11A: Consumer credit providers

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

1. Firms that undertake consumer credit businesses (but are not regulated for non-credit activities by the FCA before 1 April 2014) are subject to the provisions of the Money Laundering Regulations 2007[1], as they provide lending within point 2 of Schedule 1 of the ML Regulations. Some professional firms that provide consumer credit services and are subject to a designated professional body will not be required to be authorized, as they can take advantage of the FCA PROF Handbook, which means their compliance is overseen by their professional body.

2. Certain consumer credit businesses (such as some pawnbrokers) which also undertake money service business activity, although authorised by the FCA for their consumer credit activity, will continue to be subject to supervision by HMRC[2]. These businesses should follow HMRC guidance for the MSB sector[3] but may find this guidance useful for their consumer credit activity.

3. Consumer credit providers are therefore subject to the full provisions of UK law and regulation relating to the prevention of money laundering and terrorist financing. The guidance in Part I therefore applies to all consumer credit providers. Consumer credit providers are also subject to the FCA financial crime rules in SYSC 6.1.1 and 6.3.

Typical products

4. Consumer credit providers covered by this guidance include both unsecured credit providers and secured lenders. Products provided include:

   - Store cards and other revolving credit facilities[4]
   - Point of sale or other retail finance
   - Personal loans or short term credit
   - Second charge lending[5]
   - Secured loan provided by a pawnbroker

---

[1] www.legislation.gov.uk/uksi/2007/2157/contents/made

[2] This applies where a consumer credit business falls within the definition of an "excluded money service business" in Regulation 23(5).

[3] www.hmrc.gov.uk/mlr

[4] Credit Card Issuers are, however, covered by separate guidance in Part II, Sector 2: *Credit cards*

[5] But not first charge lending

5. The amounts lent are generally but not always under £25,000 and for periods of between 2-5 years (although some lenders provide larger value finance over longer terms for home improvements or for secured loans and substantially shorter for short-term, low value loans or interest free finance)[6]. This guidance will also be relevant to those businesses who sell goods or services on credit (although hire purchase is addressed in Sector 11: *Motor Finance*).

What are the money laundering or terrorist financing risks for consumer credit providers?

6. With the exception of store cards or revolving credit facilities, the features of the lending are generally that the initial monies advanced are paid into the customer's own or another bank account, e.g. the Point of Sale retailer. Repayments are usually made from the customer's own bank or building society accounts by direct debit. Repayments in cash are not, and should not be, encouraged.

7. Generally, consumer credit providers do not hold permission from the FCA to handle client money (although other parts of the businesses may do if they are part of larger retail banking groups), so in practice there is unlikely to be any involvement in the placement stage of money laundering. There is, however, scope for consumer credit providers to be drawn in to the layering and integration stages.

8. The main money laundering risks arise through the acceleration of an agreed repayment schedule, either by means of lump sum repayments, or early termination or settlement. Consumer credit providers should be aware that early repayments carry a risk that the funds have emanated from a criminal lifestyle.

9. Overall, however, the provision of consumer credit carries a low inherent money laundering/terrorist financing risk. Lenders will normally only accept payment of installments from the customer named on the agreement, and in the case of an overpayment will only make repayment to the customer named on the agreement.

10. However, if a consumer credit provider accepts occasional payments from third parties, for example, on settlement of the agreement, it must be alert to the unknown nature of the source of these funds, which may increase the risk of receiving the proceeds of crime. There is also a risk for pawnbrokers providing a secured loan, that the goods held as security may be the proceeds of crime.

Assessment of the risk

11. For single advance finance, the lender's knowledge of the customer (other than an existing customer) only extends to information gleaned at the identification stage, and to a single monthly payment[7] on the agreement. Their occupation details and income are generally known and the applicant's details are usually validated by searches at one or more of the Credit Reference Agencies.

12. For Store cards and revolving credit facilities, additional reviews are undertaken on a regular basis to update the customer details.

---

[6] There are no time constraints on revolving credit.

[7] This may slightly vary by form of credit.

13. The nature of consumer credit, however, is that the type of agreement entered into with the customer carries a relatively low risk of money laundering.

14. Consumer credit can be provided through a number of different channels. Customers may be introduced through the internet, via the telephone, by post or face to face. Where lending is obtained remotely without face-to-face contact, this is likely to carry a higher risk.

15. Procedures and controls used for identifying potential money laundering are therefore normally transactional-based, to identify unusual transactional movements, unusual deposits, unusual advance payments or unusual repayment patterns.

Customer Due Diligence (CDD)

16. Having sufficient information about customers and beneficial owners and using that information underpins all other anti-money laundering procedures. A firm must not enter into a business relationship until the identity of all the relevant parties to the relationship has been verified in accordance with the guidance in Part I, Chapter 5.

