

BANKI  
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KENYA



CENTRAL  
BANK OF  
KENYA

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## **BANKING CIRCULAR NO. 12 OF 2023**

### **TO ALL CHIEF EXECUTIVE OFFICERS OF COMMERCIAL BANKS, MORTGAGE FINANCE COMPANIES AND MICROFINANCE BANKS**

### **DISSEMINATION OF MONEY LAUNDERING, TERRORISM FINANCING AND PROLIFERATION FINANCING SECTORAL RISK ASSESSMENT REPORT**

#### **1.0 BACKGROUND**

Recommendation 1 of the Financial Action Task Force (FATF) Standards on combating money laundering, the financing of terrorism and proliferation requires countries to identify, assess, and understand the money laundering, terrorist financing proliferation financing (ML/TF/PF) risks for the country. Based on that assessment, countries are required to apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering, terrorist financing and proliferation financing are commensurate with the risks identified. This should inform efficient allocation of resources based on ML/TF/PF risks as understood by the relevant institution.

FATF standards envisage different types of risk assessments including institutional risk assessments, sectoral risk assessments and national risk assessments. It is against this backdrop that the Central Bank of Kenya (CBK) has conducted a sectoral risk assessment of the sectors falling under its supervisory purview. The sectors have been classified based on the type of financial institutions licensed by the CBK. These are commercial banks, microfinance banks, money remittance providers (MRPs), foreign exchange (forex) bureaus, digital credit providers and payment service providers. For purposes of the sectoral risk assessment, these institutions constitute six sectors.

In conducting the sectoral risk assessment, the CBK has used information and data obtained from financial institutions, Financial Reporting Centre (FRC), law enforcement agencies, Mutual Evaluation of Kenya Report, the National Risk Assessment (NRA) reports and several open sources. Each of the six sectors has been rated using a five-risk rating of Low, Medium Low, Medium, Medium High and High. Below is a snapshot of the ML/TF/PF risks.

#### **2.0 KEY FINDINGS OF THE SECTORAL RISK ASSESSMENT**

The banking sector has the highest ML/TF/PF vulnerability. This is attributed to its size, variety of products and services, diverse customer base and its high level of materiality and importance in the Kenyan economy. Digital credit providers pose the least ML/TF/PF risks to the financial sector.

The table below summarizes the ML/TF/PF risks of the various sectors.

	ML Risk	TF Risk	PF risk
Bank	Medium High	Medium High	High
Microfinance bank	Medium	Medium	Medium
Foreign Exchange bureau	Medium High	Medium Low	Low
Money remittance providers	Medium	Medium High	High
Payments service provider	Medium Low	Medium High	Low
Digital credit providers	Medium Low	Low	Low

These are useful findings that financial institutions should take into account when undertaking their own institutional risk assessments.

The sectoral risk assessment report is forwarded herewith for financial institutions' reference and action.

### 3.0 PURPOSE OF THE CIRCULAR

The purpose of this Circular is to:

1. Apprise financial institutions on the outcomes of the sectoral risk assessment which has been conducted by the CBK.
2. Disseminate the sectoral risk assessment report to financial institutions for their reference and action.
3. Advise financial institutions to take into account the findings of the sectoral risk assessment when they are conducting their own institutional risk assessments and when applying AML/CFT/CPF risk-based approach.

Yours faithfully,



**GERALD A. NYAOMA**  
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