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# Customer-oriented Due Diligence in the financial sector in Finland

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<p>The research aims to focus on the role of compliance in Banks customer relationships in Finland. The compliance measures adopted by the government and the central bank against the financial crimes and the security measures indirectly affect the Finnish banking customers. The study highlights the responsibilities of the banking sectors in decreasing the rate of compliance measures. The compliance risk and its management are discussed to compare and critically analyze the significance of performing risk management and due diligence in the financial sector in Finland. The research objectives focus on how the regulation and financial laws challenge the customer services in Finland. The issue of money laundering and opening of account is discussed from the perspective of Finnish authorities. The study projects the idea of “Know your customer” (KYC) and measure the challenges that had impacted the relationship of the banking customer relationship. It discusses customer satisfaction and possible challenges that the financial sector could experience due to the strict policies.</p>	
Keywords	Compliance, Due Diligence, KYC, PEP, AML, Banks, Financial institutions, Regulation, Money Laundering, Risk management, Terrorism financing, Customer Service.

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## Glossary

FCA	Financial Conduct Authority
CDD	Customer Due Diligence
CEO	Chief Executive Officer
EU	European Union
CEBS	Committee of European Banking Supervisors
EBA	European Banking Authority
FATF	Financial Action Task Force
USA	United States of America
UK	United Kingdom
IMF	International Monetary Fund
PEP	Politically Exposed Person
KYC	Know Your Customer
AML	Anti-Money Laundering
FIN-FSA	Finlands Financial Supervisory Authority
CIA	Central Intelligence Agency
UN	United Nations
FFSA	Finnish Financial Supervisory Authority

EEA European Economic Area

NGOs Non-government Organizations

## 1 Introduction

Nowadays banks have been exposed to an enormous amount of regulations due to the past “crimes”. It is the way for the government to try to prevent new crisis situations that might occur in the financial industry. Banks risk management been facing dramatic changes during the past decade and it seems like the changes are still to come. It is very unlikely that the regulations for banks are going to be reduced anytime soon, as it is no surprise that almost fifty percent of bank workers are involved in risk management operations. There is one specific type of risk I would like to concentrate in this paper - the Compliance risk, which all financial institutions must face as the result of the political situation in the World and its effect on the relationship with the customers and customer service.

The customer-oriented due diligence in the sector of finance and banking system is becoming one of the most concerned matter. According to Edwards, et al (2004), the customers and the employees are the main assets and the building block of a stable and structured organization. In the banking system due to the new development and awareness, the risk of compliance and challenges of security is gradually increasing day by day. In addition, to the structured banking system and challenges in the financial sector, this research provides and highlights the compliance and security issues within the banking system in Finland for both local and international clients (Hair, 2015). The Politically Exposed person is one of the most significant factors of embracing the potential customer-driven due diligence as it helps in getting a better insight of the details customer in the government, organizational or from close associates.

The study aims to highlight the issue of privacy and security of the public and business accounts in the financial sectors to identify the increasing rate of money laundering crime and tactics against it. Due to the wide range of criminal activities and money laundering cases all around the world, the different national authorities and international restrictions are discussed in order to bring out the cooperation between the enforcement agencies, laws of the financial institution and competent authorities (Sha, et al., 2018). The customer-oriented banking crime and money laundering issue have increased in the recent times and according to the research by Robinson (2006) the money laundering issue is considered as the illegal and dirty monies that are put through the process of clean and legal money transactions. It has been a source of illegally obtained funds

through the succession of deals and is shown as legitimate funds. According to finance and banking, the transaction of money should be acquired legally and must be transferred through legitimate sources. The financial sectors are discussed under the legislation of money laundering and clean transactions in order to understand the role of customer-oriented decisions and to provide accessible due diligence process against illegal activities. The legislations of financial and banking sectors varies in different countries and provide different rules and regulation according to the governing policies.

