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AT ONE WITH THE FOURTH

Wayne Johnson, CEO at Encompass, speaks to LPM about how firms can ensure compliance with the EU's Fourth Anti-Money Laundering Directive at a reduced cost

Compliance is a growing burden. As well as having to comply with UK legal regulators, firms face a barrage of new regulations from the European Union – including the Fourth Anti-Money Laundering (AML) Directive, which came into full effect on 26 June 2017.

Wayne Johnson, CEO at Encompass, says the new regulation has a wide-reaching effect on the legal industry – impacting the steps firms need to take when onboarding new customers and keeping records up to date.

“It’s estimated that £24bn a year is laundered through UK businesses – clearly, money laundering is a problem that needed to be addressed, but the new directive has had a huge impact on firms’ operations.” He adds that the Fourth AML Directive has forced firms to conduct extensive risk assessments, vet politically exposed persons (PEPs) and store customer records for up to a decade.

“Firms will have to collect more information from clients and then process that data to find out who they are dealing with. This is challenging for smaller firms with few resources and especially so for corporate firms.” He adds that firms found to be non-compliant with the directive could face significant fines and reputational damage – even if the business hasn’t aided money laundering.

But according to Johnson, there are solutions to help firms with this regulatory challenge, which ensure compliance while streamlining processes to create cost savings.

“Regtech software solutions minimise risk, provide access to information from a wide pool of data providers, visualise complex structures and remediate clients at the touch of a button.”

ALL ONBOARD

A key impact of the directive will be on customer due diligence (CDD). Johnson says that firms’ CDD procedures already play an important role in preventing money laundering, but under the new directive firms will be expected to do much more.

“Firms must find out who the beneficial owners of a business are and make sure they’re not on any PEP list. But that’s not as simple as it sounds – once you’ve identified a PEP you need to make sure it’s the same person that appears on the list.” He adds that if a

client is confirmed as a PEP the firm can still work with them but needs to work out how it’s going to mitigate that risk.

“That’s where the real bulk of the work begins. Under the new directive firms must maintain and manage all risk decisions made when onboarding PEPs – including how they’ve gathered the information, how they’ve assessed it, what risk they’ve assessed and what action they will take based on that assessment.”

Johnson says solutions such as Encompass Verify reduce the burden of these extended responsibilities by streamlining time-consuming onboarding, mitigating reputational risk and ultimately improving the client experience.

“Encompass’s software enables organisations to automate and track the client onboarding process. Our solutions automate the gathering of client information according to their CDD policy and then record the firm’s risk management decisions and how they came to those decisions.”

Johnson adds that these are important features of any effective regtech solutions, because by gathering relevant information together they demonstrate effective compliance to regulators.

“It’s not just a matter of being compliant but showing you’re compliant – which will ultimately stop the firm from being fined or having its reputation irrevocably damaged.”

But, he adds, regtech solutions also drive efficiencies while ensuring a greater level of accuracy – thus guaranteeing compliance at a reduced cost.

“Manual compliance processes are prone to human error and require high levels of oversight. But by automating those processes, firms ensure due diligence is recorded accurately and in a timely manner – empowering employees to spend more time on work that adds value to the business and its legal services.” He adds that these solutions also facilitate improved communication throughout a firm – by visualising complex compliance situations to foster understanding between staff, compliance officers and regulators.

But perhaps the key feature of regtech solutions, says Johnson, is that they deliver competitive advantage by demonstrating compliance to clients.

“Firms should be able to show clients they’re aware of the ethical ramifications of money laundering –



which can fund terrorism and the illegal drugs trade – and that they’re taking steps to ensure they’re not inadvertently part of it.”

UPDATED DATA

Under the Fourth AML Directive, firms will be expected to hold client records for up to a decade, monitor PEPs for a period of 18 months, and periodically review their existing client base.

And Johnson says that the new directive doesn’t just increase firms’ compliance workload when it comes to onboarding, but in keeping current records up to date. This has been put in place to further reduce the risk of money laundering and is a key requirement.

In terms of storing details for longer, Johnson says regtech solutions help firms reduce costs further by saving space and paper.

“Encompass Verify, for example, is web-

based and hosts all documents acquired on the client – and visually draws a picture of what the company structure would look like. The system maintains this data for the entire regulatory period and is accessible from virtually any location.”

Johnson adds that Encompass’s solutions also automate client record updates, driving efficiencies and ensuring greater accuracy

“Employees can use software to refresh and recheck client information easily. This functionality enables the quick creation of verified documents for audits to the SRA and other regulators.”

Firms are becoming overwhelmed by the barrage of regulatory burdens – and EU regulations such as the Fourth AML Directive put a significant strain on operations. But by using regtech, such as Encompass Verify, SME firms can onboard and review clients faster and more accurately – reducing costs and the possibility of non-compliance. **LPM**

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