FSA

Turkish Bank (UK) Ltd fined £294,000 for money laundering failings

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The Financial Services Authority (FSA) has fined Turkish Bank (UK) Ltd (TBUK) £294,000 for breaching the Money Laundering Regulations 2007 (MLR).

These breaches – which related to TBUK's correspondent banking arrangements - were widespread and lasted over two and a half years.They led to an unacceptable risk that TBUK could have been used to launder money. This is the first occasion in which the FSA has taken enforcement action against a firm in relation to money laundering weaknesses in its correspondent banking arrangements.

TBUK is a wholly owned subsidiary of Turkish Bank Limited which is incorporated in Northern Cyprus. TBUK's customer base is mainly retail. TBUK offers a range of financial services, including correspondent banking. Correspondent banking involves a bank (correspondent) providing banking services to an overseas bank (respondent) to enable the respondent to provide its own customers with cross-border products and services, such as payment and clearing, that it cannot provide them with itself. TBUK acted as a correspondent bank for nine respondent banks in Turkey and six respondent banks in Northern Cyprus between 15 December 2007 and 3 July 2010.

Under the MLR, providing correspondent banking services to banks based in non-EEA states is recognised as creating a high risk of money laundering that requires enhanced due diligence and ongoing monitoring of the relationship. During this period, Turkey and Northern Cyprus did not have anti-money laundering (AML) requirements that were equivalent to those in the UK.

The FSA visited TBUK in July 2010 as part of a thematic review of how banks operating in the UK were managing money laundering risks. The visit gave serious cause for concern in relation to TBUK's AML controls over correspondent banking.

TBUK's breaches of the MLR included failing to:

- establish and maintain appropriate and risk-sensitive AML policies and procedures for its correspondent banking relationships;
- carry out adequate due diligence on, and ongoing monitoring of, the respondent banks it dealt with and failing to reconsider these relationships when this was not possible; and
- maintain adequate records relating to the above.

Whilst not deliberate or reckless, these failings were more serious because the FSA had previously warned TBUK of deficiencies in its approach to AML controls over correspondent banking.

Tracey McDermott, acting director of the Enforcement and Financial Crime Division, said:

"Turkish Bank fell far short of the standards we expect of firms in managing their money laundering risks. This was despite clear warnings from the FSA that it needed to improve.

"Banks must have appropriate policies and procedures in place to manage these risks. Turkish Bank's correspondent banking business made it particularly vulnerable to money laundering risks and its failings exposed UK financial services to the possibility that money could be laundered through the UK. We will continue to demand the highest standards from banks and to take tough action for those banks that fail to meet them."

TBUK agreed to settle with the FSA at an early stage of the investigation. Without this early settlement and the firm's co-operation, the fine would have been £420,000.

Notes for editors

1. The Decision Notice for Turkish Bank (UK) Ltd.
2. The FSA's report on its thematic work into banks' AML systems and controls.
3. The FSA regulates the financial services industry and has four objectives under the Financial Services and Markets Act 2000: maintaining market confidence; securing the appropriate degree of protection for consumers; fighting financial crime; and contributing to the protection and enhancement of the stability of the UK financial system.
4. The FSA will be replaced by the Financial Conduct Authority and Prudential Regulation Authority in 2013. The Financial Services Bill currently undergoing parliamentary scrutiny is expected to receive Royal Assent by the end of 2012.

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