### 1.1 Background of the Study

The banks in Finland in recent years have witnessed various security challenges and have adopted various compliance measures. It is a great responsibility of the government to prevent new crisis and regulate the laws and regulations in the financial sector. This study mainly focuses on the customer based due diligence in the financial sector of Finland. The industry has been facing risk management challenges against the most common issues such as money laundering and terror financing. Analyzed in the research by De Koker (2006) that the regulation and increasing challenges are still to come in the future. This project highlights the compliance risks, the regulatory measures adopted by banks and the way these measures are impacting the customers in their regular transactions (Edwards, et al, 2004). The due diligence is the investigation or regulating process that mainly focuses on the financial records and reviews all the facts and figures about the customers and employee in order to avoid any fake identifications and money-laundering cases.

Banks haven't been the most trustworthy institutions in past times. While using their customer's trust, they were able to provoke the financial crises that affected everyone. People are not happy with the way banks operate, they are not happy that their tax money is spent to bail out the banks, they are also not happy about the power that banks possess nowadays. It is unclear since when everything switched places, and it is the customers who, by default, are not trustworthy and are objects for ongoing due diligence and screening processes. Shouldn't it be opposite?

Peverelli and De Feniks (2010) state that the traditional function of financial institutions- that of attracting customer deposits and investing them in the economy this context, the relevance of earning customer trust cannot be overestimated. It is no more and no less than a financial institution's license to operate. In their opinion, financial institutions will



only be able to attract the savings they need to fulfill their important societal role effectively if they are trusted by their customers, and it cannot be agreed less.

However, with the US exposing sanctions on non-US banks and fine them heavily for not complying with their wishes, banks have no other way but to go along in order for not being cut off from the US banking system.

Currently, there is no set standard for gathering the information necessary for KYC and AML compliance, with different institutions and different countries taking different approaches. The information gathering can consist even of social media profiles monitoring up to private investigations in case of PEPs company is hidden somewhere in Tax Heavens. It is not clear why the common system doesn't exist yet, while the due diligence is required almost by anyone starting from small business owners up to Global Financial Institutions and Regulators. Nowadays, when the amount of PEPs growing rapidly, and the screening and monitoring is time-consuming and costly, one common system and set of rules and regulations must be established. One more issue that comes to mind after analyzing the research topic, is that every customer is under suspicion and the banks do not seem to care whether the customer does not feel like he likes or wants to be investigated and been asked inappropriate questions. Banks do not hide that if you are not satisfied with the policies, no one is holding you and you are free to change the bank for the exact same one, which will screen you even harder now once you have been "kicked out" as a customer. In the modern world when we are forced to use banks on a daily bases it is very unfortunate practice. One part of me understands that it is a must procedure another one wants to find a better and more loyal solution that will not accuse each customer once he wants to use cash instead of a card.

Since the beginning of 2016, the Financial Supervisory Authority (FIN-FSA) has received numerous customer contacts enquiring about the appropriateness of banks' procedures relating to obtaining customer due to diligence information, meaning that customers are not happy about it. In this context, a customer relationship with the bank refers to the basic banking services in which customer only has a payment account, a payment card and access to online banking.

Both the Credit Institutions Act and the Money Laundering Act require that the bank obtains customer due diligence information. This information must be processed in accordance with the Personal Data Act. Under basic banking services regulations, a

bank may refuse to open an account for, among other things, a reason arising from the Money Laundering Act. In addition to the customer due to diligence information required in the Money Laundering Act, banks must ascertain from customers necessary information concerning the implementation of taxation.

It is the responsibility of banks to manage risks. Banks have the right to prepare questions to be presented to customers in order to obtain due diligence information from customers. The due diligence information obtained must, however, be necessary and essential in establishing and maintaining a customer relationship, taking into account the risk-based assessment referred to in the Money Laundering Act. (Finanssivalvonta, 2017) However, while the bank's started to be tough on performing due diligence on their customers, they created the substantial risk for themselves, the risk of losing clients if the due diligence process is too long and unwieldy. Specifically, the Thomson Reuters study showed that there is considerable duplication in documentation requests for opening new accounts. In one finding, banks were spending up to 48 days to onboard a new business client, while in another, business clients reported that they were contacted an average of eight times during the onboarding process. Thomson Reuters also found that 89 percent of corporate treasurers have had a bad experience with the KYC process, leading 13 percent of them to change banks. (Thomson Reuters n.d.)

