



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

**Settlement Agreement between the Central Bank of Ireland  
and  
Allied Irish Banks, p.l.c.**

**Allied Irish Banks, p.l.c. fined €2,275,000 by the Central Bank of Ireland in respect of anti-money  
laundering and terrorist financing compliance failures**

The Central Bank of Ireland (the 'Central Bank') fined Allied Irish Banks, p.l.c. ('AIB') €2,275,000 and reprimanded it for six breaches of the Criminal Justice (Money Laundering & Terrorist Financing) Act, 2010 (the 'CJA 2010'). All six breaches have been admitted by AIB.

The Central Bank identified six breaches of the CJA 2010 as a result of significant failures in AIB's anti-money laundering and counter terrorist financing controls, policies and procedures. The breaches occurred after the enactment of the CJA 2010 in July 2010 and persisted on average for over three years. They included AIB's failure to:

- Report suspicious transactions without delay to An Garda Síochána and the Revenue Commissioners.
- Conduct customer due diligence ('CDD') on existing customers who had accounts prior to May 1995 ('Pre-95 customers') when the first Irish laws on anti-money laundering and countering the financing of terrorism ('AML/CFT') became effective.

The Central Bank also identified breaches in respect of AIB's AML/CFT policies and procedures in a number of areas, including the above, and its trade finance business.

Director of Enforcement, Derville Rowland, said:

*“Anti-money laundering compliance is a continuing and increasing priority for the Central Bank across all financial services sectors.*

*Firms must have rigorous and robust processes for identification, assessment and reporting of suspicious customer activity. Crucially, those processes must ensure that information on suspicious activity is provided to An Garda Síochána and the Revenue Commissioners without delay to assist with the investigation of money laundering and terrorist financing. This case emphasises the fundamental information sharing role of the financial services industry in the fight against money laundering. Reporting suspicious customer activity to An Garda Síochána and the Revenue Commissioners underpins that role.*

*Reporting suspicious activity is time-critical and firms across all financial services sectors must, as a priority, monitor and ensure the adequacy of resources for that task. In this case, it was particularly concerning that sufficient resources were not applied promptly to investigate a substantial backlog of alerts of potentially suspicious activity.*

*This is the second enforcement action taken, in the last six months, by the Central Bank against a bank for unacceptable weaknesses in its anti-money laundering framework. The Central Bank expects that anti-money laundering frameworks are ‘fit for purpose’, in that, they are appropriate to the nature, scale and complexity of a firm’s business activities. In particular, we expect that our retail banks, as gateways to the financial system, have in place exemplary anti-money laundering systems and controls.*

*This case emphasises that enforcement of anti-money laundering requirements is, and will remain, a key Central Bank priority and we are prepared to take action where firms fail to comply.”*

## **BACKGROUND**

AIB is authorised to carry on banking business in Ireland as a credit institution under Section 9 of the Central Bank Act 1971. AIB acquired the Educational Building Society (‘EBS’) on 1 July 2011.

AIB is one of the largest banks in Ireland with 206 branches, 20 business centres, 71 EBS offices and approximately 2.6 million customers. Its principal activities consist of retail and commercial banking.

The Central Bank has responsibility for monitoring and enforcing the compliance of credit and financial firms with the CJA 2010.

During 2013, the Central Bank conducted a review of AIB's compliance with the CJA 2010. This review identified a number of issues concerning suspected non-compliance with the CJA 2010. The Central Bank subsequently engaged with AIB on remediation of the issues identified and an investigation into suspected breaches of the CJA 2010 commenced.

## **PRESCRIBED CONTRAVENTIONS**

The Central Bank's investigation identified six breaches of the CJA 2010, namely:

### **Reporting of Suspicious Transactions**

Effective detection and prevention of money laundering/terrorist financing ('**ML/TF**') depends on timely identification and reporting of suspicious transactions within the financial services sector. Delays in reporting suspicions to An Garda Síochána and the Revenue Commissioners have the potential to undermine the investigation of ML/TF offences.

Under Section 54 of the CJA, firms are required to have policies and procedures which address their obligation to identify, investigate and report suspicious transactions as soon as practicable.

These policies and procedures must ensure that sufficient management information is provided to a firm's senior management on suspicious transaction reporting, including the number of suspicious alerts awaiting investigation and the timeframe for investigation and reporting if necessary.

