

Is that a genuinely honest customer? I wouldn't bank on it

Submitted by: 2thefore

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Revelations regarding money laundering through HSBC, Britain's largest bank, are another reminder that financial institutions need more robust integrity due diligence procedures in place if they are to avoid the scrutiny of the authorities and reputational damage, says business risk mitigation expert, John Burbidge-King.

According to breaking newspaper reports last week in The Daily Telegraph, 'tax authorities have obtained details of every British client of HSBC in Jersey after a whistleblower secretly provided a detailed list of names, addresses and account balances earlier this week'.

As if the leak was not serious enough, the newspaper reports that names identified on the list include a drug dealer, a man convicted of possessing more than 300 weapons at his house, three bankers facing allegations of fraud and a man 'once dubbed London's number two computer crook'. The total amount of the balances is estimated at £699 million and contains more than 4,000 names, including some celebrities and public figures.

"If the reports are to be believed, HSBC and probably other banks have some serious due diligence issues to contend with, not just in Jersey but I would imagine around the world," comments John Burbidge-King, CEO of Interchange (<http://www.interchange-solutions.co.uk>), a consultancy that helps companies to mitigate their business risk. "The problem is that under current rules, it's simply too easy for unscrupulous individuals to open a bank account, and not just with HSBC.

"According to the advice given on the HMRC website and common practices of 'knowing your customer', HMRC recommends that what is required from a customer is their name, their photograph on an official document, which confirms their identity and their residential address or date of birth."

The advice continues: this is best provided by a government issued document, like a passport, along with utility bills, bank statements and other official documents confirming an address.

Aside from a deliberate attempt to circumnavigate the anti-money laundering system, today in the UK, many do not have utility bills and bank statements as increasingly paperwork is completed done online. Given a good colour printer, they can provide such evidence of their address with ease. Therefore those intending to provide false but credible looking information can easily acquire an address or change details using simple retail software programmes.

HMRC advice also recommends checks against the Electoral Roll. During the period August to November each year, the electoral rolls are updated providing an opportunity for those wanting to avoid being traced to slip under the radar screen.

The current 'know your customer process' has been in place for several years. Whilst supported by some online checks, it does not necessarily reflect the changing lifestyles of the public's increased use of the Internet, nor the ingenuity of the criminal who will understand how to circumnavigate this long established guidance and alter documents.

An area worthy of further exploration is to follow the US method which also requires confirmation of a Taxpayer Identification Number. In the UK we have the National Insurance number which would provide another filter. There are other tools too, especially when checking the ultimate beneficial owner of a business, trust and areas such as partnerships.

Mr Burbidge-King continues: "In a modern networked society, is a person's ID and proof of their address from a utility bill sufficient scrutiny; just one or two bits of paper? And we're not just talking about individuals. Companies too are easily able to open bank accounts, and a few may not have honest intent.

"Whilst HSBC is unfortunately in the spotlight, it's almost a certain that other banks have similar issues with money laundering because they have followed rules which are simply failing to provide the assurances needed today. Therefore it should come as no surprise that integrity due diligence is far too weak; not because employees of banks, estate agents, solicitors and others required to conduct due diligence checks are not doing what is asked of them, but because the current system is behind the curve. Those with the ingenuity and intent to defraud or move money around illicitly are likely to succeed."

The Telegraph article points out that the disclosures "raise serious questions about HSBC's procedures in Jersey, with the bank already preparing to pay fines of around \$1.5 billion in America for breaking money laundering rules."

"The rules need to change and catch up with not just the 21st Century but those bent on hiding their illicit gains," adds Burbidge-King. "There needs to be clear and irrefutable evidence that the person opening a new account is who they say they are and not hiding anything nasty. Banks and others will continue to fall foul of the law and incur more reputation damage, if the system by which the counter clerk operates is way past its sell-by date".

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About Interchange (<http://www.interchange-solutions.co.uk>)

Formed in 2006, Interchange has an internationally experienced team of hands-on risk experts, all from a corporate background, operating exclusively in the field of mitigating bribery, corruption fraud and reputational risk.

Our sole focus is to help companies and organisations of all sizes and across all sectors underpin their reputation and enhance their business value by taking practical steps towards bribery risk mitigation while continuing to grow their business.

We work with customers across the world to understand and assess the specific risks they face and then help them to develop, implement and embed effective mitigation policies and processes into their business strategy.

We achieve this through a range of services and products, including executive education and briefings, risk based audits, training, policy, implementation process & documentation, and integrity due diligence of representatives and business partners, tailored to fit within your governance and risk management operating model.