It proves the assumptions that due diligence can be harmful to bank relationship with the private customers as well as with corporate and in some ways, it can be found useless. First of all because if the customer would really be involved in money laundering, there is no possibility that he will provide true information about his income or true intentions. Pushing of due diligence would result in the money being pushed into less regulated channels, reducing the transparency of financial flows and creating financial exclusions.

## 1.2 Research Aims and Objectives

The aims and objectives of the research are as follows:

- To understand the process of compliance in Finnish Banks
- To analyze the role of compliance in Banks customer relationships in Finland

- To identify if the increasing compliance structure has an adverse effect on Bank customer relationship in Finland

### 1.3 Research Questions

The following are the main concerning research question:

- What is the process of compliance in Finnish Banks?
- How compliance shapes the Banks customer relationships in Finland?
- Does increasing compliance structure has an adverse effect on Bank customer relationship in Finland?
- Why customers are considered as potential PEP?
- What is the future of increasing regulation in the financial sector in the current challenging economy of Finland?

### 1.4 Research Hypothesis

H01- The increasing compliance structure is effective in controlling financial crimes in Finland.

H1- The increasing compliance structure is not effective in controlling financial crimes in Finland.

H02- The increasing compliance structure has an adverse effect on Bank customer relationship for Finnish banks.

H2-The increasing compliance structure does not have an adverse effect on Bank customer relationship for Finnish banks.

## 2 Literature Review

### 2.1 Regulatory compliance by Banks

The financial crisis is increasing exponentially with the increase of facilities and developing the financial system. Campello et al (2010) argue that addressing the financial failures is the main focus of policymakers to avoid the leading financial crisis. Assessing the failures and financial risks led to turmoil and ensure the financial system and the economy of the country hence preparing to withstand in the future disruption of the market. Greenwood et al (2017) share a different view by arguing that regulation of the banks is beneficial in combating the financing of terrorism, however, recent regulation by banks has swung so far that it resulted as reduced customers and hindered the economic growth.

In order to add up in the ongoing efforts of banks supervision and sound practise by banks and financial organisation Ayadi et al (2016) challenges the opinion established in the research by Young (2012) which states that the Basel Committee on Banking Supervision is considered as the leading committee, and it addresses the compliance risks and the functions in the banks. The banking supervisors are responsible for effective policies and application of compliance law for the efficient management and appropriate action against the compliance failure. The regulation and compliance starts at the top and is most effective in a corporate organization where honesty and integrity are considered as an essential feature. The regulatory compliance is considered as an integral part of the bank's transactions and all the business-related activity. The research by Naheem (2017) presents a different view to that of Young (2012). It suggests that money laundering is one of the leading cause that initiates the assessment of the bank and compliance risk, as it affects the growth of the economy. The banks consider failures and their impact over stakeholders, employees, and customers as it has adverse reputational damage.

The financial institutions are required to follow up with the guided and adequate procedure that is formed in order to develop a relationship with the customers. On the growing illegal activities and transfer of money from one country to another result in the destruction of the economy. The customer-based due diligence or the Know your customer measures help to investigate the established activities in the financial sectors. All the European countries are stated to have a business relationship with their

customers and the business, and must also be capable of establishing a beneficial business. The assessment of risk in the banks is evaluated on the basis of how the business is operated and its involvement in money laundering issues. The risk management ultimately portrays the account opening risks that are posed by the customers i.e. carrying out a large cash transaction risks, risk of customer behavior, risk of a customer entering into a business. The risk management results in developing a better regulation process for the financial sectors that provide better compliance for building up the banking structure against fraud and illegal transaction activities.

Since the Compliance is a huge administrative burden for Financial institutions, it is much easier to close the suspicious account if it might hold a high risk. It might affect negatively on the bank reputation if their suspicions are not justified, however the huge penalties making the banks to perform such actions if needed. And the reason why the banks might miss some suspicious activities is imperfect screening systems.

