

Report on inspection of the BANK of Greenland

(anti-money laundering area)

Introduction

In June 2024, the Danish FSA undertook an inspection of the BANK of Greenland. The inspection was an investigation of the anti-money laundering area. The inspection concerned the Bank's know-your-customer procedures, including risk classification of customers, purpose and scope, and beneficial owners. The inspection also concerned the Bank's ongoing know-your-customer procedures and the Bank's monitoring of its customers, as well as the Bank's compliance with the investigation, registration, notification and retention obligations.

Risk assessment and summary

The Bank operates in Greenland, where the Government of Greenland is the legislative authority. This means that in a number of areas, including the area of anti-money laundering, the Bank is subject to other rules than those applicable in Denmark.

The Bank is the largest bank in Greenland and has its head office in Nuuk.

Besides the head office, the Bank has five branches in small towns in Greenland, and outside Nuuk, it is the only bank. In addition to the actual branches, in around 50 settlements it is possible to open accounts, and make cash deposits, withdrawals and account transfers in KNI's settlement stores (*Pilersuisoq*), under the "By-Bygd-Bank" (BBB) system.

The Danish FSA assesses that the Bank's inherent risk of being misused for money laundering or the financing of terrorism is medium to high.

In the assessment, the Danish FSA has given special weight to how the Bank predominantly offers customary bank products and mainly has customers in Greenland. The area of cash transactions, which entail an enhanced risk of money laundering and financing of terrorism, is furthermore deemed to be large, since the special geographical conditions require the use of the "By-Bygd-Bank" system, of which the structure entails a potential risk.

Based on the inspection, a number of areas have given rise to supervisory reactions.

The Bank has not sufficiently fulfilled its obligation to carry out ongoing know-your-customer procedures, including when a customer's relevant circumstances change, and otherwise at appropriate intervals, since for a number of years the Bank has not had a process for this.

This presents a risk that the Bank's information about existing customers is not adequate and correct. This is significant, as the risk assessment of a customer relationship may have changed, and thereby also the need to reassess the interval for the execution of the know-your-customer procedures.

The Bank has therefore been ordered to carry out ongoing know-your-customer procedures for all customer relationships, dependent on the customer's risk, including when the customer's relevant circumstances

change. This also applies to customers for whom the Bank has not yet updated the information. At the end of each quarter, the Bank must inform the Danish FSA of whether the Bank complies with its plan for updating ongoing know-your-customer procedures.¹

The Bank has not ensured that it adequately assesses and obtains knowledge of the purpose and intended nature of the customer relationship. Furthermore, the Bank has not ensured consistency between the information provided by the customer in its know-your-customer form and the information registered by the Bank in its know-your-customer system, which results in inadequate data quality. Furthermore, the Danish FSA assesses that the Bank does not adequately consider the information provided by customers, including whether the information is correct.

This presents a risk that the Bank does not know its customers sufficiently well and/or that the Bank has incorrect information about the customers in its system. This is significant, as knowledge of customers and the quality of the data affect whether the Bank has effective monitoring of customers with a view to detecting suspicious transactions.

The Bank has therefore been ordered that the Bank must to an adequate extent obtain knowledge of the purpose and intended nature of the business relationships, including ensuring the data quality of the information that the Bank provides in its know-your-customer system.²

The Bank's risk classification model is inadequate as it is too simple and does not include all relevant information and factors relating to the individual customer relationship. For example, the model does not differentiate between which countries the customer wants to make transactions to. This means that with the Bank's model, a customer who makes a transaction to a country outside the Danish Commonwealth, to a low-risk country will be awarded the same points as a customer who makes transactions to a country that is included on the European Commission's list of high-risk third countries.

There is thereby a risk that the Bank's weighting of the individual risk elements will result in the Bank not establishing a true and fair business and risk profile. This is significant, since on this basis the Bank must execute the know-your-customer procedure, including determining the interval for its execution.

The Bank has therefore been ordered to change its current risk score model to take greater account of all relevant factors, including changing the weighting of the individual risk elements so that customers are given the correct risk classification. The Bank must then undertake a new risk assessment of each customer relationship so that the customers are risk classified on the basis of a concrete and documented assessment and that the knowledge of the customer is adequate in relation to the risk of money laundering and financing of terrorism. In this connection, the Bank must submit a plan for when it expects to have made a new risk assessment of each customer relationship.³

Furthermore, the Bank has not implemented stricter know-your-customer procedures with regard to customers who are classified as high risk by the Bank. The Bank thereby performs the same know-your-customer procedures for medium- and high-risk customers. This presents a risk that the Bank does not have adequate knowledge of the customer relationship, which is essential to limit the increased risk of money laundering and/or financing of terrorism.

¹Section 10, 1) of the Anti-Money Laundering Order.

²Section 11(1) 4) of the Anti-Money Laundering Order.

³Section 11(3) of the Anti-Money Laundering Order.

The Bank has therefore been ordered to perform adequate stricter know-your-customer procedures for the customers classified as high risk by the Bank.⁴

Finally, the Bank has been ordered to made closer checks to ensure that the Bank's blocking function for customers who do not present adequate proof of identity is appropriate and effective. The reason is that the Bank's customer advisers themselves have the option to lift the blocking of customers who have not provided adequate proof of identity. The Bank hereby risks having customer relationships with access to the Bank's products and services, even if the customer relationship has not yet provided adequate proof of identity.⁵

⁴Section 17(1) of the Anti-Money Laundering Order.

⁵Section 8(1) of the Anti-Money Laundering Order.