Risk appetite: a complete failure of a system meant to protect us.

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UK banks (but only 6 of them!) closed 140,000 small business bank accounts last year (2023), with a considerable number being closed because of risk appetite, financial crime concerns, or incomplete due diligence checks.

That is 140,000 people owning businesses, their families, workers, and suppliers all affected.

Admittedly some will be legitimate closures. Closures that are not to be spoken about as ‘things’ may be going on in the background to catch ‘bad people’, BUT many will be because of the very troubling 'risk appetite' issue.

This troubling risk appetite is a complete failure of a system meant to protect us all.

With regulators unable to provide the necessary information, an FIU caught up in a mass of SAR’s and 'law enforcement' (generic definition) unable to bring together the criminal and the dirty money for a prosecution, no wonder banks are de-risking as fast as possible.

Yet what are they supposed to do – look for risk details in a National Risk Assessment….? within regulatory guidance? These documents can be 4+ years old…. Do we not think about or choose to realise just how times change in managing dirty money from a criminals perspective?

The idea of receiving yet another financial punishment is enough for most banks to say, 'times up'. Banks have had enough of holding the messy end of the stick.

It’s not only a UK problem. Banks in the US are doing the same – closing accounts for what are believed innocent people. But why? After 30 years of dealing with dirty money do we really have no a clue about who, what, where, why, when and how?

Or perhaps we still don't (or choose not to) understand it.... Have we instead fallen for AML/CFT compliance expertise and the greatness of RegTech solutions that focus more on efficiency and pulling the wool over the eyes of clueless regulators who believe what they are told?

Yet it's quite possible we have no clue about dirty money - just a desire to meet AML compliance tick box standardised practices quickly and cheaply.

This makes it extremely easy to pull up a bank on regulatory failures that are not always working to stop money laundering and terrorism financing in the first place.

Fines for banks are no longer the answer. Banks need a regulator not looking to bleed them dry of funds for the sake of proving regulatory authority or to meet a KPI. Banks need the data if ‘we’ are to expect them (as we have for decades) to be the sonic screwdriver of AML and to a lesser extent (because it’s rarely mentioned) CFT.

The time is now to understand the risk.... This is why Vortex Risk has entered the market - a solution that abolishes the awful red flag approach.

Vortex Risk is unique. It sets out to understand the risks so that a bank can FINALLY HAVE THE KNOWLEDGE (which for decades it has never ever had) to decide how it manages new and existing customers. This includes – small and medium enterprises. The silver bullet, the magic key, the glass slipper - the 6 winning numbers on one line!

After all, the Risk Based Approach is based on risk understanding something the Financial Action Task Force mandate.

If we continue to force banks to close small business bank accounts because of risk appetite and financial crime concerns then it's clear we are just adding more momentum to the downward spiral of AML/CFT failures that exist worldwide.

For more insights and further reading see: **www.vortexrisk.com**

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