

# Money Laundering

The monthly briefing service for anti-laundering specialists

## bulletin

## Identification & verification: Electronic answers

*The regulated sector is still working out how to reach behind the corporate vehicles it has as customers to the ultimate beneficial owners. **Malcolm Parker**, International Programme Director, D&B UK & Ireland, looks at the identification and verification checks required and how external electronic databases can help.*

The revised Joint Money Laundering Steering Group (JMLSG) Guidance, published on 7 November 2007 recognises that firms will “in many situations need to be prepared to accept a range of documents, and they may wish also to employ electronic checks, either on their own or in tandem with documentary evidence.” (JMLSG Guidance Part 1, para 5.3.32)

The JMLSG Guidance also describes the benefits to a firm in seeking electronic evidence of a customer’s identity, either by accessing external electronic databases directly or “through independent third party organisations”. Specifically it says: “The size of the electronic footprint in relation to the depth, breadth and quality of data, and the degree of corroboration of the data supplied by the customer, may provide a useful basis for an assessment of the degree of confidence in their identity.” (JMLSG Guidance Part 1, para 5.3.34)

So how does a firm go about accessing these external electronic databases? And what should they be looking at when outsourcing to an independent third party organisation or data provider for reliable electronic evidence of a customer’s identity?

Again, JMLSG gives us some pointers, two in particular. First: “A number of commercial agencies which access many data sources are accessible online by firms, and may provide firms with a composite and comprehensive level of electronic verification through a single interface. Such agencies use databases of both positive and negative information, and many also access high-risk alerts that utilize specific data sources to identify high-risk conditions, for example, known identity frauds or inclusion on a sanctions list. Some of these sources are, however, only available to closed user groups.” (JMLSG Guidance Part 1, para 5.3.35)

And second: “For an electronic check to provide satisfactory evidence of identity on its own, it must use data from multiple sources, and across time, or incorporate

qualitative checks that assess the strength of the information supplied. An electronic check that accesses data from a single source (eg, a single check against the Electoral Roll) is not normally enough on its own to verify identity)” (JMLSG Guidance Part 1, para 5.3.37)

Summarising these two points: when verifying the identities of customers, businesses should seek online sources of real-time data and, perhaps most critically, are required to use multiple sources.

Not surprisingly, regulated businesses have been looking increasingly to credible third party data providers (or in JMLSG parlance “independent third party organisations” or “commercial agencies” – these terms seem to be used interchangeably) to provide them with 24/7, online access to packages of real-time information that they can store themselves.

Before a business decides on outsourcing to a third party data provider, it must know precisely what – and why – it needs to outsource.

Paragraph 5.3.37 above stipulates that a business must use data from multiple sources to verify a customer’s identity. In other words, as of 15 December, the common practice of gathering hard copy (documentary) data from a customer as well as from, say, Companies House filings is no longer sufficient, primarily because two sources do not, of course, comprise “multiple sources”. It is also worth noting that Companies House is not required to proactively challenge any of the documents for which it provides a home.

### What regulated businesses worry about

Setting aside the thorough work of the JMLSG and others around the new Money Laundering Regulations 2007, it is worth summarising here the primary practical concerns and challenges that are being flagged up in the course of D&B’s ongoing consultations with the UK’s leading financial institutions and law firms.

1. The question of beneficial ownership (owners with more than 25% of a business) is arguably causing the most concern among banks, law firms and accountancy firms as well as other regulated businesses. This information is not readily available. While Companies House holds information on minority ownership this information does not help with linkages with other companies. As a result, any Companies House search for beneficial

- owners will invariably develop into a time-consuming paper trail of further searches on other businesses or owners. Non-registered businesses such as sole traders or traditional partnerships present a particular challenge.
2. The requirement to access data from multiple sources is administratively burdensome: aside from the trouble of physically showing up at the sites of these sources, both in the UK and overseas – for example, regulator sites, stock exchanges, central registries of companies – businesses will have to assemble data that arrives in differing formats. It does not stop there. Once assembled, this data has to be interpreted, risk assessments made and the documents must be filed so they are readily available for future audit trails.
  3. Dealing with overseas customers presents additional challenges given that the approaches to businesses' filings vary widely from jurisdiction to jurisdiction. It may come as a surprise that in the US there is no equivalent to the UK's Companies House. Companies make the necessary declarations (filings) at stock exchanges only if they are publicly listed – as a result there are only about 175,000 company filings in the US (out of over of 20 million businesses). This situation has led to D&B, a “commercial agency” no less, being used as the de facto central registry in the US, to the extent that the US government will only do business with companies with a D&B DUNS Number (the unique nine-digit identifying number given to all 120 million companies on D&B's worldwide database).
  4. The secrecy that surrounds business entities registered in near and far-flung tax havens around the world works against the AML requirements. Accessing the necessary information about these entities in order to carry out risk assessments and third party checks is a key challenge for regulated businesses.
  2. How are you implementing this policy or structuring procedures in order to support this policy, ensuring it is consistently applied in all cases? In particular, what arrangements have you made, in practical terms, for “simplified” or “enhanced” due diligence?
  3. What is the registered name and address of the business as well as the trading address?
  4. What are the names of those with a controlling interest in the businesses, ie, directors, and what is their background?
  5. Who are the owners of the business, ie, those with a beneficial interest of 25% or above?
  6. How do you carry out the necessary checks on those with a controlling interest or beneficial stake where they are private individuals?
  7. What is the corporate structure of the business, ie, is it a subsidiary of a multinational business or standalone? If it is part of a complex corporate structure, what wider checks can you make for the corporate hierarchy?
  8. What is the nature of the business and might it be considered to be a “high value dealer”? (This is defined by the MLR 2007 as: “a firm or sole trader who by way of business trades in goods (including an auctioneer dealing in goods), when he receives, in respect of any transaction, a payment or payments in cash of at least €15,000 in total, whether the transaction is executed in a single operation or in several operations which appear to be linked.”)
  9. Are there any other credible third party sources you can use in order to triangulate the identification of the business, ie, central regulators or exchanges?
  10. How will you document and archive the identity checks you carry out in order to be able to provide proof at any point that your checks meet the requirements of your risk based policies and procedures?

### Checklist for AML compliance

In light of the challenges outlined above, below is a ten-point checklist of questions that any regulated business should be able to answer for all existing or prospective customers (businesses):

1. Do you have in place a properly defined risk-based money laundering policy that outlines the extent of customer due diligence measures required, based on risk assessment and depending on the type of customer, business relationship, product or transaction? In other words, does your policy outline procedures for taking on new customers that include details of (a) how you will identify the business or individual, (b) how you will confirm the identity of a business or individual and (c) how you will carry out checks against relevant sanctions or checklists?

As a regulated business, you must be able answer all these questions in order to satisfy yourself that you are compliant. If you are considering outsourcing to an electronic data provider for verification the JMLSG Guidance says: “Before using a commercial agency for electronic verification, firms should be satisfied that information supplied by the data provider is considered to be sufficiently extensive, reliable and accurate.” (JMLSG Guidance Part 1, para 5.3.39) You need to be confident that the data provider gives you all the information you need – in the correct format – in order to satisfactorily answer these ten points.

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