

Customer Due Diligence



Compliance Update: Financial Crime Update August 2021

The guidance on impersonation checks for existing customers has recently been updated.

Impersonation check for existing customers

Where advisers are dealing with an existing customer on a non face-to-face basis, and providing further advice, a full impersonation check is not required unless it is necessary to complete the new Customer Due Diligence process (e.g. because the customer's name or address has changed).

Where the customer has changed their name or address and the CDD process is required, then the impersonation check can be completed either using the standard methods outlined in the *Additional Requirements for non face-to-face Customer Identification and Verification* section or by contacting the customer on a mobile or landline number captured on the previous sales records to confirm it is them. In this case, the number does not need to be verified via directory enquiries (instead the verification is provided by the fact that the customer has previously been dealt with on that number).

This method can be used provided:

- The previous mortgage advice was given by an adviser in the firm while the firm was an AR of PRIMIS, with full electronic or paper ID having been completed.
- The adviser must contact the customer on a mobile or landline number captured on the previous sales records to confirm it is them.
- All documents relating the current property purchase, including the customer identification, is recorded on a separate workflow on the Compliance Summary in Toolbox.
- Notes are added to the Compliance Summary to explain the relationship with the customer.
- The risk for the new mortgage advice has not increased, and the adviser has no suspicions of fraud, money laundering or financial crime in respect of the case.

Paper ID

Here are some key points for those advisers who only collect paper ID documents and don't use the electronic identification in Toolbox.

Two identification documents are required for each customer, one for name and one for address. The same document cannot be used for both name and address ID e.g. a Driving Licence cannot be used for name and address.

Any document presented must not have expired at the time the ID is taken, and other documents within the stipulated timescales. Copies of documents uploaded to Toolbox must be clear and legible.

Where original documents are taken by advisers from the customer, copies taken must be certified by the adviser. Where customers provide copies of their ID documents, customers must have had these certified prior to sending them to the adviser.

Mortgage Fraud

From a review of recent cases we have identified some trends we are seeing in the declined applications.

Income and employment fraud is still currently the number one fraud type seen by the network. It is often connected to inflated or secondary incomes, which are supported by false documentation (e.g. payslips, banks statements).

The challenge for advisers is the quality of false documentation which constantly improves. This means that increasingly wider due diligence checks are needed to assess the overall plausibility of any given scenario in order to detect a fraud. The main issues arise where the applicant claims to:

- Have a new job – and can only evidence pay for a couple of months;
- Have received a recent pay increase, which coincides with the mortgage application or occurred just before it. Pay rises of up to 300% have been claimed;
- Have received a large pay rise – often where they are employed in a family business – and again, the increase coincides with the mortgage application;
- Be working for a family business but the start date of the employment appears to be very recent and coincides with the mortgage application;
- Have two jobs but the customer doesn't offer any explanation as to whether the apparent hours worked would be feasible or sustainable i.e. where both jobs are full time;
- Earn an income which is unrealistic given the industry, role or recent factors that will have impacted that sector.

Simple checks that might assist include:

- False payslips or incorrect self-assessment documents (e.g. false SA302). Adviser could obtain confirmation of employment, pay and dividends from the accountant;
- Salary credits into the bank account are by Faster Payments or a Transfer not BACS.
- Staged income, when regular payments are made into an applicant's account for a period of time which will cover the employment period checked by the lender to confirm employment and affordability. The income is then evidenced on genuine



bank statements. The 'income' payments stop upon completion. Secondary 'staged' income is where the first employment is genuine but the applicant claims to have a second income which is used to boost the overall income.

In the event that you believe that the income or employment is suspicious you should submit a Financial Crime Suspicious Activity Report (SAR) to the MLRO. No applications should be submitted until the MLRO has reviewed the case and provided feedback.

Customer Details

Customer details recorded on TMA documents e.g. Fact Finds, and lender documents e.g. Application Form must be true and correct. There have been a number of instances where the adviser's telephone number and email address have been detailed in place of the customers.