A pocket guide to: Managing Financial Crime Risk in High-Risk Customers

To find out how FCR Compliance can help you to manage the financial crime risk posed by your high risk customers please contact steve@FCRcompliance.com

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Why this matters...

Serving high-risk customers, whether by industry, behaviour, or geography, is not a compliance breach.

But doing so without the right controls is.

The FCA expects firms to apply proportionate, risk-based oversight without over-relying on de-risking or blanket exclusions.

This pocket guide helps you strike the right balance: how to serve high-risk customers while meeting your obligations, protecting your firm, and staying regulator-ready.

One: Know what ‘high risk’ really means

A high-risk customer is not just one who ticks a box on a dropdown.

Risk comes from context.

Common high-risk segments include:

- Entities in high risk jurisdictions
- High risk industries such as crypto
- Politically exposed persons (PEPs)
- Cash intensive businesses
- Expected atypical behaviour e.g. high transaction velocity or frequent cross-border flows

One: Know what ‘high risk’ really means

Tip: Define risk appetite, reflect this in your customer risk methodology - and review it at least annually.

Two: Calibrate your risk scoring model

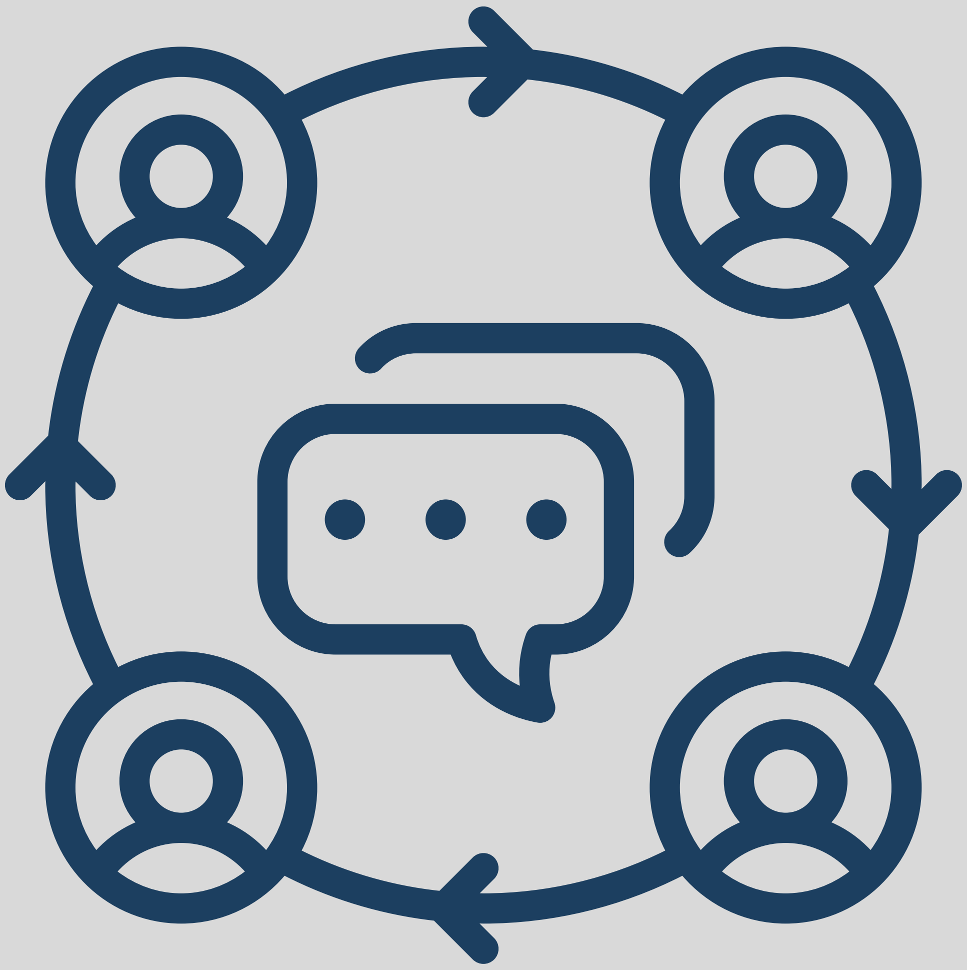
Your customer risk model should combine at least three key elements:

- **Who** they are e.g. entity type, PEP status, adverse media
- **Where** they operate - jurisdictional risk, source/destination of funds
- **What** they do - product use, transaction patterns, volume/frequency

Use a scoring system that can:

- Differentiate between customer risk
- Adjust based on knowledge of a customer’s behaviour over time
- Link to trigger points for enhanced due diligence (EDD)

Two: Calibrate your risk scoring model



Tip: Avoid hard-coding risk by customer type alone for example, not all charities are high risk. Would you consider your local scout troop to present a higher financial crime risk?

Three: Apply enhanced due diligence proportionately

EDD doesn’t mean duplicating KYC steps, it means getting the right insight.

For high-risk customers, this includes:

- Source of wealth and source of funds validation
- Ownership structures and control tracing
- Justification for use of high-risk products
- Public records or licensing where applicable
- Periodic reassessment, not just at onboarding

Three: Apply enhanced due diligence proportionately

Tip: Keep an audit trail of why EDD was applied, what was reviewed and the rationale for proceeding.

