



GLOBAL FUND SERVICES
AML Working Group

Best Practice Guidance Note – Investor Bank Account Validation

Purpose

This Best Practice ('BP') Guidance note is intended to provide a recommended process for Transfer Agents ('TA's') in respect of validating investor bank accounts specifically to prevent fraudulent activity, based upon feedback received from member firms of Global Fund Services.

Background

The Industry is experiencing increasing volumes of fraud activity where a third party has obtained knowledge of an investor's holding (e.g. through postal interception) and is attempting to impersonate, ultimately benefiting by placing a redemption and requesting payment to be made to the fraudster's bank account.

Such attempts commonly (but not exclusively) involve investors based in Countries where the risks of postal interception are heightened despite the prevalence of PO Boxes, with the recipient bank account being placed in another country, usually Asia based.

Investor on-boarding

The member firms considered that the fraud risk is mitigated where such redemption payments are being made to a nominated bank account that was provided at outset; hence it is recommended that application forms are formatted to seek this information on a mandatory basis for all new accounts. Firms may optionally decide that it is appropriate to seek relevant evidence (see page 2) of the bank account to give them further confidence about the information provided, for example in the case of more substantial investments or for investors in higher risk jurisdictions.

Legacy Accounts

The member firms advised that nominated bank accounts are not held for the majority of legacy investors, and therefore generally only learn of such accounts when the investor provides them to support a change to their account, either the commencement of income/distribution payments, or the payment of redemptions. It therefore anticipated that this population will typically present the greater fraud risk.

Validating Bank Account Information

There are two potential methods of validating investor bank accounts, which are deemed to offer the best outcome when used in conjunction with each other:

Data Providers

There are a number of data providers offering services which permit firms to verify whether a bank account matches to the investor name and address, although this appears to be limited to UK Bank accounts currently. Firms using such services report success rates in the region of 60%, which have improved from prior years. Further increases in success rates are dependent on the Banks changing their data consent processes, making more data available to the electronic providers to support this process.

Important Information

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Proof provided by Investors

Investors can alternatively provide proof of their bank account to evidence the link between the investor and the account, for which firms should have appropriate checks in place to identify any evidence of tampering or forgery of such documents. Such proof could be provided in one of the following forms:

- Subscription Cheque (e.g. accompanying a paper application)
- Original Voided Cheque
- Original / Photocopy Postal Bank Statement
- Copy Internet Bank Statement*

** The trend towards internet operated bank accounts increasingly limits investors to providing internet or downloaded PDF Bank statements which are more easily tampered with the support fraudulent activity. Unlike previous guidance, the 2017 JMLSG Part 1 Guidance (5.3.76) permits the acceptance of such documents on the basis that they may be more reliable in some cases, subject to integrity checks being performed (5.3.45).*

Recommended Best Practice

1. Firms are recommended to engage with an electronic data provider to enable UK bank account validation against the source data, and to use that service as the default process for all bank account related processes irrespective of whether paper evidence has also been provided.
2. Where online application/dealing processes are supported, this should include the mandatory capture and validation of UK bank account information wherever possible, prompting investors to provide hard copy documentation where such validation is not possible (e.g. non-UK) or unsuccessful.
3. Where dealing / register change instructions can be provided via verbal methods, firms should seek to validate bank details at point of receipt, prompting investors to provide documents if unsuccessful.
4. Where instructions need to be provided in writing, firms should create dedicated templates for all processes that involve investor bank accounts (e.g. applications, renunciation, distribution mandates etc.) and make those readily available to investors to prompt the receipt of evidence with the register change/instruction.
5. Supplied paper evidence should always be reviewed for evidence of tampering, but reliance should only be considered on such documents for UK bank accounts where the electronic check was unsuccessful.
6. Firms should not make any payments to investor bank accounts unless (i) those details were provided at account opening; or (ii) have been appropriately validated.
7. Where bank account changes are requested in respect of ongoing account activity (e.g. distribution or regular withdrawal payments), firms should issue confirmation letters (without quoting the full account number) to the investors' registered address to alert them to the change.
8. Firms should consider whether additional checks (e.g. call backs) are appropriate for accounts in jurisdictions deemed higher risk or with other high risk factors (e.g. value), to mitigate the heightened fraud risk.
9. Firms may decide to waive some or all of above requirements where the security protocols of their online capabilities are deemed to robustly defend against any attempted account take-over by a third party.

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