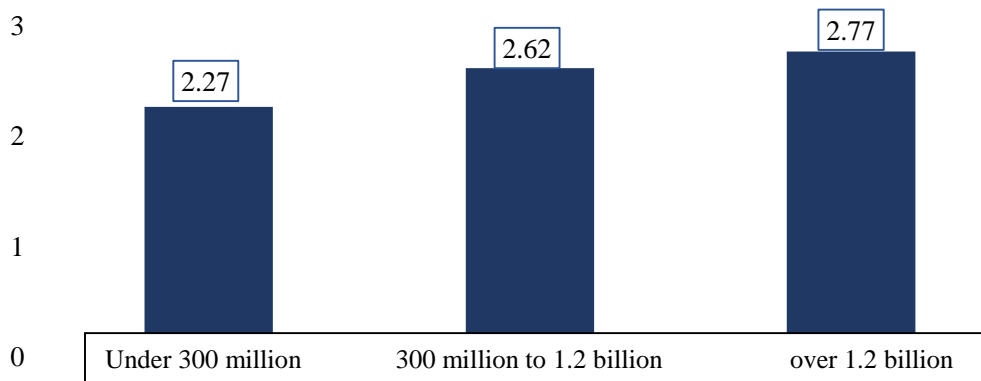
Result of overall risk assessment revealed, as shown by geographical areas below, that the average risk rate was 2.49 for Ulaanbaatar. Out of the districts in Ulaanbaatar, Sukhbaatar had the highest rate and Khan-Uul had the lowest rate. No securities companies from the Songino Khaikhan or Baganuur districts was engaged.

*Table 126 Securities Companies companies risk level, by geographical areas*

Ulaanbaatar	2.49
Bayangol	2.46
Bayanzurkh	2.35
Songino Khaikhan	-
Sukhbaatar	2.63
Khan-Uul	2.25
Chingeltei	2.37
Baganuur	-

Risk assessment of the companies, as shown by their assets, indicates average risk rate of securities companies possessing assets less than 300 million is 2.27; between 300 million and 1.2 billion the average rate is 2.62. As for the companies whose assets are over 1.2 billion is comparably high (2.77%). This is due to the types services provided. While providing broker services, they are also engaged in dealer and underwriter activities.

Graph 3. Result of money laundering risk assessment, by their assets



Illustrated by operation types, the average rate of broker and underwriter (inclusive of investment consulting) activities is 3.25 whereas the average rate of broker, dealer, underwriter activities (inclusive of investment consulting) is 2.7%. The average rate of broker and dealer activities (Inclusive of investment consulting) is 2.31 while the average rate of broker activities (inclusive of investment consulting) is 2.1.

## 5.2 INSURER AND INSURANCE INTERMEDIARIES

Overall risk of money laundering and financing terrorism operations was calculated according to following weights.

Table 127 Weight of money laundering risk assessment

No	Assessment types	Weight	
1	Quality assessment	40	85
2	Business assessment	60	
3	Structural assessment		15

This assessment was conducted in order to study the level of money laundering risk of insurer and insurance intermediaries. This assessment is comprised of qualitative and quantitative assessment. Quality assessment is directed to evaluate how the insurer and insurance intermediaries prevent money laundering risks which resulted in high risk. Furthermore, quantitative data was gathered in order to assess the level of money laundering risk by calculating structural and business risk. It was concluded that the overall rate was low due to the low amount of services or products being delivered to the resident natural and legal persons through the central office and branches by the insurer and insurance intermediaries.

As a result of overall risk assessment of insurance companies, 13% refers to the low risk, 73% refers to the average risk, and another 13% refers to the high risk groups.

Table 128 Risk assessment result /Insurance Companies/

Risk rate	Risk level	Percentage
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1	Very low	-
1-2	Low	13%
2-3	Average	73%
3-4	High	13%
4-5	Very high	-

According to the results of overall risk assessment, 36% of the surveyed companies are considered low risk and 64% are considered average risk.

*Table 129 Risk assessment result /Insurance intermediary companies/*

Risk rate	Risk level	Percentage
1	Very low	-
1-2	Low	36%
2-3	Average	64%
3-4	High	-
4-5	Very high	-

Results of overall risk assessment of insured stimulating companies shows that 67% of the surveyed institutions belong to the low risk group while 33% belong to average risk group.

