

「SNAPSHOT」

Shifting sands:
Financial Crime
Risk Management
for Wealth and
Asset Managers



Why are Financial Crime Risks relevant for Wealth and Asset Managers?

Those who seek to launder illicit funds, finance terrorism, circumvent financial sanctions, commit fraud and/or evade tax are employing increasingly sophisticated methods.

The Wealth and Asset Management sector is not conventionally used to transfer assets or value and has therefore historically posed lower inherent financial crime risk. However, the growing maturity of controls in higher risk sectors is pushing criminals to exploit less traditional paths, including Wealth and Asset Management.

The emerging risks in this area are particularly high where the client and organisational relationships are complex or transactional activity is unusual. For example, where clients are offshore entities, clients have a large number of accounts across multiple jurisdictions, or material volumes of business are generated through third parties. Furthermore, the culture of confidentiality in wealth management remains attractive to potential money launderers.

Linked to the growing inherent risks and scandals such as the Panama Papers, legislators, policy makers and regulators are increasing standards and oversight across the industry. For example;

- The Senior Managers and Certification Regime (SMCR) has increased personal liability for Senior Managers who are unable to demonstrate reasonable steps to control their business
- The transposition of the Fifth EU Money Laundering Directive (5MLD) reinforces the need for firms to have appropriate risk-based approaches, with added requirements for enhanced due diligence and beneficial ownership transparency
- HMRC has become more aggressive in investigating facilitation of tax evasion with active investigations open on financial services firms at the end of 2019

Given the growing inherent risks and increasing regulatory standards and oversight, it has never been more important for Wealth and Asset Managers to understand and actively manage their financial crime risks.

Financial Crime Risk poses a unique challenge for Wealth and Asset Managers

Relationships are a cornerstone of the Wealth and Asset Management business. Firms can find it deeply challenging to implement procedure and control which demonstrates financial crime compliance without being overly burdensome and adding unnecessary friction to distributor, administrator or client relationships.

Much of this is due to the lack of a 'rule book' on minimum regulatory standards. There is an expectation that firms interpret principle-based regulation and industry guidance and determine what good looks like dependant on the type business they do. The 2013 FCA AML & ABC Thematic Review on Asset Management provided some useful best practice but at more than 7 years old, regulatory expectations and industry guidance have since evolved.

In addition, Wealth and Asset Managers simply don't have the same level of compliance resource as larger multi-disciplinary financial institutions. Therefore, it can be difficult to justify prioritisation of these finite resources on one risk area over another.

In our experience, each organisation in the sector faces their own challenges in managing this risk but common themes we have seen in the sector include:

Sector	Challenge
Wealth Management	Equipping relationship managers to be first line risk managers and avoiding them becoming 'too close' to their clients.
	Ensuring that sufficient due diligence is conducted, particularly with respect to source of funds and wealth.
	Establishing what is 'normal' activity when clients have multiple business interests, sources of income and third-party payment recipients.
	Calibrating the approach to gifts, hospitality and inducements given the typically higher net-worth status of clients.
Asset Management	Understanding and managing the risk of facilitating tax evasion given the potential complexity of clients' affairs and expectations of confidentiality.
	Maintaining sufficient oversight of controls and processes conducted by third parties such as platforms, administrators or distributors.
	Understanding and managing the risks which can arise from the use of third parties, such as agents and introducers.
	Recruiting and retaining personnel with a sufficient understanding of both financial crime risk and the asset management business to maintain proportionate risk management capabilities.
	Conducting sufficiently granular financial crime risk assessments and keeping these refreshed.

Wealth and Asset Managers Must Demonstrate a Risk Based Approach to Financial Crime

Maintaining an appropriate and robust financial crime risk management control environment is a dynamic and ongoing task which varies from firm to firm. An appropriate financial crime risk framework depends on business models, products and services offered, the nature of customer bases, jurisdictional exposure and delivery channels.

It is imperative that firms fully understand their inherent risk across these components in order to establish a suitable risk management function and associated financial crime controls. By tailoring certain controls to the business, such as client due diligence or monitoring, there may also be opportunities to offer better suited products to clients and increase assets under management.

To achieve this, firms need to:

1. Understand their risks – periodically assess and document the inherent risks they face, and maturity of existing controls leveraging business expertise and industry insight
2. Implement proportionate controls – define and embed controls focused on the most material product, client or third-party risks
3. Maintain controls – implement targeted control testing, governance arrangements and regular oversight of third parties
4. Empower culture change – provide financial crime training to employees and establish ongoing 'tone from the top' practices

BCS Consulting combines our expertise in Wealth & Asset Management sectors with our deep Financial Crime Risk subject matter knowledge to support our clients meet their obligations in a proportionate way

Who should you speak to about it?

To find out more about how BCS Consulting can help with your Financial Crime Risk, please get in touch with one of our key contacts listed below.

Colin Darby, Director,

Colin.Darby@bciconsulting.com,

Max Hinks, Consultant,

Max.Hinks@bciconsulting.com

and Philipp von Stackelberg, Consultant,

Philipp.VonStackelberg@bciconsulting.com



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