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Australian Transaction Reports
and Analysis Centre

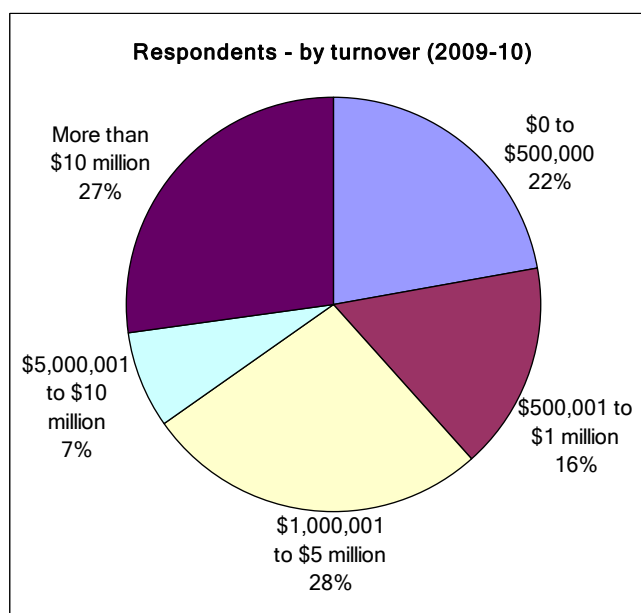
Non-bank lending and finance sector

Introduction

In October 2010 AUSTRAC conducted a survey of reporting entities in the non-bank lending and finance sector. The survey, which was completed by more than 170 reporting entities, gathered information about how these entities have understood and implemented their suspicious matter reporting and related obligations under the *Anti-Money Laundering and Counter-terrorism Financing Act 2006* (AML/CTF Act).

The survey included questions about the entities' AML/CTF risk awareness training for staff, transaction monitoring and enhanced customer due diligence (ECDD). It also contained questions about the types of potentially suspicious matters entities would be able to identify.

Respondents were from all Australian states and territories, with the exception of the Australian Capital Territory. They ranged from businesses with an annual turnover of less than \$500,000 to those with a turnover of more than \$10 million.



Most respondents provided lending or credit services and a smaller number provided hire purchase and equipment leasing services.

The survey was conducted online and was voluntary and anonymous.

AML/CTF risk awareness training – content

Survey respondents were asked to select the content areas (from among eight listed) covered in their staff risk awareness training programs. The majority of respondents covered the following areas in their training programs:

- the circumstances that may trigger an obligation to submit a suspicious matter report (SMR) to AUSTRAC (92% of respondents)
- how to identify potentially suspicious customer transactions (91%)
- the money laundering and terrorism financing (ML/TF) risks staff are likely to face when interacting with customers (83%)
- the consequences of failing to submit an SMR to AUSTRAC under the AML/CTF Act (80%)
- the ML/TF risks associated with the services provided by the organisation (78%)
- how to refer/escalate a potentially suspicious matter within the organisation (78%)
- the 'tipping-off' offence (i.e. it is an offence for entity staff to disclose their suspicions to the customer, or to other parties other than AUSTRAC) (69%).

These findings are encouraging. It is AUSTRAC's expectation that entities' risk awareness training covers at least the above areas.

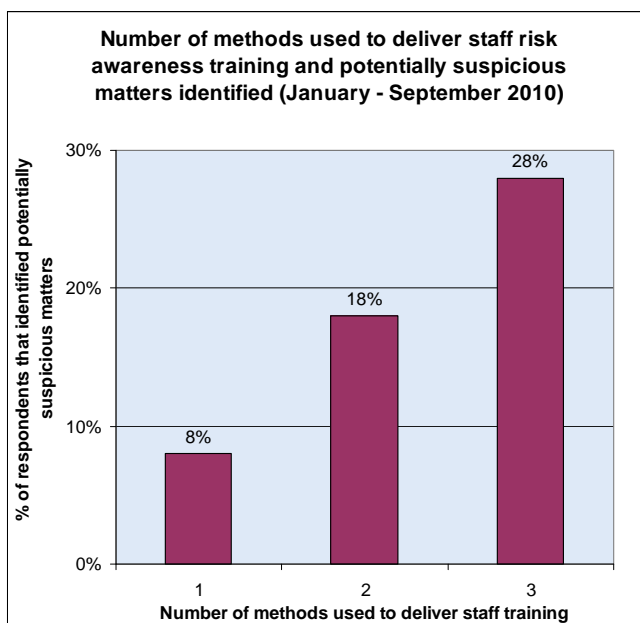
AML/CTF risk awareness training – delivery methods

Survey respondents were asked to select the methods (from among four listed) by which they deliver their staff risk awareness training programs. Respondents delivered their staff training program via the following methods:

- on-the-job training/mentoring (91% of respondents)
- self-directed learning (e.g. online information and tests) (53%)
- formal face-to-face training sessions delivered by staff from the organisation (49%)
- formal face-to-face training sessions delivered by external experts (11%).

Most respondents (76%) used more than one delivery method to round out their risk awareness training. This is an encouraging finding as effective training programs are generally underpinned by the use of a diverse range of delivery methods. For example, the survey found the following correlation between the number of training methods used and the incidence of potentially suspicious matters identified between January and September 2010:

- Respondents that used two methods to deliver their staff training were *more than twice as likely* to have identified a potentially suspicious matter as those that relied on only one delivery method.
- Respondents that used three methods to deliver their staff training were *more than three times more likely* to have identified a potentially suspicious matter than respondents that relied on only one delivery method.



AUSTRAC encourages entities to use a diverse range of methods to deliver staff training programs to enhance their capacity to identify and escalate potentially suspicious matters.

