

# FSA OFFERS TIPS ON EFFECTIVE ANTI-MONEY LAUNDERING

**The Financial Services Authority (FSA) has published a discussion paper, *Reducing money laundering risk – know your customer and anti-money laundering monitoring, to debate two anti-money laundering (a-ml) controls.***

- Know your customer (KYC) relates to obtaining and using information about a customer for a-ml purposes.
- A-ml monitoring – looking at how a customer uses a firm's products and services, and how this may point to money laundering.

The FSA wants to ensure the regime is as efficient as it can be for regulated firms and consumers. In addition, it needs to be effective for the police and other law enforcement agencies. The Home Office review of the Suspicious Activity Reporting system has contributed to the discussion paper.

For both KYC and monitoring, there are no specific legal or regulatory requirements. But both are relevant to an effective contribution to the fight against money laundering, crime and terrorism, as well as to the high-level legal and regulatory obligations.

Authoritative good practice guidance sets expectations that firms will collect and use KYC information and will have an active approach to monitoring. The FSA asks whether firms can adequately manage their money laundering risks and meet their high-level legal and regulatory obligations, without fulfilling these expectations.

Current practice varies, partly because of differences in risk

profile, but also through differences in the professionalism of risk management techniques. The FSA highlights the importance of firms using information about their customers that they have obtained for other regulatory or business purposes. Practical issues include the difficulty of keeping information up to date, the problem of verification, cost, the need to maintain data protection standards and maintaining consumer confidence.

## Monitoring

The FSA suggests a model for a firm's approach to monitoring. The monitoring involved, in practice, will vary according to the kind of business a firm is involved in – retail or non-retail and the kind of service provided. The discussion paper examines automated and non-automated approaches to monitoring, but concentrates on the former in view of the increased use of automated systems.

This discussion paper sets out four possible options:

- Make new rules and/or guidance on KYC and/or monitoring.
- Make new high-level rules and/or guidance to promote better money laundering risk management.
- Make no new rules or guidance and rely on other guidance to promote adequate standards in regulated firms.
- Make no decision for now and review the position in, say, two years' time.

The FSA asks the following four questions:

- How necessary is the collection of KYC information and active monitoring in reducing money-laundering risk and in meeting

legal and regulatory obligations?

(ii) How should firms pursue a risk-based approach?

(iii) What type of monitoring (and reports) would be most useful to law enforcement agencies?

(iv) What are, or may be, the costs and benefits of KYC and monitoring?

This paper should go some way to helping companies better understand the FSA's regulatory standards so that they can be taken into account in corporate a-ml risk management practices.

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*A wide range of Briefings can be found at [www.financialdirector.co.uk/briefing](http://www.financialdirector.co.uk/briefing)*

## Useful links

- The discussion paper is at [www.fsa.gov.uk/pubs/discussion](http://www.fsa.gov.uk/pubs/discussion). The closing date for submissions is 30 January 2004

- Further information about the FSA's a-ml work can be found at [www.fsa.gov.uk/what/ml\\_terrorist.html](http://www.fsa.gov.uk/what/ml_terrorist.html)

- The KPMG review of the Suspicious Activity Reporting system is at [www.homeoffice.gov.uk/docs2/kpmgreport.pdf](http://www.homeoffice.gov.uk/docs2/kpmgreport.pdf)

- For the FSA's approach to its anti-money laundering responsibilities, go to [www.fsa.gov.uk/pubs/speeches/sp101.html](http://www.fsa.gov.uk/pubs/speeches/sp101.html)

- The Fraud Advisory Panel can be found at [www.fraudadvisorypanel.org](http://www.fraudadvisorypanel.org)

## Identity crisis

*It has never been more difficult to verify a customer's identity than it is today. The Fraud Advisory Panel report, Identity theft: do you know the signs?, estimates that identity fraud costs the UK economy about £1.3bn a year, says Mark Tatum of Deloitte & Touche.*

*The number of identity frauds has increased dramatically since 2001 and includes application fraud, account takeover, the wholesale assumption of a person's identity and the fraudulent use of a business identity.*

*Not only does identity theft result in losses for the victim, but companies in the financial services industry may suffer severe reputational damage, as well as potential criminal and regulatory sanction, for conducting transactions which they should have known to involve false identities. Perhaps worse still would be the consequences of allowing customer information to be misused, either by those inside the company or outside, in the first place.*