

Corporate & Financial Weekly Digest

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FSA Criticizes Banks' Management of High-Risk Money Laundering Situations

On June 22, the UK Financial Services Authority (FSA) published the results of a thematic review of how banks manage their money laundering risks, particularly with respect to high-risk customers including Politically Exposed Persons (PEPs), correspondent banking relationships and wire transfer payments.

The FSA has serious concerns about the findings of the anti-money laundering (AML) thematic review. It found that some banks appeared unwilling to turn away very profitable business relationships, including with PEPs, even where there appeared to be an unacceptable risk of handling the proceeds of crime. Among other findings, three quarters of the banks the FSA sampled failed to take adequate measures to establish the legitimacy of the source of their customers' wealth and the source of the funds to be used in the business relationship. So far, two banks have been referred to enforcement following the identification of apparent serious weaknesses in their systems and controls for managing high risk.

During the review, which lasted from early 2010 until February 2011, the FSA identified some examples of good AML risk management, but is concerned to have uncovered what it describes as "serious weaknesses" common to many of the banks visited. It has referred two banks to its Enforcement and Financial Crime Division after identifying apparent serious weaknesses in their systems and controls for managing high-risk customers, including PEPs. The FSA is also considering whether further regulatory action, including use of its enforcement powers, against other banks is required.

The FSA's principal conclusion is that around three quarters of the banks visited, including the majority of major banks, are not consistently managing their relationships with high-risk customers and PEPs effectively and must do more to ensure they are not being used for money laundering. The serious weaknesses identified, together with indications that, where there are potentially large profits to be made, some banks are prepared to enter into very high-risk business relationships without adequate controls, mean it is likely these banks are handling the proceeds of corruption or other financial crime.

As a result of the findings of the review, the management of high-risk customers, including PEPs, will remain a significant focus of the FSA's anti-financial crime agenda for the foreseeable future.

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