

The Pillars of **AML** Compliance

A Comprehensive Guide to Transform
your AML Compliance Knowledge,
Methodology and Procedure.

What is Money Laundering?



Money laundering is the process by which criminals try to hide the origins of the proceeds of their crimes, making it look like those proceeds were acquired legally.

Similar processes are often used by those seeking to disguise the source of terrorist funds. Money Laundering activity can take several forms:

Handling the proceeds of crime
Being directly involved with criminal or terrorist property

Entering into arrangements to facilitate or conceal the laundering of criminal or terrorist property

Investing the proceeds of crime into other financial products, property purchase or other assets

Money laundering thereby includes all forms of using, acquiring or possessing criminal property. Under the Proceeds of Crime Act 2002 (POCA), criminal property is defined if it constitutes a person's benefit from criminal conduct.¹

Money laundering can range from self-money laundering i.e. a single act of concealing the proceeds of one's own crimes to complex methods and schemes carried out by multiple parties. It remains difficult to quantify the scale of money laundering, however, the UN estimates that 2-5% of global GDP is laundered every year.

1. Proceeds of Crime Act 2002, Part 7. Available at <http://www.legislation.gov.uk/ukpga/2002/29/part/7>

The Three Stages of Money Laundering

01



Placement

Placement is the initial transformation of illegally obtained cash into other assets. This is the phase where the proceeds of crime are more detectable to regulated entities due to robust anti-money laundering (AML) procedures.



02



Layering

Layering is a technique used by criminals to disguise the original source of money. Detection is often harder at this phase as the illicit funds become involved in often multiple and complex transactions. Often these transactions can occur between different entities and even in different jurisdictions in a bid to conceal the origins of the funds.



03



Integration

Integration is the return of cash from a seemingly legitimate source. This is often the most difficult stage to detect as criminals invest in seemingly legitimate interests such as buying a property, acquiring a company etc. This phase allows the illicit funds to appear as 'clean' money.

What is Anti-Money Laundering (AML)?

AML refers to the legislation that requires regulatory bodies to act against the financial crime of money laundering. In practice, this means organisations MUST have preventative practices in place that will help facilitate the fight against financial fraud.

Anti-money laundering regulations apply to a wide range of business sectors, including legal services, accountants, and estate agents. You must as a business subject to AML, register with an appropriate supervisory authority. Examples include the FCA, HMRC, ACCA ect.²

Why is Anti-Money Laundering Important?

Consequences of Money Laundering:

FATF (Financial Action Task Force), the body formed in 1989 to instigate common standardized international practice comments:

“

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments. The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. Most fundamentally, Money Laundering & Terrorist Financing is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.³

Money laundering is not a victimless crime. It underpins and enables various criminal activity. Moreover, these underlying crimes (which could be corruption, drug trafficking, market manipulation, fraud, tax evasion), along with the intent to conceal the proceeds of the crime, generate financial flows away from economically- and socially-productive uses—and these diversions can have negative impacts on the financial sector and its stability.

They also have a corrosive effect on society and the economic system as a whole.

