

Chapter 12

Banks' management of high money-laundering risk situations (2011)

12.1 Introduction

- 12.1.1** **Who should read this chapter?** This chapter is relevant, and its statements of good and poor practice apply, to **banks** we supervise under the *Money Laundering Regulations*. ■ FCTR 12.3.2G – ■ FCTR 12.3.5G also apply to other **firms** we supervise under the *Money Laundering Regulations* that have **customers who present a high money-laundering risk**. It may be of interest to other firms we supervise under the *Money Laundering Regulations*.
- 12.1.2** In June 2011 the *FSA* published the findings of its thematic review of how banks operating in the UK were managing money-laundering risk in higher-risk situations. The *FSA* focused in particular on correspondent banking relationships, wire transfer payments and high-risk customers including politically exposed persons (PEPs). The *FSA* conducted 35 visits to 27 banking groups in the UK that had significant international activity exposing them to the AML risks on which the *FSA* were focusing.
- 12.1.3** The *FSA's* review found no major weaknesses in banks' compliance with the legislation relating to wire transfers. On correspondent banking, there was a wide variance in standards with some banks carrying out good quality AML work, while others, particularly among the smaller banks in the *FSA's* sample, carried out either inadequate due diligence or none at all.
- 12.1.4** However, the *FSA's* main conclusion was that around three-quarters of banks in its sample, including the majority of major banks, were not always managing high-risk customers and PEP relationships effectively and had to do more to ensure they were not used for money laundering purposes. The *FSA* identified serious weaknesses in banks' systems and controls, as well as indications that some banks were willing to enter into very high-risk business relationships without adequate controls when there were potentially large profits to be made. This meant that the *FSA* found it likely that some banks were handling the proceeds of corruption or other financial crime.
- 12.1.5** The contents of this report are reflected in ■ FCG 2 (Financial crime systems and controls) and ■ FCG 3 (Money laundering and terrorist financing).