### 5.3 NON-BANK FINANCIAL INSTITUTIONS

Overall risk of money laundering and financing terrorism operations was calculated according to following weights.

*Table 130 Weight of Money laundering risk assessment*

No	Assessment	Weight	
1	Quality assessment	40	85
2	Business assessment	60	
3	Structural assessment		15

This assessment was conducted in order to study the level of money laundering risk of non-bank financial institutions. This assessment is comprised of qualitative and quantitative assessment. Quality assessment was directed to evaluate how the insurer and insurance intermediaries prevent money laundering risks which resulted in high risk. Furthermore, quantitative data was gathered in order to assess the level of money laundering risk by calculating structural and business risk. It was concluded that overall rate was low due to low amounts of services or products being delivered to the resident natural and legal persons through central office and branches by NBFIs.

As a result of overall risk assessment of insurance 20 companies, 26.8% refers to the low risk, 73% refers to the average risk, and the remaining 0.2% refers to the high risk group.

*Table 131. Risk assessment result*

Risk rate	Risk level	Percentage
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1	Very low	-
1-2	Low	26.8%
2-3	Average	73.0%
3-4	High	0.2%
4-5	Very high	-

The results of overall risk assessment revealed, as shown by geographical areas below, that average risk rate was 2.17 for Ulaanbaatar city. Out of the districts in Ulaanbaatar, Songino Khaikhan had the highest rate and Khan-Uul had the lowest rate. In regards to the rural areas, the average risk rate was 2.14 and there were not significant differences among the regions.

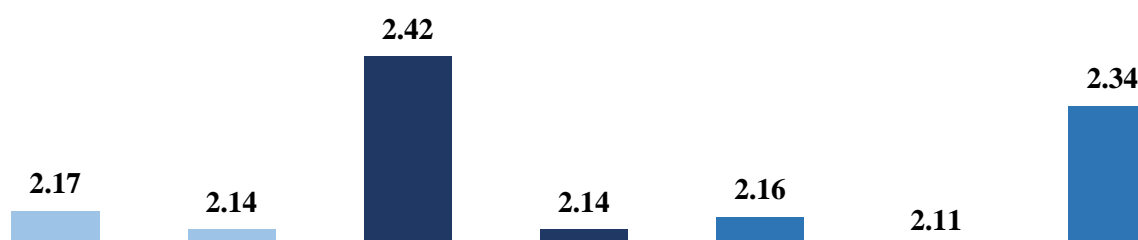
*Table 132 Risk level, by geographical regions*

Ulaanbaatar	2.17
Bayangol	2.13
Bayanzurkh	2.16
Songino Khaikhan	2.37
Sukhbaatar	2.15
Khan-Uul	1.97
Chingeltei	2.25
Baganuur	2.25
Rural areas	2.14
Western region	2.08
Khangai region	2.17
Central region	2.12
Eatern region	2.21
Overall	2.17

Risk assessment of the companies, as shown by their assets, indicates the average risk rate of securities companies possessing assets of less than 300 million is 2.27; between 300 million and 1.2 billion average rate is 2.62. As for the companies whose assets are over 1.2 billions is comparably high (2.77%). This is due to types of the services provided. While providing broker service, they are also engaged in dealer and underwriter activities.

Sorted by the operation types, the average risk rate for institutions engaged solely in foreign currency exchange operations was 2.42, while the average risk rate for the institutions providing loan service and other services concurrently was 2.14. Sorted by their asset size, the average risk rate for institutions with less than 1 billion MNT was 2.16 and if it is between 1-2.5 billion the average risk rate was 2.11. The risk rate of those with more 2.5 billion MNT is relatively high at 2.34. This is largely due to the loan amount and range of operations carried out.

Graph 4. Money laundering risk assessment result



Currency exchange	Loan and others
by type of operation	

Under 1 billion	1-2.5 billion	over 2.5 billion
By asset size		

Average risk rate for the sector was 2.17 suggesting that the money laundering risks among SLCs was relatively low - the risk level was considered to be at average and below-average.

#### 5.4 SAVINGS AND LOAN COOPERATIVE

Overall risk of money laundering and financing terrorism operations is calculated according to following weights.