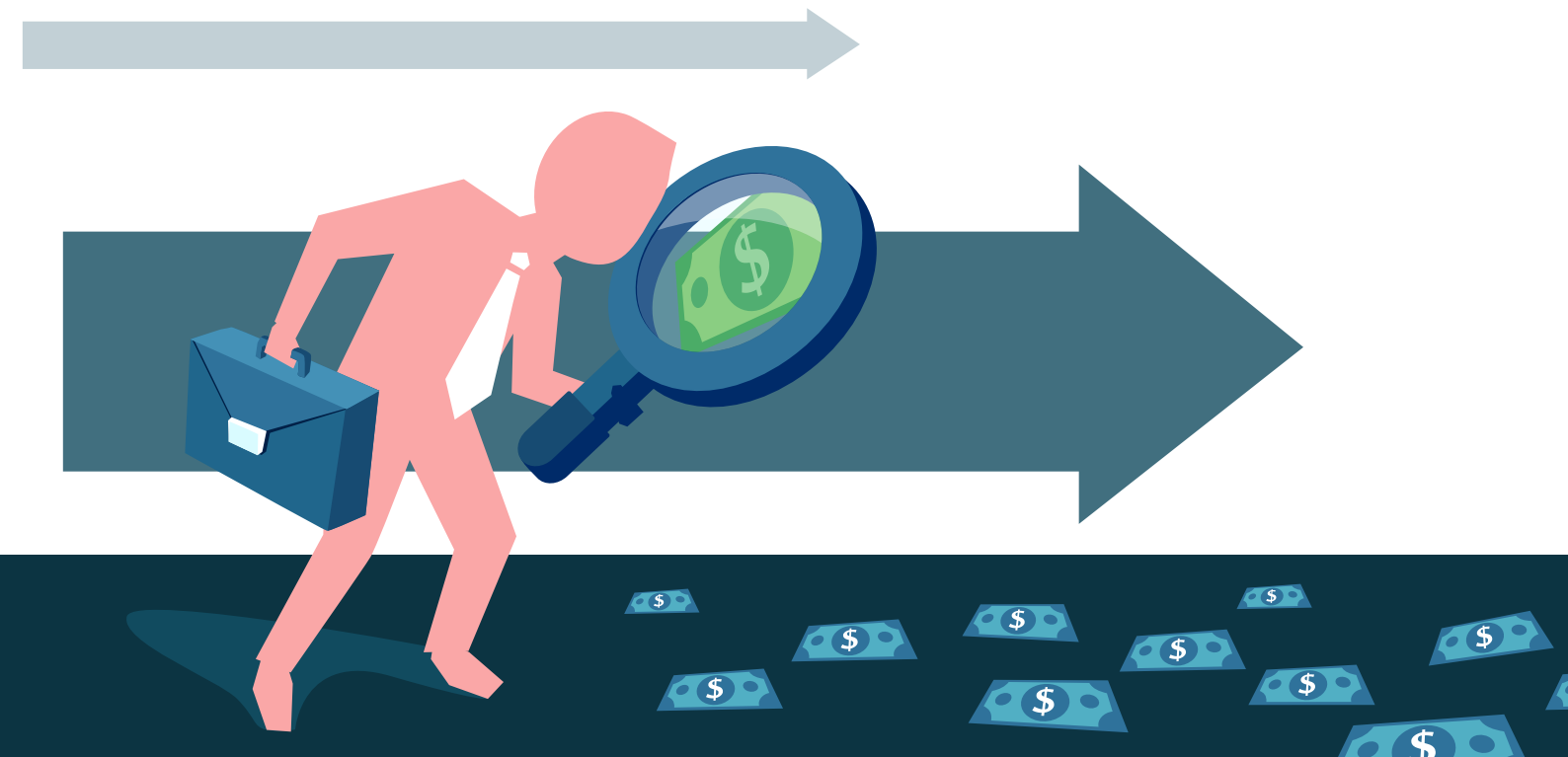
2. A list of appropriate supervisory bodies is available at <https://www.gov.uk/guidance/money-laundering-regulations-who-needs-to-register>
3. <https://www.fatf-gafi.org/content/fatf-gafi/en/pages/frequently-asked-questions.html>

The Power of Effective AML Controls and Procedures:

An estimated £305.7 million was denied to suspected criminals as a result of defence against money laundering reports in 2021/2022.⁴

Targeting the money laundering aspect of criminal activity means hitting the criminals where they are vulnerable. Without funds, the criminal activity will cease to continue.

AML procedures, therefore, can operate as gatekeepers against fraudulent activity.



4. <https://www.nationalcrimeagency.gov.uk/news/suspicious-activity-report-sars-annual-report-2022>

The Importance of Investing in Compliance

By emphasising, streamlining, leveraging, and investing in KYC, organisations can inevitably and healthily focus more on their customers, ensuring increased conversion and retention, and enhancing customer satisfaction and engagement overall by optimizing touchpoint experience.

