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REGULATORY CONSULTING

Anti-Money Laundering/Know Your Customer

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Background

Post the fall-out through the Coutts/Nigel Farage debacle, the FCA have introduced greater Anti-Money Laundering Measures (AML) on firms, and especially the Know Your Customer (KYC), process.

Although the FCA are aware that budget cuts have been problematic for some firms, the regulator has insisted that firms do not attempt to cut corners when addressing their KYC procedures.

It is demanded of firms to conduct thorough examinations of the KYC process to ensure that they are at minimum, 100% fit for purpose. No leniency will be displayed by the regulator if they do notice any shortcomings in any firms KYC process, with the chances of fines and penalties being served more of a probability than a possibility.

The FCA have, and continue to, intensify its probing of firms and their procedures and processes, with this trend only continuing to grow and gather pace.

Monitoring

The regulator anticipates that firms will employ continuous monitoring of all operations regarding KYC and expects them to be cognisant of the importance of such tasks. Firms should also be aware that the FCA will be reviewing this area on a regular basis.

Board members are expected to be continuously involved and informed of all matters relating to KYC, and understand that senior leadership awareness is crucial. Boards are anticipated to incorporate KYC discussions into their risk management meetings on a regular basis. The regularity would coincide with the size and risk appetite for each individual firm and the frequency of due diligence checks should be in-line with the risks associated with each customer.

Depending on the nature of the business it is likely that high risk entities should be checked at least on a monthly basis, whereas a customer deemed low risk are more likely to be on a bi-annual assessment be sufficient. All that being said, firms should still be conscious of the fact that a client's risk-profile can change dynamically and rapidly. Firms must keep a close eye on any potential alterations to a customer's risk profile and themselves adapt accordingly.

A useful way of watching a customer's behaviour is by viewing some individual transactions undertaken by the client, noting any variations from the norm in their activity. If there does appear to be notable changes, then the risk committee must discuss any actions they feel necessary, alongside the company's board, such as making alterations to the client's risk-profile.

Software

Checking that the software a firm employs is another crucial aspect to KYC. A firm should be certain that the software they are using is appropriate for the information required to produce adequate assessments of clients and their profiles. With this in mind, prior to taking on any new software, a firm should assess whether or not it is fit for purpose.

The FCA has, however, continued to state that firms should also be careful about unnecessary expenses by investing in software that goes over and above their requirements. So, all told, the software utilised and paid out for needs to be critically considered.

Moving On

Firms need to be aware of the importance of their KYC practices, and in particular within Anti-Money Laundering (AML) regulations. It is imperative that firms implement dynamic and continuous monitoring of their clients, tailoring the process to each individual client's risk-profile. As mentioned, the investment in reliable and meaningful technology is crucial so is the pro-active involvement of each firm's board and senior management.

A Concise Checklist

1. **Extensive Risk-Assessments:** Firms should undertake comprehensive risk-assessments ensuring any exclusive risks associated with each customer is understood by the firm, enabling it to act decisively and accordingly.
2. **Tailored Monitoring:** Firms should make certain the scrutiny levels of each customer are appropriate. In essence, this means that higher-risk clients endure more intense and frequent scrutiny.
3. **Investment in Technology:** Firms should investigate what their KYC essentials are and invest in the correct technology accordingly. They should be sure the software being introduced meets their particular needs and will yield the required dynamic and accurate results.
4. **Frequent Updates and Staff Training:** Firms must ensure that their KYC policies and procedures are current. They should also be sure that their staff training is sufficient and up to date. These key elements must be assessed regularly, ensuring all needs are met.
5. **Proactive Communication:** Firms should instigate, if not already in place, a system of communication stretching to all departments, being certain that information and intelligence is pooled and utilised correctly and effectively.
6. **Boards and Senior Management:** Firms must ensure the involvement of the board and senior management with frequent and regular meetings regarding the KYC processes, risk-management, and compliance.

Firms may also want to appoint an external consultant to review the current policies, procedures and systems and controls in place or even provide bespoke training. If you require such an assurance review please do reach out to Effecta Compliance and we would be delighted to assist in providing the Board, Senior Managment and the Firm with the assurances required or assisting with any updates to ensure the Firm remains compliant with FCA regulations and expectations.