

## 5: Wealth management

*Note: This sectoral guidance is incomplete on its own. It must be read in conjunction with the main guidance set out in Part I of the Guidance.*

### *Overview of the sector*

5.1 Wealth management is the provision of banking and investment services in a closely managed relationship to high net worth clients. Such services will include bespoke product features tailored to a client's particular needs and may be provided from a wide range of facilities available to the client including:

- current account banking
- high value transactions
- use of sophisticated products
- non-standard investment solutions
- business conducted across different jurisdictions
- off-shore and overseas companies, trusts or personal investment vehicles

### *What are the money laundering risks in wealth management?*

#### *Inherent risks*

5.2 Money launderers are attracted by the availability of complex products and services that operate internationally within a reputable and secure wealth management environment that is familiar with high value transactions. The following factors contribute to the increased vulnerability of wealth management:

- Wealthy and powerful clients – Such clients may be reluctant or unwilling to provide adequate documents, details and explanations. The situation is exacerbated where the client enjoys a high public profile, and where they wield or have recently wielded political or economic power or influence.
- Multiple and complex accounts – Clients often have many accounts in more than one jurisdiction, either within the same firm or group, or with different firms. In the latter situation it may be more difficult for an institution to accurately assess the true purpose and business rationale for individual transactions
- Cultures of confidentiality – Wealth management clients often seek reassurance that their need for confidential business will be conducted discreetly.
- Concealment – The misuse of services such as offshore trusts and the availability of structures such as shell companies helps to maintain an element of secrecy about beneficial ownership of funds.
- Countries with statutory banking secrecy – There is a culture of secrecy in certain jurisdictions, supported by local legislation, in which wealth management is available.
- Countries where corruption is known, or perceived, to be a common source of wealth

- Movement of funds – The transmission of funds and other assets by private clients often involve high value transactions, requiring rapid transfers to be made across accounts in different countries and regions of the world.
- The use of concentration accounts – i.e. multi-client pooled/omnibus type accounts - used to collect together funds from a variety of sources for onward transmission is seen as a potential major risk.
- Credit – The extension of credit to clients who use their assets as collateral also poses a money laundering risk unless the lender is satisfied that the origin and source of the underlying asset is legitimate.
- Commercial activity conducted through a personal account, or personal activity conducted through a business account, so as to deceive the firm or its staff.

#### *Secured loans*

- 5.3 Secured loans, where collateral is held in one jurisdiction and the loan is made from another, are common in wealth management. Such arrangements serve a legitimate business function and make possible certain transactions which may otherwise be unacceptable due to credit risk. Collateralised loans raise different legal issues depending on the jurisdiction of the loan. Foremost among these issues are the propriety and implications of guarantees from third parties (whose identity may not always be revealed) and other undisclosed security arrangements.

#### *Assessment of the risk*

- 5.4 The role of the relationship manager is particularly important to the firm in managing and controlling the money laundering or terrorist financing risks it faces. Relationship managers develop strong personal relationships with their clients, which can facilitate the collection of the necessary information to know the client’s business, including knowledge of the source(s) of the client’s wealth. However, wealthy clients often have business affairs and lifestyle that may make it difficult to establish what is “normal” and therefore what may constitute unusual behaviour.
- 5.5 Relationship managers must, however, at all times be alert to the risk of becoming too close to the client and to guard against the risks from:
- a false sense of security
  - conflicts of interest – which may compromise the firm’s ability to meet its AML obligations and its wider financial crime responsibilities under SYSC
  - undue influence by others
- 5.6 As in all firms, relationship managers and other client-facing staff should be alert to any developing risk to their personal safety. Criminals seeking to gain advantage from using a firm’s credibility are known to compromise, and sometimes threaten, the firm or its staff. Firms should have:
- suitable internal procedures requiring staff to report when they believe that they have been menaced
  - a policy for reporting incidents to the police

#### *Cash transactions*

- 5.7 Relationship managers should neither accept cash nor deliver cash, nor other stores of value such as travellers' cheques, to anyone. A client should be required to deposit or withdraw cash at the counter of a recognised bank that is at least subject to local supervision. In extremely rare circumstances where this is not possible, there should be a documented policy and procedures in relation to the handling of cash and other stores of value by relationship managers. Such transactions should be reported upwards within the firm's UK structure and consideration given to informing the firm's nominated officer.