Indeed, customer trust in organisations is greatly enhanced by the professionalism and depth of their own KYC and ongoing monitoring experiences, and clients will value the intent behind the policy and the efficiency of its execution.

For this reason, organisations increasingly seek long-standing relationships with compliance professionals, who increasingly operate in discrete ecosystems of mutually-trusted service suppliers, so that compliance teams within organisations are able immediately to flex towards solutions for any new demand for check type or related service.

By such means compliance may add real value across an organization.

To summarise

1. Tackling money laundering will assist in tackling crimes of all types.
2. Money laundering can undermine the integrity of national economies and financial systems.
3. Money laundering and associated corruption will corrode faith in democratic structures.
4. AML procedures protect the most vulnerable members of society by helping to engender societies where crime is less prevalent and where financial inclusion is facilitated by accurate and reliable KYC processes.
5. Channels into global financial systems have become deeply digitised, offering increased opportunities to money launderers for easy and more opaque movement of funds and to fraudsters for nefarious activity. In turn, this has created a market need for intelligent, flexible, and easy-to-use AML solutions and powerful yet accessible electronic identity verification solutions.
6. UK AML strategies are particularly important because of its international financial role, the relatively liberal nature of its company formation regime, and the safe-haven status of its property market.
7. Solid, mature economies, with relative social stability, such as the UK will inevitably attract large-scale funds from overseas and internally. However, the very stability that underlines such attractiveness depends on ensuring that such funds are clean. So, apart from the obviously important points of regulatory necessity and the avoidance of penalty, communal AML compliance is of benefit to all.
8. Investment in compliance and compliance ecosystems is investment in customer trust and loyalty, and can be the means to peak long-term profitability, whilst ensuring business continuity, regulatory health, and brand security.

Anti-Money Laundering Regulations

UK Legal Framework

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 as subsequently amended.

Details of legislation and how it affects firms are included in our latest [AML training course](#).

The amended Money laundering regulations include the key following changes:

1. Expands the regulated sector definition to include agents dealing with high-value lettings, art market participants and crypto asset exchange and custodian wallet providers.
2. Due to FATF recommendations, client due diligence (CDD) measures now include a requirement for firms to take reasonable action to understand the ownership and control structure of their clients.
3. The regulations do not specify identity documents, nor do they require specific technologies. Rather, circumstances where information has been obtained via an electronic identification process can be viewed as 'obtained from a reliable source,' now have a list of criteria. You must be satisfied that the information supplied via the verification service is extensive, reliable, accurate, and independent of your clients.
4. Firms now must report discrepancies to Companies House between the information given on public registers and the beneficial ownership information obtained in the course of CDD. This is in line with the 5th AMLD's transparency requirements whereby they mandate that beneficial ownership is registered and that UBO lists are made accessible to the public.
5. Enhanced due diligence (EDD) is now required when a client or any relevant person if they are deemed to be established in high-risk jurisdictions.

The Proceeds of Crime Act 2002

The POCA detailed every money laundering offence applicable to the UK. It set out the framework of defining the criminality of money laundering and gave investigative authorities the powers to develop cases to prosecute those who were found guilty of money laundering.

The principle offences:

➤ s 327: An offence is committed if a person conceals, disguises, converts, transfers or removes from the jurisdiction property which is, or represents, the benefit of criminal conduct (i.e. the proceeds of crime) and the person knows or suspects represents such a benefit.

➤ s 328: An offence is committed when a person enters into or becomes concerned in an arrangement which he knows or suspects will facilitate another person to acquire, retain, use or control benefit from criminal conduct and the person knows or suspects that the property is benefit from criminal conduct.

