

Financial Crime Risk Update

Author: Sally Smith

Sponsor: Jane MacLeod

Meeting Date: 27th March 2018

Executive Summary

Context

This paper updates the Audit and Risk Committee on financial crime risks relating to Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) and Anti-Bribery and Corruption and compliance with The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and The Terrorism Act 2000.

Questions this paper addresses

- What are the key AML and CTF risks within Post Office Ltd and are there any significant gaps or weaknesses in the Post Office's compliance with its regulatory obligations under the Money Laundering Regulations (MLRs)?
- What is the current position with the post HMRC Audit Bureau de Change remediation project
- What is the current position with financial crime risk assessments.
- Are the minimum control standards in the Post Office's Anti-Bribery and Corruption and Whistleblowing Policies being effectively applied?

Conclusion

1. Work to comply with the new Fit & Proper requirements is progressing, however there is still significant work to meet the June 2018 deadline and to ensure that the ongoing framework is robust, particularly in the light of HMRC's new requirement to maintain data with them.
2. There have been further delays with the Bureau de Change remediation projects with implementation of the data warehouse solution further delayed, although some draft reports have been built. The eKYC, PEPs and Sanctions solution is progressing for April implementation, however, HMRC have now verbally advised that our interim solution for cash transactions over £2k is not acceptable.
3. Post Office is considering raising the issues with the new Fit & Proper data and our solution for over £2k cash transactions with Treasury as we believe that we have demonstrated a robust approach.
4. Risk assessment work continues, although there are a number of new or updated Product Information Packs that are currently due.
5. There have been no issues with Gifts & Hospitality reporting since the communication in January. The volume of Whistleblowing reports received

via various channels has increased, although further communication and awareness activities are planned throughout 2018.

Input Sought

The ARC is asked to review this report and the progress in addressing the action plan.

The Report

Compliance with MLRs

6. Annual training content for Network and back office staff is being drafted and is due to be delivered 4th – 30th May 2018. There are still 4 branches that have not completed their training from last year and second remedy letters have been sent to them and we are working with the contracts team to resolve.
7. We continue to liaise with HMRC on the new Fit & Proper tests, and have sent them an initial data set split out by Multiples, Sole Trader Agents, Limited Company Agents, and direct employees who are now captured. There is significant work still to do to complete the gaps in data, especially the identification of Directors and Beneficial owners. Other activity that needs to be completed includes documenting the policy and processes to cover on-boarding and periodic vetting/self-declarations, training and defining events that would require fit and proper status to be reviewed.
8. HMRC wrote to all Large Traders at the end of February to emphasise that the deadline for responses with the information they require is the 25th June 2018 (i.e. one year after the new regulations came into force). Whilst our HMRC supervisor has indicated that our approach is acceptable, at a meeting on 12th March with our supervisor and his senior managers, they indicated that they now require us to provide all of the data to HMRC by 25th June 2018, and to ensure that any changes are notified to them within 30 days, or they will de-register either the impacted branches, or Post Office.
9. Having worked closely with HMRC over the last year and shown both a willingness to comply and progress, we feel that this u-turn by HMRC at this late stage is unrealistic, as their new requirements are unachievable. We are therefore now considering raising our concerns direct with Government contacts and Treasury (see also para 13 re. Bureau de Change eKYC approach)
10. Non-conformance issues in the Network in January and February 2018 included 38 incidents identified at 38 branches.
11. The volumes of suspicious activity reports (SARs) have increased slightly in January and February 2018. The increase volume on internal SARs submitted by the AML team has contributed to this rise in overall SARs, these predominantly are in relation to Bureau de Change.
12. The Financial Crime Team were previously concerned that SARs in relation to MoneyGram and potential vulnerable customers had decreased since the introduction of MoneyGram's new ID capture portal, and this was resulting

INTERNAL
draft

Page 2 of 6 [FILENAME * MERGEFORMAT]

in branches assuming transactions were genuine because the customer was still willing to complete the transaction. Communications to increase the networks awareness are planned for March.

Bureau de Change remediation project status

13. HMRC have responded verbally to the letter sent in January setting out our interim approach for transactions over £2000. Whilst they accept that for transactions paid by card the proposal is sufficient, they have stated that our proposal for cash transactions, whereby the clerk will need to confirm on Horizon that the photo ID and the customer are the same individual, is in breach of regulation 40, which requires us to retain a copy of the ID.
14. At the meeting on 12th March, we advised HMRC that our legal guidance to date indicated that there is no legal requirement for us to take ID for transactions below €15k, and therefore regulation 40 does not apply. HMRC indicated that we could review our risk assessment, but if we relied on the photo on the ID we have to take a copy. We believe that the improvements we are making provide adequate measures to prevent money laundering and the data capture limits we have set are appropriate. We are also considering raising this issue with Government contacts and Treasury.
15. The eKYC, PEPs and Sanctions capability has progressed to testing and should be live in April, but the exact date is yet to be determined. Post Office have been advised that the Government Document Checking Service cannot be used for one-off transactions, only where re-usable credentials are established, so this element cannot be applied until the new Customer Hub and Identity service is achieved later in 2018.
16. The new data warehouse delivery has slipped further and issues in loading the historical data have identified that the new environment has been built with only 42 fields of data. This is causing an issue with mapping the historical data and is under investigation. However, some of the reports have been built in the development environment and we are presenting these to HMRC in Chesterfield on 21st March so that they can view the progress we are making.

