

News release

Firms have more to do to identify and manage money laundering risks

19 October 2023

Solicitor firms have been warned that they need to do more to properly assess any money laundering risks posed by clients and the services they are seeking.

A new report on client matter risk assessments found some firms visited were not compliant with the Money Laundering Regulations. We have therefore issued [a warning notice](https://indemnity.sra.org.uk/solicitors/guidance/client-and-matter-risk-assessments/) on the matter to remind the profession of its obligations.

[A base template for firms to develop](https://indemnity.sra.org.uk/solicitors/resources-archived/money-laundering/guidance-support/client-matter-risk-template/) their own assessments from - and guidance on how to develop the template in a way that suits how that firm works - has also been published. This should help support those firms that have not quite got it right, which [our latest thematic review](https://indemnity.sra.org.uk/sra/research-publications/client-matter-risk-assessments/) suggests is a significant majority.

The review looked at the systems firms use to assess the money laundering risk posed by clients and services. And while the vast majority of firms were aware of the need to have an individual assessment and had a process in place to deliver one, in practice many of these did not properly identify and manage risk.

We visited 30 firms and all but two had a process for client/matter risk assessments. A large portion of the 28 however were only partially compliant with regulations because their process wasn't properly used. Most firms visited considered client and matter risk together in a single document, but failed to complete them comprehensively. One firm's assessment of risk was limited to client risk only, and three firms' risk assessment processes were limited to considering matter specific risks.

Also, when we reviewed the client files of the firms visited, less than half had actual documented client/matter assessments. Of those risk assessments firms completed, only three out of four were done so properly. The two firms that did not have a process have been referred to our AML investigation team.

Paul Philip, SRA Chief Executive, said: 'Solicitors play a key role in keeping money launderers out of legal services. Assessing, and acting



upon the risks posed by work in scope of the money laundering regulations is a vital part of fulfilling that role.

'What's clear from our thematic review is that firms are well aware of what is required of them, but aren't getting it right on the ground. That's why we've published a warning notice, to remind the profession of its obligations.

'There were also examples of both good and bad practice brought out by the review. We've brought those together with a template as a 'starter for ten' and other support materials to help firms develop compliant risk assessments, which will help them manage their risk.'

A client and matter risk assessment template can be an effective tool to assess risk if used properly. We saw good and poor use of such templates, depending on how a firm adapted that template to suit its needs.

Some firms rely too heavily on templates without tailoring them, while others use lengthy or overly complicated templates where some of the risks were not applicable. For example, firms used standard templates that included service areas not provided by the firm.

The [warning notice](https://indemnity.sra.org.uk/solicitors/guidance/client-and-matter-risk-assessments/) [https://indemnity.sra.org.uk/solicitors/guidance/client-and-matter-risk-assessments/], [thematic review](https://indemnity.sra.org.uk/sra/research-publications/client-matter-risk-assessments/) [https://indemnity.sra.org.uk/sra/research-publications/client-matter-risk-assessments/], [template and supporting notes](https://indemnity.sra.org.uk/solicitors/resources-archived/money-laundering/guidance-support/client-matter-risk-template/) [https://indemnity.sra.org.uk/solicitors/resources-archived/money-laundering/guidance-support/client-matter-risk-template/] are all available now. Next year, we will consult on fixed financial penalties for AML systems and controls failings. The failings will include not undertaking a client or matter risk assessment. This should help address the continued levels of non-compliance in essential AML controls.

We have also published our annual review of our [anti-money laundering work](https://indemnity.sra.org.uk/sra/research-publications/aml-annual-report-2022-23/) [https://indemnity.sra.org.uk/sra/research-publications/aml-annual-report-2022-23/], outlining some of the broader themes identified in 2022/23. We have carried out 162 onsite and thematic inspections, and 73 desk-based reviews. Common themes include:

- Inadequate risk assessments, policies, controls and procedures
- Inadequate supervision or training
- Most firms' suspicious activity reports (SARs) were well written
- We submitted 24 SARs to the National Crime Agency with a total value of £75 million
- We took action against 49 firms and individuals
- Value of fines was £137,000