*Table 133. Weight of money laundering risk assessment*

No	Assessment types	Weight	
1	Quality assessment	40	85
2	Business risk	60	
3	Structural risk		15

This assessment was conducted in order to study the level of money laundering risk of savings and loan cooperatives. This assessment is comprised of qualitative and quantitative assessment. Quality assessment was directed to evaluate how the insurer and insurance intermediaries prevent money laundering risks which resulted in high risk. Furthermore, quantitative data was gathered in order to assess the level of money laundering risk by calculating structural and business risk. It was concluded that the overall rate was low due to the low amount of services or products being delivered to the resident natural and legal persons through the central office and branches of SLCs. As a result of overall risk assessment of SLCs, 7.5% refers to the low risk, 88.2% refers to the average risk, and the remaining 4.3% refers to the high risk group.

*Table 134 Risk assessment result*

Risk assessment	Risk level	Percentage
1	Very low	-
1-2	Low	7.5%
2-3	Average	88.2%
3-4	High	4.3%

4-5	Very high	-
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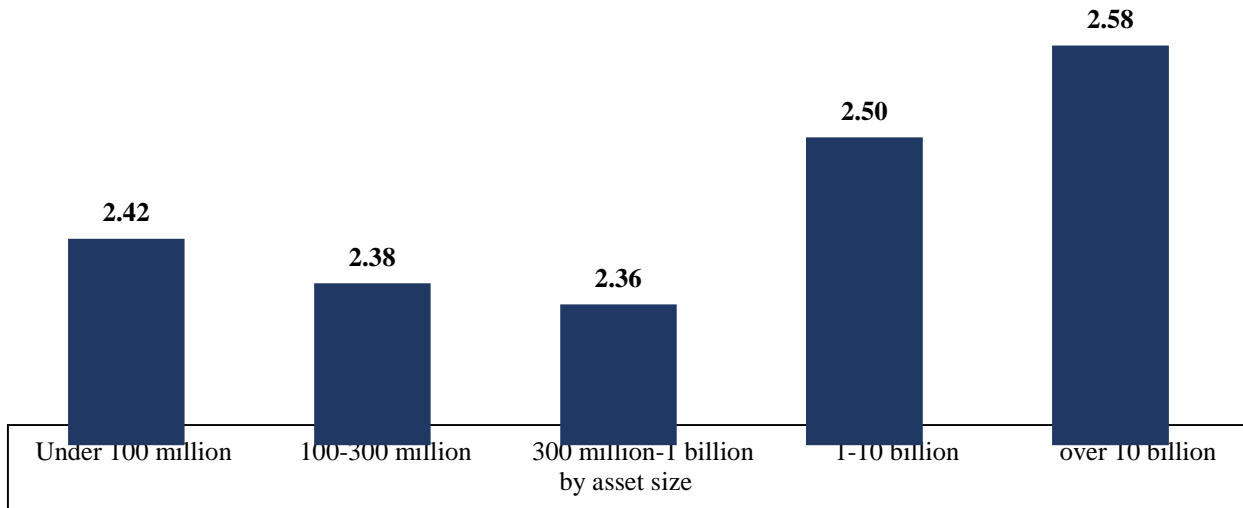
Result of overall risk assessment revealed, as shown by geographical areas below, the average risk rate is 2.39 for Ulaanbaatar. Out of the districts in Ulaanbaatar, Bayanzurkh, Chingeltei, Baganuur, and Bagakhangai have the highest rates and Sukhbaatar has the lowest rate. In regards to the rural areas, the average risk rate is 2.45 and there is not significant differences among the regions.

*Table 135 Risk level of cooperatives, by geographical area*

Ulaanbaatar city	2.39
Bayangol	2.45
Bayanzurkh	2.48
Songino Khaikhan	2.29
Sukhbaatar	2.26
Khan-Uul	2.36
Chingeltei	2.48
Baganuur	2.48
Bagakhangai	2.48
Nalaikh	2.42
Rural areas	2.45
Western region	2.52
Khangai region	2.56
Central region	2.53
Eastern region	2.53
Gobi region	2.19
Overall	2.40

Sorted by their asset size, the average risk rate for the cooperatives with less than 1 million MNT is 2.42 and if it is between 100-300 million the average risk rate is 2.38. Moreover, the risk rate of cooperatives with assets of 300 million to 1 billion MNT is relatively low at 2.36, while the average risk rating of cooperatives with 1-10 billion MNT is 2.50. An average risk rate for cooperatives with more than 10 billion is the highest (2.58). This can be linked to the large amounts given in loans and the wide range of operations.

