**Identifying and Managing Money Laundering Risks**

The following risk assessments is a guide to the firm to identify and manage money laundering risk. It is not a “show and tell” document, which is not possible in assessing money laundering risk. This is a skill, and individuals become better at it by always thinking about how money could be laundered. Remember getting £50,000 dirty money washed into £25,000 placed clean, is a result for offenders.

**Industry Risk**

The FCA and other bodies such as the Joint Money Laundering Steering Group (JMLSG) review the risk to the industry / country as a whole and provide rules and recommend actions to limit any potential money laundering or terrorist financing.

As well as these organisations providing guidance there is also the FATF (the financial action task force – a global organisation) who issue a list, approximately three times a year, detailing those countries around the world which are high risk and those who are non-cooperative.

The updated FATF list is available at <http://www.fatf-gafi.org/topics/high-riskandnon-cooperativejurisdictions>.

The Financial Crime team at HM Treasury offers a subscription facility for notification by e-mail when an anti-money laundering or counter terrorist financing announcement is made by FATF and issued through HM Treasury.

To subscribe send an e-mail from the e-mail address to be subscribed to [FCSubscribe@hmtreasury.gsi.gov.uk](mailto:FCSubscribe@hmtreasury.gsi.gov.uk)  with the words **SUBSCRIBE FINANCIAL CRIME** in the subject field.

If your firm has any reason to suspect that money is passing either to or from countries on the list then you should consider exercising increased due diligence and activity monitoring as a precaution.

A regular review of these documents and websites will keep you up to date with any issues and ensure that your firm is aware and able to act should they encounter any of these issues.

The following risk assessments are non-exhaustive and are just guides and “food for thought”

**Client Risk**

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| **Considerations should include:** | |
| **The location of your client base** | Are any or a number of clients located in countries with poor equivalent legislation to that of the UK or where cash is the normal method of exchange? |
| **Client behaviour** | Behaviour or a wish to transact in ways that appear unusual e.g.  •No commercial rationale for buying the products.  •Requests for complex or unusually large transactions.  •Secrecy, unclear source of funds, unclear audit trail  •Unwillingness to give names of owners / controllers where the client is not a private individual  •Only wanting to deal non face-to-face  •Occasional transactions rather than looking to build a relationship |
| **Corporate structures** | Do you transact business via offshore trusts and nominee arrangements? Complex business structures can make it easier to conceal underlying beneficiaries, where there is no legitimate commercial rationale |
| **High Risk jurisdictions** | Clients based in, or conducting business through, a high risk jurisdiction or a jurisdiction with known higher levels of corruption, or organised crime or drug production or distribution |
| **Cash** | Clients involved in a business which involves significant amounts of cash, or which are associated with higher levels of corruption (e.g. arms dealing) |
| **Corporate and private bank accounts** | Does your firm transact business where unlimited third party funds can be freely received or paid to third parties without evidence of identity of the third parties being taken? |
| **Government leaders** | Does your firm transact business for any client who is, or has a business relationship with a senior political figure in a jurisdiction where corruption is endemic? |

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| **Examples of Client Risk rating** | | |
| **Low Risk** | **Medium risk** | **High Risk** |
| Established clients with whom you have a long relationship | Existing client who requests a high risk product with a lump sum investment when this does not match the clients “know your client” profile | A new client with a lump sum investment who will not disclose “know your client” information |
| New clients referred to you from a trusted sources such as an existing trusted client or an introducer | A new client who insists only on limited advice coupled with refusing to disclose relevant facts on the fact find | A client who regularly invests lump sums with suspicious means or subscribes to non-disclosure |
| A new client who requires a full financial review with full disclosure | An existing client who has been a client of the firm for a limited time (say under two years) who wishes to invest a lump sum which is unexpected | A new client with a large sum to invest with no logical source of funds |
| A new client who requires only low or medium risk products | A client requesting a high risk product if they have not been classified as “low risk” | Clients who are not private individuals being unwilling to give the names of their real owners and controllers |
| A client which is subject to financial crime regulations e.g. another regulated firm |  | Business that is cash intensive |
| Public company listed on a stock exchange and is subject to disclosure relating to beneficial ownership |  | Legal persons or arrangements that are personal asset-holding vehicles |

**Politically Exposed Persons (PEPs)**

On top of this you have another category of client. The definition of a Politically Exposed Person (PEP) is:

“An individual who is or has, at any time in the preceding year, been entrusted with prominent public functions and an immediate family member, or a known close associate, of such a person”.

This definition only applies to those holding such a position in a state outside the UK, or in a community institution or an international body. It includes heads of state, government ministers, deputy/assistant ministers, members of supreme or constitutional courts, member of the board of central banks etc.

We would suggest, therefore, that you treat PEPs as high risk and always apply enhanced due diligence (see below for examples) and require the pre-approval of the MLRO (CF11) or Compliance function (CF10) before dealing.

**Transaction Risk**

|  |  |  |
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| **Examples of Transactional Risk rating** | | |
| **Low Risk** | **Medium risk** | **High Risk** |
| **Protection** | | |
| Term life insurance |  |  |
| Income protection products |  |  |
| Critical illness products |  |  |
| Group life protection |  |  |
| Whole of life policies |  |  |
| **Savings and Investments** | | |
|  | Life insurance savings plans | ISA cash and equity |
|  | Endowment policies | Single premium investment bonds |
|  |  | Private banking |
| **Pensions** | | |
| Pension annuities | Group personal pensions / Group stakeholder plans | Executive pension plans with loan facility |
| Immediate vesting personal pension purchased with the transfer of another pension **for purpose of exercising an open market annuity** | Personal pension plan / stakeholder pension | SSAS with loan facility and ability to purchase commercial property |
|  | Immediate vesting personal pension purchased **for Drawdown, UFPLS** | SIPP with loan facility and ability to purchase commercial property |
| Occupational pensions e.g. COMPs, CIMPS, final salary or Section 32 (where no further payments can be made) providing retirement benefits where contributions are by salary deduction or are made by the employer |  | SIPPs into non regulated schemes |
| Free Standing AVC |  |  |
|  | Purchased life annuity |  |

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You can use logical operations: AND, OR, NOT. Examples: football OR hockey, sports AND NOT baseball