

Source of Funds – let technology remove the risk



Being sure of the origin of client money isn't straightforward. Known as 'Source of Funds' checks, lawyers have come under increasing scrutiny by regulators and Government. Thirdfort's Olly Thornton-Berry explains how to streamline the process.

Law firms must have detailed risk procedures to enable them to adequately spot those clients attempting to legitimise proceeds of criminal activity (money laundering) through high value purchases such as property. For lawyers, completing Source of Funds checks is made increasingly complex and time consuming by clients' lack of understanding of the process. However, recent technological developments offer a way to streamline this admin while giving lawyers more reliable data on where their clients' money comes from.

Regulators insisting that law firms take a 'Risk Based Approach' to clients' Source of Funds throws up sizeable challenges around what is and what is not an acceptable 'Risk Based Procedure'. Without specific guidelines, firms design and implement very different risk policies. Most firms, predictably, have drafted their own 'Source of Funds questionnaire' for clients and request at least 6 months' banks statements. This is a time-consuming and inefficient process with back and forth form filling that is tedious for both client and lawyer.

Especially in the past 18 months (following the implementation of the Fourth EU Money Laundering Directive in June '17), firms have started to feel the heat of the added work of compliance due to these stricter requirements. The SRA and CLC have stepped up their rhetoric against firms that do not adopt robust risk procedures. The SRA announced in March they would be writing to 400 firms asking them to demonstrate their

compliance with Money Laundering Regulations while CEO, Paul Philip said, "They can expect us to be robust in our enforcement action where solicitors firms are involved in money laundering or are not complying with the relevant legislation". So far, more than 40 solicitors have been struck off, suspended or have come off the roll following allegations relating to money laundering regulations.

Legal activities particularly at risk are those such as Conveyancing, which involve high-value and high-volume transactions with clients. Conveyancing involves multiple parties to complete a transaction, including mortgage brokers, estate agents, banks and lawyers. While each has their own regulatory framework to operate within, lawyers undoubtedly shoulder most of the liability. Therefore, it is no surprise that preventative procedures and risk assessments have become so complex and onerous – with long client questionnaires and requests for original bank statements.

Although relying on client provision of information and bank statements may be considered sufficient according to regulatory standards, how sure can lawyers be that documents provided are authentic? Faking a bank statement is remarkably straightforward and difficult for the untrained eye to pick up (have a look at www.banknovelties.net).

Part of the challenge is clients understanding why lawyers need to request so much more information relating to Source of Funds compared with pre the ML Fourth Directive.

Often clients underappreciate lawyers' regulatory responsibility and as a result do not put in the required effort to provide the necessary information and evidence first time around. This leads to back and forth correspondence that adds unnecessary days to the transaction.

Technology can help streamline and improve the reliability of the process. With new bank linking technology, clients of lawyers can, with the click of a button, give read only access to digital bank statements. Within a secure encrypted mobile app, the client can give permission to read only access to statement data directly from the bank. This is far more secure than having to rely on printed bank statements. Furthermore, clients can enter information in a far more dynamic format through an app – with data fields displayed that are relevant to particular circumstances. This data can then be automatically matched with what's in the digital bank statements to quickly and reliably ascertain a risk score for each client, saving the lawyer time.

While this technology is early stage, it has already achieved real time savings and enhanced lawyer and client experience during the client onboarding process.

Visit www.thirdfort.com to learn more.



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