

KNOWING YOUR CLIENTS

Client relationship is considered to be essential to the revenue generation capabilities of many organizations and by extension it is crucial to business continuity. Unfortunately, organizations may from time to time find themselves dealing with unscrupulous clients who try to undermine the control procedures of the organization. Others may experience difficulty in satisfying the needs of their clients which may eventually lead to them being lost to competitors.

There are several risks associated with these issues that can have profoundly adverse consequences on the operations of the business. There is the possible exposure to some degree of reputational risk, operational risk and legal risk that may occur as a result of the business not having adequate systems in place to prevent or address such circumstances.

Businesses within the Finance Sector will be particularly concerned with the loss of reputational integrity due to unfavorable publicity linked to their business practices and associations. The very nature of such businesses requires the confidence of depositors, investors and other market players being preserved. As regards operational risks, the perception that a business' control procedures are ineffective or that it fails to practice due diligence can also have undesirable effects on clients' confidence. The failure to practice due diligence in identifying clients and understanding their business can lead to legal issues for organizations. These may include fines, criminal liability or special penalties which influence public perception and can affect the operations of the business even beyond the legal implications themselves.

One of the most effective ways for an organization to ensure that it attracts and retains quality clients while avoiding criminal and other risk exposures is through the development and implementation of a "Know Your Client" (KYC) policy that is specially suited to its operations.

This policy should be a central feature of the organizations risk management and control procedures and should be developed giving particular consideration to the business environment and type of products or services being offered. In addition, there should be some basic yet key client-specific elements integrated into the KYC policy which includes: establishing the true identity of the client; verifying the nature and type of service or products expected from the client; verifying the source of the transaction funds; and monitoring of the client's ongoing activity.

True Identity

In order to ascertain the true identity of the client, full particulars should be obtained prior to establishing business relationships. These would include for example the correct name and other names used by the potential client, the residential address, country of citizenship, date of birth and country of birth, as well as legal identification and occupation. Organizations can also use risk based client due diligence to learn essential facts relative to clients and their transactions.

If an individual attempts to establish an account under a false identity, it is likely that this may be for the purpose of defrauding the organization or to use the organization to launder funds and ensure that the individual cannot be traced or linked to the proceeds of a crime. It is highly improbable that a good-intentioned client would refuse to provide the required information or attempt to establish an account under a false identity. When discovered, suspect individuals should be denied business relations in order to minimize the organization's risk exposure.

Nature and Type of Service

Organizations should obtain a sound knowledge of the purpose for which the client is seeking to establish a business relationship so as to provide employees with a clear understanding of the legitimate business of their clients. This knowledge can then be used to offer intelligent market solutions as well as a foundation to scrutinize all dealings initiated by the client. Where such dealings appear not to fit this knowledge-base, this may give some indication of the changing needs of the client or may become the basis of an employee's suspicion about the client.

Source of Funds

Requests should be made of clients to submit a signed declaration of the source of their funds that exceed a predetermined limit. To facilitate this, organizations can implement systems whereby clients are classified according to their profession, earnings capabilities or other suitable criteria in order to assess what is their likely average transaction activity. Limits can then be determined for the different classifications of clients.

In Trinidad and Tobago Financial Institutions are required under the Money Laundering Prevention Agreement to request that clients declare the source of funds for specified transactions. In the event that the client refuses to sign the declaration of source of funds, the underlying transaction should be declined and the individual reported to the relevant authority as suspicious.

Monitoring Accounts

Proper record keeping and retention provide a pattern of client activity and a foundation for monitoring that will allow the organization to identify any deviations from normal activity. Monitoring can be risk sensitive through the establishment of limits for different classes of accounts. Systems can then alert managers when these limits are exceeded and trigger a review of the type of business relationship that is evolving.

Organizations should be wary of individuals who refuse to provide the requested information or documentation and should seek to safeguard themselves by accepting only quality relationships rather than just seeking to increase their client base. The organization can provide its employees with a clear description of the types of clients that pose above-normal risk so they may identify those accounts that require more extensive due diligence procedures.

The knowledge accumulated on clients not only aids the organization in providing the most excellent service to the client but it is also vital for the prevention of money

laundering or terrorism financing. If a transaction or client continually fosters reason for concern, the organization should refrain from the transaction and report the matter to the relevant authority.

It should be noted that accounts that have been established in good faith may later become susceptible to fraudulent activity. It is therefore incumbent upon organizations to continually seek ways to safeguard themselves and their legitimate clients from the risks associated with unscrupulous clients while at the same time facilitating genuine business dealings.