The biggest problem with AML and KYC screening programs is that they are expensive, screening must be performed on regular bases, it cannot be performed fully automatically, since the risky transactions are only sending the alerts, and the rest of the screening must be done by a person. With the number of transactions that banks are handling every day, it is surely time-consuming.

Another problem is that there is no “official” PEP list, where all politically exposed people and closest to them are listed. The CIA and UN have lists of the head of states, which fall below the PEP definitions of Financial Action Task Force. Vendors have their own database where they check their customers. World Compliance by Lexis Nexis has a global PEP list, Lexis Diligence by Lexis Nexis, GSW Spotlight by GoldSchaff & Wolfson, World-Check by Thomson Reuters, Dow Jones offers a global PEP database, Regulatory DataCorp offers PEP list screening, Reed Elsevier's 'Accuity' advertises "anti-money laundering solutions to banks and businesses worldwide" and utilizes the WorldCompliance PEP List. (Wikipedia, 2017)

Matthew Russell, a specialist in anti-money laundering at PwC, says: “The challenge for large institutions is that customer due diligence systems aren’t always connected to the transaction monitoring systems. To connect these systems is very expensive.” He adds: “Regulators have the expectation that there is a single view of a customer, particularly in relation to US regulatory action.” For many banks, which have patched together with

different systems over the years as a result of mergers and acquisitions, the challenge of marrying their data are significant. Financial institutions are exploring ways to collate data more efficiently. One idea is to create a central database that contains certain customer information, on which banks can draw to help their due diligence. Businesses tend to bank with a number of organizations and many are asked for the same information on joining, so the database would also make the process more efficient. (Dunkley, 2016)

## 2.2 Bank Compliance in Finland

Erbenova et al (2016) argue that Governments, all over the world, today, believe in regulation. The basic purpose of regulation is to reduce the chances of illegal activities, i.e., money laundering, corruption, nepotism, etc. Each and every financial institution, in almost all countries—regardless of whether the country is under-developed, developing or developed—is being regulated by some governmental agency. Hair (2015) argues that it is widely believed that markets alone cannot ensure efficiency as governments must step in to counter the exploitation of consumers and customers. The banking sector, too, is affected by regulation. Therefore, we must not be surprised when we find the compliance department in almost all reputable banks, throughout the world. Each and every country, or region for that matter, has a totally different way of regulating companies. Some countries strictly scrutinize their businesses, whereas some are lenient with regard to these matters.

Young (2012) provides that in Finland, the authority responsible for regulating financial activities of or relating to, banks are the Finnish Financial Supervisory Authority (FFSA). In order to operate banking services in Finland, one has to get a license first. A bank cannot, in Finland, obtain deposits if it is not licensed. Therefore, it is obligatory on banks to write an application: the application, then, has to be dispatched via post to the Finnish Financial Supervisory Authority (FFSA). The approval on the part of the Finnish Financial Supervisory Authority determines whether the institution will get the license to operate its businesses. Finland also regulates the activities of foreign banks within its soil. A foreign bank, if it is part of EEA country, can easily open a business in Finland in a period of two months, provided that it should notify the Finnish Financial Supervisory Authority (FFSA). The matter is extremely tough for banks outside the EEA countries. Non-EEA firms and institutions have to first submit an application: the FFSA, then, has a timeframe

of about six months to process the application. The goal assigned to FFSA with regard to approval of the application is less than 12 months (Hair, 2015). So, the timeframe itself depicts that banks or financial institutions have a hard time establishing their businesses in Finland, they have to be patient, and they must go through a tiresome procedure—along with the enormous amount of fees which they have to pay for the processing of an application.

Regulation of this kind and magnitude offers an obstacle to the circulation of money. It is also detrimental for businesses in general—which results in fewer jobs for Finnish people (Cyree, 2016). Very few companies can go through such a lengthy procedure; most companies cannot financially stand such scrutiny. Whether this is fruitful or not should be analyzed on the basis of whether such a policy is doing more harm or good? These regulations are costly, the impact of this on businesses is less compared to its enormous impact on customers and consumers (Cyree, 2016). When banks cannot operate on their desirable time and schedule, then the customers are going to suffer—the small shareholders are going to see a drop in their investments, it is a vicious circle.