➤ s 329: An offence is committed when a person acquires, uses, or has possession of property which he knows, or suspects represents benefit from criminal conduct.⁶

It is important to emphasise that the individual accused must have knowingly acted or suspected money laundering activity for the charged offence to become criminal.

UK Authorities & Professional Bodies

The National Crime Agency (NCA)

The NCA is a UK law enforcement agency. It leads the fight against organised crime & in particular crimes of money laundering and terrorist financing.

The Financial Conduct Authority (FCA)

Regulates the UK financial sector, setting standards to combat financial crime such as money laundering and the funding of terrorism. In partnership with the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) to strengthen the UK's anti-money laundering supervisory regime.

HMRC

HMRC is a supervisory body for Money Laundering Regulations.

You will need to register with them if:

- you are an estate agent
- handle cash payments of €10,000 or more in exchange for goods or services
- do not have a listed supervisory body

The Joint Money Laundering Steering Group

The JMLSG provides guidance to enable firms to set robust internal measures and controls against money laundering. This group's guidance is backed by HM Treasury.

The 5th AMLD

- **The 5th AMLD came into effect January 2020**
- **It requires regulated entities to examine the background and purpose of a wider range of transactions.**

Identification:



“Accurate identification and verification of data of natural and legal persons are essential for fighting money laundering or terrorist financing...”

“Member states shall ensure that obliged entities to which the customer is referred take adequate steps to ensure that the third party provides immediately, upon request, relevant copies of identification and verification data, including, where available, data obtained through electronic identification means...”

This directive stipulates a need whenever possible to use electronic client verification solutions when undertaking Customer Due Diligence obligations and KYC procedures.

Benefits of Electronic Identity Verification:

- Quicker onboarding of new clients through instant results
- Improves Customer experience
- Maintains Compliance
- Security and Reliability

Enhanced Due Diligence:



“When dealing with such cases of high-risk and with such business relationships or transactions, member states should require obligated entities to apply enhanced customer due diligence measures to manage and mitigate those risks...”

On a practical level, companies subject to the 5th AMLD MUST consider if incoming business or existing business relationships with clients in high-risk jurisdictions will require further CDD. The HMT will provide a list of high-risk third countries where you will be required to then carry out EDD.

Beneficial Ownership:



“The need for accurate and up-to-date information on the beneficial owner is a key factor in tracing criminals who might otherwise be able to hide their identity behind a corporate structure.”

Complex organisational hierarchies can make it easy to obscure the identities of Ultimate Beneficial Owners (UBOs) and allow financial fraud to flourish. Therefore, this directive mandates the necessity of establishing the true owners of entities before engaging in any business relationship or transaction.

Politically Exposed Persons (PEP):



“Lists should be issued...indicating the specific functions which... qualify as prominent public functions.”⁷

This directive requires a clarification of PEP. The list released will feature the name of positions that are widely considered as ‘politically exposed’ but will not name any individual or person fulfilling the function.

Other Important Factors:

- Pre-paid cards threshold reduced to €150
- Expansion of term “regulated entities” that will be subject to customer due diligence and KYC obligations.

Global Authorities

The Financial Action Task Force (FATF)

Policy-making body that sets anti-money laundering international standards and counter-terrorist financing measures and recommendations globally. The FATF also assesses nations on their implementation and effective use of these standards.

7 All quotations above retrieved from <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018L0843>

How Big is the Risk?



UK regulators and investigators are enforcing more aggressive AML compliance standards.

As pressure mounts, regulatory businesses and compliance teams are under the microscope to perfect their anti-money laundering procedures and if AML procedures are not watertight, there is serious cause for concern.

To state the obvious, non-compliance is expensive. However, its repercussions stretch much further than the business bank account. It can inflict disastrous reputational damage and a loss in clients, business relationships and trade.

Therefore, having proactive and preventative compliance measures in place makes good business sense.

AML Failures and Fines

The avoidance of penalties is crucial. These may include fines, loss of credit rating, temporary or permanent closure of a business.

