

## **FSA fines banking giant £5.6m for terrorist financing risk**

Wednesday 4th August 2010

Members of the Royal Bank of Scotland Group were yesterday handed a £5.6m fine by the FSA for failing to have adequate systems and controls in place to prevent breaches of UK financial sanctions.

UK firms are prohibited from providing financial services to persons on the HM Treasury sanctions list. The Money Laundering Regulations 2007 (the Regulations) require that firms maintain appropriate policies and procedures in order to prevent funds or financial services being made available to those on the sanctions list.

During 2007, the Royal Bank of Scotland Group processed the largest volume of foreign payments of any UK financial institution. However, between 15 December 2007 and 31 December 2008, RBS Plc, NatWest, Ulster Bank and Coutts and Co, which are all members of the group, failed to adequately screen both their customers, and the payments they made and received, against the sanctions list.

The regulator stated that this resulted in an ‘unacceptable’ risk that the banking group could have facilitated transactions involving sanctions targets, including terrorist financing.

The FSA said that the group’s failings in relation to its screening procedures were particularly serious because of the risk they posed to the integrity of the UK financial services sector.

This is the biggest fine imposed by the FSA to date in pursuit of its financial crime objective. It is also the first fine imposed by the FSA under the Regulations. Margaret Cole, FSA director of enforcement and financial crime, said: “The involvement of UK financial institutions in providing funds, economic resources or financial services to designated persons on the sanctions list undermines the integrity of the UK’s financial services sector. By failing to screen relevant customers and payments against the HM Treasury sanctions list, the Royal Bank of Scotland Group left itself open to the risk that it was facilitating terrorist financing.”

Commenting on the historic fine, Linksfeld Technologies, a specialist in providing technology to the financial services sector, said that the FSA’s action carried implications for many other financial institutions.

Linksfeld Director, Dr Larry Shapiro, said: “Today’s action underlines the importance now being attached to this area by the authorities, following on from the FSA’s report in April 2009 and HM Treasury’s recent draft terrorist asset-freezing bill in March 2010.

“Many don’t realise that this new asset-freezing bill will require financial firms to conduct retrospective checks on all clients that they’ve dealt with during the last five years.” Linksfeld has software that it claims can be a solution for financial firms trying to keep on top of the ever-changing sanctions list – according to Dr Shapiro it can change 3 times in a single day in extreme cases and, on average, 5-7 times a month.

The Financial Sanctions Register (FSR) Checker automates the checking of the financial sanctions list, and is already used by many financial institutions in order to comply with legal obligations in line with the Third Money Laundering Directive.

Dr Shapiro says that as well as providing a full evidence trail to demonstrate precisely what checks were done when, the FSR Checker also provides advanced "fuzzy matching" algorithms for key name and address fields - since individuals and companies listed on the register often try to disguise their true identity and alter documents.

He added: "This first fine by the FSA is hugely significant, since many financial institutions we speak with have not believed that the FSA is serious about them needing to do these checks."

The FSA's Margaret Cole backed this up, saying: "The scale of the fine shows how seriously the FSA takes this issue and should act as a warning to other firms to ensure that they have adequate screening procedures."

In a final note, the watchdog added that as the Royal Bank of Scotland Group agreed to settle at an early stage of the FSA investigation, it qualified for a 30% reduction in penalty. The FSA would have otherwise imposed a financial penalty of £8 million.

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