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Our ref: WGA

Dear Daniel

DP22: Reducing Money Laundering Risk

The Consumer Panel welcomes the opportunity to comment on DP22 and it naturally welcomes the government's initiative in seeking to reduce money laundering and financial crime, which is ultimately always paid for by the customer. It is supportive of the thrust of the proposals, many of which are anyway central to good business practice. Nonetheless, there are many aspects of the proposals which indicate inadequate consideration of the impact on consumers, particularly the most vulnerable consumers.

The main comments the Panel would wish to make concern 'Know Your Customer' and identification verification rather than monitoring.

Firstly, the FSA (and the government) is also committed to extending the range of people who use financial services, whether to save or by opening a bank account for the receipt of benefits and pensions. We are particularly conscious that there are large numbers of consumers currently trying to open a bank account for the first time and that this trend is expected to continue. These potential new customers are likely to include older consumers who are unused to dealing with banks, those for whom English is not a first language and individuals with learning difficulties. In June last year the Banking Code Standards Board carried out a 'mystery shopping' exercise¹ to assess whether banks and building societies were offering basic bank accounts to potential customers whose banking needs would be met in this way. Only a little over half of the mystery shops resulted in the right account being offered and the BCSB concluded that "training is especially needed on requirements of identification. Even when the decision on acceptability is taken centrally or regionally, staff need a greater appreciation of the alternative documents that may be acceptable where applicants can legitimately not produce 'primary' documents."

¹ Banking Code Standards Board "Survey of Subscriber Institutions on Basic Bank Accounts" published July 2003

We are therefore anxious that no guidance (or rule) should be proposed which does not take account of potential inconvenience or embarrassment to the consumer, or which effectively excludes certain groups from such services. Many of those currently outside of the sector cannot easily provide the standard or 'primary' ID verification documents; we would be concerned that a recommended list might add to the difficulties facing such people. Similarly, over-intrusive questioning or long delays in acceptance might put off potential new entrants to the sector. (This could actually lead to further crime, as unbanked money is more vulnerable to crime.) It is essential that rules and guidance are both proportionate and flexible. Account should also be taken of the risk-averse environment in which firms operate. In the Panel's view some banks' internal communications processes leave a great deal to be desired. In the absence of clear guidelines, branch staff are likely to turn new customers away if they are uncertain about, for example, the various types of 'alternative' identification which should be acceptable, as indicated by the BCSB research. Banks must ensure that their branches are fully aware of the broad parameters within which they can operate, exercising their judgement fairly and sympathetically when deciding whether to open an account for a new customer. Any proposals should therefore be "stress-tested" with likely new customers from a range of different groups before being implemented.

Secondly, whilst KYC information is needed for many services, we would have some concerns if details obtained for anti-money laundering purposes was then used for marketing (without the expressed agreement of the customer). This could act as a disincentive to provide such information.

Thirdly, as ever more detailed questions are demanded for ID verification (the current raft being about first and last schools, and a "memorable" name), it will be important that good consumer information and awareness work also takes place so that individuals understand why such interrogation is taking place. We are confident consumers will be content to be helpful if they know the rationale, but could resent such cross examination for no apparent reason.

Lastly, we trust that any CBA will include the cost to customers as well as simply any costs to providers.

Yours sincerely,

A handwritten signature in black ink that reads "Ann Foster". The signature is written in a cursive style with a horizontal line underneath the name.

Chairman
Financial Services Consumer Panel