Graph 5. Money laundering risk result,



Average risk rate for the sector was 2.40 suggesting that the money laundering risk among SLCs was relatively low - the risk level was considered to be at average and below-average.

## VI. EXECUTIVE SUMMARY

The Financial Regulatory Commission conducted onsite inspections within its monitoring function granted by the law of money laundering and financing terrorism between May to July 2018. Risk assessment of carrying out money laundering and financing terrorism operations by companies was based on quantitative and qualitative data gathered in accordance with the money laundering risk assessment method developed by IMF consultants. The following sections will summarize the survey report on securities companies, insurance companies, non-bank financial institutions, and savings and loan cooperatives. The money laundering risk assessment method consists of qualitative and quantitative approaches. Quality assessment was directed to evaluate how the institutions prevent money laundering risks while quantitative assessment focuses on what level of risk the institutions pose.

As of February 2018, assessment was conducted among 42 institutions who reported the relevant data and information. All of them operated in Ulaanbaatar city, despite the number of companies operating in the city 54 companies are operating in rural areas, of which 18 were not covered in the assessment. Overall quality assessment resulted in low performance or high risk. Although efforts were made, such as bringing the laws and procedures into conformity, there were some deficiencies, namely lack of implementation of such laws and procedures, monitoring, and human resource training.

On the contrary, structural and business risk assessment that was based on quantitative data suggested that structural risk of securities companies was considerably low and in terms of business risk, 92.9% of the companies belonged to below-average risk groups. As a result of overall risk assessment, the average risk rate is 2.49 and 85.7% were rated between 2-3, which is translated to average risk level. 4.8% of those surveyed have a low risk level and 9.5% have a high risk level. The average risk rate of the securities companies suggests that preventative measures to

stop money laundering are inadequate and further efforts must be made in order to end this problem.

The total number of insurance companies and companies that were actually involved in the assessment is as follows: insurance companies (15 out of 17) insurance intermediary companies (28 out of 46). This assessment was based on quantitative and qualitative data out of a total of 64 insurer and insurance intermediary companies. Overall quality assessment of the insurer and insurance intermediaries resulted in low performance or high risk. Although efforts were made, such as bringing the laws and procedures into conformity, there were some deficiencies, namely lack of implementation of such laws and procedures, monitoring, and human resource training. As a result of the overall risk assessment, the average risk rate for the insurance sector was 3.2, and 73% of the assessed institutions are rated between 2-3 or as average risk level while 13% are considered low risk. Average risk rate for insurance intermediaries was 3.1, in detail 64% of the surveyed institutions scored between 2-3 (average risk) the remaining 36% are considered to be low risk.

As of 2017, 534 non-bank financial institutions were operating in the sector of which 466 were involved in the survey and inspection. 392 were assessed based on their submission of the relevant data and information. Overall quality assessment of the non-bank financial institutions resulted in low performance or high risk. Although efforts were made, such as bringing the laws and procedures into conformity, there were some deficiencies, namely lack of implementation of such laws and procedures, monitoring, and human resource training. This low performance is also affected by mostly NBFIs operating on a small scale with limited number of individuals.

Overall quality assessment concluded that the risk for institutions with adequate capital or diverse institutions was considered to be at comparably low levels. Structural and business risk assessment that was based on quantitative data suggested that money laundering risk of NBFIs was low because most institutions grant loans on a small scale to resident natural persons through their central office. An overall risk assessment shows that the sector risk rate is 2.17, and 73 percent of the assessed institutions scored between 2-3 (average risk level) while 26.8 percent refers to the low risk level group.

As of 2017, 290 savings and loan cooperatives were operating in the sector, of which 194 were involved in the survey and inspection. 187 were assessed based on their submission of the relevant data and information. Overall quality assessment of the SLCs resulted in low performance or high risk. Although efforts were made, such as bringing the laws and procedures into conformity, there were some deficiencies, namely lack of implementation of such laws and procedures, monitoring, and human resource training. This low performance is also affected mostly by SLCs that are operating on a small scale with a limited number of individuals. The results of the quality assessment indicated risk for institutions with adequate capital, were considered to be at comparably low levels. An overall risk assessment shows that the sector risk rate is 2.40, and 88.2 percent of the assessed institutions scored between 2-3 (average risk level) while 7.5 percent refers to the low risk level group.