Financial Crime Risk Assessment

17. Work on risk assessment continues as BAU, and Appendix A gives full updates on the status of Product Information Pack completion and re-assessment work. Completion of the Banking Framework Services Product Information Packs is critical for the risk assessment work to meet the May deadline from the recent Internal Audit report.
18. We have identified managers within Retail and Financial Services & Telecoms that require financial crime risk assessment training, and will be looking to roll out sessions in the new financial year.
19. As part of the work the Risk team are doing on the Risk and Controls Matrix, we are piloting a methodology to ensure that there is appropriate oversight of financial crime as a principal business risk.

Anti-Bribery and Corruption (ABC) update

13. Following further communications sent out in January after the Oct-Dec quarterly report, there have not been any significant issues identified in Gifts & Hospitality reporting.

Whistleblowing update

14. The volume of Whistleblowing reports is improving, and further regular communications are planned for 2018.
15. 13 reports were received between January and February, and 11 of these named a Post Office branch. 6 were classified as fraud and 1 as money laundering. The majority of Fraud reports were submitted via Grapevine or the Speak Up line and were in relation to theft carried out by a Postmaster, Agent Assistant or an employee. 2 reports alleged thefts from vulnerable customers. All reports are investigated with recommendations made and followed up

Regulatory updates

16. The update relating to the Fifth Money Laundering Directive in the January report remains current.
17. The new Sanctions and Anti-Money Laundering Bill introduced on 18th October 2017 has been reviewed. There are two key areas it is designed to address:
- enable the UK to continue to implement United Nations (UN) sanctions regimes and to use sanctions to meet national security and foreign policy objectives; and
 - enable anti-money laundering and counter-terrorist financing measures to be kept up to date, helping to protect the security and prosperity of the UK and continue to align the UK with international standards

There are no significant impacts for Post Office.

18. Following the National Risk Assessment that was published at the end of October 2017, HMRC has published a review of anti-money laundering compliance in money service businesses (MSBs). This is mostly aimed at money transmitters operating via an agency model, but covers some generic areas. The review identified good practices to assist with a risk-based approach and reduce vulnerability. The document has been reviewed and there are no significant areas that impact Post Office business.

External threats

19. There have been no new issues since the January 2018 report.

Appendix A

Risk Assessment and Product Information Pack update

Due for reassessment in the next two months

Product/Service	PIP initially received	PIP due for review and update	Month FCT will re-assess risk	RAG status	Comments
Gift Cards	July 17	July	September	RED	Following an incident in October 2017 the PIP needs to be updated. Product Manager has confirmed that this is at present being reviewed and updated.
Bill Payments	October 17	October	December	RED	Following an incident in October 2017 the PIP needs to be updated
Postal Orders	April 17	April	June	Not yet due	
Travel Insurance	May 17	May	July	Not yet due	
Business Insurance	May 17	May	July	Not yet due	
Home Insurance	May 17	May	July	Not yet due	
Car Insurance	May 17	May	July	Not yet due	
Motorcycle Insurance	May 17	May	July	Not yet due	
Van Insurance	May 17	May	July	Not yet due	
Pet Insurance	May 17	May	July	Not yet due	
Drop & Go	May 17	May	July	Not yet due	

Due from November 2017 Product Manager Workshop

Product/Service	Month PIP Due	Completed PIP received?	Month FCT scheduled to re-assess residual risk	RAG status	Comments
Partner Banking Framework	February	No	May	Amber	Five PIPs received
Identity Services	March	No	May		Draft has been received and comments provided to the product manager. Awaiting amendments.
Savings Products	March	No	May	GREEN	Draft PIP received for review
Credit Card Products	March	No	May	GREEN	Draft PIP received for review

INTERNAL

Page 5 of 6

[FILENAME * MERGEFORMAT] draft

Product/Service	Month PIP Due	Completed PIP received?	Month FCT scheduled to re-assess residual risk	RAG status	Comments
Pre-Paid Cards	March	No	May		
Mortgages	March	No	May	GREEN	Draft PIP received for review
Loans	March	No	May	GREEN	Draft PIP received for review
Life Insurance Products	March	No	May	GREEN	Draft has been received and comments provided to the product manager. Awaiting amendments.
Telecommunications products	March	No	May	Due March	
National Lottery	March	No	May	Due March	