

Turning Due Diligence Into Action

Checklist to minimise bank counterparty risk

Because cross-border correspondent banking relationships can represent higher risks than other banking activities, financial institutions must go beyond normal due diligence procedures to ensure effective AML protection. It is necessary for respondent bank to obtain the right data for understanding the nature of correspondent bank's business, its reputation and the quality of supervision.



Board and senior management structure

Questions to consider:

- ◆ Are the board and supervisory members ethical, experienced, capable? Are they associated to any bad press?

Data to collect:

- List at least 3-5 names of significant position, i.e. CEO, CFO, CRO, COO, MLRO, etc.
- List identifying data for accurate identification (e.g. date of birth/year of birth, nationality, address, extract biography). In some instances, request a copy of their ID documents to corroborate.



Supervisory authorities

Questions to consider:

- ◆ Who regulates and audits?
- ◆ What standard is deployed and how does this compare to the industry?

Data to collect:

- Confirmation of regulator
- Confirm regulated activities via extract from the regulator's list of regulated entities



Headline financial stability

Questions to consider:

- ◆ Is the institution financially stable and profitable?
- ◆ What financial and contextual benchmarks can I use?
- ◆ Is the institution adhering to Basel II/III regulations?

Data to collect:

- Assets and revenue for current and previous years
- World and country ranking
- Credit rating
- Key ratios (i.e Tier 1 capital ratio, leverage ratio, etc.)



Business profile and overview

Questions to consider:

- ◆ Can you identify key revenue streams?
- ◆ Can any high risk activities or geographies be identified?

Data to collect:

- Outline key business areas and services
- Map key customers and profile customer bases
- Demonstrate an understanding of operational geographies



PEP, Sanctions and EDD

Questions to consider:

- ◆ Can you determine if the entity, countries of operation and group are free of sanctions and enforcement actions?
- ◆ Are supervisory board and management board free of individual sanctions? Are they PEPs?
- ◆ Do the entity and significant stakeholders have a history of enforcement, regulatory censure or negative press?

Data to collect:

- Search criteria utilised in your sanctions and PEP programme
- All potential matches and the documented rationale for decisions reached
- A clear methodology document that details sources used, such as how you define an article's relevance, the match criteria used (if applicable) and PEP definitions



Legal entity and identity

Questions to consider:

- ◆ Who is involved and where are they domiciled?

Data to collect:

- Legally registered address and/or head office address
- Registration number (if applicable)
- Confirmed country of control/domicile



Group structure and ownership

Questions to consider:

- ◆ Is this entity part of a larger group?
- ◆ Does my business already have relationships underway with other parts of their group or with this entity directly?

Data to collect:

- Create a group structure map with banking subsidiaries
- Identify legal parent and ownership type (private, state-owned, etc.)
- Confirm stock exchange listing (at parent level)



AML systems and processes

Questions to consider:

- ◆ Is the organisation licensed appropriately?
- ◆ Are there effective AML policies and procedure in place?
- ◆ Are there gaps, weaknesses and/or mitigating activities already underway?

Data to collect:

- Confirm current documents and date of submission or update:
- Banking license(s) and regulated entities extract
- US Patriot Act Certificate (group or individual)
- Latest annual report
- Wolfsberg Questionnaire or equivalent
- AML policies & procedures
- Articles of Association (AA), Memorandum of Association (MA) and Certificate of Incorporation/registration
- Peer compliance officer interview

Best Practices for KYC Success

Compliance professionals can create more accurate, trusted and clear datasets and intelligence to help drive defensible, timely and accurate decisions. To develop a more holistic view of a banking counterparty and further reduce data collection times, here are eight recommendations for bank counterparty KYC:

- Identify clear data requirements by risk category that are transparent throughout the organisation.
- Share accountability for KYC success across front as well as back office teams.
- Standardise data collection and intelligence needs by identifying what is required, what's desirable and what is surplus.
- Recognise when and where KYC data requirements and processes should differ by entity type and geography.
- Identify internal ownership around changeable data points and their collection channels, such as localised negative media or leadership changes for the correspondent bank.
- Ensure all involved in KYC processes can articulate what constitutes a "good relationship" and define the characteristics of a bad one.
- Improve data sources, including developing a source grading system, resolving potential conflict points and ensuring all stakeholders are using the same baseline of data.