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## **SUBSTANTIATING THE MECHANISM TO CONTROL RISK OF BANK CUSTOMERS IN THE CONTEXT OF IMPLEMENTATION OF FINANCIAL MONITORING**

Banking supervisory authorities all over the world strive to ensure that banks have such the mechanisms to control risk of bank customers that would ensure that they do not participate in operations related to money laundering.

Considering that the legalization of proceeds of crime is a common type of crime, which has the ability to actively modify and adapt to the realities of practical aspects within the framework of legislation, to ensure its viability, a modern bank needs to create such risk control mechanisms for financial transactions of customers that will allow to identify risks in advance, identify their sources, assess the level, monitor, use the necessary tools and procedures for responding to emerging threats.

The basic elements of the mechanism to control risk of bank customers in the context of the implementation of financial monitoring are the goal, the principles, the tasks, the functions, the objects, the subjects, the tools, the policies.

The first stage in creating the mechanism to control risk of bank customers in the context of implementing of financial monitoring is to specify the goal of the mechanism.

The key components of the goal include identification and limitation (minimization) of high risks of bank customers in the financial monitoring system. A fundamental

prerequisite to achieve this goal is the fulfillment of the tasks that underlie to control risk of bank customers.

The tasks to control risk of bank customers are as follows: identification and assessment of risks parameters of bank customers; conducting due diligence of new customers as well as existing customers; other tasks.

Tasks execution and successful achievement of the goal of the mechanism to control risk of bank customers is based on observance of the relevant principles and performance of necessary functions. Generalization of the principles of banking risk management allowed to distinguish the following principles to control risk of bank customers: legality, adequacy, accountability, continuity, awareness, objectivity, timeliness, consistency, efficiency, systematic, scientific validity.

Based on the basic principles, the subjects of the mechanism to control risk of bank customers, which are referred to - employees of the structural divisions of the bank, who directly enter into business relations with customers and responsible employees for conducting financial monitoring at the bank, perform the respective functions, such as: analytical, evaluating, diagnosing, coordinating, protective, informational, organizational, planning.

Effective functioning of the mechanism to control risk of bank customers is possible only if effective tools are used. The mechanism to control risk of bank customers includes regulatory requirements, such as the Law of Ukraine “On Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime, Terrorist Financing and the Financing of Proliferation of Weapons of Mass Destruction” [1], The provisions of the National Bank of Ukraine «Regulation on financial monitoring» [2] and Laws of Ukraine of General Action.

There are a number of information tools such as identification, verification, study of customers activity, conducting of bank customers questionnaires, customer risks assessment criteria. The structure of the components of the mechanism to control risk of bank customers in the context of implementation of financial monitoring shown in fig. 1.

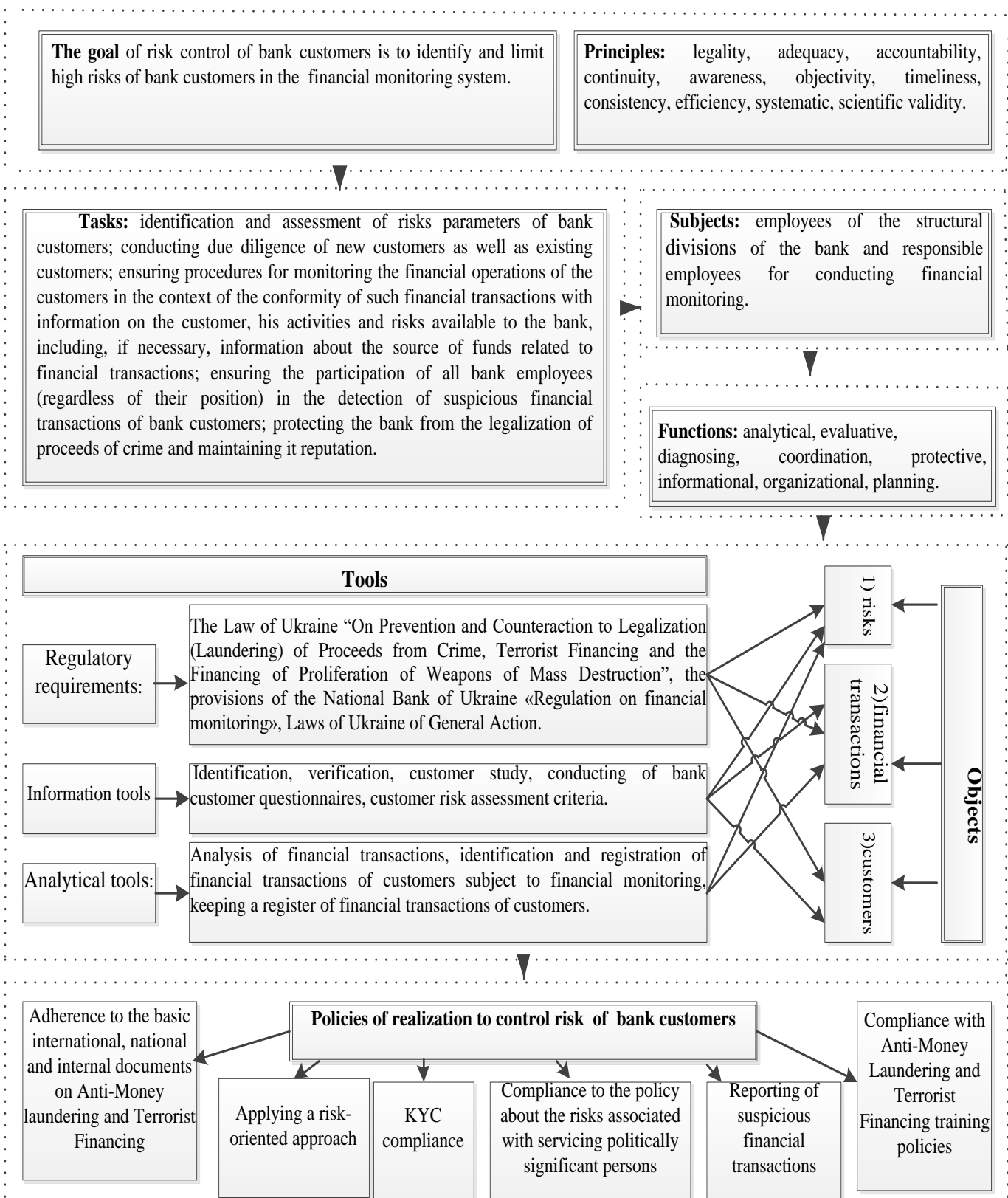


Fig. 1. The structure of the components of mechanism to control risk of bank customers in the context of implementation of financial monitoring

There are also a range of analytical tools such as analysis of financial transactions, identification and registration of financial transactions of customers subject to financial monitoring, keeping a register of financial transactions of customers and other.

The objects to control risk in the context of financial monitoring are risks, financial transactions and customers.

Based on analysis of the internal policies of the leading banks in the field of financial monitoring, the components of the risk control policies of bank customers were identified, which include: adherence to the basic international, national and internal documents on Anti-Money Laundering and Terrorist Financing; applying a risk-oriented approach; KYC compliance; compliance to the policy about the risks associated with servicing politically significant persons; reporting of suspicious financial transactions; compliance with Anti-Money Laundering and Terrorist Financing training policies.

The mechanism presented to control risk of bank customers in the context of implementation of financial monitoring creates the basis for effective assessment of its functioning in banks and improvement of appropriate methodical tools.

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