## 2.3 Sources of Compliance

### 2.3.1 National Law

Regulations on the part of governments in the modern-day scenario are much more based on intellectual crusades than on market pressures. Numerous non-government organizations (NGOs); human-rights groups; institutions catering to ideas based on social justice; intellectuals who are skeptical when it comes to the free markets; and economists who believe that laissez-faire economic model proposed by Adam Smith in the eighteenth century is no longer feasible today, collectively, play a huge role in convincing governments that strict laws are necessary to curb the free activities of markets (Raico, 2019). Their argument is based on the idea that markets if left to their own devices, can do more harm than good—they believe that governments should have a role in the market area; governments should decide the basic structure of the economy. Therefore, the basic source of compliance is not the market itself, but people who have a totally different vision regarding finance.

With the advent of this idea, a large number of governmental agencies started to be constituted. Many laws were enacted to make sure that banks should not be able to find

any loophole to evade regulation or scrutiny (Friedman and Schwartz, 1971). While all this is done to minimize risks related to banks, the outcome is absolutely different. As two economists demonstrate, the Federal Reserve System was established to eliminate chances of banking crisis; whereas, the result shows that the worst banking crisis—which led to the horrible depression the United States of America ever suffered from—came into being during the time Federal Reserve System was present. (Friedman and Schwartz, 1971)

The national law relating to compliance is a result of the social-cum-economic vision which became prevalent after The Great Depression. For nearly more than a century, the American banks were totally free from compliance or regulation (Raico, 2019). The market operated according to its capacity without the difficulty of being scrutinized. The government was limited to its original functions. As regulations got hold of the market structure, the situation changed drastically. Since America is the most influential nation on earth, today, as it was then during the Great Depression—and most profoundly, afterward, when it became victorious at the end of World War II—her policies started permeating throughout the world. Most governments, today, enact laws to monitor banking activities.

The case of Finland, hence, can be easily explained keeping the general scenario, mentioned above, in mind. Finnish laws require banks to operate within a tight ambit elucidated by the regulatory authorities. People have to pass a tiresome procedure, first, in order to open a bank account or to conduct financial activity within Finland's soil. Numerous documents are to be provided—the authorities look deeply into the biodata of the applicant. Account-holders must explain how they obtained money; they must give proof, if necessary, to quench the skepticism of the authorities.

### 2.3.2 European Law

The banks are subject to many laws including ones that seek to prevent, for example, money laundering, terrorism, and white-collar crime. Compliance risk is the one that arises from all those illegal activities. It also arises in situations where the laws or rules governing certain bank products or activities of the bank's clients may be ambiguous or untested. This risk exposes the institution to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to a diminished



reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts. (Coppinger-Peters n.d.)

The banks that been noticed in noncompliance are facing huge penalties from the Financial Conduct Authority (FCA). As an example, in 2015 Barclays Bank (Barclays) been fined for £72,069,400 for failing to minimize the compliance risk. With that many zeros stated on the penalty bill, it is understandable why the banks are investing so many resources to eliminate noncompliance risk.

The average bank spends £40m a year on KYC compliance, according to a recent Thomson Reuters Survey, which also revealed that some banks spend up to £300M annually on KYC (Know Your Customer) Compliance and Customer Due Diligence (CDD).

