

AML & KYC

Introductory

Terminology Booster



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Alert

It's also known as red flag or risk alert. Alerts are warnings, risky situations which need analyst attention.



AML (Anti-Money Laundering)

Anti-money Laundering consists of all procedures, laws or regulations made to prevent, detect, and report the practice of money laundering.



AML Policy

These are steps, guidelines and rules which aim to detect and prevent black money obtained from illicit actions from being introduced into the legal financial system.



AML Compliance Program

A chain of processes to make sure that a financial organization or other firm complies with all the appropriate AML policies and rules.



Anti-Bribery and Corruption

They are rules, laws and policies to prevent bribery and corruption. Organizations should follow these ABAC policies and lessen the risk of bribery and corruption.



Authorised Payment Institution

Authorised payment institutions are the organizations which can provide payment solutions/services just like banks.



Batch processing

A form of data processing and data communications transmission where linked transactions are grouped together and transmitted for processing, generally by the same computer and under the same application.



Blacklist

Blacklist or The Financial Action Task Force (FATF) blacklist includes countries which have crucial strategic deficiencies to combat money laundering, financing of terrorism, human trafficking, corruption, tax evasion, drug trafficking and fraud, etc.



Cardholder

A person who has a credit or debit card or a person who has the permission to use a card even though the card is not issued for his/her name.



Customer Due Diligence

Customer due diligence (CDD) is the practice of doing background checks and other investigation on the client to verify that they are appropriately risk-assessed before getting admitted as a customer.



Client List

Entire customer database of an organization. It can be called as "list" since businesses sometimes can use list format to make screening processes easier.



Customer Identification Program

CIP is a part of Know Your Customer (KYC) guidelines through which companies are able to confirm their clients' honesty about their identity.



Database

A database is a logically organized collection of data. Thanks to databases, data can be easily accessed, managed and updated electronically.



Delisting

Removing of a person, entity, country, etc. from a specific list. This specific list can be a blacklist, sanctions list, high-risk list and so on.



Economic Sanctions

The imposition of commercial or financial restrictions and punishments by one or more countries against another country, entity, or person. The aim is changing the behaviour of that country, entity or person. These sanctions might be tariffs, trade limitations, and financial restrictions.



Enhanced Due Diligence

Enhanced due diligence includes running extra checks on a client's identification, gathering additional information and doing further verification. It's like upgraded version of CDD. Businesses apply enhanced due diligence processes to collect extra information on high-risk customers.



False Negative

A false negative means that a risky transaction is not detected as risky by the system used. These transactions actually should be an alert for analysts to review. However, since the system doesn't detect this suspicious situation as suspicious, the transaction cannot be prevented.



False Positive

It means that a normal, legitimate transaction is defined as suspicious & risky. When the system makes an alarm for a transaction which is in fact unsuspecting, it means it has generated a false positive. High f/p rates might hurt customers whose transactions are legitimate, and they may choose to stop doing business with that company.



Financial Action Task Force

It is an inter-governmental policymaking organization whose objective is to set up international standards, and to develop and encourage procedures, both at national & international levels, to fight against money laundering and the financing of terrorism. It was established in 1989 by G7 countries. FATF has 39 members in total as of 2021. (37 jurisdictions and 2 regional organizations.)



Financial Crime

Financial crimes are crimes which include taking money or other property that belongs to some other person, to get a financial gain. They consist of crimes such as fraud, corruption, tax evasion, money laundering, terrorism financing, etc.



Greylist

Greylist or The Financial Action Task Force (FATF) greylist includes countries which are not as good as they can be in their AML controls but are aware of it and doing something to overcome this situation.



Governance, Risk and Compliance

It is a framework which assists corporations act with ethics and according to the law and regulations. It's a set of policies and procedures which help organizations manage risk and realize their objectives. Information technologies used by firms matter in GRC framework.



Integration

Integration or extraction stage is the last stage of the money laundering cycle. The fundamental goal of the integration stage is to bring together the dirty money with criminals without drawing any suspicion about the origin of the money.



Investigation

A proper and organized research of a particular individual, corporation or activity. Investigations might be carried out by institutions for any individual at any stage if they show any red flags or arise suspicion.



Know Your Customer (KYC)

Know Your Customer or Know Your Client is the procedures for companies to verify their clients' identity during onboarding process and during the entire business relationship with them. Businesses decide how much risk a new customer poses potentially through KYC.



Know Your Employee (KYE)

Like KYC, KYE is the AML procedures for businesses to verify the identity of their employee candidates and existing employees. The aim is to know how much risk their potential and current employees are posing for the firm.