No entity is too big or too small to be penalised, and no entity is too small or too big to be at risk either from being targeted or from weakly applied procedures.

But all entities will gain from the benevolent discipline of compliance.

Key Examples:

Commerzbank

Agreed to pay £38 million in fines for AML failures between 2012-2017. The original fine was due to be £54 million, but upon co-operation, reduced. An automated tool within their system was neglected and remained a weakness for 5 years - 40 high-risk jurisdictions and 110 high-risk clients were omitted from the service. The bank also failed to conduct the necessary due diligence on nearly 2000 clients in London.⁹

Global banks

Ordered to pay fines totalling £6.2 billion for breaching AML regulations.²⁵ penalties handed out in the US, the leading market for accruing fines.¹² fines totalling £297.3m were handed out in the UK (the second largest market to be targeted). In total there were 58 global fines imposed, nearly double the value of penalties handed out in the previous year showing that the spotlight on AML is only growing stronger and brighter both domestically and globally.¹⁰

Countrywide

Fined £215,000 by HMRC for money laundering failures. The company was fined for failing to ensure that its money laundering procedures and record-keeping were in line with regulations. Fines being handed to such a well-known firm throughout the property market heightens the impetus on firms within the whole of the regulated sector to tighten their own AML procedures as, it proves that sheer business size does not grant you a free pass when it comes to compliance and adhering to the rules. As is demonstrated by the size of the fine, the cost of non-compliance is significantly greater than the one of compliance.¹¹



Getting Started

The Risk Assessment

AML legislation requires regulated businesses to identify and assess the money laundering risks they will face during daily operations.

The risk assessment's purpose is to help organisations identify risks in order to be able to understand all the ways their business could be exposed to money laundering and terrorism financing risks, and design systems to deal with them.

The risk assessment is entirely unique and depends on the nature of the business, how it is organized, the customers, and activities.

Important Note

- As a regulated entity you are required to perform a firm-wide risk assessment but also individual client risk assessments.
- A firm-wide risk assessment should evaluate the money laundering risk that your whole business is exposed to.
- A client risk assessment is linked to a specific client and should assess the money laundering risk of that client or client relationship.

Risk Assessment Template

Disclaimer: This template is a basic risk assessment template aimed to highlight key aspects of consideration.

Please consult your relevant AML supervisory board to ensure you cover all aspects relevant to your sector and business.

<p>Risk Assessment</p> <p>Key Considerations:</p> <ul style="list-style-type: none"> • Risk based approach • Risks our business may face • Risk Assessment • Review Process 	<p>Policies, Controls, and Procedures</p> <p>Key Considerations:</p> <ul style="list-style-type: none"> • Policy Document • Controls & procedures • Appointment of a nominated officer for the business • Controls and procedures to put in place • Effectiveness of the controls 	<p>Risk Categorisation</p> <p>Key Considerations:</p> <ul style="list-style-type: none"> • Example 1: Nature of services or transaction • Example 2: Methods of financing/source of funds • Example 3: Geographical areas of operation, inc sending money to, from or through high risk third countries 	<p>Business Risk Factors</p> <p>Key Considerations:</p> <ul style="list-style-type: none"> • Areas of concern as highlighted by risk assessment • General customer client risks identified – client profiles • Warning signs of suspicious activity
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Risk Assessment Matrix

Forenames

.....

Current Address

.....

Surname

.....

.....

.....

Date of Birth

.....

How long at address

.....