In fact, the cost of the regulatory demands being placed on big banks is so high JP Morgan CEO Jamie Dimon wrote in a letter to shareholders that the firm had spent £1.6bn on their Compliance Department, employing 13,000 people to ensure they were addressing regulatory issues and compliance after paying more than £16bn in legal penalties last year. With the ongoing regulatory change, financial institutions simply can not keep up and as a result, the number of employees working on KYC has increased over the past year. The lack of appropriately skilled people has been cited as a major concern, which is one of the reasons this topic is important for research. (Imafidon, 2016)

Since Finland is part of the European Union (EU), it is bound by European laws to conduct her activities with regard to the policies set up by EU authorities. Initially, Committee of European Banking Supervisors (CEBS) - an independent group established via European Commission (2004) - was set up to monitor and regulate banks. Committee of European Banking Supervisors was originally an advisory committee (Eba.europa.eu, 2019). Then, circa 2011, the European Banking Authority was placed in the position of CEBS. Today, the European Banking Authority is the main authority responsible for keeping banks in order via rules and regulations. European Banking Authority has been vested with enormous regulatory powers. It has the right to counter national regulatory agencies if they are not in line with the standards set by EBA guidelines. The EBA has, what it calls, The Single Rulebook: this is a single document dictating every law, rule, and regulation which the banks of all EU countries have to obey. Finland, therefore, is bound to follow the dictates of EBA (Eba.europa.eu, 2019). The

basic source of compliance in Finland results, as a matter of fact, mostly, though laws of EBA.

The laws and regulation for compliance and risk is the matter of observing the markets and their standard of managing conflicts and treating the customers fairly. All these factors have a direct impact on the reputation and exponential growth of the bank and the economy (Naheem, 2017). The laws and regulation are made to prevent the money laundering and financial terrorism and result in extending the laws that directly impact the tax and structuring of banking and customer advice. The European Law mainly focus on the bank and its related transactions used by customers in order to avoid regulatory and financial reporting failures. The argument in the research by Erbenova, et al (2016) is presented against the Goddard et al(2001) and state that the European law evades tax liabilities and regulate all the illegal conduct to reduce the significant compliance risk European (Commission - European Commission, 2019).

With the increase in the financial crisis and the challenges in the secure transaction and bank's business activity, it has been stated in the research by, that the European Union has responded to the global financial crisis and initiate the three main reasons. First, it focusses on the aftermath of the financial crisis and compliance risks and focuses on the series of regulatory changes which include personal information and transaction records without violating the privacy of individual business or bank (Young, 2012). Secondly, European Law provides an efficient framework for the national regulatory changes in the member states. Thirdly, it mainly focuses on shaping the financial and compliance risks in national and as well as international level. European law mainly focuses on internal and also external sections of the financial banks and the organizations.

Finnish banks are specifically strict about foreign customers. For instance, to open an account, the foreigner's passport will not be valid as an identification document, instead, the Finnish ID card must be obtained as a valid document to prove your identification and one of the reasons for it would be Politically Exposed Persons also known as PEP.

A politically exposed person (PEP) is defined by the Financial Action Task Force (FATF) as an individual who is or has been entrusted with a prominent public function. Due to their position and influence, it is recognized that many PEPs are in positions that potentially can be abused for the purpose of committing money laundering offenses and related predicate offenses, including corruption and bribery, as well as conducting activity

related to terrorist financing. That is why financial institutions must implement measures to prevent the misuse of the financial system by such individual.

Most of the Financial Institutions see PEP as a potential compliance risk and perform the account monitoring as part of ongoing due diligence. Most commonly PEP is checked for Money Laundering. In most cases, money launderers are hiding their actions through a series of steps to make it look like the money coming from the illegal sources or operations are earned legitimately.

Without a global definition of a PEP and without common PEP database it would be extremely hard to screen every customer, that is why there is a guide for potential PEPs that might help. USA Patriot Act and the European Union Directive use similar definitions of a PEP, typically consisting of the following layers provided by Accuity company. Anyone in any of the following roles should be considered a potential PEP.

