



Financial Crime Compliance: A Growing Challenge for Corporates

By **Jutta Demant, Franz-Xaver Puy Michl** and **Thomas Woelk**, Members of the Cash & Liquidity Ressort of VDT e.V. and of the EACT – Fraud working group

Financial crime incorporates many types of activity, including fraud, bribery and corruption, insider dealing, terrorist financing and money laundering. Tackling these illicit activities is a major concern for regulators, and is reflected in new legislation like the EU Fourth Anti-Money Laundering Directive. The focus on financial crime has also resulted in banks – and, increasingly, corporates – incurring large fines.

While stringent regulations are vital to building a financial system in which all participants can have confidence, the associated compliance requirements can bring a heavy administrative burden and additional costs, as well as delaying corporate banking activities such as opening bank accounts. As a result, there is

a clear need for companies to work proactively with their banks and adopt best practices to overcome these challenges.

Compliance pain points

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to have an internal compliance programme in place. Driven by export controls, and particularly the need to monitor exports of arms, military equipment and dual-use goods, firms need compliance policies and procedures in place, including the screening of all aspects of an export. For example, the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies states that client and end-user verification against international sanctions lists is crucial.

Such controls fulfil an important need in tackling financial crime. However, the adoption of financial crime screening also brings internal compliance programmes to a new level – not least because treasurers were only marginally involved in this area in the past.

Additional workload

For one thing, complying with the rules results in a heavier administrative workload, which treasurers must handle on top of their previous responsibilities. Aside from the largest multinationals, many companies have small corporate treasury departments. Freeing up suitable resources to focus on this topic can therefore be a challenge.

Screening

Screening the names of suppliers and customers during the on-boarding process may not be sufficient. In order to avoid sanctions violations, companies may also need to screen their payments and trade

messages against sanctions lists. In the context of the Fourth Anti-Money Laundering Directive it might even be necessary to screen against PEP (politically exposed persons) and other lists.

This is not a one-off exercise: sanctions and PEP lists can change on a daily basis, so customer and supplier databases need to be screened regularly. However, corporates may lack the in-house expertise and tools needed to do this. Maintaining the necessary screening and control systems may also have considerable cost implications.

Delays

Regulatory compliance can also result in considerable delays to corporate banking activities. For example, the process of simply opening a bank account can take many weeks. In this climate, a bank's ability to react quickly can be a powerful differentiator.

KYC

The relationship between banks and their corporate customers may also be affected in other ways. For example, banks need to request KYC information from customers in order to fulfil their own regulatory obligations – but if this is not done in a standardised way, corporates will have to send variations on the same information to multiple banks.

Addressing the challenges

Compliance may bring a number of challenges, but these are not insurmountable. There is plenty that companies and their treasurers can do to ensure compliance with the necessary rules, despite the many pain points.

For one thing, it is important to address the challenges proactively. This might include putting suitable training in place across the organisation. Companies may also need to appoint a compliance officer, or give another individual in the company responsibility for compliance topics.

Communicate and educate

While compliance may be a more significant part of the treasurer's workload, others within the organisation also need to be kept informed about this topic. Where

Need to know

Companies should be aware of a number of developments and initiatives relating to corporate compliance. In 2017 alone, the following guidelines and directives were released, among others:

1. The US Department of Justice (DoJ) published a paper, “Evaluation of Corporate Compliance Programs”, which provides practical guidance on how organisations can evaluate their compliance programs.
2. The Wolfsberg Group, International Chamber of Commerce and the BAFT published updated Trade Finance Principles². These highlight the importance of all stakeholders – not just financial institutions – in combating money laundering and financial crime.
3. The EU Fourth Anti-Money Laundering Directive³ included a due diligence obligation in case of suspected financial crime and bribery.

appropriate, companies should facilitate cross-departmental collaboration involving such departments as legal, tax, compliance, financial reporting, purchasing and IT.

Manage the costs

Some compliance-related costs may simply need to be accepted, but in other situations action can be taken to manage these costs down. For example, companies may be able to outsource certain compliance-related tasks, such as the process of verifying customer data – although the data protection implications of this type of arrangement will need to be understood.

Revisit business continuity planning

Treasurers should also review their companies' business continuity plans. As well as covering eventualities such as natural disasters, business continuity plans should also incorporate scenarios related to financial crime. As such, they should provide guidance on how companies should communicate with the press in the event of a case going public.

Industry collaboration



As compliance challenges become a greater concern for corporate treasurers, many are taking part in collaborative initiatives which aim to address issues ranging from KYC processes to managing fraud risk.

KYC

Where KYC is concerned, notable initiatives include a work group set up by Verband Deutscher Treasurer (VDT), the German association of corporate treasurers. During last year's conference 'Tatort Treasury' in Bad Homburg, VDT members expressed a strong interest in establishing a dedicated work group for KYC. "Following this event, members had the opportunity to volunteer to participate in a work group concerning KYC. The feedback was very strong and a team took up the work in Q3 2017 which is coordinated by members of the Cash & Liquidity Ressort of VDT e.V", comments Jutta Demant, Member of the Cash & Liquidity Ressort of VDT e.V.

