In the modern business world, the rise of computers and smart apps has meant that criminals find new ways to keep up with their illegal activities. One illicit practice that has proven to be somewhat tricky to beat is that of money laundering.

Money laundering is when funds are transferred from an unlawful origin. Then it goes into a legal company or organisation that makes it look like the money has come from a legitimate source.

The good news is that there are plenty of things that modern businesses can do to try and combat this prevalent issue, one of which is anti-money laundering.

What Is Anti Money Laundering (AML)?

The idea of anti-money laundering, or AML, is that it is designed and put in place to find the issue of money laundering the best it can. It has a variety of policies, regulations and laws within it, which is filtered down to businesses who then put it into place themselves.

AML requires that businesses are responsible for monitoring who they do business with and making sure that the money that is exchanged comes from a legitimate source.

Some of the practices that AML targets include illegal goods trading, tax evasion, bribery, market manipulation and other forms of financial corruption.

Money Laundering Regulations

The regulations that relate to money laundering can be complicated to understand. However, a quick overview can help you as a business to ensure that you have put the right things in place.

Here what the regulations state are some of the responsibilities of businesses that relate to money laundering prevention and protection:

- Conducting money laundering risk assessments
- Implement the systems, policies and procedures that will address money laundering

- Adopt internal controls
- Ensure that all training is provided to all staff
- Comply with due diligence

You know what is expected of you as a business is the first step to ensuring that you are covered by and are working within the AML regulations.

Who needs to register?

Regulation 8 of the Money Laundering Regulations 2017 states that the regulations apply to any person or business acting as an auditor, insolvency practitioner, external accountant, tax advisor or trust.

This means that these businesses should be registered for AML supervision. However, it is also stated that you do not need to register with HMRC as a part of the AML supervision if the FCA or another professional body already supervises you.

Risk assessment

A risk assessment aims to analyse the risk of your business being exposed to financial crime. The process identifies which aspects of the business will be most at risk, identifying the vulnerabilities and the Key Risk Indicators.

Conducting this form of risk assessment may seem like it is going to take time. Still, it is essential to remember that it can help you reduce the risk of not only money laundering happening to your business but also terrorist financing.

Other ways that a risk assessment can help is to:

- Understand the risks associated with a variety of business relationships and commercial activities
- Create policies and controls that are going to help you as a business to reduce your risk of financial crime
- Identify the transactions and business relationships that are most at risk
- Evaluate the measures that are put in place to reduce risk

It is one thing to be able to carry out risk assessments, but how do you then decide which is the highest level of risk and what is not?

There are usually five primary categories that can be seen as risk indicators that businesses should recognise. These are:

- The size and nature of the business
- The type of customer that is involved (be that B2B or B2C)
- The types of products or services that are involved
- The methods that are used to onboard new customers as well as communicate with existing ones
- Geographical factors

When identifying these risk factors, you can apply a rating of either high, medium or low. Then you can choose to react and act accordingly.

Know Your Customer (KYC)

Another key part of the AML risk assessment is ensuring you Know Your Customer. This involves ensuring that you know your customer's identities their financial activities and that you also know the risk that they pose.

To properly Know Your Customer, there are a few different things that you can do. You should always ensure that you have checked their identity before they start to do business with you. You want to look over the key identification documents and take the time to scrutinise all the available information to check for any inconsistencies that may arise and need further looking into to ensure they are who they say they are.

It is also important that you continue to monitor that customer's transactions, especially during those early days. To ensure that these do not give you any red flags.

Business Due-diligence checks

To keep track of your AML efforts, you must consider your customer due diligence and perform your business due diligence checks.

These checks are required if you interact with customers and form a vital part of the AML regulations that the Government sets out.

Whilst it may seem frustrating that you have to take the time to perform these checks, you must do to prevent financial crime and also identify any risks within your organisation caused by doing business with specific clients and customers.

You can rate your customer due diligence checks from standard up to enhance. However, standards are the most common that you will need to carry out.

Customer Due Diligence

The idea of customer due diligence checks or CDD is that they will help you as a business verify your customers' identities and assess the risk they pose. These checks form a part of the regulatory requirement for companies entering business relationships. They are featured within the AML regulations, and the directives set out as part of KYC.

To have all the information that you are going to need for your CDD checks, you are going to need to pull this from a variety of sources. Some of this information is going to be available from your customer directly, it may come from public data sources, or it may even come from private data sources.

The information you get will depend on the risk profile of that certain customer (which you should already have as part of your AML checks). However, some of the basics that you will need include:

- Basic information about the customer. This should include their name, their address and any official identity documents
- An overview of their activities and the markers that they operate in
- An overview of any other entities that your customer then does business with

If you decide that the customer poses a significant risk, you may want to continue and carry out an enhanced due diligence check. This will sometimes occur if the business involves a person who is politically exposed, if they are from a high-risk country or if there is any situation that could be deemed a high risk of money laundering occurring.

Another key part of CDD is to ensure that you secure all record keeping of financial transactions for at least five years. This should include any relevant information that is collected through CDD measures.

These records should always be kept up to date and amended should any further risk assessments be carried out, usually because the customer has changed ownership or they have had a change within the structure of their business.

How is money laundered?

There are several ways that money can be laundered, and it depends on who is doing it and where it is going.

A common approach they may take is to run money through a cash-based business, as this is easy to do without any trace. They may also find a way to transfer cash into a foreign country to deposit it then.

To launder money, it might be broken down into smaller amounts, which are much easier to move around without any notice being taken of them. Or, they may buy other forms of currency and cash, such as cryptocurrency, with their money.

Where does money laundering occur?

There are lots of businesses that are at risk of money laundering. However, some firms or industries have the most significant risk compared to others. These include tanning salons, car washes, casinos and strip clubs.

It used to be the case that money was most commonly laundered through launderettes, which is where the name came from. However, this is no longer the case due to their decline.

How does money laundering affect business?

Whilst you may be an innocent party in the money laundering that has occurred within your business, this doesn't mean that you will not feel the impact of the crime.

You may find that your business is complicit in criminal enterprises. This means that you may receive scrutiny from regulatory authorities, other companies you may network with and, of course, your future and current customers.

This can harm your reputation and even damage your business, meaning that you will need to work even harder to recover.

A brief history of Anti-Money Laundering

When it comes to anti-money laundering, the United States was the first country to make an effort to change things. They established the Bank Secrecy Act back in 1970. This act was there to try and help detect and prevent any money laundering, which, over time, has then grown and been strengthened.

In the UK, the POCA was introduced in 2002 and became the UK's primary AML regulation. They define the offences that constitute money laundering. As well as this, the Money Laundering and Terrorist Financing Amendment Regulations were set out in 2019. To further strengthen how UK businesses can recognise and deal with the risk and occurrence of money laundering.