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Bankers in line of fire as watchdog cracks down on dirty cash

Financial Conduct Authority is tightening restrictions on money laundering following the NatWest case that incurred a huge fine

By Helen Cahill 19 December 2021

Staff members in a Natwest branch on the outskirts of Birmingham were stunned when a customer walked in with £700,000 in a black bin liner.
The cash was being deposited by gold dealership Fowler Oldfield. Soon, the branch's floor-to-ceiling safes were overflowing with bin liners stuffed with notes. The bags burst from being so full, and had to be repacked by staff into hessian sacks.

A month later in October 2015, employees complained to Natwest's relationship manager they simply could not take any more. The lender's team said the problem would die down, but it was just the start. Fowler Oldfield continued to deposit jaw-dropping sums of money for the next seven months and by May 2016 had been stashed £6.6m in Walsall.

Last week, the bank was fined £265m for failing to cotton on to the problem across a network of UK branches, where Fowler Oldfield eventually deposited a total £365m. Natwest pleaded guilty in the first ever criminal case brought against a British bank by the financial regulator. The judge said: "Although in no way complicit in the money laundering which took place... without the bank's failings the money could not have been laundered."

The case comes as part of a wider crackdown by the Financial Conduct Authority on dirty money flowing through some of Britain's biggest financial institutions. It has issued hefty fines to the likes of Standard Chartered, Commerzbank and Deutsche Bank for failing to root out criminal clients, but investigators are still struggling to clean up the financial system.

FCA officials hope the conviction against Natwest will be the ultimate deterrent, forcing lenders to probe suspicious activity in branches and cash centres. If this doesn't work, it could go further. Sources close to the regulator said "nothing is off the table", signalling it is happy to chase down individual bankers if evidence is found against them. Some campaigners and City lawyers are arguing that personal fines may be pending, or the removal of authorisations.

In fact, investigations against bankers have already taken place. The FCA assessed whether individuals were to blame in the Fowler Oldfield case, but could not identify a bank officer who failed in their duty - despite the relationship manager involved being dismissed for gross misconduct in June 2018.

The FCA concluded it was the system that failed instead. Court documents reveal computers failed to properly monitor vast sums of cash deposits made through a Natwest product for corporate customers. This allows customers to pay notes directly into cash centres, wrongly recognising them as cheques between 2008 and 2017.

A manager monitoring transactions concluded in September 2016 that £100m a day was being misrepresented as cheques. It cost Natwest £8,500 to fix the bug in the system. But by the time it was fixed, Fowler Oldfield had used this method to stash £165m.

John Binns, partner at BCL Solicitors says it "beggars belief" that a systems failure was blamed and warned individuals would have committed an offence if they failed to report suspicions. But Natwest employees did raise multiple red flags with 11 internal reports logged between November 2012 and June 2016.

They highlighted unusually high volumes of cash passing through accounts, suspicious behaviour by depositors and the money carrying a "prominent smell" - suggesting it was not used for normal business activity. The National Crime Agency at the time said a lot of the money was Scottish bank notes, which may have been related to trade in controlled drugs, according to court documents.

In an ongoing criminal case against Fowler Oldfield, 11 individuals have entered guilty please in connection with cash delivered to Natwest. A trial of another 13 suspects is listed for April 2022.

Binns says: "If they hadn't reported it, that would be an offence. It seems in the Natwest case that the grounds for suspicion did go up the chain. It was reported internally, more than once - and someone higher up has convinced themselves there was nothing to worry about. Something about the system has meant that it's nobody's fault. That beggars belief."

Natwest's team higher up the food chain in Borehamwood, Hertfordshire, were under pressure to meet "ambitious" targets, according to documents, and struggled to properly carry out the tasks they were trained to do. One employee there resigned, complaining about a "drive for speed over quality".

As the Natwest case focuses the regulators' and public attention on just how easily rife money laundering can be in UK banks, bankers are bracing for a tightened crackdown.

According to City lawyers, a criminal prosecution under money laundering laws could land individuals with a prison sentence of up to two years, while their licence to operate in finance would also be taken away.

For this to happen, regulators would have to uncover evidence that the banker knew clients were depositing the proceeds of crime. They could also be prosecuted for failing to report or provide information to regulators.

Another route would be for the FCA to pursue regulatory action against an individual - an easier route and a strong deterrent in money laundering cases. Bankers found in breach of the regulator's conduct rules would face a fine and a ban from the industry.

Sarah Crowther, partner at law firm DAC Beachcroft, says: "Reputationally, a criminal prosecution is very damaging. But the actual financial penalties of a criminal prosecution against a bank are no different.

"This is possibly more of a statement about the seriousness with which the FCA is going to treat these kinds of offences. The fact that the FCA is bearing its teeth a little more might cause individuals who are responsible for compliance with these regulations to become a little more anxious around what the regulator might do."

Sue Hawley of campaign group Spotlight on Corruption says individual bankers must start taking action to stop money laundering and argues banks should use more "old-fashioned" approaches rather than relying on computer algorithms.
"You really have to look at what is happening on the ground," she says. "You can say you've got the best systems in place. But there will be problems if you have a completely dysfunctional team who are just trying to hit targets.

"The algorithms really failed [Natwest] on this one. Sometimes you just need to take an old-fashioned approach. You need to listen to your staff and follow up on suspicions. That needs to be at the forefront of any compliance strategy."

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https://www.telegraph.co.uk/business/2021/12/19/bankers-line-fire-watchdog-cracks-dirty-cash/