

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 investment services including advice, discretionary fund management and brokerage to private investors, ranging from the mass affluent to high and ultra-high net worth individuals (HNWI and UHNWI). Some wealth managers are parts of banks or private banks and may also provide banking services to the same clients. The services are characterised by an assessment of a client's particular needs and may comprise some or all of the following:

- Execution only brokerage (see Sector 10)
- Personalised and detailed advice
- Discretionary portfolio management (see Sector 9)
- Financial planning (see Sector 6)
- Bespoke investment solutions
- Investments in markets in a wide range of jurisdictions, including emerging markets, small investment centres, and metropolitan countries
- high value transactions (for HNWI and UHNWI)
- Current account banking (where the wealth manager is part of a private bank).

What are the money laundering risks in wealth management?

Inherent risks

5.2 The following are factors that contribute to the potential risk for wealth management:

- Wealthy and powerful clients: Such clients may be reluctant or unwilling to provide adequate documents, details and explanations. The situation with regard to them is exacerbated where the client enjoys a high public profile, and may fall into the category of Politically Exposed Person (PEP), indicating that they wield or have recently wielded political or economic power or influence.
- Multiple and complex accounts: wealthy 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 wealth managers to accurately assess the true purpose and business rationale for individual transactions
- Cultures of confidentiality: better off Wealth management clients may seek extra reassurance that their need for confidential business to be conducted discreetly will be met. However, requests for confidentiality should not lead to unwarranted levels of secrecy that suit those with criminal intentions.
- Concealment: The use of services such as offshore trusts and the availability of structures such as shell companies in some jurisdictions helps to maintain an element of secrecy about beneficial ownership of funds and may give rise to significant misuse. Care should be taken to ensure that use of banking and investment services in such

countries does not facilitate the development of layers of obscurity that assist those who pose a higher risk of criminality.

- Jurisdictions maintaining statutory banking secrecy: Secrecy in banking increases the risk a client might present to a firm – certain jurisdictions will have tighter rules and these need to be taken into consideration.
- Corrupt jurisdictions: there are jurisdictions where corruption is known, or perceived, to be a common method of acquiring personal wealth. As with any financial services firm, attempts may be made to launder assets gained from corrupt practices in these jurisdictions through wealth management firms.
- Movement of funds: The transmission of funds and other assets by private clients may involve high value transactions, and rapid transfers of wealth across accounts in different countries and regions of the world; this could facilitate the concealment of illicit funds before the authorities can catch up with them.
- The use of concentration accounts: i.e. multi-client pooled/omnibus type accounts these are used to collect together funds from a variety of sources for onward transmission and can hide laundered money in the pooling; they are 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, are methods that can be used 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 the private banking areas of wealth management. Such arrangements may serve a legitimate business function and make possible certain transactions which may otherwise be unacceptable due to credit risk. But they may also make it easier to conceal the sources of illicit funds. Collateralised loans raise different legal issues depending on the jurisdiction of the loan, but 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 that may hide the true nature of the collateral. 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 lending firm.

Assessment of the risk

- 5.4 The role of the relationship manager is particularly important to the wealth management firm in managing and controlling and mitigating the money laundering or terrorist financing risks it faces. Wealth management relationship managers can develop strong personal relationships with their clients, depending on the business model, which facilitates the collection of the necessary information to know the client's business and financial affairs, including knowledge of the source(s) of the client's wealth. However, wealthy clients can 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, especially by the clients themselves.
- 5.6 As in all firms, relationship managers and other client-facing staff in the wealth management sector 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 handling incidents and reporting them to the appropriate authority.

Cash transactions

- 5.7 Relationship managers should neither accept cash nor deliver cash, nor other stores of value such as travellers' cheques, to anyone.

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, the wealth manager should consider nominating a senior person 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 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 wealthy retail client's needs entailing the use of sophisticated products and fiduciary services, sometimes involving more than one jurisdiction, including trusts, private investment vehicles and other company structures, require careful scrutiny. Where such legal vehicles and structures are used, it is important to establish that their use is genuine and to be able to check the sources of wealth and funds and follow any chain of title to know who the beneficial owner and controllers are.
- 5.11 In addition to the standard identification requirement in Part I, paragraphs 5.3.71 – 5.3.91, 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 or authority leading to persons of significant control, 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.

5.12 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 client meetings

5.13 As mentioned in Part I, paragraph 5.3.76, in the context of a traditional business model for wealth management, visiting clients can be an important part of the overall customer due diligence process. Whether the meeting is virtual or physical (and dependent on the firm's business model), in order to substantiate the type and volume of a client's business activity and income, relationship managers should, where possible, seek to document:

- 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

This is a useful way of confirming identity and verification (ID&V) for cases where it can't be otherwise obtained, e.g. vulnerable clients. The client profile should be updated where appropriate.

Approval of new relationship

5.14 All new wealth management clients should be subject to the firm's risk-based approach and new clients may be referred for appropriate management approval.

Reputational searches

5.15 Firms should check for negative information (e.g. in the media/online), on a risk-based approach.

Review of client information

- 5.16 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)

- 5.17 Greater diligence should be exercised when considering business with customers who live in higher risk countries, or in unstable regions of the world known for the presence of corrupt practices as assessed by the firm and in accordance with guidance in Part I. Firms must comply with the EDD requirements in the ML Regulations in respect of clients who are PEPs, see Part I, section 5.5 and paragraph 5.20 below.
- 5.18 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.
- 5.19 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)

- 5.20 Firms offering a wealth management service should have particular regard to the guidance in relation to PEPs set out in Part I, paragraphs 5.5.13 to 5.5.31. 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

- 5.21 The handling of third-party payments is an important feature of the typical risk profile of the wealth management sector. Where the firm receives payments from or pays redemption proceeds to a third party, appropriate due diligence measures should be performed on the third party, on a risk-based approach - including, for example, understanding the reasons behind the payment/transfer and relationship to the third party and considering the extent to which their identity may need to be verified. Where the beneficial owner remains the same, this may be treated as lower risk.
- 5.22 It is recommended that in addition to the categories of client regarded as PEPs, clients connected with sectors that are associated with higher corruption risk (see Part 1 Annex 4-II) should be considered for treatment as higher risk. In determining whether to do business with such higher 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 other countries' AML/CTF legislation has an equivalent effect to UK requirements.

Transaction Monitoring

- 5.23 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 different levels depending on the risk the client presents to the business, to reflect the appropriate level of control that is to be exercised.
- 5.24 An illustrative (but not exhaustive) list of matters firms should carefully examine includes:
- disproportionate funding payments (in light of the client's circumstances) proposed by prospects or made by clients;
 - transactional activity - activity that is inconsistent with the normal levels associated with the client, product or purpose - unusual patterns of activity may be evidence of money laundering or other financial crime;
 - 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;
 - 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 assessed low risk jurisdiction; and
 - any activity not commensurate with the nature of the business.

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

- 5.25 Incoming and outgoing transfers, whether of cash, investments or other assets, should be reviewed by the relationship manager, delegate or other function (depending on the firm's business model) 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. Firms should aim to make this appropriate to the risk the client presents.
- 5.26 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 controls will also be appropriate when considering the further development of the business relationship with, say, the introduction of new funds or assets, or new technological processes.