Transaction monitoring

Survey respondents were asked to select the manner by which they monitored customer transactions. The survey found:

- Most respondents (61%) monitored customer transactions through a combination of manual transaction monitoring conducted by staff and monitoring conducted by computer-based/automated systems.
- 33% of respondents relied solely on staff to manually monitor customer transactions.
- Only 6% of respondents relied solely on computer-based/automated systems.

Enhanced customer due diligence

Survey respondents were asked to select the activities (from among seven listed) their organisation would be likely to carry out if it determined that an SMR should be submitted to AUSTRAC. Most respondents said they would be likely to carry out the following:

- create a written record of any investigation (84% of respondents)
- determine whether additional customer identification should be collected or verified (83%)
- determine whether existing customer identification should be updated or verified (82%)
- conduct a more detailed analysis of the customer's repayment history (71%)
- monitor the customer's ongoing repayments for a set period of time (64%)
- clarify the nature of the customer's business (63%).

These findings are encouraging. It is AUSTRAC's expectation that entities should be prepared to carry out the above activities (where applicable), if they determine that an SMR should be submitted to AUSTRAC.

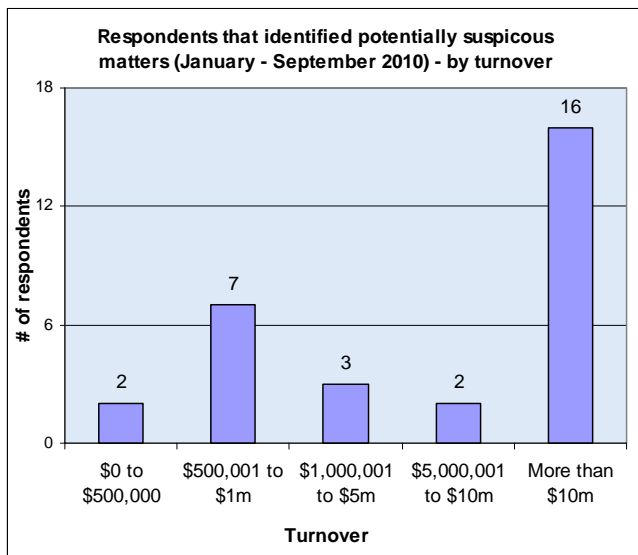
Suspicious matters

Survey respondents were asked to select the types of potentially suspicious matters (from among nine listed) their organisation would be likely to identify. Most respondents said they would be likely to identify the following potentially suspicious matters:

- doubts about the identity of the customer (98% of respondents)
- a customer makes unusual or unexplained repayments (77%)
- a customer asks unusual questions about the organisation's AML/CTF policies and procedures (73%)
- a third party makes unusual or unexplained repayments on behalf of the customer (77%)
- contrary to the organisation's policy, a customer insists on dealing in cash (66%)
- of the small number of respondents that said they provided services to customers based overseas, 70% said they would identify a potentially suspicious matter when the customer was from a foreign country of interest (e.g. was subject to sanctions, or a tax haven), or where the customer's name matched a name on Australia's terrorist asset freezing regime
- of the respondents that said they provided services to non-individual customers (e.g. companies and trusts), 58% said they would identify a potentially suspicious matter when the customer had an unusually complex corporate or trust structure.

It is AUSTRAC's expectation that entities should be able to identify all of the above potentially suspicious matters that are relevant to their business.

Just under 20% of respondents said their organisation had identified one or more potentially suspicious matters from January to September 2010.



These potentially suspicious matters were identified by respondents across all categories of business turnover, from smallest to largest.

Two out of three respondents that had identified potentially suspicious matters went on to confirm this suspicion and submit an SMR to AUSTRAC. This represented some 12% of respondents. If this figure is compared to the proportion of entities in the sector that actually submitted SMRs to AUSTRAC over the same period, then AUSTRAC would expect to receive more SMRs from this sector.

Entities should ensure they comply with their obligation to submit SMRs to AUSTRAC.

Dealing in cash

Just under a third of respondents (31%) said their organisation handled cash on its premises in relation to the provision of lending/finance, hire purchase, or leasing services.

A smaller number of respondents (11%) said their organisation handled cash in amounts of \$10,000 or more on its premises in relation to these services, and would therefore have an obligation to submit threshold transaction reports (TTRs) – reports of cash transactions of \$10,000 or more – to AUSTRAC. If this figure is compared to the proportion of entities in the sector that actually submitted TTRs to AUSTRAC over the nine months from January 2010, then AUSTRAC would expect to receive more TTRs from this sector.

AUSTRAC also encourages organisations that deal in cash to include information about the 'structuring' offence in the AML/CTF Act in their staff training program. Structuring occurs when customers attempt

to evade the cash transaction reporting threshold by deliberately splitting large cash transactions into two or more transactions of less than \$10,000.

Entities should ensure they comply with their obligation to submit TTRs to AUSTRAC.

More information

For information about AML/CTF reporting obligations, enrolling with AUSTRAC Online, re-setting passwords in AUSTRAC Online, or this survey, please contact the AUSTRAC Help Desk:

Telephone: 1300 021 037 (local call cost within Australia)

Email: help_desk@austrac.gov.au

Information is also available on the AUSTRAC website (www.austrac.gov.au).

Disclaimer: The information contained in this document is intended only to provide a summary and general overview on these matters. It is not intended to be comprehensive. It does not constitute, nor should it be treated as, legal advice or opinions. This document may contain statements of policy which reflect AUSTRAC's administration of the legislation in carrying out its statutory functions. The Commonwealth accepts no liability for any loss suffered as a result of reliance on this publication. AUSTRAC recommends that independent professional advice be sought.

The information contained herein is current as at the date of this document.

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