Risk Score	Low	Medium	High	Score
Example 1 - Have you met the client?	Face to face	Remotely	No. Enhanced Due Diligence Required	

Normal Risk	<p>The actions your organisation will take</p> <p>Example: UK residents: run AML check</p> <p>Overseas residents: run International ID check with passport/EU ID Card number and request documentary proofs of address</p>
Example 1 - Have you met the client?	<p>The actions your organisation will take</p>

Sector Specific Resources (Click to open in web browser)

 [Estate Agent Guidance](#)

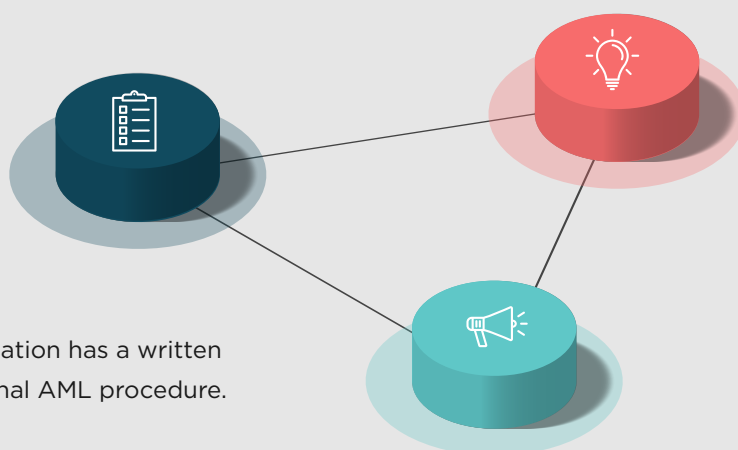
 [Accountancy Guidance](#)

 [Legal Sector Guidance](#)

The Three Pillar Initiative

Veriphy's Three Pillars Initiative is an approach designed to help regulated entities effectively satisfy their AML requirements.

Use the Three Pillars of AML to build the foundation of your firm's anti-money laundering approach.



AML Policy

Ensure your organisation has a written record of your internal AML procedure.

This should cover at the minimum how your firm will cover the 'Big Five':

- Customer due diligence
- Monitoring & Control
- Record Keeping
- Training
- Disclosure of Suspicious Activity

AML Training

It is a legal requirement that staff undergo AML training and that your firm has a record of it. According to the regulations, your staff must have an awareness of key AML legislation to fight money laundering. They must also be given training in how to recognise and deal with potential signs of money laundering. Typically, an organisation provides all staff with annual refresher training and then implements more targeted training for high-risk roles.

AML Checks

It is a legal requirement that staff undergo AML training and that your firm has a record of it. According to the regulations, your staff must have an awareness of key AML legislation to fight money laundering. They must also be given training in how to recognise and deal with potential signs of money laundering. Typically, an organisation provides all staff with annual refresher training and then implements more targeted training for high-risk roles.

*Procedures should be carried out on a risk-sensitive basis, taking into account the type of business transacted, and should be regularly assessed by your firm's management in conjunction with the Nominated Director / Money Laundering Reporting Officer (MLRO) to ensure their ongoing effectiveness.

Your AML Obligations

In what circumstances and how?



Customer due diligence (CDD)

This is the process of verifying the identity of your customer for Know Your Customer (KYC) purposes.

The objective is to prevent money laundering activities & protect organisations from entering into business with known criminals Customer Due Diligence should be carried out:

- When a new customer is acquired.
- On purchasers as well as vendors of property.
- When an occasional transaction is carried out.
- If there is suspicion of money laundering or terrorist financing.
- If there are doubts about previously obtained customer information.
- When a risk assessment on an individual customer deems it necessary.
- The results of checks should be kept for a period of 5 years from the end of any client relationship.

Enhanced Due Diligence

Enhanced due diligence simply means the collection of additional data on an individual to mitigate risk.

Examples of when EDD is appropriate:

- Client flagged up as PEP*
- Client not physically present
- Client from a high-risk country

Practical examples include:

- Establishing source of funds and wealth.
- Enhanced monitoring of transactions.
- Carrying out additional searches on the individual (such as an adverse media check)
- Establishing the intended purpose and nature of the business relationship.

