

Anti-money laundering

Annual report 2017/18

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1 Introduction

The size and global nature of the UK financial industry mean that both money laundering, and the criminality that creates the need to launder money, present significant risks to the UK. So financial crime and anti-money laundering (AML) remain one of our key priorities.

Money laundering harms society by enabling criminal activity and can affect the reputation of the UK financial system. Our safeguards to prevent financial crime are designed to make the UK and the financial services sector a hostile place for criminals, a safe place for consumers, and ensure we meet latest international standards.

In the last year there have been important developments to strengthen the UK's approach. These include changes to the UK's AML laws, and the Government's decision to create an Office for Professional Body Anti-Money Laundering Supervision (OPBAS) to oversee professional body supervisors for AML.

2 Policy developments

In the summer of 2017, the UK's AML laws were overhauled to implement the EU's latest AML directive. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs 2017) came into effect on 26 June 2017. Ahead of that, we consulted on proposals to ensure that our policies and procedures on using our powers under the MLRs 2017 were up to date, effective and proportionate. We issued a policy statement on 20 July 2017 and consulted on [updating our guidance for industry](#) to reflect these changes further in March 2018.

We also published [guidance](#) on how firms we supervise that are subject to the requirements of the MLRs 2017 should treat customers who meet the definition of a politically exposed person (PEP). This guidance provided a more detailed statement of our expectations, and will inform how firms handle clients in prominent public positions. We expect firms to take appropriate but proportionate measures in meeting their financial crime obligations, applying a risk sensitive approach to identifying PEPs and then applying enhanced due diligence measures, as the MLRs 2017 require. The guidance also makes clearer how firms should apply the definitions of a PEP to UK customers. It points out that it is unlikely that a large number of UK customers would meet the definition, and that UK PEPs should be treated as lower risk than PEPs from countries with high levels of corruption.

We continue to explore how new technology can help firms comply with their obligations to detect and prevent money laundering. In July 2017 we published a [report](#) we had commissioned about how new technologies are being used to streamline AML compliance. In December 2017 we also hosted a well-attended two-day event with a range of speakers on financial technology and anti-money laundering. One issue of keen interest was how machine learning can help to detect suspicious activity, something we are seeing a number of [larger firms](#) starting to explore. We are working with other parts of the public sector in the UK, and with international standard setters, to minimise regulatory barriers to beneficial innovation. In May 2018 we held a TechSprint, with international regulatory colleagues attending, to look at how innovation can help with AML, financial crime, and terrorist financing.

We have worked with UK Finance to develop principles to improve how banks communicate with customers when they cannot offer, or continue to provide, banking facilities ('de-risking'). UK Finance are expected to publish these principles later in 2018. They are likely to emphasise that banks should treat customers fairly and communicate in plain language, making appropriate and proportionate decisions, and engaging with the customer before reaching a conclusion.

We have also worked with other regulators abroad and with other international bodies on this important issue. For example, we were a member of the Financial Stability Board's Remittances Taskforce which considered a global response to the issue of money remitters being de-risked. We also worked with them on the decline of correspondent

banking relationships. The FSB published its report in March 2018.

In March 2018, assessors from the Financial Action Task Force (FATF), the global standard setting body on AML, visited the UK to inspect the adequacy of the UK's AML regime, including the FCA's work. As the biggest AML supervisor in the UK, we played a major part in this Mutual Evaluation, working closely with the Treasury and other partners. The FATF's final report is likely to be published towards the end of 2018.

3 OPBAS

Ensuring consistently high standards across AML supervision

Last year the Government announced its decision to create an Office for Professional Body Anti-Money Laundering Supervision (OPBAS) to oversee professional body supervisors (PBSs) for AML. The announcement recognised that, while PBSs' knowledge of innovations and emerging risks in their sectors brings substantial benefits to the regime, having several organisations supervising the same sectors and issuing guidance can create inconsistencies which criminals may try to exploit.

OPBAS, housed within the FCA, ensures a robust and consistently high standard of AML supervision across the legal and accountancy sectors. It also ensures better collaboration through information and intelligence sharing between professional body supervisors, statutory AML supervisors (HM Revenue and Customs, the Gambling Commission and the FCA) and law enforcement agencies, such as the National Crime Agency.

We have consulted on and published our sourcebook for PBSs setting out our expectations of their effective AML supervision. This came into force on 1 February 2018. We have completed our introductory visits to the PBSs and conducted a comparative review of the data returns the professional bodies submitted to the Treasury. We have also started an initial round of visits to all PBSs to assess their approach to supervision and will take action where we find weaknesses. We will then move to a risk-based approach, focusing our time and resources where there is the most potential for harm. We have also established an approval process for those that want to be supervised by OPBAS.