### 2.3.3 PEP

#### 2.3.3.1 PEPs in Government Roles

- Legislative Bodies: A good example here would be a Member of Parliament
- Executive Bodies: A PEP could range from the head of state down to the assistant ministers
- Diplomatic Roles: Ambassadors or charges d'affaires would be considered PEPs
- Judiciary Bodies: Key people working within supreme courts, constitutional courts or high-level judicial bodies
- State-Owned Enterprises: A PEP would typically be anyone from a senior executive upwards. However, even former members of the board of directors no longer associated with an organization may retain influence and still be flagged as PEPs

### 2.3.3.2 PEPs in Organisations and Institutions

- Central Financial Institutions: Examples here would be the Court of Auditors and members on the boards of central banks
- Armed Forces: In this situation, a PEP rating would typically only apply to a high-ranking officer
- International Sports Committees: Members of these committees may be influenced to vote on the location of major sporting events/contracts for building venues, etc., so have recently been included by FATF under their definition of a PEP

### 2.3.3.3 Known 'Close Associates' who are Considered PEPs

- Anyone who has a close business relationship or joint beneficial ownership of legal entities or legal arrangements with a PEP
- Anyone who has the sole beneficial ownership of a legal entity which is known to have been set up for the benefit de facto of the PEP

### 2.3.3.4 Immediate Family Members who are Considered PEPs

- Parents and children of PEPs
- Spouse or partner
- Siblings
- Uncles and aunts
- Even slightly indirect family members (such as in-laws) will be considered as a politically exposed person (Accuity, 2017).

### 2.3.4 International Law

Alexander (2006) provides that the international law also focuses on the internal code of conduct that is regulation of staff of the bank. All these reasons for internal and external regulation it has become important to bind the bank activities legally and embrace the ethical standard and integrity. The international compliance law as stated in the research by Fagade and Tryfonas (2016) presents an opposing view on the research argument of Alexander (2006) and argues that standards of measuring the various sources and the primary legislation are responsible for supervising and assessing the market convention and the proper practice of industry associations and business.

After the national and domestic regulation of the financial activities by the European Law, the policymakers have widely recognized the importance of the expertise in the financial activities and banking to structure the secure and highly competitive financial system against the compliance risks. The large banks are mainly followed and structured through the international standards which lead to international regulatory debates. In research by the argument is presented by d'Amato (2017) states that the recent international law and code of conduct is considered as the soft law, however the recent suggestion by the "Ms Ann Kreuger", "First Deputy Managing Director of IMF" which describe the new structure of the financial system as the "hard law". The new international structure restricts the ability of the creditors and their legal claims in the courts through the laws and regulation to reduce the crisis and financial failures.

At the international level, the European Union seem to be less divided than the time when the financial crisis and bank regulation were not a common problem. However, international law regulates all the European countries and their business activities such as trading between two international markets. Previously the competition of market-shaping and market-making were only camped internationally, but now it is also regulated on the national standards. The international fora mainly focus on two approaches that are on extending the regulation of funds and taxpayers and secondly, resisting the regulation that is followed by the UK and USA.

According to the research by Raskin, and Yermack (2016), the modern debate on international law led the impact of the decentralized system which reflects the suggestion in the research by (Frank & Martinez-Vazquez, 2015) stating that the international law is not enforced by the coercive sovereign. It is contended that international law mainly focuses on the "compliance pull" and contain obligation over the banking transaction and

business activities on international fora. Whereas Emmenegger et al (2018, p.3) argues against the reflection of (Frank, and Martinez-Vazquez, 2015), and states that the power capabilities and the self-interest result in compliance risk and comply with international law and standards. However, in the research by Teubner (2017) the argument on the constructive epistemology against the research by that the international law do not depend over the state of behavior nor the necessary compliance but it mainly focuses on the expected financial crisis and its impact over the structure of the bank and the growth of the economy.

The international law is also considered as the social process in the research by Weil (2017) which challenged the suggestion of Simmons (2000) that the interest and identity of an individual are important aspects for determining the crisis and level of regulatory standard in the European Union. The legal obligations and the structure neither depend on the process of socialization and acculturation. It mainly focuses on the practice of law and the regulations of operation to safeguard constitutive and social factors.