Four: Monitor the behaviour that matters

For high-risk customers, monitoring needs to go beyond simple threshholds.

Focus on:

- Sudden changes in transaction patterns or counterparties
- New use of high-risk features e.g. international withdrawals
- Attempts to bypass limits or authentication failures
- Multiple alerts dismissed without investigation

Consider rule tuning for:

- PEPs
- Cross-border exposure
- Dormant accounts reactivated with high-volume flows

Four: Monitor the behaviour that matters

Tip: Don’t rely on off-the-shelf rules alone.

Customise monitoring logic based on your risk assessment.

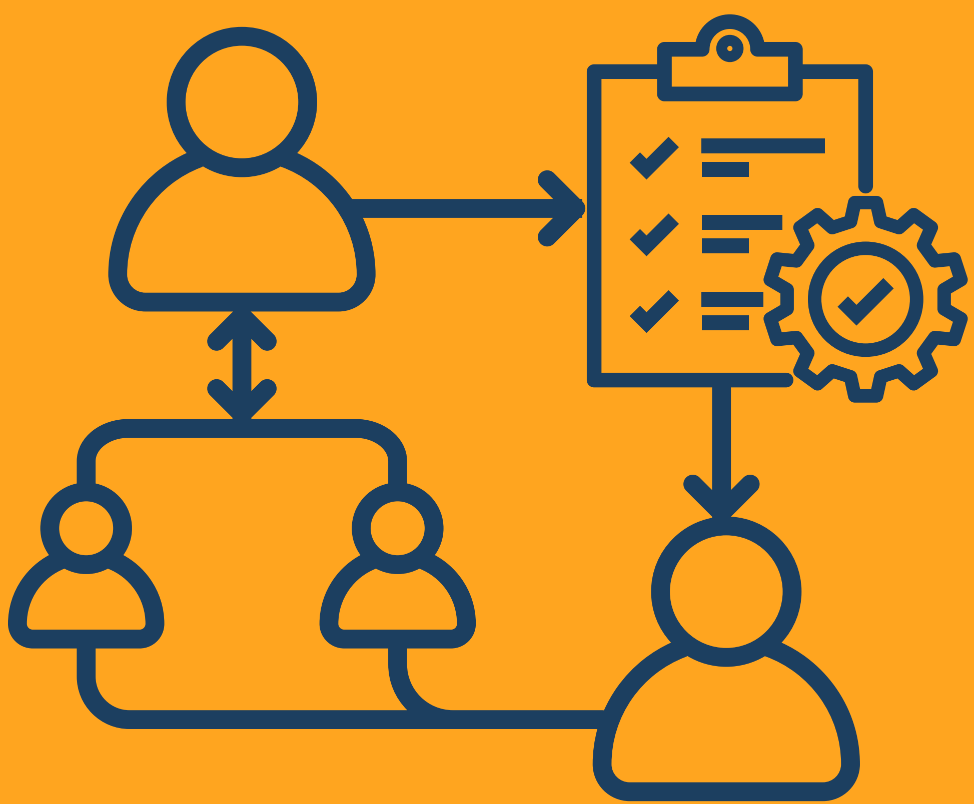
Five: Escalate smartly - don't default to de-risking

When risk increases or red flags appear, firms often default to account closure.

But the FCA expects a reasoned escalation path:

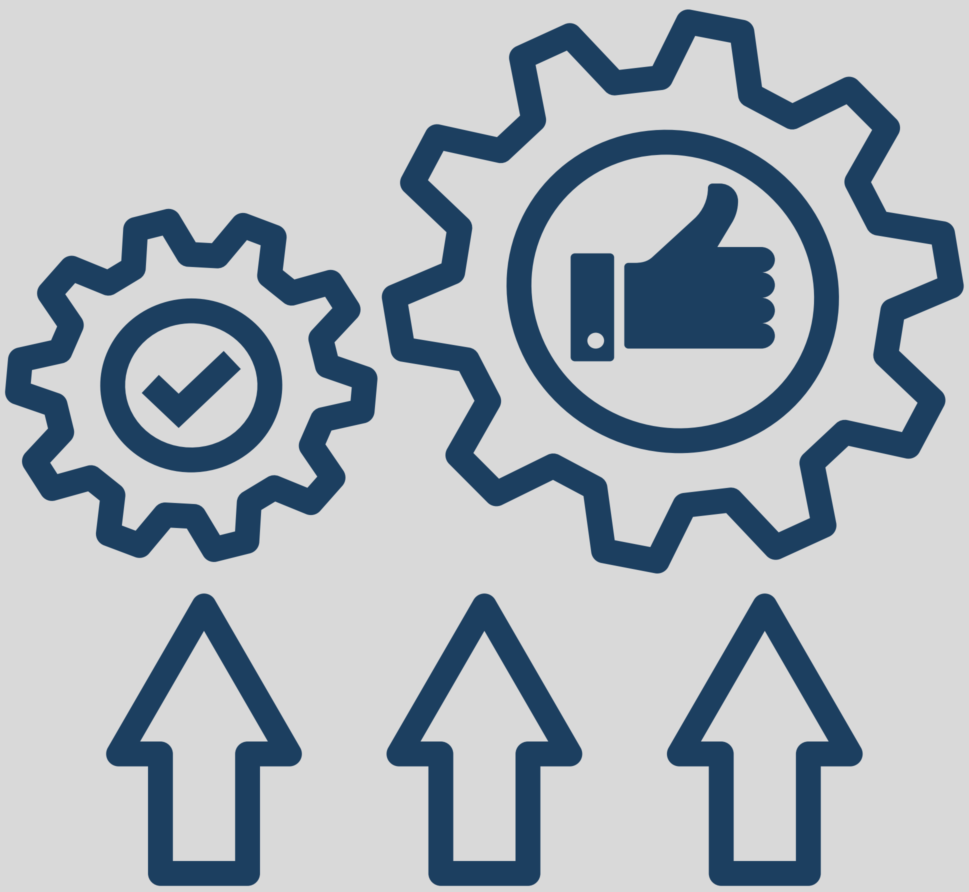
- Can you restrict access instead of exit?
- Can you increase monitoring or frequency of review?
- Should the risk be referred to a committee for case-by-case analysis?
- Is a suspicious activity report (SAR) more appropriate than de-risking?

