



# **RISK & DE-RISKING: COMPLIANCE VERSUS COMMERCIALITY (THE UK PRE- & POST-BREXIT)**

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# DE-RISKING

- “De-risking,” or “de-banking”: Exiting a relationship with a client perceived to be “high risk”, rather than managing the risks.
- Impact being disregarded!
- Drivers:
  - Rise in financial crime;
  - Increased regulation (including sanctions regimes);
  - Large penalties;
  - Measures to counter financing of terrorism.

# VULNERABLE SECTORS

- **Vulnerable Sectors (globally)**
  - Correspondent banks;
  - Charities;
  - Money service businesses.
- **UK: vulnerable sectors**
  - SMEs (esp. defence sector);
  - Charities;
  - PEPs;
  - Foreign students;
  - FinTech;
  - Money Transfer Operators (MTOs).

# CONSEQUENCES

- Financial disenfranchisement;
- Recourse to informal remittance & cash;
- Harder to detect crime (including terrorism financing).

# POSSIBLE REMEDIES

- Better understanding & adoption of a ‘risk-based’ approach;
- Meaningful and detailed risk assessment (not simply identification of risk factors);
- Recognition that enhanced due diligence need not be prohibitive (for resources etc.) – EDD situations themselves subject to a sliding scale of risk;
- Take on board FATF message: Manage, instead of avoiding!

# POSSIBLE REMEDIES (contd)

- Blockchain?
- Safe corridors;
- Re-think by regulators – recognition of the mistake made in good faith;
- Use of ‘white lists’;
- Compliance and commercial interests within an organisation must have dialogue.

# POST-BREXIT RISK MANAGEMENT

- The only certainty is that the UK will leave in March 2019;
- Planning and procedure stress-testing (and risk assessment) should start now;
- EU regulatory framework in place until March 2019 & a replica framework might be in place thereafter.
- At a guess, 'passporting' rights to remain;
- Operational implications of Brexit: HR, sales, risk, regulation, corporate governance, legal & technology;
- Risk managers should draw up a framework for Brexit risk assessment.

# RISK ASSESSMENT ISSUES

- How many EU individuals does our business employ?
- How much business do we conduct in Europe?
- How is our business model affected by Brexit?
- Do we need to consider converting our existing business into a "societas Europaea"?
- How dependent is our business on access to the EU market?
- How would a less favourable trade agreement impact our business?

# RISK ASSESSMENT ISSUES

- How does Brexit affect our suppliers and our supply chain? Where are the vulnerabilities?
- Which legislation changes will affect our business?
- How might changes to the status of UK financial institutions impact our business?
- Do we use IT cloud services? If so, how might these be affected by Brexit given the impending EU Data Directive?
- How will our business be affected if bilateral agreements with individual member states cannot be agreed?

# SOME NEAR CERTAINTIES IN THE UNCERTAINTY

- Increased market volatility;
- Currency fluctuation;
- Higher UK inflation & interest rates.

# RISK MANGEMENT MEASURES

- Audit of supply chains;
- Assess & stress-test internal systems;
- Assess impact of potential divergence of standards between UK and UK;
- Contracts should allow for review and flexibility;
- Create a Brexit team or ‘taskforce’;
- Keep business focus;
- Scenario planning;
- Seek to maintain sector, client/customer, partner & staff confidence.