

Money Laundering and Credit Unions

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What is Money Laundering

Covers a variety of activities including:

- Trying to turn money from criminal activity into “clean” money (classic money laundering)
- Handling the benefit of crimes such as theft, fraud and tax evasion
- Handling stolen goods
- Criminals investing the proceeds of their crimes in various financial products

Regulations also cover Combating the Financing of Terrorism (CTF)

Does it happen in Credit Unions?

YES!

What Should Credit Unions Do?

- ◇ Be aware of and **follow** the Guidance given by the Joint Money Laundering Steering Group (JMLSG)
- ◇ Appoint a Money Laundering Reporting Officer
- ◇ Have a director who has overall responsibility for Money Laundering prevention
- ◇ Apply a 'Risk Based' approach

Risk Activity in Credit Unions

- ◇ Money Transfers to 3rd Parties
- ◇ Large One-Off transactions – e.g. sudden loan repayment
- ◇ 3rd parties paying in cash on behalf of the member
- ◇ Unusual loan or savings patterns (including regular significant payments)
- ◇ “Smurfing”
- ◇ Reluctance to provide documentary evidence of identity when opening an account
- ◇ Regular requests for loans that are soon repaid

Know Your Customer

- ◇ This is VITAL
- ◇ Not just about knowing individual members, but knowing what's 'normal' for your members overall
- ◇ It is possible (and prudent) to unobtrusively use careful questioning of members to identify where money has come from – it's suggested in the Specialist Credit Union Guidance from JMLSG

The Money Laundering Reporting Officer (MLRO)

- ◇ Responsibilities:
 - Establish and maintain training programme for staff and volunteers on Money Laundering
 - Receive internal reports of suspicion of money laundering
 - Investigate suspicious reports internally and keep records of their investigations
 - Make external reports to SOCA when appropriate
 - Obtain and apply relevant Govt and Financial Action Task Force (FATF) findings
 - Report to the management committee at least once per year.

Internal Reporting

- ◇ All staff and volunteers need to be able to recognise money laundering and know how to report suspicious activity.
- ◇ Use of standard Money Laundering Reporting Form – the same form can be used to make “negative” reports.
- ◇ If volunteer, etc, in doubt they should discuss it with a more senior person within the CU but care should be taken to avoid “tipping off”

External Reporting

- ◇ The MLRO should ensure that any internal report is dealt with quickly and confidentially
- ◇ If having reviewed the available information the MLRO agrees with the suspicion they **MUST** report it promptly to:

**Serious Organised Crime Agency (SOCA)
using a Suspicious Activity Report
(SAR) Form**

SOCA prefer online reporting!

Please remember...

- ◇ If you think there will be more transactions (in or out) you should request “consent” on the SOCA report
- ◇ If using online reporting and **do not** receive an acknowledgement of receipt then ring the helpdesk on 0207 238 8282
- ◇ The Financial Intelligence Helpdesk are willing to give advice to MLROs if needed

You've made a report – What happens next?

- ◇ In all probability not very much.....
- ◇ If you've asked for 'consent' you should be contacted by SOCA within 7 days to inform you if consent granted or denied

Consent.

- ◇ If SOCA grant consent you may allow transactions (or a specific transaction) on the account as usual.
- ◇ If consent is refused this lasts for 31 days.
- ◇ You may be served with a court “Restraint Order” relating to the account before the 31 days is up.

JMLSG Guidance on ID & Risk

How much ID evidence to ask for depends on the risk but the guidance says that for the majority of credit union members a passport or photocard driving licence is sufficient

- ◇ Customer Due Diligence
- ◇ Enhanced Due Diligence

Hierarchy of ID Documents (1)

- ◇ Single Document/Standard level
 - Issued by Government Departments, agencies or courts
 - ◇ Passport
 - ◇ Photocard Driving Licence
 - ◇ Firearms or Shotgun Licence

Should be obtained in most cases

Hierarchy of ID Documents (2)

- ◇ More Documents Required
 - Issued by Public Sector bodies or local authorities
 - ◇ Benefit Book or letter
 - ◇ Pension Book or Letter from DWP
 - ◇ Council Tax Bill
 - ◇ Utility Bills (but not from internet)

Hierarchy of ID Documents (3)

- ◇ Certain Documents issued by the financial services sector
 - Bank Statement (not from internet)
 - Credit Card Bill (not from internet)
- ◇ Those issued by others subject to Money Laundering Regulations
 - Letter from a solicitor
- ◇ Issued by Others
 - Rent statement or Tenancy agreement

Unable to provide standard evidence

- ◇ Rented accommodation
- ◇ Legal, mental or physical inability to manage own affairs
- ◇ Individuals dependant on the care of others
- ◇ Dependant spouses
- ◇ Students
- ◇ Refugees
- ◇ Migrant workers
- ◇ Prisoners/ex offenders

Possible Documents

- ◇ Letter from DWP regarding pension or benefits
- ◇ Letter from Matron of Care Home
- ◇ Gender reassignment information
- ◇ School College or Care Institution

FSA rules say that people who cannot reasonable be expected to provide standard evidence of identity should not be unreasonably denied access to financial services

Child Accounts

- ◇ All Child Accounts need ID
 - Birth Certificate
 - Passport
 - NHS Medical Card
 - Child Benefit Documentation
 - Child Tax Credit Documentation
 - Child Trust Fund Letter
- ◇ PLUS ID for adult (if you do not already have appropriate ID for them)
- ◇ *NOTE – For school based accounts a letter on headed paper from the school stating; the name of the child, their residential address and confirmation that they are a student at the school, is deemed as sufficient ID*

Monitoring Member Activity

- ◇ Need to establish a process for monitoring accounts to highlight unusual transactions
- ◇ Simple approach could include:
 - Investigating deposits over a threshold
 - Frequency of deposits
 - Members whose deposits appear erratic
- ◇ A more sophisticated approach may be required – remember ‘risk based’
- ◇ Unusual does always mean suspicious – it’s just a starting point

Training

- ◇ Volunteers, Staff and Directors
 - Who is the MLRO?
 - What are the procedures?
 - What are unusual transactions?
 - Money Laundering Regulations
 - The FSA Rules and Industry Guidance
- ◇ MLRO
 - The Law relating to Money Laundering and terrorist financing

Training (2)

- ◇ Records need to be kept of the training given to, or undertaken by volunteers
 - Signing in sheets for training sessions
 - Volunteer record sheets
- ◇ All volunteers, staff etc should receive money laundering training at least once every TWO years

Record Keeping

- ◇ Customer ID – 5 years after the end of the relationship (can be reference numbers not necessarily copies of original docs.)
- ◇ Transaction details – 5 years after end of relationship
- ◇ Any Money Laundering Reports
- ◇ Information **NOT** acted upon
- ◇ Training Records

Penalties

Activity	Penalty
Assisting anyone you know or suspect of Money Laundering	Up to 14 years imprisonment and/or a fine
Informing anyone that they are under suspicion or being investigated	Up to 5 years imprisonment and/or a fine
Deliberately not reporting money laundering suspicion	Up to 5 years imprisonment and/or a fine
Failing to comply with any of the regulations	Up to 2 years imprisonment and/or a fine

Useful Resources:

- ◇ **Joint Money Laundering Steering Group**
 - <http://www.jmlsg.org.uk>
- ◇ **Serious Organised Crime Agency**
 - <http://www.soca.gov.uk>
- ◇ **Information on making a SAR**
 - <http://www.soca.gov.uk/financialIntel/suspectActivity.html>
- ◇ **Financial Action Task Force**
 - www.fatf-gafi.org