Bitesize feedback

Jersey Financial Services Commission

Banking - customer onboarding and risk assessments

In 2023 we undertook thematic assessment visits to assess the extent to which supervised persons were complying with their regulatory obligations. These visits focussed specifically on customer onboarding and customer risk assessments. Below we've broken down our observations to good practice, areas of improvement and key considerations.

Good practice we observed

- The customer risk assessment methodology is periodically reviewed, as well as being reviewed following trigger events, such as changes to Appendix D2 of the Handbook. Amendments are understood and authorised by the board or senior management.
- The information gathered to assess customer risk takes into account the guidance provided in Section 3 of the Handbook. This is clearly documented in the customer's business and risk profile and the evaluation of any higher risk factors is easily identifiable.
- Controls exist to ensure the outcome of the customer risk assessment cannot be overridden without a clearly recorded rationale and senior management approval. Overrides are subject to compliance monitoring.

Areas of improvement we identified

- Inadequate policies and procedures relating to the actions to be taken in the event the business wishes to deviate from its normal customer due diligence measures. This included what compensatory measures are required to effectively manage risk.
- New accounts were being approved by senior management before screening was completed. In one case this resulted in the customer being identified as a politically exposed person after the account was opened.
- Failure to record on the customer file adequate consideration of, and the conclusions reached, in respect of financial crime risks, presented by a customer's source of funds and/or source of wealth.

Key considerations

- Have you adequately recorded the purpose and intended nature of the business relationship, and have you clearly documented your understanding of the nature and scope of the business activities generating the customers funds and assets?
- Do your policies and procedures clearly articulate the difference between a customer's source of funds (the economic origin of funds to be used in a business relationship) and source of wealth (actvities that generated the total net worth of a customer)?
- As a minimum does your customer risk assessment consider country risk, product/service risk, delivery risk and customer specific risk? Does it also consider the accumulation of risk as a factor?