*Customer due diligence*

- 5.8 Within the firm, the relationship manager will often be aware of any special sensitivity that may genuinely relate to the client's legitimate commercial activities or need for personal security.
- 5.9 To control any risk of money laundering, the client's justification for using financial institutions, businesses or addresses in different jurisdictions should always be subject to scrutiny before undertaking a transaction. To be able to view and manage the risk of money laundering across the whole of the firm or group's business connections, they should consider nominating a manager to lead such client relationships. The lead relationship manager should have access to sufficient information to enable them to:
- know and understand the business structure
  - determine whether or not there is cause to suspect the presence of money laundering
- 5.10 In common with the provision of other financial products or services in such countries, care should be exercised to ensure that use of banking and investment services does not lead to levels of obscurity that assists those with criminal intentions. At all times care should be exercised to ensure requests for confidentiality do not lead to unwarranted levels of secrecy that suit those with criminal intentions.
- 5.11 Particular care should be taken where the lender is relying upon the guarantee of a third party not otherwise in a direct business relationship, and where the collateral is not in the same jurisdiction as the firm.
- 5.12 Ordinarily, the level of diligence carried out in wealth management will be higher than that needed for normal retail banking (see sector 1: *Retail banking*) or investment management (see sector 9: *Discretionary and advisory investment management*) purposes. A client's needs will often entail the use of complex products and fiduciary services, sometimes involving more than one jurisdiction, including trusts, private investment vehicles and other company structures. Where such legal vehicles and structures are used, it is important to establish that their use is genuine and to be able to follow any chain of title to know who the beneficial owner is.
- 5.13 In addition to the standard identification requirement in Part I, paragraphs 5.3.68 – 5.3.78, any wealth management service should have particular regard to the following:
- As a minimum requirement to counter the perceived and actual risks, the firm, and those acting in support of the business, must exercise a greater degree of diligence throughout the relationship which will be beyond that needed for normal retail banking purposes. The firm must endeavour to understand the nature of the client's business and consider whether it is consistent and reasonable, including:

- the origins of the client's wealth
  - Where possible and appropriate, documentary evidence relating to the economic activity that gave rise to the wealth
  - the nature and type of transactions
  - the client's business and legitimate business structures
  - for corporate and trust structures - the chain of title, authority or control leading to the ultimate beneficial owner, settler and beneficiaries, if relevant and known
  - Where appropriate, the reasons a client is using complex structures
  - the use made by the client of products and services
  - the nature and level of business to be expected over the account
- The firm must be satisfied that a client's use of complex business structures and/or the use of trust and private investment vehicles, has a genuine and legitimate purpose.
- 5.14 For some clients, fame is generally recognised as having a long continuing existence, and their photographs are commonly published in the public domain. In such cases, so long as the relationship manager has met the client face-to-face, firms may wish to introduce a controlled procedure, as part of the verification process, whereby the relationship manager may certify a published photograph as having a true likeness of the client. The certified photograph should be retained as a formal record of personal identification.

*Recording of visits to the client's premises*

- 5.15 As mentioned in Part I, paragraph 5.3.76, visiting clients can be an important part of the overall customer due diligence process. In wealth management, relationship managers should generally visit their clients at their place of business in order to substantiate the type and volume of their business activity and income, or at their home if the business factor is not so relevant. The relationship manager who undertakes the visit should make a record by documenting:
- the date and time of the visit
  - the address or addresses visited
  - a summary of both the discussions and assessments
  - any commitments or agreements
  - any changes in client profile
  - the expectations for product usage, volumes and turnover going forward
  - any international dimension to the client's activities and the risk status of the jurisdictions involved

and updating the client profile where appropriate.

*Approval of new relationship*

- 5.16 All new wealth management clients should be subject to independent review, and appropriate management approval and sign off.