Franz-Xaver Puy Michl, also a member of

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Compliance for corporates

SWIFT is working to support corporate treasurers in the face of these evolving challenges, which are being driven by increased regulation and shifting corporate responsibilities. Working closely with the financial industry, SWIFT has co-created a suite of products and solutions which treasurers can use to screen messages and names against sanctions lists, test filter performance and ensure that the lists used are up to date.

- **Sanctions Screening** screens incoming and outgoing messages against current sanctions lists and alerts you to any matches.
- **Sanctions List Distribution** automatically updates the most commonly used public sanctions lists. These can then be downloaded in standardised XML format from the SWIFTRef platform.
- **Name Screening** allows you to screen customer databases against sanctions, PEP and Relatives and Close Associates (RCA) lists, thereby supporting ongoing compliance with sanctions, anti-money laundering and customer due diligence requirements. Single-name screening supports robust due diligence during customer onboarding.
- **Sanctions Testing** enables you to assess the performance of your filters, providing independent quality assurance via an easy-to-use web-based tool.

As well as helping firms achieve regulatory compliance, these solutions can bring other benefits. "We've seen corporate clients using Sanctions Screening to reduce the delays that occur when banks investigate possible matches against sanctions lists," says Stephan Koehler, Market Analyst at SWIFT. "If corporates can identify these issues themselves, they can proactively share information with their bank about false positives and potentially speed up payments and achieve improved straight through processing."

Notes

- 1 The Dol paper, publication date 8th Feb 2017
- 2 Trade Finance Principles, publication date 24th Jan 2017
- 3 EU Money Laundering Directive, in place since 26th June 2017

Jutta Demant

Jutta was until recently Head of Corporate Finance at Funke Mediengruppe where for more than six years she was responsible for all the group's treasury activities.

Together with Franz Xaver Puy Michl she co-ordinates the KYC Working Group of VDT Verband Deutscher Treasurer e.V.

Before joining Funke she worked with Hochtief Aktiengesellschaft as Senior Financing Expert and had more than 15 years of banking experience at Dresdner Bank / Dresdner Kleinwort (1993-2009).



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Franz Xaver Puy Michl joined HSBC in 1990 and since then has worked in Global Liquidity and Cash Management (GLCM). He has been responsible for the implementation, marketing and further development of the PCM product and service propositions in Germany. As Head of Key Account Management and Client Engagement, he and his team drive the efforts to consistently deliver on the promise of working with HSBC around the world to our customer community.



Thomas A. Woelk

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Thomas Woelk joined Friedhelm Loh Stiftung in May 2017. The Friedhelm Loh Group's companies are leaders in their respective industries as inventors and competent producers, with a total revenue of about EUR 2,3bn. Before this he was Head of Corporate Treasury at Wacker Neuson SE, a quoted company in Munich, for seven years. He started his career in 1994 at Commerzbank AG and held various positions in Germany and abroad. In 2005 he joined BlackRock International Ltd. and was responsible for the sale and registration of money market funds and short-term fixed income bonds in continental Europe.



the Cash & Liquidity Ressort of VDT e.V. notes that following a "proven collaborative approach", this work group consists of a team of corporates, banks and system providers, with the goal of delivering a comprehensive 360-degree view of KYC processes. "Based on the foundation of this work, a mutually beneficial momentum towards standardisation of KYC processes between all mentioned stakeholders is to become the next step," Franz-Xaver Puy Michl says.

Tackling fraud risk

Fraud is another area of focus for corporate treasurers. "Fraud is not just a topic for the audit and legal departments," comments Thomas Woelk, Member of the Cash & Liquidity Ressort of VDT e.V. and of the EACT - Fraud working group. "It has many faces, and nearly always ends up with fraudsters trying to get money either by accessing information, or taking it directly from an account. Consequently, treasury departments have a key role in fraud prevention and protection." Thomas Woelk points out that fraud is not restricted to national borders and is driven by international organised crime structures.

Where fraud is concerned, Thomas Woelk says that a European Association of Corporate Treasurers (EACT) workgroup is "bringing awareness in the treasurers' world across Europe, within which a member of the Cash & Liquidity Ressort of VDT e.V. is active as Co-Leader."

Moving forward

While the challenges are considerable, these measures and initiatives can help to address the compliance challenges that companies currently face. Looking further ahead, treasurers may need to develop additional competencies as compliance continues to play a more significant part of their job. In time, this could lead to treasury professionals coming from a more diverse range of backgrounds.

Despite the many challenges, treasurers should remember that the stringent requirements may have a silver lining. As well as challenging treasurers, regulatory compliance may provide the opportunity for companies to become more transparent and make their internal processes more effective and efficient. ■