OPBAS
OFFICE FOR PROFESSIONAL BODY AML SUPERVISION
FINANCIAL CONDUCT AUTHORITY

4 How our AML supervision is evolving

We continue to take a risk-based approach to AML supervision. We keep our approach under continuous review to ensure we target our resources most effectively on the firms and sectors that present the highest money laundering risk. We use a range of information to develop our approach. This includes the UK National Risk Assessment of money laundering and terrorist financing (the NRA) and the information we now receive from our new financial crime data return (see Chapter 6). Our primary areas of focus are consistent with the risks identified in the NRA, but we seek to ensure good AML standards in all the firms we supervise.

5 Findings and outcomes

Systematic AML Programme (SAMLPL)

The SAMLPL is one of the three key tools we use for our proactive firm-specific supervision work. The SAMLPL, launched in 2012, is a programme of regular, thorough scrutiny of 14 major retail and investment banks operating in the UK. It also includes those overseas operations which have higher risk business models or are strategically important. In 2017 we completed the first round of reviews and have now completed reviews of three firms in the second round.

Our second round reviews give us the opportunity to assess how the individual firms' financial crime controls have changed, what improvements they have made and how they are implementing them. We have been able to refine our deep dives and complete them more quickly, making better use of our specialist resources. We also have far more information about the firms than we had in the first round, both from the original review and from other information we have gathered since. This enables us to take a better targeted approach.

Overall we found that firms have made significant improvements in their AML controls since our first visits. Some of the changes to their control structures are recent but they are well designed. Where they have been implemented, firms are identifying and mitigating risks effectively.

We identified some weaknesses, such as client risk assessments which considered only a limited number of factors. This could result in inadequate risk-based due diligence and monitoring. We also found that, while firms were generally taking a risk-based approach, they sometimes failed to record the justification for their decisions. Some firms have more work to do to comply fully with the changes in the MLRs 2017. We expect firms to assess the impact on their business of any regulatory or legal changes and implement the necessary changes in a reasonable timeframe.

In all our second round reviews, we found weaknesses in firms' anti-bribery and corruption framework. This may be because they have been focusing on their AML controls. We made clear to them that they must ensure they manage and mitigate all their financial crime risks at all times.

Regular AML inspections of other high risk firms

Since 2014 we have undertaken a programme of regular AML inspections of other firms that present high inherent risk of money laundering. The population of these firms continues to be dynamic, with firms moving in and out of the programme depending on risk. We use the NRA together with other information, including the financial crime data return, to assess the risk. We use the findings from our visits to provide feedback to firms on the effectiveness of their systems and controls and also to carry out trend and sector analysis. We aim to visit 150 firms over a four year cycle within this programme.

As with the largest firms, we continue to see good senior management engagement and an improved culture on AML in a number of firms. AML policies and procedures are generally of a good standard although some firms struggle to execute them well. We found that firms were generally taking a risk-based approach to AML, with risk assessments better focused on firms' actual risks.

But we continue to find deficiencies, some serious, in some firms, mostly smaller overseas banks. Among the most common was ineffective application of enhanced due diligence, which in turn led to poor identification and monitoring of customers who were PEPs or who were high risk. We also found weaknesses in the way some firms designed their processes and allocated responsibilities to staff. For instance, some customer-facing staff had no responsibility for, and little effective training in, assessing the money laundering risks posed by customers. Some compliance and financial crime staff at smaller firms failed to test the effectiveness of the firm's AML controls, allowing weaknesses to go unidentified. And we also found firms whose internal auditors had not tested the effectiveness of AML controls over high risk business, and had not ensured remedial work was conducted and tested when weaknesses had been identified.

We re-visited some firms where we had found weaknesses previously. While some firms had improved their AML controls, others had made little or no progress, and in some cases were worse. In those cases we have taken additional action, including launching four formal investigations and appointing skilled persons to conduct independent reviews of seven firms' systems and controls.

Financial Crime Risk Assurance Programme

This is the newest element in our proactive AML supervision, following a successful pilot last year. During the pilot we undertook AML and sanctions visits to, or desk-based reviews of, 100 firms from sectors we considered presented lower inherent money laundering risk. The pilot gave us a better picture of the risks posed by different sectors, and provided assurance that our assessment of risks in the sectors was correct. The programme has now become a permanent part of our proactive supervision, and is invaluable in our ongoing assessment of financial crime risk. Although our work on this programme has led us to open one formal investigation, our overall findings continue to support our assessment that most financial crime risk lies within firms subject to our other proactive programmes.

