



An illion Guide to Money Laundering and Terrorism Financing Risks in the Non-Bank Lending and Financing Sector.

Overview

AUSTRAC has released a detailed assessment of the money laundering and terrorism financing (ML/TF) risks associated with the Non-Bank Lending and Financing (NBLF) sector.

This insightful report has confirmed AUSTRAC's overall assessment of the money laundering and terrorism funding risk for NBLFs as medium.

However specific risks that need to be considered are identified, and AUSTRAC stresses the need for each entity to review and ensure their AML compliance program is adequate.



Major Threats

The major threat facing the NBLF sector is fraud, particularly loan application fraud, identity fraud and welfare fraud.

The second significant threat is money laundering, predominantly through unexpected early loan payouts.

It's a timely reminder for all reporting entities to be constantly aware of your own risks, ensuring you're implementing appropriate measures to know your customers at all times, and are able to detect suspicious behaviours.

Although the sector has leveraged due diligence procedures for ML/TF risk mitigation purposes, AUSTRAC states that NBLFs remain vulnerable to criminal misuse, especially in the context of an increased move towards online services.

Noting a low number of Suspicious Matter Reports (SMRs) (only four entities account for over half of all SMRs submitted), AUSTRAC expects this sector to improve their systems to identify and report suspicious matters.



Our Guide aims to provide an insight into your key AML obligations, we have divided these insights into four areas:

1) Customer Identity Verification

It might sound obvious, but AUSTRAC has assessed that the key criminal threat faced by NBLFs is fraud, with 1,632 SMRs (72 per cent). Thirty-nine per cent of SMRs included indicators of loan application fraud, the majority of which was conducted online.

Perpetrators often attempt to use other's identities to apply for loans, or use their own identity but provide fraudulent documentation.

When onboarding a new customer, it is important to check the person's identity by using either reliable and independent documentation, or electronic data (or both). Increasingly we are seeing a move towards the use of Biometric solutions to additionally verify that the customer claiming a valid identity is the owner of that identity. At the end of the process, you have to be fully satisfied that the person is who they claim to be.

This becomes essential for any activities that are online based, or are moving to more automated processes, such as Buy now pay later, small amount loans or small amount credit contracts. Not having any physical contact with customers will make a credit supplier more vulnerable to identity fraud.

As part of your KYC procedures, you also need to collect documentation to understand your customer's profile. Be aware of fraud situations, where a person is presenting fraudulent information about themselves to increase their chances of obtaining finance.

2) Beneficial Ownership Identification

Identifying your customers means you must identify both individual customers (people) and non-individual customers.

Although the majority of NBFL customers are individuals, many reported having customers such as companies, trustees, partnerships and associations.

Non-individual customers present higher risks than individuals because they provide opportunities for perpetrators to obscure beneficial ownership and co-mingle criminal proceeds with legitimate funds, complicating detection efforts by authorities.

In a context of increased demand for transparency, understanding who ultimately has control of your customer plays an important role in detecting, disrupting and preventing money laundering and terrorism financing. It can also protect your business or organisation from being exploited for other forms of criminal activity.

In implementing beneficial ownership measures you have to make sure you address these particular challenges:

- determine the true identity of the beneficial owner(s) of non-individual customers
- verify the identity of your customer's beneficial owners
- keep records of the beneficial owner identification processes you undertake
- ensure that information on beneficial ownership is kept accurate and up-to-date

3) PEP and Sanctions Screening

NBFL entities must evaluate their client's risk profiles and process them accordingly by adapting their customer due diligence and performing enhanced due diligence.

AUSTRAC consultations demonstrated that many entities in the sector had Politically Exposed People (PEPs) as customers. The report re-states that systems to identify PEPs are required under the AML/CTF Act and Rules and that PEP screening can assist the sector to identify high-risk customers and protect their businesses and government processes from exploitation.

Processing PEP and sanctions screening on an ongoing basis is a critical step in any KYC process. While PEP and Sanctions checks are performed during on-boarding, illion is aware that some NBLFs may not keep their customer profiles up to date.

Customers with dubious public reputations need to be carefully scrutinised as well, although adverse news checks are typically not performed in the NBLF sector. This is important in identifying risk in your customer base, especially customers linked to criminal activity or terrorism. In a number of cases, NBLFs became aware of links to criminal networks when the customer appeared in media reports or on sanctions lists.

4) Detecting Suspicious Activity

SMRs indicate the second greatest threat faced by NBLFs is money laundering, which relates predominantly to unexpected early loan payouts. AUSTRAC assessed that SMRs indicating money laundering were less likely to relate to genuinely illicit activity than SMRs indicating fraud. Transactions should be monitored on the basis of a customer profile.

Once you've assessed your customer risk profile, you need to be able to detect unusual transactions or transactions that don't align with your customer's risk profile as they occur, and investigate the specific circumstances surrounding the transaction. Any transactions that may lead to money laundering and terrorist financing must be reported to AUSTRAC.

In the NBFL sector, forty-six percent of SMRs included indicators of money laundering, with over half of the SMRs related to transactions being inconsistent with the customer's profile and/or unexplained wealth.

Loans are typically well-established vehicles for money-laundering, and early loan payout is a key indicator for illicitly-generated funds being used to pay back the loan.

A number of suspicious scenarios were found in the SMRs, from excessive or unexpected use of cash repayments options, to splitting cash transactions into multiple transactions to avoid being reported in a threshold transaction report, or the purchase of unexpectedly large numbers of gifts cards with the proceeds of crime.

Maintaining robust and consistent due diligence and transaction monitoring practices is paramount in order to understand the source of funds and identify movements that are inconsistent with a customer's recorded profile.

While the organisation's AML/CTF program is built around the risk assessment, it is critical that this program is regularly reviewed and kept up to date. One of the areas that is often overlooked is the 'uplift' – re-visiting the AML/CTF program regularly to ensure it is still compliant with the rules or any changes to the regulatory focus.

The illion Solution

illion has extensive AML/CTF capabilities, ranging from its commercial data, which is the best in Australia and NZ, to its market-leading individual verification product (GreenID) and our range of PEP and Sanctions solutions.

illion can also assist with ensuring that customer on-boarding and customer experience are not adversely impacted by the organisation's AML/CTF program.

illion's team has:

- Deep knowledge of AML/CTF and Know Your Customer KYC processes.
- The best and most comprehensive data for on-boarding customers.
- A team of experts in data, analytics and compliance.
- Consulting services in parallel with data services – we help you correctly interpret the data rather than simply providing it.
- Over 130 years of experience across our specialised credit decisioning experts.
- An executive team member personally responsible for every project's success.

Our Engagement Process

Arrange a meeting now with an illion representative in our AML team to hear how we can give you the edge in this challenging area: richard.atkinson@illion.com.au





About illion

illion is the leading independent provider of trusted data and analytics products and services in Australasia, with the company's consumer and commercial registries representing a core element of Australia and New Zealand's financial infrastructure.

We leverage consumer and commercial credit registries, which comprise data on over 24 million individuals and over 2 million commercial entities, to provide end-to-end customer management solutions to clients in the financial services, telecommunications, utilities and government sectors.

Trusted Insights. Responsible Decisions.