17. The borrower in respect of consumer credit tends to be a private individual, although loans of these types can be made for business purposes to sole traders and partnerships of two or three partners (not all of whom are corporate entities). If the borrower is a large partnership, a limited liability partnership or a private or public company, the borrowing will not be regulated by the Consumer Credit Act 1974 but the business must obtain information that is relevant to that entity such as company registration number and registered address. For all business entities, it is prudent to obtain (where relevant) evidence that individuals have the authority to act for that entity and evidence to establish beneficial owners of such entities.

18. Further guidance on identification and verification of the customer is given in Part I 5.3.2-5.3.7. Further detail on identification and verification of a beneficial owner is available at 5.3.8-5.3.13. Guidance on the requirements relating to existing customers is set out in Part I at 5.3.14-5.3.18.

Private individuals

19. Guidance on verifying the identity of private individual consumers is given in Part I, paragraphs 5.3.68 to 5.3.114. This validation may be undertaken by either the lender or by a broker e.g. for Point of Sale Finance. However, where such a broker is not regulated by the FCA in its own right, it is important to recognize that it may be acting merely as an authorised representative of the lender (see Part I, paragraphs 5.6.34-5.6.43).

20. Customers may be assessed as presenting a higher risk of money laundering if they are identified as being Politically Exposed Persons (PEPs), or because of some other aspect of the nature of the customer, or his business, or its location, or because of the product features available. In such cases, the firm must conduct enhanced due diligence measures (see Part I section 5.5) and will need to decide whether it should require additional identity information to be provided, and/or whether to verify additional aspects of identity. For such customers, the lender will need to consider whether to require additional customer information (see Part I, section 5.5) and/or whether to institute enhanced monitoring (see Part I, section 5.7).

21. Non face-to-face transactions can present a greater money laundering or terrorist financing risk than those conducted in person because it is inherently more difficult to be sure that the

person with whom the firm is dealing is the person that they claim to be. Enhanced due diligence is required in these circumstances, and verification of identity undertaken on a non-face-to-face basis should be carried out in accordance with the guidance given in Part I, paragraphs 5.5.10 to 5.5.17.

22. Some persons may not be able to produce the standard evidence of identity. Where customers cannot produce the standard identification of evidence, reference should be made to the guidance set out in sector I: Retail banking, Annex 1-I.

Non Personal Customers

23. Guidance on verifying the identity of non-personal customers is given in Part I, paragraphs 5.3.115 to 5.3.177. Categories of non-personal customers that are likely to be of particular relevance to consumer credit providers are:

    - small partnerships and unincorporated businesses (paragraphs 5.3.163-5.3.177)

24. Consumer credit providers may also want to refer to Part II, Sector 11: *Motor finance*, Annex 11-I sections 1-6. This documents the Industry Standards for Fraud Prevention in Credit Application Processing. This documents standard identification evidence. It should be noted that some of the requirements set out in this industry standard exceed those now required for lower risk products under the current money laundering regulations.

Using verification work carried out by another firm

25. The responsibility to be satisfied that a customer's identity has been verified rests with the firm entering into the transaction with the customer. However, where two or more financial services firms have an obligation to verify the identity of the same customer in respect of the same transaction, in certain circumstances one firm may use the verification carried out by another firm. Guidance on the circumstances in which such an approach is possible, and on the use of pro-forma confirmation documentation, is given in Part I, section 5.6.

26. Consumer credit providers should bear in mind that they are often the party which is carrying out the initial customer identification and verification process.

Suspicious transactions

27. Guidance on monitoring customer transactions and activity is set out in Part I, section 5.7. Guidance on internal reporting, reviewing internal reports and making appropriate external reports to the National Crime Agency (NCA), is given in Part I, Chapter 6. This includes guidance on when a firm needs to seek consent to proceed with a suspicious transaction, with which consumer credit providers need to be familiar.

Staff awareness and training

28. One of the most important controls over the prevention and detection of money laundering is to have staff who are alert to the risks of money laundering/terrorist financing and well trained in the identification of unusual activities or transactions, which may prove to be suspicious.

29. Guidance on staff awareness, training and alertness is given in Part I, Chapter 7. This guidance includes suggested questions that staff should be asking themselves, and circumstances that should cause them to ask further questions about particular transactions or customer activity.

Record-keeping

30. General guidance on record-keeping is given in Part I, Chapter 8. Verification of the identity of a customer or beneficial owner may be by means of documentation or electronically. Where documents are used, it is preferable to make and retain copies.

31. Documents relating to customer identity must be retained for five years from the date the business relationship with the customer has ended (see Part I, paragraph 8.12).