BANKING INSIGHTS

# Big money, big risks

## Managing money laundering risks for high-net worth individuals

## Private banking and wealth management

According to a 2020 PWC assessment, the total global assets under the management of private banks and wealth managers is expected to increase from the 2020 value of $110 trillion to $145 trillion in 2025. Regulatory scrutiny is therefore only likely to increase, including higher penalties and fines for non-compliance, deferred prosecution agreements, and targeted management accountability for anti-money laundering (AML) and sanctions violations.

Due to the size of the private banking market and the wealthy clients you look after, it is a prime target for money launderers. In the retail sector, it is generally the case that money launderers will break down large sums of money into small values to avoid raising suspicion, particularly if they are using money mules that wouldn't often deposit such large amounts.

Now if we look at the private banking and wealth management sector, it is more common to move large sums of money through the system, there's no questioning the attractiveness of this high-net worth environment to money launderers.

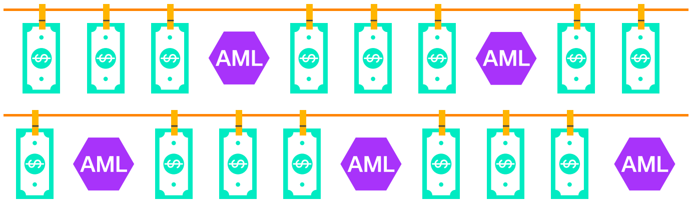
There's no questioning the attractiveness of the private banking and wealth management sector to money launders

## Transaction monitoring challenges

As this environment differs so heavily to a retail banking environment, switching from low-value and high-volume transactions to high-value and low-volume transactions, transaction monitoring differs greatly for your sector.

Key indicators for AML transaction monitoring include: substantial initial deposits, wire transfers, cash-based transactions, an increase or substantial change in activity, accounts not subject to supervision, non-commensurate activity, as well as incoming and outgoing transfers. However, this also brings subsequent challenges.

- **High-volume of detection on transaction-based scenarios:** This is often driven by high-value of transactions, which impacts the 'unusualness' of transactional behavior and client profiling. Businesses in this sector should refine customer segmentation to allow for improved threshold setting and flexibility.
- **Segmentation:** Due to the types of clients, there is a need to establish a more granular customer segmentation, where appropriate thresholds can be defined and a more relevant profile can be built for the individual. This is led by the client upon starting a relationship with your private bank or wealth manager.
- **Financial groups/virtual customers:** Clients can group and regroup for various business activities and investment purposes. In these instances, clients need to be profiled individually and as part of the newly formed financial group. However, groups are dynamic and clients can leave the group and new ones join at any given time. As a result, there is a need to re-build profiles as and when entities move in/out of the group.



## The inherent risks

As you work with a portfolio of very wealthy and powerful clients with high-value transactions there are many inherent risks and factors that contribute to the increased risk and vulnerability, such as:

**Wealthy and powerful clients**
Such clients may be reluctant or unwilling to provide adequate documents, details and explanations

**Movement of funds**
High value transactions, requiring rapid transfers to be made across accounts in different countries and regions of the world

**Countries banking secrecy**
There is a culture of secrecy in certain jurisdictions, supported by local legislation, in which wealth management is available

**Commercial activity conducted through a personal account**
Or personal activity conducted through a business account to deceive the firm

**Countries with corruption culture**
Countries where corruption is known, or perceived, to be a common source of wealth

**Concealment**
The misuse of services such as offshore trusts and the availability of structures such as shell companies

**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

**Use of concentration accounts**
Multi-client pooled/omnibus type accounts – used to collect together funds from a variety of sources for onward transmission

**Cultures of confidentiality**
Wealth management clients often seek reassurance that their need for confidential business will be conducted discreetly

**Credit**
Extension of credit to clients who use their assets as collateral poses a money laundering risk

Data source: JMLSG

## Risk assessing high-net worth clients

Also unlike retail banks and their average customer, you have a close one-to-one relationship with clients. Your relationship managers have a particularly important role within the firm by managing and controlling the money laundering or terrorist financing risks it faces. Relationship managers develop strong personal relationships with clients with the goal of knowing the client's business, including the source(s) of the client's wealth and also the network of personal asset managers, accountants, friends and business associates around them. However, wealthy clients often have business affairs and lifestyles that may make it difficult to establish what is "normal" and therefore what constitutes unusual behavior.

As a result, the level of customer due diligence (CDD) is considerably higher than in retail banking. A relationship manager must record visit's to client premises, reference and reputational searches, and an in-depth review of a client's personal information before the new relationship is approved as part of enhanced due diligence, particularly for politically exposed persons (PEPs).

In addition to CDD, a relationship manager must also be a part of the transaction monitoring process to assess all incoming and outgoing transfers, with heightened ongoing review of account activity should a transaction be flagged. Private banking institutions tend to involve their relationship managers more as part of their investigation process as transaction driven detection tends to be more front office, whereas profile driven detection is often owned by the compliance team, also known as the back office. However, while your relationship managers can be pulled into the compliance process on a 'need to' basis, there is a need to closely control their access to compliance related information.

With many stock market indices near all-time highs, the wealth and asset management sector is under increased regulatory spotlight and firms are looking for more effective ways to protect against AML and financial crime.

Compliance with AML, Know Your Customer (KYC), and sanctions requirements continue to be a key focus area as firms are under pressure to demonstrate they have robust compliance frameworks in place to meet both regional and global regulatory requirements.

## Tailored needs for high-value transaction environments

With high stakes and in-turn rewards, your firm will have tailored needs to manage compliance and AML risks and reporting. Although you may have smaller portfolios to manage compared to retail banks, the stakes are arguably higher. Therefore, in this environment, AML solutions must be tailored to your specific needs and risks.

**AML and transaction monitoring**

with specific detection scenarios in line with their customer profiles

**Customer due diligence**

requires personalisation based on the needs of the firm's clients

**Watch list management**

with both sanctions and PEP name screening and transaction filtering to support multiple jurisdictions and detailed name filtering

Such solutions require greater tailoring for this environment due to the type of transactions and customer activities that differ greatly from standard retail customers. Private banks often see a high rate of false positives for high-value transactions and in turn, require more granular segmentation. Data segregation is also required for specific jurisdictions, and with clients that may have multiple accounts in different countries, this is particularly important.

With a solution tailored for the specific processes and risks in private banking and wealth management, you can benefit from a 360° view of customer activities and easy access to detailed global AML risk analysis supported by flexible and detailed detection scenarios. In turn, you can benefit from minimising false positives and minimising risk.

## **SymphonyAI Sensa-NetReveal for private banking and wealth management** take control of regulatory compliance risks with explainable outcomes

Preconfigured and packaged to suit the specific needs of private banking sector and Wealth Management, SymphonyAI Sensa-NetReveal is designed to understand the AML and Financial Crime challenges posed by High Net Worth individuals through one platform, which is easy to maintain and integrate with existing platforms, lowering the total cost of ownership. Our solution enables you to manage anti-money laundering (AML) and

## About SymphonyAI Sensa-NetReveal

SymphonyAI Sensa-NetReveal, a division of SymphonyAI, provides leading AI-based financial crime detection software. Learn more at netreveal.ai.

**Request a demo or contact us for more information:**
**netreveal.ai/request-demo**