

## Reports from the supervised sectors for 2020

# Money laundering and financing of terrorism

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Fight against crime is one of the operational goals in Finanstilsynet's strategy for 2019–2022. Finanstilsynet's primary tool in this respect is to oversee that supervised institutions comply with the anti-money laundering (AML) legislation.

## Developments

The Covid-19 pandemic had an impact on the general crime picture in 2020. According to the 2020 threat assessment issued by ØKOKRIM (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime), greater economic uncertainty resulting from the pandemic created opportunities for criminals to exploit the vulnerable situation to defraud both individuals and enterprises, and the compensation schemes aimed at business and industry were likely to attract profit-motivated criminals.

Notwithstanding the pandemic and the resulting financial turmoil and (need for) restructuring among obliged entities, Finanstilsynet is of the impression that the institutions' compliance with the AML legislation has not been markedly impaired. However, supervisory experience shows that compliance with the AML legislation in many cases remains inadequate. Improvement areas pointed out by Finanstilsynet in a number of supervised sectors include poor understanding of risk, lack of capacity to monitor risks and inadequate AML procedures.

Anti-money laundering and counter terrorist financing remain high on the agenda among both politicians and regulators. In July 2020, the European Commission adopted an action plan to strengthen AML compliance in the EU. The action plan is built on six pillars. Among these is a new single 'rulebook' to harmonise compliance with the EU AML requirements in the member states. The European Commission also proposed the establishment of a pan-European supervisory authority mandated to monitor member

states' compliance with the legislation and also to supervise individual institutions.

Finanstilsynet also participates in and contributes to the work of the European Banking Authority (EBA) together with national financial supervisory authorities in other EEA countries. In 2020, the EBA engaged in extensive AML activity and adopted an action plan to strengthen measures against money laundering and terrorist financing. During the year, the EBA also published opinions on a number of AML-related topics.

## Regulatory development

In 2020, Finanstilsynet proposed amendments to the AML regulations. The Ministry of Finance has circulated the proposal for comment, with the deadline for response in March 2020.

Finanstilsynet also prepared a proposal to extend the deadline for levying administrative fines for non-compliance with the AML Act. The proposal was circulated for comment in early January 2021. Other minor regulatory work was also carried out, including preparations for the implementation of Commission Delegated Regulation (EU) 2018/1108 on the appointment of central contact points for foreign payment service providers in the AML regulations through incorporation provisions in the autumn of 2020.

## Supervision, monitoring and control

### National risk assessment

Finanstilsynet was involved in the work on the national risk assessment of money laundering and terrorist financing, published in December. The report is a national cross-disciplinary risk assessment that describes the greatest threats, vulnerabilities and risks of money laundering and terrorist financing in Norway. The Norwegian Police Directorate (POD) and the Norwegian Police Security Service (PST) have joint responsibility for issuing the report.

### Banks

In 2020, Finanstilsynet carried out AML inspections at seven banks. In addition, money laundering was one of several topics at four standard inspections. The inspections revealed, to varying degrees, inadequate risk assessments and risk classifications and weaknesses in transaction monitoring, the implementation of enhanced customer due

diligence, investigations of suspicious transactions and reporting to ØKOKRIM.

On the basis of an inspection carried out in 2019, Danske Bank was ordered to rectify a number of deficiencies relating to the implementation of due diligence measures for existing customers, enhanced due diligence measures for politically exposed persons, risk classification and control of transactions that had not been identified in the transaction monitoring.

An administrative fine of NOK 2.1 million was imposed on Åfjord Sparebank following an inspection in 2019. The inspection revealed that the bank consistently failed to comply with the AML legislation with respect to risk assessments, procedures and enhanced customer due diligence.

In the autumn of 2019, Finanstilsynet initiated an extensive off-site inspection of banks' and selected mortgage companies' compliance with the requirements for identity verification and ongoing monitoring of customers. The inspection was completed in 2020, and 110 non-compliant banks were followed up. A number of orders for corrective measures were issued. The off-site inspection resulted in a comprehensive update of the banks' customer due diligence measures, which was long overdue.

## **Mortgage and finance companies**

Finanstilsynet followed up Loomis Foreign Exchange AS in August 2019 on the basis of media reports of alleged large-scale money laundering through exchange offices in Denmark. The company supplied the exchange offices with foreign currency. The inspection showed serious deficiencies related to the implementation of ordinary and enhanced customer due diligence, ongoing monitoring of customer relationships, investigation of suspicious transactions and reporting to ØKOKRIM. Based on the inspection results, the company chose to renounce its licence as a finance company.

In 2020, Finanstilsynet carried out inspections at three other currency exchange companies. The supervisory reports will be completed in 2021.

## **Payment institutions and agents for foreign payment institutions**

In 2020, Finanstilsynet completed the supervision process at TTC Finans from 2019, which resulted in the licence being revoked. The company has appealed the decision, and the appeal is being considered by the Ministry of Finance.