Layering

Layering is a stage in money laundering cycle where the criminals try to hide the connections of the dirty money to its illegal origins. This stage realizes after the criminals put the money successfully to the legal financial system. They may move the money to abroad in the layering stage.



Look-Back Review

Looking back at a client's transactions over a given time period in the past. Look-back reviews can assist verify a customer's actual activity pattern and can give alerts by identifying suspicious transactions.



Maker-Checker

It is a method often used by financial organisations. It involves having at least two individuals to approve a transaction. The maker creates the request, and the checker double-checks and approves the request. This way, the financial institutions increase their level of security in transactions and have even more control over them.



Money Laundering

Money laundering is a financial crime which allows criminals to hide the illicit origin of their money and make it look like the dirty money is legitimately earned. The black/dirty money is cleaned or laundered by criminals so that the real origin of the money is hidden.



Money Laundering Reporting Officer (MLRO)

This person is employed to supervise a company's anti-money laundering and KYC systems, practices and procedures, and is responsible for answering in-house questions concerning any problems which occur during the due diligence process. The MLRO is the key figure in the execution of anti-money laundering policies and strategies in a firm.



Monitoring

The organized surveillance of individuals and entities to make sure that nothing critical has changed or to know if something significant has occurred. It's a component of an organization's anti-money laundering program where client action is checked for strange or suspicious patterns, trends or transactions which do not fit a normal pattern.



Placement

Placement is the first step in a money laundering process where dirty cash enters the legal financial systems. Criminals are vulnerable in this step as putting great amounts of cash into the legitimate financial system may attract attention of the authorities.



Payment Screening

Payment screening or payment beneficiary screening lets banks and financial organizations to check whether incoming and outgoing payments cause a risk or violate compliance procedures. Payment screening can provide a lot when it comes to eliminating risky situations.



Red Flag

It's a warning signal to draw attention to a suspicious activity, situation or transaction. A situation that needs a red flag might be a suspiciously high amount of funding activity coming from an individual who is running a cash-intensive business for example.



Reputational Risk

It is the danger that some undesirable situation could negatively affect the brand's reputation and image in the market or industry. In AML and KYC context, if there's a money laundering case in a company, this might harm the name of the company. Moreover, if a company doesn't follow or fails to follow AML policies and regulations, this might also harm the company's reputation.



Safe Harbor

A safe harbor is a provision in law or regulation which provides protection from liability or penalty and lessens liability for financial institutions which report a suspicious financial activity and if specific conditions are met.



Sanction

An action which is taken or an order which is given to force a country to follow international laws by limiting or stopping trade with that country, by not permitting economic aid for that country, etc. Sanctions don't have to be against a country. They might be against a person, a corporation or a sector as well.



Shell Corporation

Shell corporations or shell companies exist on paper but they don't have any personnel or offices. Furthermore, shell companies don't have active business operations and significant assets. They don't give any services. They are mostly used for illegal goals.



Smurfing

Smurfing is the most frequently used technique while cleaning dirty money. This technique requires using of a lot of people called smurfs who exchange little amounts for highly liquid items. Smurfing is an important part of the money laundering cycle.



Tax Identification Number

It's also known as Taxpayer Identification Number. It's a distinctive number used to identify an individual taxpayer and manage their taxes. Tax Identification Number system may be different in different jurisdictions.



Tax Haven

Tax haven is also known as offshore financial centre. They are jurisdictions which offer reduced or even no taxes to attract foreign businesses and people. Usually, money launderers benefit from tax havens in the last step of the laundering process.



Virtual Currency

Virtual currency or digital currency or cryptocurrency is a type of money which is totally virtual, don't have a physical form and used for payment. Virtual currency is decentralized and unregulated. It isn't issued or controlled by a Central Bank. Numerous virtual currencies are based on blockchain technology.



Virtual Asset Service Providers

VASP is a general phrase which refers to businesses offering services associated with virtual currencies/cryptocurrencies. A VASP is a platform used to buy, sell, exchange, or else interact with the cryptocurrency market.



Warning List

It is a list of possibly high risk people or entities. Targets in warning lists require extra investigation and attention. These lists are of great importance for stopping any criminal activity even before the criminals attempt to commit them.



Watchlist

It is a list of people or entities which need extra monitoring as they pose a higher risk. In watchlists, there might be fraudsters, potential money launderers, suspected terrorists, etc. If there is a target in a watchlist, that target needs to be marked for extra investigation.