The Central Bank identified the following failures in AIB's policies and procedures for the reporting of suspicious transactions:

- AIB failed to apply adequate resources to ensure that alerts of potential suspicious activity (in a 'backlog' generated by its EBS business), were promptly investigated and, where necessary, reported to An Garda Síochána and the Revenue Commissioners. Notably, AIB's centralised AML unit, which is responsible for investigating and reporting suspicious transactions, took more than 18 months to fully address the backlog which at one point stood at over 4,200 alerts outstanding for 30 plus days.
- AIB failed to ensure that relevant senior management received adequate management information on the volume and duration of alerts awaiting investigation.

In addition and significantly, AIB failed to report 211 suspicious transactions (identified from the backlog) to An Garda Síochána and the Revenue Commissioners as soon as practicable, as required by Section 42 of the CJA 2010.

### **Customer Due Diligence**

In accordance with Section 33 of the CJA 2010, firms are required to complete CDD to identify and verify customers' identity prior to establishing a business relationship.

The CDD process is at the heart of the AML/CFT control process. It is designed to ensure that firms know their customers and are able to monitor customer activity throughout the business relationship. It also allows firms to identify suspicious activity and to make suspicious transaction reports when necessary.

Section 33(1)(d) requires firms to apply CDD measures where there are reasonable grounds to doubt the veracity or adequacy of documents previously obtained for the purposes of identifying and verifying customers, including existing customers, and the firm has no other documents or information to rely upon to confirm the identity of the customers.

CDD obligations under the CJA 2010 cannot be applied on a risk-based approach in circumstances where no identifying documentation or information exists in respect of customers.

The Central Bank identified two failings in relation to AIB's approach to CDD:

- AIB provided services to approximately 573,000 Pre-95 customers without completing CDD in circumstances where section 33(1)(d) of the CJA applied.
- AIB failed to adopt policies and procedures, under Section 54 of the CJA 2010, to review and confirm the adequacy of identifying documents and information (if any) it held for its Pre-95 customers.

### **Source of Wealth & Source of Funds**

The CJA 2010 sets out additional information gathering and monitoring obligations for customers identified as politically exposed persons ('PEPs').

The Central Bank identified a failure, under Section 54 of the CJA 2010, in AIB's procedures for taking on new PEP customers. AIB's branch-based procedures did not expressly require branch staff to request information on source of wealth and source of funds from a prospective new PEP customer prior to the commencement of the business relationship.

### **Trade Finance**

Firms that provide trade finance act as intermediaries to assist buyers and sellers with funding gaps during trade transactions. Trade finance poses a higher inherent ML/TF risk as trade transactions are often complex, involving multiple parties, international jurisdictions and many steps for each transaction. Additionally, paper documents (such as letters of credit) play a major role in trade finance so firms are heavily reliant on manual processing to confirm the content and integrity of those documents. Firms who finance trade products and services must adopt AML/CFT policies and procedures which address and mitigate the unique risks of that business.

AIB failed, under Section 54 of the CJA 2010, to put in place documented policies and procedures which addressed:

- Trade-based ML/TF risks (including identifying potentially suspicious activity i.e. 'trade finance red flags').
- Specific operational controls in place to mitigate and monitor those risks.

## **PENALTY DECISION FACTORS**

In deciding the appropriate penalty to impose, the Central Bank considered the following matters:

- Seriousness with which the conduct is viewed, particularly given AIB's central role in the financial services system and the high risk nature of retail banking business in terms of ML/TF.
- The extended period of time over which the breaches occurred, spanning the period from 15 July 2010 to 8 July 2014.
- The co-operation of AIB during the investigation and in settling at an early stage in the Central Bank's Administrative Sanctions Procedure.
- The actions taken by AIB to remediate the breaches.

The Central Bank confirms its investigation into AIB in respect of this matter is closed.

- End -

## NOTES TO EDITORS

- The fine reflects the application of the maximum percentage settlement discount of 30%, as per the Early Discount Scheme set out in the Central Bank's 'Outline of the Administrative Sanctions Procedure' which is [here](#).
- This is the Central Bank's 108<sup>th</sup> settlement since 2006 under its Administrative Sanctions Procedure, bringing total fines imposed by the Central Bank to €56.975 million.