*References*

- 5.17 Reputational searches should be undertaken as a normal part of customer due diligence, which will include checks for negative information. It will sometimes be

appropriate to obtain a satisfactory written reference or references from a reputable source or sources before opening an account for a client. The relationship manager should document the nature and length of the relationship between the referee and the client. References should only be accepted when they are:

- received direct – not from the client or third parties
- specifically addressed only to the firm
- verified as issued by the referee

#### *Review of client information*

- 5.18 The firm's policies and procedures should require that the information held relating to wealth management clients be reviewed and updated on a periodic basis, or when a material change occurs in the risk profile of a client. Periodic review of particular clients will be made on a risk-based basis. Wealth management firms should consider reviewing their business with higher risk clients on at least an annual basis.

#### *Enhanced due diligence (EDD)*

- 5.19 Greater diligence should be exercised when considering business with customers who live in high-risk countries, or in unstable regions of the world known for the presence of corrupt practices. Firms must comply with the EDD requirements in the ML Regulations in respect of clients not physically present for identification purposes, and those who are PEPs, see Part I, section 5.5 and paragraph 5.21 below.
- 5.20 Those types of client that pose a greater money laundering or terrorist financing risk should be subject to a more stringent approval process. Their acceptance as a client or the significant development of new business with an existing higher risk client should be subject to an appropriate approval process. That process might involve the highest level of business management for the wealth management operation in the jurisdiction. Firms should consider restricting any necessary delegation of that role to a recognised risk control function.
- 5.21 In the case of higher risk relationships, appropriate senior personnel should undertake an independent review of the conduct and development of the relationship, at least annually.

#### *Politically exposed persons (PEPs)*

- 5.22 Firms offering a wealth management service should have particular regard to the guidance in relation to PEPs set out in Part I, paragraphs 5.5.18 to 5.5.30. Relationship managers should endeavour to keep up-to-date with any reports in the public domain that may relate to their client, the risk profile or the business relationship.

#### *Other clients*

- 5.23 Firms should consider conducting similar searches against the names of their prospects for business, including those that may only be known within the business development or marketing functions; and where practicable, third party beneficiaries to whom clients make payments.
- 5.24 It is recommended that in addition to the categories of client regarded as PEPs, clients connected with such businesses as gambling, armaments or money service businesses

should be considered for treatment as high risk. In determining whether to do business with such high risk interests, firms should carefully weigh their knowledge of the countries with which the client is associated as well as the nature of the business that has generated the wealth. Particular consideration should be given to the extent to which their AML/CTF legislation is comparable to the provisions of the relevant EU Directive.

### ***Transaction Monitoring***

5.25 General guidance on monitoring customer transactions and activity is given in Part I, section 5.7. In view of the risk associated with wealth management activities, it is appropriate that there should be a heightened ongoing review of account activity and the use made of the firm's other products. In the case of wealth management, the triggers for alerts may be set at a different level, to reflect the appropriate level of control that is to be exercised.

5.26 An illustrative (but not exhaustive) list of matters firms should carefully examine includes:

- substantial initial deposits proposed by prospects for business;
- transactional activity - frequent or substantial activity that is inconsistent with the normal levels associated with the product or purpose - unusual patterns of activity may be evidence of money laundering;
- wire transfers - frequent or substantial transfers not in keeping with either normal usage for the product or the verified expectations of the client's business requirement;
- cash or other transactions - which are not in line with either the normal usage for the product or the verified expectations of the client's business requirement;
- significant increase or change in activity – increased values, volumes or new products required, which do not align with the firm's profile of the client;
- accounts of financial institutions not subject to supervision in an equivalent jurisdiction; and
- any activity not commensurate with the nature of the business.

and firms should remain mindful of the possibility of clients using their legitimate resources to finance terrorism.

5.27 Incoming and outgoing transfers, whether of cash, investments or other assets, should be reviewed by the relationship manager or their delegate as soon as is reasonably practicable after the transaction. To ensure the process is efficient, firms will wish to set a threshold figure that is in line with the business risk profile.

5.28 In view of the nature of wealth management services generally, it is appropriate that additional controls and procedures should be applied both to the acceptance and ongoing maintenance of wealth management relationships. These additional controls will also be appropriate when considering the further development of the business relationship with, say, the introduction of new funds or assets.