



Client and Matter Risk Assessment Essentials:

A Guide for Compliance and Legal Professionals





Table of Contents

| | |
|---|----|
| Introduction | 03 |
| Understanding AML Risk Assessment - Regulatory Guidance | 05 |
| Conducting Effective Client & Matter Risk Assessments | 06 |
| Types of AML checks | 07 |
| The Role of AML Compliance Technology | 08 |
| Conclusion & How Can Amiquis Help | 10 |



Introduction

The Solicitors Regulation Authority's 2022/2023 anti-money laundering report found that only 30% of firms inspected were fully compliant with AML regulations, 51% were partially compliant, and 19% were non-compliant.

One of the most common breaches identified was the failure to carry out robust client and matter risk assessments, alongside inadequate identification of clients, insufficient checks on the source of funds, and other compliance shortcomings.

According to the Legal Sector Affinity Group (LSAG) guidance, a core principle of AML compliance is taking a risk-based approach (RBA). An RBA involves adjusting the level and type of compliance work done (frequency, intensity and amount) according to the risks present.

To apply an RBA effectively, it is essential to understand the risks inherent to your practice and in any particular client or matter, highlighting the importance of thorough risk assessments.

Experts from [Lockton](#), one of the largest insurance brokers in the UK and the professional indemnity broker for the Law Society of Scotland Master Policy, say:



“

The failure to properly assess potential clients and their proposed instructions at the outset of a transaction can leave a law firm exposed to risk, no matter the size of the firm or their specialism and expertise.

Risk assessments as part of the client onboarding and transaction vetting processes are of crucial importance as they act as a firm's first line of defence against potential complaints and claims.

Having robust risk assessments in place not only ensures compliance with AML regulations but is also key to understanding your client and the context of the demands and needs behind their instructions.

”

This guide provides an overview of the effective client and matter risk assessment from an AML compliance perspective, referencing relevant regulatory guidance. It explores key steps in the risk assessment process, best practices, specialised compliance technology solutions for risk assessment, and more.

Understanding AML Risk Assessment

Regulatory Guidance

Firms that are in the scope of the 2017 Money Laundering Regulations (MLR) must carry out a written client and matter risk assessment (risk assessment) under regulations 28 (12) and (13).

Chapter 5 of the LSAG guidance provides detailed guidelines on identifying, assessing, and managing risks. Section 5.10 of the guidance says, "You must record a risk assessment for every client you act for as a part of CDD. In doing so, you should consider which of the risk factors (detailed in Section 6) are relevant in the case of a specific client, paying particular notice to where your Practice Wide Risk Assessment (PWRA) suggests they may be high risk, or if the PWRA does not address certain risks at all. In the case of the latter, you should consider reviewing and updating your PWRA to reflect the new risks."

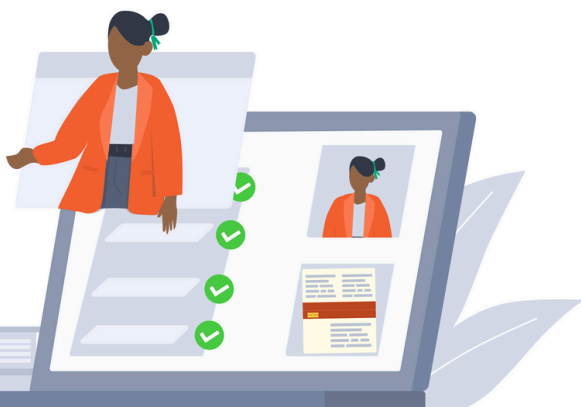
Furthermore, section 5.11 emphasises that matter risk assessments should focus on the specific risk factors that a matter presents, beyond the client risks already identified. They help you to consider whether you are comfortable acting and, if so, to adjust your internal controls to the appropriate level according to the risk presented.

The Solicitors Regulation Authority (SRA) emphasises the importance of a risk-based approach to AML compliance. Law firms must conduct thorough risk assessments for clients and matters, considering the client's geographical location, the nature of the legal work, and the client's business activities. The SRA's guidance outlines the need for robust internal controls, staff training, and regular AML policies and procedures reviews.

Similarly, the Law Society of Scotland advises legal professionals to adopt a holistic approach to client and matter risk assessment. Their guidance stresses the importance of considering the different types of risks, including client risk, geographic risk, service risk, transaction risk, delivery channel risk etc and making an informed judgement.

For more information on what processes to follow, practitioners should refer to the guidance provided by regulatory and professional bodies:

- ✔ [Chapter 5 | AML risk assessments | LSAG guidance](#)
- ✔ [Client and matter risk assessments - warning notice | Solicitors Regulation Authority](#)
- ✔ [AML Spotlight: Holistic customer due diligence | Law Society of Scotland](#)
- ✔ [Risk assessments: anti-money laundering | The Law Society](#)



Conducting Effective Client and Matter Risk Assessments

In addition to practice-wide risk assessment, undertaking a risk assessment at client and matter level will inform the way you conduct your customer due diligence and ongoing monitoring. You can evaluate the risk based on the nature of the legal service provided. Higher-value transactions typically pose greater risks. Additionally, geographic risk must be considered, particularly if the client resides in or operates from a high-risk jurisdiction. There are risk assessment templates made available by regulatory bodies that practitioners can download and adapt for their firm's purposes, such as:

- ✓ [Client and matter risk assessment template | Solicitors Regulation Authority](#)
- ✓ [AML toolkit | Risk and Policy templates | Law Society of Scotland](#)
- ✓ Additionally, the Council for Licensed Conveyancers (CLC) has also produced a [template matter risk assessment](#) as CLC Practices are required to carry out a written practice-wide risk assessment to identify and assess not only the risk of money laundering and terrorist financing but also to assess the risk of proliferation financing.



