

Financial Crime Controls – ‘Challenger Banks’

<https://www.fca.org.uk/publications/multi-firm-reviews/financial-crime-controls-at-challenger-banks>

Introduction – Summary

Tackling Financial Crime and Sanctions evasion stays at the top of the Financial Conduct Authority's (FCA) priority list, following a recent article published at the end of April 2022, which noted a review of financial controls at several challenger banks.

The purpose of the review was to identify the strengths and weaknesses of financial crime controls of new business models.

Definition and Purpose

It is important to firstly understand the purpose and definition of “Challenger Banks”. Challenger Banks are relatively small retail banks, which are set up with the intention of competing for business with large, long-established national banks which include Barclays, Lloyds, HSBC, and RBS who owns NatWest. To have a USP, these banks often specialise in areas underserved by the big banks.

Challenger Banks focus on digital strategies to attract the modern tech consumer, offering new approaches to banking, all accessible online or an app. Monzo, Starling, Revolut, N26 to name a few, provide services where you can complete transactions without any face-to-face contact. A popular feature of challenger banks is that foreigners can set up bank accounts abroad, without the laborious checks other banks carry out to verify individuals and extensive background checks.

Money Laundering Risks

Digitally driven and efficient onboarding processes can be seen to be attractive as a convenient way for customers to manage their finances. However, the FCA's review on controls has identified that challenger banks still have room for improvement in adhering to their money laundering and sanctions obligations.

The FCA reviewed the below areas:

- governance and management information
- policies and procedures

- risk assessments
- identification of high risk / sanctioned individuals or entities
- due diligence and ongoing monitoring
- communication, training, and awareness

Newgate's Advice – How We Can Help

Financial crime controls are on the FCA's radar and greater focus has been placed to strengthen its framework. Newgate's Financial Crime Consulting Team can help your firm re-evaluate your business model for financial crime risks and assist with putting control frameworks in place in line with regulatory requirements and emerging priorities from the regulator. We are ready to assist your firm with tailor made compliance monitoring programmes which include Anti-Money Laundering as well as Sanctions Training, Questionnaires and Risk Assessments. We also provide outsourced AML KYC services such as undertaking your PEP, Adverse Media, and Sanctions checks. Contact Newgate's financial crime division for assistance.



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Newgate has an unrivalled combination of experienced professionals, many of whom are ex-regulators.

Our customer focused approach seeks to provide appropriate, pragmatic and flexible solutions to our clients helping them to meet both the regulator's rules but also the spirit, principles and culture of the regulatory regime.

We look to build long-term relationships with our customers helping to encourage business growth, productivity and innovation. Our proactive approach is tailored to each customer's needs changing to meet those needs as the customer progresses and develops.

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