Outbound call campaign

Since early 2017 our Contact Centre has been asking smaller firms a series of questions to test their understanding of their responsibilities on anti-money laundering and on countering the financing of terrorism (CFT), and to ensure good AML standards are maintained. This year we have discussed AML with around 550 firms in this way. We are using these discussions to identify where we may need to use targeted communications to help firms understand their AML/CFT risks and obligations.

Reactive work

This year our specialists have considered nearly 150 referrals and taken action on over 70 cases. To do so, we have used intelligence from a variety of sources, including whistleblowers and law enforcement partners, information identified through our own supervisory work, and self-reporting by firms. We have worked closely with the National Crime Agency in response to reporting about the 'Russian Laundromat' and sought additional information from a number of firms. We have worked with other law enforcement bodies where there were concerns that money had been laundered through firms with weaknesses or failures in their AML controls. In a number of cases we have appointed skilled persons or restricted firms' business. In some cases we have opened formal investigations.

Thematic and multi-firm work

e-Money

Our Business Plan 2017/18 highlighted our thematic review of financial crime risk in the e-Money sector. We started this work in October 2017 and completed it in spring 2018. We intend to publish our findings in summer 2018, in line with our Business Plan commitment.

Investment management industry

In 2017, we carried out two multi-firm assessments to review the investment management industry's AML systems and controls. One assessment covered the private banking and wealth management sectors, and the other the contracts-for-difference sector. The reviews focused on how firms assess new clients, how they manage money laundering risk from existing clients, and on senior management oversight and governance. Both the reviews identified failings and we have explained these to the sectors. We are now using outreach and firm-specific supervisory work to raise standards in these areas.

Enforcement

We are currently investigating around 75 firms and individuals for AML issues. Many of these investigations are using both our civil and criminal powers under the Financial Services & Markets Act and the MLRs 2017. The recent increase in the number of AML investigations represents a change in our overall approach to opening investigations earlier and more quickly where we suspect serious misconduct. We have set this out in more detail in our [Approach to Enforcement document](#), published in March 2018.

6 Financial crime data return

We introduced the financial crime data return at the end of 2016. Firms subject to the MLRs 2017, including all deposit takers but excluding all other firms with revenue of less than £5m, must complete the return. For the first year, firms were required to complete the return on a 'best endeavours' basis and we subsequently saw some problems with data quality and accuracy. In December 2017 we issued further guidance about how firms should complete the report and expect to see a significant improvement in the quality of future data.

We are now using the information in the data return as part of our AML risk assessment processes. This includes how we select firms for proactive inspection and for thematic and multi-firm work. This helps us to focus our visits on firms with higher inherent ML risks, based on factors such as the jurisdictions where they operate and those with a higher risk customer base. The findings from our visits have reflected this.

We are also using the data to identify risks across and within different sectors. This will help us to identify areas where we should focus our resources to prevent harm most effectively, and also provide us with valuable information to inform the next NRA. As we start to receive data returns for the second year, we will be able to start analysing how firms' risk profiles are changing. The data also provides us with an aggregated view of some key metrics in over 2,000 of our largest firms. These include firms' data on the percentage of internal suspicions that are reported to the NCA, as well as data on their customers' geographic location.

Table 1

The table below shows the number of customers, by jurisdiction, disclosed by firms completing the data return.

Total number of customers	548,678,586
By region:	
Europe total	542,734,646
Of which:	
<i>United Kingdom</i>	427,812,266
Rest of Europe	114,922,380
Middle East & Africa	921,599
North America	1,104,322
Central America	187,926
South America	850,564
Asia	1,846,279
Oceania	1,033,250

Chart 1

The chart below shows the number of investigative orders received, and the number of restraint orders in effect, during the reporting period.