Client Due Diligence (CDD)

CDD involves verifying the identity of clients and the beneficial owners of a client, in cases involving corporate entities or trusts, using reliable, independent source documents, data, or information. If the risk assessment indicates a higher level of risk (eg, the client is a PEP or comes from a high-risk jurisdiction), Enhanced Due Diligence (EDD) measures are applied.

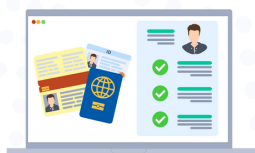


Ongoing Monitoring

R28(11) requires practitioners to conduct ongoing monitoring of business relationships. It entails continuously reviewing clients and matters, reassessing risks as necessary, and regularly updating CDD information. This process includes monitoring transactions for unusual activity and ensuring appropriate action is taken if AML risks are identified.

Types of AML Checks

Practices are required to conduct a range of checks to fulfil their CDD and EDD obligations and to mitigate and manage the risks of money laundering.



Identification and Verification Checks

These checks involve verifying the identity of clients using official documents such as passports, driver's licences, and utility bills.



Sanctions and Watchlist Screening

This helps in identifying individuals or entities that are prohibited from conducting certain types of business or transactions.



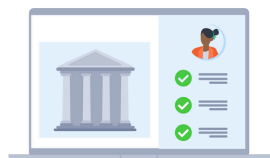
Politically Exposed Person (PEP) Screening

PEPs are individuals who hold public positions. Scrutiny is required for PEPs to ensure their funds are not proceeds of illicit activities.



Beneficial Ownership Checks

For corporate clients, it's essential to identify the ultimate beneficial owners (UBOs) who control or benefit from the entity. This step is crucial in preventing the concealment of illicit funds behind complex corporate structures.



Source of Funds and Wealth Checks

These checks aim to verify the origin of the client's funds and wealth to ensure they are not derived from illegal activities. This involves assessing financial statements, bank records, and other financial documents.



Adverse Media Search and Screening

These involve screening for any negative news or reports about the client, obtained from a wide range of data sources. This can include allegations of criminal activity, involvement in fraud, corruption, or other illegal behaviours.

The Role of AML Compliance Technology

Digital AML software offers several advantages for legal professionals in managing AML compliance effectively:

- **Automated CDD Processes:** Digital platforms streamline the CDD process by automating the collection and verification of client information. This reduces the risk of human error and ensures compliance with regulatory requirements by cross-referencing multiple data sources quickly and accurately.
- **Sanctions and Watchlist Screening:** AML software can automatically screen clients against numerous global sanctions and watchlists in real-time, ensuring that no prohibited transactions occur and flagging any matches for further investigation.
- **PEP Screening:** Digital solutions can continuously monitor for changes in PEP status and provide alerts when a client becomes a PEP, enabling firms to apply appropriate enhanced due diligence measures promptly.
- **Beneficial Ownership Verification:** AML software can uncover complex ownership structures by integrating data from various corporate registries and databases, ensuring that firms identify and verify all beneficial owners efficiently.
- **Source of Funds and Wealth Verification:** Advanced AML tools can help verify the source of funds and wealth by directly accessing the banking and transaction data of individuals and small and medium-sized enterprises (SMEs) via FCA-regulated Open Banking technology. Practitioners don't need to spend hours searching for transactions as digital platforms like Amiqus can filter all the data to highlight key information required.



- **Adverse Media Checks:** Continuous adverse media checks help law firms stay informed about any negative news about their clients. AML software can scan vast amounts of media content globally, providing timely alerts and risk assessments based on new information.
- **Maintaining Comprehensive Audit Trails:** AML software provides detailed audit trails of all AML compliance activities, including client verification, risk assessments, and ongoing monitoring. This helps law firms demonstrate compliance during regulatory audits and inspections.
- **Ongoing Monitoring and Alerts:** Digital AML solutions include real-time monitoring capabilities, automatically flagging suspicious activities and generating alerts for further investigation. This ensures that potential risks are identified and addressed promptly.
- **Risk Assessment Templates:** Digital AML tools often feature built-in risk assessment modules or partner with regulatory bodies to make their risk-assessment templates available within the platform, allowing firms to assess and score the risk associated with clients and matters systematically.
- **Regulatory Reporting:** AML software facilitates timely and accurate reporting of suspicious activities to relevant authorities, ensuring compliance with mandatory reporting obligations.



Conclusion

Adhering to AML compliance requirements is essential for legal professionals to safeguard their practices from money laundering risks. By following the guidance provided by regulatory bodies, law firms can implement robust risk assessment processes. Additionally, leveraging digital AML software can significantly enhance compliance efforts, providing automated processes, maintaining audit trails, and enabling ongoing monitoring of clients and matters.

While this guide offers an overview of best practices, compliance and legal professionals must stay informed about the latest regulatory updates and seek further advice from their respective supervisory bodies as needed.

[Book a free demo](#)



How Can Amiqus Help

Amiqus allows you to digitally conduct the full suite of AML and KYC checks on your clients from a single platform, ensuring the highest level of client due diligence and enhanced due diligence as needed. With Amiqus, you can seamlessly carry out a client risk assessment within the same platform, integrating them with CDD information and maintaining a comprehensive, date and time-stamped audit trail. Additionally, Amiqus partners with supervisory bodies to provide risk assessment templates within the platform, streamlining your workflow and significantly enhancing efficiency.

Get in touch: amiqus.co | sales@amiqus.co