

AML Challenges Explained

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Agenda

1. The Problem
2. The Problem Locally
3. Why does AML prove such a challenge & what do we see go wrong?
4. The Implications
5. The Defence
 - ✓ Client Take-On
 - ✓ Ongoing Monitoring
6. Close

The Problem

- What is money laundering?
- The UN Office of Drugs & Crime estimates that annually the amount of money laundered equates to 2 – 5 percent of global Gross Domestic Product.
- That is \$800bn - \$2trn in today's money: equivalent to between 35 – 85% of the UK's estimated 2012 Gross Domestic Product
- 2 – 5 percent of Guernsey GDP – between £40m and £100m
- Every year

The Problem Locally

- Samuel Gichuru & Chris Okema – Jersey authorities are currently attempting to extradite these two Kenyan nationals who are accused of depositing funds obtained from bribes in Jersey bank accounts
- Martins Apskalns – jailed in March 2013 for four years as a consequence of laundering an estimated £210,460.00 in funds through Guernsey-based bank accounts
- Roger Taylor – imprisoned in 2011 for money laundering offences, having deposited and laundered funds generated from a Ponzi scheme run by an associate.

Why does AML prove such a challenge & what do we see go wrong?

- Money laundering is inherently (usually) difficult to identify – it often looks less like this...:



Why does AML prove such a challenge & what do we see go wrong?

- ...And more like this:



- But too often what we see go wrong are the simple things...

Why does AML prove such a challenge & what do we see go wrong?

- Poor / no documentation
- Failure to identify PEPs / high-risk investors &, when identified...
- No meaningful Enhanced Due Diligence (EDD) on high-risk investors
- AML being seen as a “box-ticking” exercise / a necessary hoop to jump through before client take-on

The Implications

- Inadequate controls / AML weaknesses can cost – ££££
- Reputational damage
- Compounded by big fines from regulators:
 - HSBC fined \$1.9bn for allegedly allowing up to \$880m of funds generated by Mexican drug cartels flow into a Mexican subsidiary and through it to the US financial system
 - Standard Chartered fined \$340m by US state regulator for processing Iranian financial transactions

The Defence

- The best means of avoiding getting it wrong is to have:
 - Policies and procedures consistent with Guernsey AML legislation;
 - Training to ensure awareness of these policies and procedures;
 - A “compliance culture” ensuring consistent implementation;
 - Monitoring and reporting to provide assurance, identify issues / weaknesses and changes necessary, and to enable disclosure to authorities / regulator when concerns arise.
- We will call this the “AML process”
- Know Your Client as a positive – key to sustaining your business

The Defence – Client Take-On

- This will be based upon Guernsey Financial Services Commission’s *“Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing”* (the “Handbook”)
- Risk-based approach
- Risk “indicators”

The Defence – Client Take-On (continued)

- Low-risk client
- High-risk client
- Enhanced Due Diligence (EDD)
- Key to all of this is *documentation...*

The Defence – Ongoing monitoring

- Sadly, compliance never ends!
- AML procedures are not completed once a file is signed off – you must continue to monitor a client and their activity to ensure that these are consistent with your expectations at take-on
- Risk-based / sensitive
- High-risk clients must have their AML files / activity reviewed at least twice annually – this must be evidenced

Close

- The implications of non-compliance = severe
- Document...document...document
- If you have suggestions (or questions)...consult with the regulator

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Any Questions?

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