

Action Group on Cross Border Remittances

Risk update (Updated May 2015)

To assist the Action Group the Economic Crime Command of the National Crime Agency has taken the lead of the sub-group looking into the risks from **criminal money laundering** in the Money Service Business sector.

The NCA has arranged for the Action Group members to view and comment on the latest NCA Threat Assessment on the MSB remittance sector.

This was followed up with a series of closed workshops with Banks, Money Transmitters Association and Somali Money Services Association.

This version includes updates following a further meeting the Association of UK Payment Institutions (the new form of UKMTA) in April 2015.

This update provides a summary of the issues we have discovered in preserving banking facilities for MSB.

Risks

The MSB sector provides valuable services to individuals and businesses. It is largely efficient and cheaper than equivalent services from banks. It is particularly important to communities who are linked to countries with challenging issues relating to security, development or regulation.

In common with all financial sectors there are risks that criminals abuse the MSB services to launder money. There are examples of MSB whose systems require work to limit these risks, but the majority of the sector has compliant policies and procedures in place and work hard to exclude risk. The supervisors of MSB are committed to helping the sector to maintain systems that minimise the threat of compliant MSB being exploited by their customers.

Risks of criminal money laundering in this area include:

- Fraudsters directing victims to MSB to send money to the perpetrator of the fraud
- Criminals sending money through MSB to their own or other criminal groups to facilitate their crimes
- Criminals using MSB to dispose of cash and transfer the proceeds within their network, which may involve the structuring or smurfing of payments
- Criminals using MSB as part of a layering scheme to disguise the audit trail between victim and criminal group.

The greatest risk for large scale criminal money laundering comes from a **small** number of complicit MSB or MSB agents creating false records to hide the large scale placement of cash and/or movement of criminal funds through bank accounts. The NCA will issue ALERTS to help banks and regulators identify this activity, but are revising their work to ensure material from the Action Group is reflected.

Risk in this area include:

- Principal MSB who create a network of agents and false paperwork to disguise the level of criminal cash that they bank and remit
- Single MSB with large cash turnover who use an element of legitimate remittance activity to hide the banking of criminal cash
- Agents who create fake transactions on their Principals system to disguise the banking and remittance of criminal money
- Agents of Principal MSB who use their status to hide fraudulent or criminal off record remittance activity

There are common techniques in this area which include:

- The use of false identities or extra falsified transactions to cover the banking of criminal cash
- An MSB set up to service a local personal market which develops “corporate remittance business” and/or cash banking nationwide – without the associated AML procedures in place
- The use of cash to fund international third party payments without clear and appropriate CDD and EDD procedures on the transaction and the correspondent MSB

This activity can be identified and prevented by banks and wholesale MSB by:

- Profiling the intended activity of MSB at account opening
- Questioning activity outside the established customer profile, particularly where the level and nature of cash banking increases rapidly or does not match the profile
- Critically reviewing the risk based approach to identification and CDD material for customers
- Critically reviewing the MSB procedures for undertaking third party payment EDD

Risk and Banking

From the workshops it is clear that the main issue is the management of risk.

Banks and some large MSB providing services to other MSB are reluctant to take on and manage risk particularly where the MSB model involves cash. This impacts on all remittance corridors but impacts most on remittances where there are limited alternate remittance channels.

The banks do not yet have confidence in the revised AML guidance and supervision procedures. Without clearer direction from the policy makers and Bank regulators they do not see their appetite for risk changing in the short term.

The MSB community is frustrated that they do not have a clear pathway to follow in order to get or maintain banking. They are generally willing to adapt or enhance procedures, but have no clear idea of what additional systems and checks they should adopt, and are concerned about the impact on price of existing and further changes.

Risks update April 2015

MSB report that they still can not obtain banking for cash based MSB activity, and that MSB that have continued to maintain bank accounts are concerned that their access to banking may continue to be under threat.

AUKPI members are concerned that unbanked MSB may be forced into unsustainable business models in the absence of their own business bank accounts. They are also concerned that unscrupulous MSB may be using general business accounts, giving them an unfair business advantage and avoiding prudential risk responsibilities. They are also concerned that some elements of remittance may have been driven underground.

NCA assessment of the MSB sector continues to be that there is threat in some elements of the sector, but that these risks can be managed. The majority of MSB provide important and valuable services to communities and business and are trying to apply the new guidance issued. NCA have not yet seen reporting to suggest the displacement of genuine remittance activity from the regulated sector.

NCA review of criminal cases has shown some indications of displacement of criminal money laundering from the cash MSB sector, with a small number of cases showing complicit money launderers setting up false company constructs to bank cash, but then targeting the MSB FX sector to make third party international transfers. The greatest risk of high volume cash money laundering in the sector continues to be from a limited numbers of complicit MSB principals with fake business models and from negligent principals abused by complicit agents exploiting the principals ability to handle cash. The problems of access to banking along with supervisory attention has made these models more difficult to replicate.

NCA do continue to see criminals and money launderers targeting the MSB sector, but this is at all levels (including the large multinational MSB networks).