In 2020, Finanstilsynet cooperated closely with Norwegian Customs and the police on measures relating to parts of the payment institution industry and agents of foreign payment institutions. As part of the cooperation, Finanstilsynet provided advice on current regulations and shared its knowledge about payment institutions. In addition, specific cases were discussed. This cooperation has been strengthened, and frameworks have been established for the exchange of experience and knowledge.

## Virtual currencies

In 2020, no on-site inspections were carried out of registered providers of virtual currency services, but such inspections are on the agenda in 2021. Several of the registered firms have recently started their operations. In connection with the registration of the firms, Finanstilsynet cooperated closely with, among others, ØKOKRIM. Most of the applications for registration did not initially meet the registration requirements. When processing the applications, Finanstilsynet consistently finds that the firms fail to fully understand the AML legislation and the risk that they may be used for money laundering purposes. In Finanstilsynet's opinion, the firms are ill-prepared to recognise suspicious circumstances and to implement relevant customer due diligence measures. In cooperation with the police, Finanstilsynet has identified and followed up a number of unregistered market players, thus seeking to prevent illegal activities.

## Mutual funds and collective investment schemes

In 2020, Finanstilsynet conducted a survey of compliance with the AML legislation among licensed mutual fund management companies, licensed managers of alternative investment funds (AIF managers) and registered AIF managers (without a licence). The survey, which included a total of 215 companies, will be followed up through supervision in 2021. The answers show significant variations in the basic level of compliance, and registered AIF managers are overrepresented in the group with the most fundamental deficiencies. Finanstilsynet will prepare a report on its findings.

Compliance with the AML legislation was also a topic at all on-site inspections at mutual fund management companies and AIF managers. Inadequate compliance was commented on in a number of supervisory reports. Experience shows shortcomings in the AML risk assessments of some companies, especially when it comes to the requirement for entity-specific assessments. In addition, their procedures and training are inadequate.

## Investment firms

Finanstilsynet carried out an AML inspection at a major bank in 2020 which also included the bank's securities activities. Compliance with the AML legislation was on the agenda at all ordinary inspections, focusing on the firms' customer due diligence and AML measures. Finanstilsynet discovered that one firm had provided the payment service money transfers without the necessary authorisation and that there were serious and extensive deficiencies in the firm's compliance with basic requirements in the AML legislation. In the course of the supervision process, the firm chose to renounce its authorisations and discontinue operations.

Finanstilsynet observes that investment firms focused more attention on risk assessments of their own operations in 2020, but that the assessments are often too general or too cursory and do not adequately describe the specific risks attending their operations. In addition, the risk assessments are not updated often enough to be an adequate risk management tool. Finanstilsynet has also observed that the firms' procedures are not adapted to their operations and risks and that there are weaknesses in the training of employees and inadequate documentation of the identity of customers and beneficial owners.

## Infrastructure – Norwegian Central Securities Depository and registrars

In 2020, Finanstilsynet conducted a thematic inspection of registrars' compliance with the AML legislation when creating and using individual accounts with the Central Securities Depository. The survey included 26 registrars and a total of 258 individual accounts and uncovered cases where registrars had had an incorrect understanding of whether a customer relationship had been established and/or who the customer was. A report with the results of the survey was published in April 2020. In addition to summarising Finanstilsynet's findings, the report also provides guidance and clarifications on the creation of individual accounts.

## Insurance

Money laundering was on the agenda at most ordinary inspections at insurers and insurance intermediaries in 2020. The findings showed shortcomings in risk assessments, which were often too cursory and gave a description of the regulations instead of assessing the specific risks. The procedures should be easier to operationalise in order to ensure better guidance for employees. Large variations were also revealed in

the scope and quality of training and maintenance of knowledge about compliance with the AML legislation. In general, there was better compliance among insurers than among insurance intermediaries.

## **Estate agency**

In 2020, compliance with the AML legislation was addressed at inspections at eleven real estate agencies and one lawyer engaged in real estate broking. Five of these were thematic AML inspections. Finanstilsynet focused on the firms' AML risk assessments and related procedures. Six of the inspections have been completed, while the remainder will be completed during the first half of 2021.

Finanstilsynet carried out a similar inspection in 2019. After uncovering shortcomings at Foss & co Eiendomsmegling AS, Finanstilsynet imposed an administrative fine of NOK 150 000. The decision has been appealed. In connection with two of its ordinary inspections, Finanstilsynet imposed an administrative fine of NOK 100 000 on Bergen and Omegn Eiendomsmegling AS and a fine of NOK 350 000 on Fana Sparebank Eiendom.

The most common deficiencies uncovered at inspections are non-existent or inadequate risk assessments, weak procedures for preventing or detecting money laundering, lack of training or inadequate customer due diligence measures in connection with assignments.

## **Auditors and external accountants**

At all inspections, Finanstilsynet checks audit firms' and external accounting firms' compliance with the AML legislation. In 2020, Finanstilsynet collected documents from 62 entities and carried out AML inspections at 22 of these. The inspections had not been completed at year-end 2020, but several of them revealed deficiencies in the business-specific risk assessments and procedures of external accountants and audit firms. There were shortcomings in their compliance with requirements for the risk classification of customers, internal training and their ability to identify circumstances indicating that funds could be used for money laundering or terrorist financing.