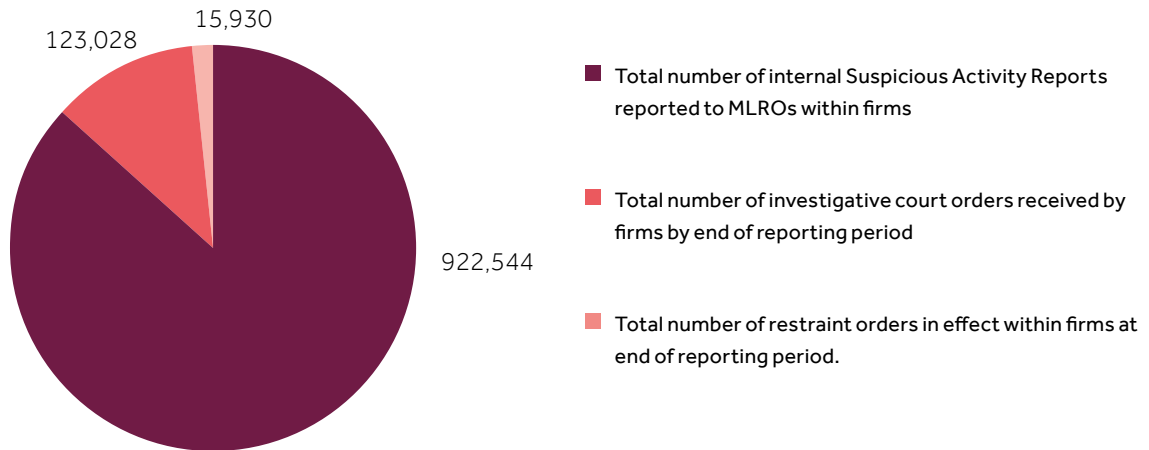
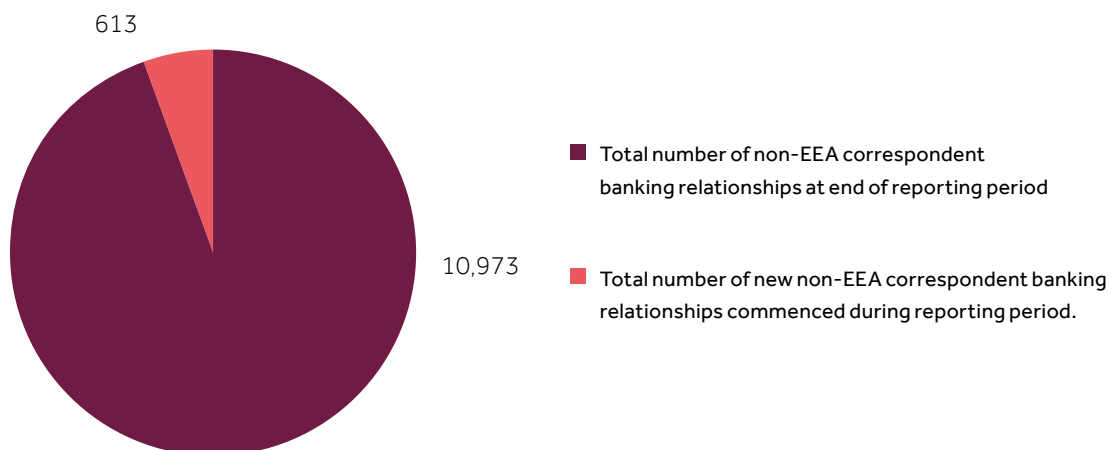


Chart 2

The chart below shows the number of non-European Economic Area correspondent banking relationships in existence and the number of new relationships started in the reporting period.



7 Working with partners to combat money laundering

UK

Domestically we continue to collaborate with law enforcement agencies, Government and other regulators to support our investigations, develop operational and strategic analysis, and identify risk. We also contribute to the work of multi-agency groups such as the Joint Financial Analysis Centre (JFAC) and the Joint Money Laundering Intelligence Taskforce (JMLIT), and continue to play a role in the Government's Joint Fraud Taskforce. We are also involved in the design of the National Economic Crime Centre (NECC), a public/private sector partnership on economic crime to create a hostile environment for economic crime, including money laundering, and to support UK prosperity.

Internationally

We work closely with international partners to build our knowledge of key money laundering threats and increase our understanding of different national responses. Last year this included visits to Australia and the United States to promote our ongoing strategic discussions with relevant agencies, and to Europol to discuss public/private partnership opportunities with European regulators and law enforcement agencies.

8 Looking ahead

Over the next year, AML and financial crime will continue to be one of our key priorities. We will continue to review our approach to AML supervision, using the information from our new data return to improve further how we target our work, and also taking account of the findings of the FATF Mutual Evaluation.

We will continue to work with all the other stakeholders in the UK's AML regime, in both the public and the private sectors, to improve the UK's defences against money launderers. From what we see of developments around the world, this will continue to be a complex and difficult task.



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