Why is On-boarding and Off-boarding Bank Clients Important?

After the Panama Papers, and with the recent FinCEN final Customer Due Diligence (CDD) rule, U.S. financial institutions are further focused on tightening internal controls against money laundering, terrorist financing, sanctions prevention, compliance and anti-money laundering systems. And, because some bank accounts have just become too risky or too costly when comparing compliance costs with profitability, banks worldwide are "off-boarding" client relationships.

Financial Institutions often refuse "on –boarding", or initiate "off – boarding" if a customer:

- Does not provide appropriate requested documentation,
- Conducts business, or is domiciled in jurisdictions that are risky with respect to terrorists, financial crimes (OFAC/SDN List),
- Fails a background check, or an intelligence report,
- Does not meet a Bank's internal profitability standards.

While not all banking relationships are terminated for these reasons, the perception of "risky business, risky people and risky jurisdictions" is also triggering terminations, particularly in the UK.

According to the Financial Conduct Authority (FCA), a financial regulatory body in the UK, the UK wants to "ensure the UK financial system is a hostile environment for money launderers". The FCA hired consultants to investigate why some UK banks were closing personal and corporate accounts in greater volumes at an accelerated rate. The FCA stated that: "There is a perception that this is driven by banks' concerns about the money laundering and terrorist financing (ML/TF) risks posed by certain types of customers. This is known as 'de-risking'. It has been suggested that this trend is influenced by big fines imposed on banks in recent years by regulators and prosecutors, particularly in the US, for primarily historic weaknesses in their anti-money laundering (AML) defences and for breaches of financial sanctions".

The consultants that the FCA hired - John Howell & Co Ltd – observed the following:

- Banks have de-leveraged. Meaning, they are focused on certain core business only as a result of higher capital requirements, higher liquidity hurdles and the compliance/regulatory environment.

- The small and medium size businesses are more at risk of having their accounts closed. Examples are: charities, fin tech companies, pawn brokers and money transmission services, particularly if they are domiciled and/or operate in a geographical area that is money laundering and terrorist financing risky.
- Customer considerations relating to risk – reward in customer relationships.
- De-risking decisions do not match bank closures.
- Customers are undergoing stress, inconveniences, and are not necessarily properly informed of a Bank's decision.

The FCA said: "De-risking is the result of a complex set of drivers. As a result, the report recognises that there appears to be no 'silver bullet' to solve it".

To prevent sanctioning by the Regulators walking through their doors, banks in the U.S. are behaving similarly, and are avoiding individuals and companies considered suspicious, high-risk or difficult to monitor; whose profitability for the banks does not justify the costs of keeping the accounts and managing their risk. This includes money-transfer firms, foreign banks and nonprofits working abroad.

According to the Wall Street Journal, "U.S. officials said they didn't intend banks to close whole categories of customer accounts. Risky accounts should be managed, officials said, not avoided altogether". Law Enforcement in the US has stated concerns that the closure of bank accounts is sending money underground; making it impossible to track and forcing individuals and companies which could be perfectly legitimate to conduct business in "shady non-transparent" venues.

Bigger banks around the world are also cutting ties with correspondent banks. Correspondent banks are usually smaller in size, and their primary purpose is to assist in sending money around the world in part for the purpose of facilitating international trade. So, when a big bank begins discussions about terminating its relationship with a correspondent bank, the correspondent bank may be forced to close its relation with individuals or companies in other countries for fear of losing access to the big bank and slow or eliminate international and local trade. Although Bank de-risking may be understandable, de-risking makes the world riskier for "legitimate customers".

Preventing money laundering and terrorist financing is at the forefront of banking compliance. On-boarding and Off-boarding clients effectively and efficiently is an on-going effort for the entire financial community. Ultimately, the goal is to protect the Financial Institution and serve the client properly.