

What banks are doing to prevent misuse of Latvian financial sector for money laundering, terrorist financing and other illicit purposes

APRIL, 2018

Being key players in the financial system, banks have a vital role in the functioning of the nation's economy. Understanding their responsibilities, banks increasingly invest their energy into combating financial crime. However, the culture of risk-taking needs to change not only in banks – clients need to be more transparent about their transactions as well.

The main risks of the Latvian banking sector are:

- cooperation with shell companies that hide criminals behind their “letterboxes”
- funds that have been acquired by bribery and corruption
- tax evasion
- cooperation with unlicensed and unregulated financial intermediaries

With these risks in mind, the most common reasons why Latvian companies can be declined service by Latvian banks are:

1. having a record of unpaid taxes
2. participation in bribery and corruption
3. involvement in fraud or robbery
4. involvement in drug, weapon or human trafficking
5. being on a list of sanctioned companies or persons or being connected to those who are
6. participation in financing of terrorism
7. being closely connected to politically exposed persons with high corruption risks

For residents of Latvia, those funds' origin is clearly traceable, and for those who have not been involved in criminal or highly suspicious activities, there are no barriers to cooperation with Latvian banks. The exact criteria may vary for different banks, but all of them examine the origin of the funds of their potential clients carefully and scrupulously.

Currently, 90% of Latvian residents are clients of the four biggest banks operating in the country.

Non-resident clients require even more scrutiny and have to prove they have a real business connection to Latvia.

All clients have to follow risk management requirements, in accordance with the risk assessment carried out by the bank.

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Before beginning the process of cooperation, clients must give exhaustive answers to the bank's questions so that it can assess risks inherent to the client's business or personal activities.

During the risk assessment procedure, a wide range of data is taken into account. The company's representatives, cooperation partners and true beneficiaries are thoroughly analysed. To avoid being subject to reputational risks, banks also evaluate publicly available information about the company.

The most important aspects that are taken into account by banks, and which can impede cooperation with a company:

- non-transparent ownership structure (a company is owned by offshore entities or shell companies)
- the origin of the company's funds is unclear
- no clear business connection to Latvia (for example, Latvia is used only as payment hub, while all the company's clients are in China, its suppliers are in CIS countries, and activities are carried out through a port in Lithuania)
- beneficiaries are non-residents from countries with high corruption risk
- unclear origin of funds for which company's revenue-generating assets (such as real estate) have been acquired
- company is owned or is closely connected to politically exposed persons or persons with high corruption risk
- company is owned or is closely connected to persons or companies included on international financial sanctions lists.