Recommended Enhanced Due Diligence Measures:

- Obtaining additional information on the customer and on the beneficial owner/s.
- Obtaining additional information of the intended nature of the business relationship.
- Obtaining information on the source of funds and source of wealth of the customer and the beneficial owner/s.
- Obtaining information on the reasons for the intended or performed transactions.
- Obtaining the approval of senior management for establishing or containing the business relationship.
- Conducting enhanced monitoring of the business relationship by increasing the number and timing of controls applied and selecting patterns of transactions that need further examination.¹²

*What is a PEP?

A PEP can be defined as someone who has been entrusted with a prominent public function. PEPs are considered higher risk clients especially for the financial industry. This is simply because they are more at risk to the exposure of bribery and corruption due to their public position. Due to this vulnerability, it is important to apply enhanced customer due diligence to these individuals because of the greater risk of potential money laundering.

The Risk-Based Approach

Ensure your organisation has in place robust AML policies and procedures that are standardised and follow a clear risk-based methodology. This ensures that each client is treated fairly and appropriately to the risk that they pose. It also ensures that extra personal information is only gathered and processed when necessary.¹³

01

Internal Procedure

Ensure your firm has carried out a firm-wide risk assessment that is relevant to the business. These risks identified should then be used to put controls into place to mitigate these risks. This should be standardised and documented within an AML/KYC policy. These controls should be continually monitored and reviewed.

02

Simplified Due Diligence

For every new client, ensure you perform adequate identification and verification measures in line with AML regulations and as documented by your internal policy.

03

Potential Risk?

Further investigation could be required. The level of scrutiny will vary dependent on the level of risk presented.

04

Enhanced Due Diligence

Follow your customer classification system concerning high-risk individuals. Collect the information needed to mitigate the risk. If money laundering activity is suspected, the MRLO of the firm should submit a Suspicious Activity Report to the NCA.

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Remember:

You should always record what you did and why you did it for auditing purposes.

AML Checklist



Have you registered with the appropriate supervisory body?



Do you have an AML policy document for your organisation?



Have you carried out a firm-wide risk assessment?



Have you established your internal controls and monitoring procedures?

For example

Have you appointed a Money Laundering Officer (MRLO)?

- Has your staff undergone thorough annual AML training? Is an audit available of this training?
- Do you have an AML review mechanism in place?
- Have you established how and when you will fulfil your CDD obligations?
- Have you established a record keeping system of all your AML compliance efforts?

Why Choose Veriphy?

Veriphy is designed primarily for regulated and parallel entities who need to maintain AML and regulatory compliance, increase client onboarding speed with optimal customer experience and minimal time to revenue, and mitigate and control risk within a secure data environment.

Its online AML, KYC, KYB, PES personal identity and entity verification checks fit to AML and POCA regulations and JMLSG guidelines whilst providing flexible and user-friendly customer experience.

Top features include:

- AML/KYC checks - JMLSG compliant, employing ER, CRA, mortality, and departure data, with PEP/Sanctions elements monitored or one time only
- Global sanctions checks on people, entities, vessels and aircraft Biometric and document scan checks with liveness detection
- Experian Fraud Score - offering consortium-level assurance without the associated complexities
- Adverse credit data screening to detect beneficiary bankruptcies
- Bank account verifications - confirm linkage between account, name and address
- Source and Proof of Funds Checks - open-banking powered account analysis with fact-find questionnaires
- KYB checks for UBO detection on UK LTDs, LLPs, charities, with ability to report on dormant entities
- International KYB and ID checks Online AML training modules
- Flexibility in proposition, channel, and commercials
- Flexibility in proposition, channel, and commercials
- Access is via UI, secure batch, or check compilation using granular data drawn from our API. Alternatively, choose from our unmatched range of products for simple injection into workflow
- Friendly guidance at every stage

Let us help you build and maintain the foundation of your AML compliance program.

Whether on the market for a new electronic AML system or just getting started, Veriphy can provide a host of solutions to ensure your internal controls and procedures are robust and efficient.

Talk to one of our compliance specialists today to receive a free consultation to discuss our AML compliance pillar initiative.

[Book your AML consultation](#)



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