



Proximal Consulting Archived White Papers



The Proximal Consulting white paper series began when Proximal Consulting launched in 1999. The white papers provided precise and detailed information on cutting edge business crime topics during a period when the Internet as a source of business information was in its infancy. We are now making these white papers available again.

Whilst the specific cases and examples used in the white papers are historical, the fundamental issues and potential red flags have remained the same.

Please note that the white papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.

PROXIMAL CONSULTING WHITE PAPER 22 WHY YOU MUST KNOW YOUR CUSTOMER

The basic tenet of all anti-money laundering legislation and regulations all over the world is the need for customer identification. In essence this means that at the beginning of any financial relationship the accepting business must satisfy itself that the new customer/client/business partner is who he/she says he/she is and that there are no grounds for suspecting any involvement in money laundering and/or criminal activities. Usually this system of control involves taking identification in some prescribed form. Typically documents such as National Identity Cards, passports and driving licenses are recommended to be taken and the details contained on them recorded.

KYC Red Flags


- Beware of new business customers who are reluctant to provide information on their business activities, location and directors.
- Beware of new personal customers who supply incomplete conflicting or incongruous information when establishing a relationship.
- Be suspicious of customers who do not provide phone or fax numbers or of those for whom the numbers provided relate to serviced office/accommodation addresses.
- Beware of camouflage passports.
- Beware of diplomatic passports from obscure countries – particularly ones in Africa where such passports can easily be obtained by paying for them. Whilst the passport may be genuine (i.e. genuinely issued after payment), this does not mean that the holder is genuine or the name shown on the passport is the real one. Obviously another aid in this type of scenario is to try and evaluate whether the other details given, together with the appearance/attitude of the person, match whatever diplomatic post he/she is claiming to hold.
- Beware of residential addresses provided by applicants that, in reality, are merely mail drop addresses (beware of 'Suite' numbers, home addresses in downtown business areas, and incomplete addresses). Two quick ways of double-checking are to see if there is a telephone listing for the person at the given address and carry out a credit reference check on that address.
- Do not accept photocopies. You must see the original and copy it yourself. Although this is obvious, it is surprising how many businesses are happy to do business on the strength of photocopies or faxes. Just because someone has a copy of a passport it does not mean it is theirs – photocopying technology is such that it is easy to put another ID photograph on a document and for it not to be obvious on the resulting copy.
- It is doubtful whether one organization can rely on the due diligence/KYC checking done by another organisation. This is very relevant when clients are referred from one party to another. Check what the exact situation is in relation to your business operations. My advice is simple: it is you who will carry the can if and when it all goes wrong and thus relying on what others may or may not have done is foolish.
- The use of International Business Companies, shell companies and the like poses problems for KYC procedures. You may be in the situation in which you are presented with a business entity with nominee directors who produce ID that is valid and acceptable. However, if you are aware that these individuals are front men you are not establishing the identity and probity of the beneficial owner(s).
- Be suspicious of businesses that present financial reporting that is at odds with similar sized businesses in the same industry sector.
- Be suspicious if a group of accounts or relationships are opened by foreign nationals who visit your organization together on the same day. A situation that is far more difficult to identify is where multiple accounts or relationships are opened on the same day by a group of foreign nationals at different banks/companies in the same city.

- Suspicious should be aroused if multiple business relationships are opened by an individual using the same address, or different individuals using the same address. Additionally definite suspicion should result if numerous accounts or relationships are established using variations of the same name.

One of the important trends of the last two or three years is the willingness of some organizations to carry out advanced due diligence enquiries on their prospective customers. Such companies are not necessarily taking what they are told by their customer at face value – because they know that if they do, and what they have been told is patently untrue or incorrect, then severe problems could result. Moreover, such detailed enquiries should be able to validate documents and information provided by the customer, together with substantiating claims regarding the source of funds. Increasingly it is being viewed by regulatory authorities in sophisticated financial centres that it is not enough merely to know your customer through identification documents. You must go behind the information provided to test its validity.

And at the risk of stating the obvious, the fundamental precondition of any KYC regime is that if you cannot obtain sufficient detail to establish the customer's identity or you have any suspicions about the background and/or probity of the customer, you should not establish a relationship with him or her.

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Proximal Consulting have unrivalled experience in providing KYC enhanced due diligence background reports on individuals and companies on a global basis. We also offer a complementary range of services including AML training, country risk reports and bespoke investigations.

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfil their AML obligations.

We work with a variety of global clients including regulatory agencies, law firms, individual companies, private banks, trust companies and other firms in the financial sector.