Five: Escalate smartly - don’t default to de-risking



Tip: Keep a documented escalation flowchart, and ensure it’s understood across all teams, not just compliance.

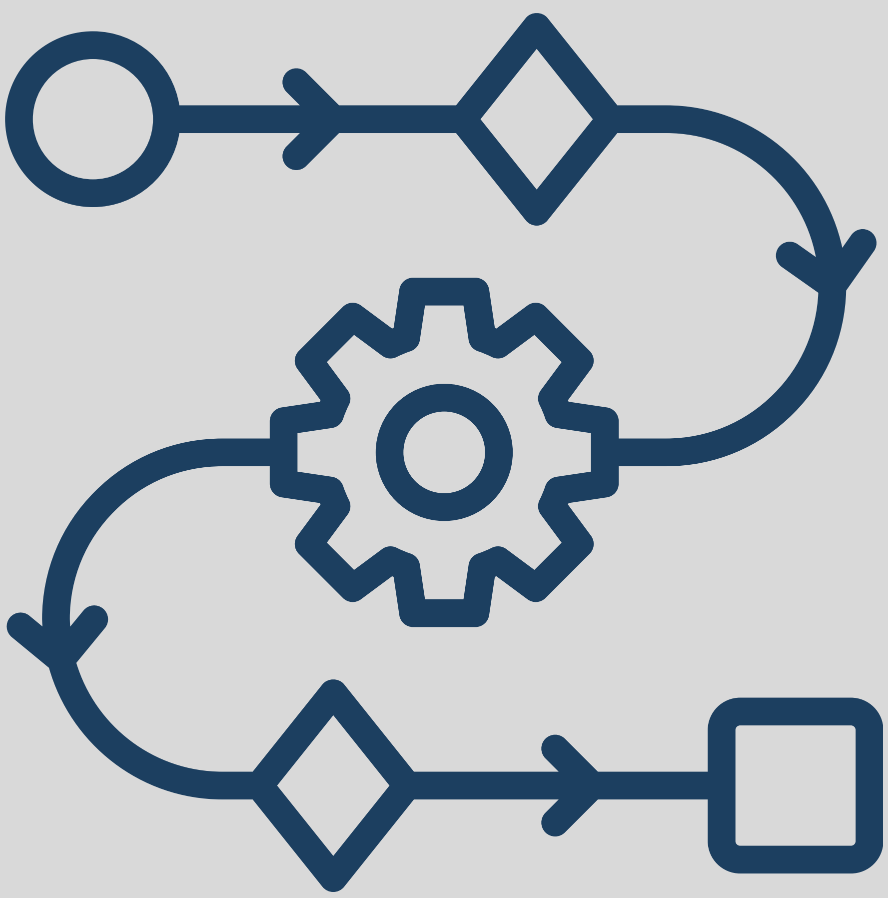
A final thought:



High-risk customers are a part of every growing firm’s customer base. The goal isn’t to avoid them, it’s to manage them intelligently.

With the right controls, oversight and governance, you can serve high-risk customers without exposing your business. The stronger and more effective controls, the more your business can grow.

Need help to review your high-risk customer process?



FCR Compliance supports firms with risk model design, EDD frameworks, transaction monitoring, customer risk assessment and regulatory control mapping.

Contact our team at:
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Steve Lockwood

Steve is one of FCR Compliance's founders. He has been a financial crime specialist for over 20 years.

Steve started his career in law enforcement investigating organized crime money laundering, he then moved to the UK Financial Conduct Authority (FCA) as an investigator in Enforcement and then as a specialist supervisor in the Financial Crime Supervision team. Here he conducted reviews of regulated firms' financial crime compliance programs.

Since 2017 Steve has been helping clients to assess, develop and remediate their Financial Crime compliance programs.

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