#### 2.4 Voluntary Efforts by Bank for compliance

According to the research by Öge (2016, p.41), it has been argued against the research of Emmenegger et al (2018, p.3) that the banks and financial organizations make a significant effort in the process of compliance and in the prevention of failures. However, the banks are proceeding towards voluntary efforts. The voluntary frameworks mainly focus on the voluntary code of conducts which help in connecting the banks with the revenue bodies and promote to cooperate in order to ensure the taxation system that can be an efficient and effective way to achieve the efforts for the compliance. The efficient voluntary efforts include the compliance of banks that ensure the obligation of tax and promote it among their clients to provide stability in the economy. The effort also complies the governance of the banks to control the transactions and prevent the tax risk and compliance failures. The tax planning and the law obligation ensure the legal amount of tax promotion and overcome aggressive taxation. Burks (2018, p.1471) presented the suggested opinion as the reflection against the research by Bonsón-Ponte et al (2006), that the voluntary efforts by the bank also include the enhanced relationship which establishes an effective connection between the revenue bodies and banks to embrace the code of trust and co-operation among the staff member and the clients. The efforts by the revenue bodies mainly focus on the transparency and trustworthy relationship

between the clients and the international business activities which considered as the risk assessment. The commitment of the bank is the greatest effort that directly impacts the regulation and assessment of the financial crisis on the basis of laws and defined code of conduct. However, the responsible financial sector on the global fora mainly depends over risk-based assessment and regulation which includes a voluntary effort by banks.

### **3 Methodology**

The methodology of the research focuses on the methods and techniques adopted to analyze and identify the impact of compliance, in the bank-customer relationship in Finland. The primary objective is to analyze the customer based due diligence and is obtained through secondary research or in-depth literature review of the financial sector and risk management in the Finnish banking system. The collected data is used to identify the specific factors and leading causes of making voluntary efforts that could be used to assist the governmental and international revenue bodies.

#### **3.1 Research Methodology**

The research methodology of this thesis is based on qualitative research analysis. As according to the research by Denzin et al (2008), it has been stated that the qualitative research is based on the significant sources of information that help to understand and identify the hypothetical information about the challenges and leading problems. In this research, the qualitative literature resources on the financial sectors are used to dominate the role of government in the regulation sector and the importance of customers to avoid any security and identity issues. The secondary research approach is used in this project in order to identify the previous challenges and risk management. The effective research methodology and secondary research approach provide insight of different literature surveys and already existing reports and findings that help in analyzing the research objectives and aims to fulfill the results and research statistics through deductive research.

### 3.2 Research Approach

The research is conducted through secondary resources which include published journals and research articles. The study is based on information from banks, central banks, governmental agencies, and other financial institutions. The research approach helps to find the efficient process of identifying the results and impacts through practical methods.

### 3.3 Data Collection Method

The data is collected through the already existing research paper and journal articles as it provides findings and theories related to the banking system and efforts that are made against the illegal and unusual activities. According to the research by Stephens et al (2018, p.218) states the significance of using the deductive approach and collecting data through scholar's research and published articles. The data collected is then used to evaluate the findings through the literature comparison and critical analysis, which provide a better suggestion of effective results. The data collection method requires findings of results and approaches through the different journal and published articles and improve the research methodology.

### 3.4 Data Sampling

The data sampling is commonly carried out in qualitative research. The sampling is based on the analysis of the various research papers and articles that focus on the factors that cause extreme disappointment among customers in the financial sectors due to compliance and regulatory issues. The strategy mainly depends upon the information extracted from the top-notch research articles and published journals.

### 3.5 Data Analysis

After obtaining the result and finding of the journal articles and the banking reports the data is analyzed through supportive and non-supportive articles. The research also used different sources which include governmental and independent reports in order to analyze and understand the current trend and relation of the extracted data sets. The



data analyzed through the already existing research provide better understanding and comparison of the results through the analytic approach.

### 3.6 Ethical Consideration

The ethical consideration according to the research by Roberts (2015) is stated as an important factor in the project as it involves integrity and security issues that directly affect the research and data analysis. It is important to ensure the identity of the respondents that is the employees and the customers of the banking system and is important to keep it confidential and private in the whole data collection and analyzing the process. The ethical consideration is said to be critical and required specific norms and standards to conduct. It provides a procedure of distinguishing between right and wrong and help to understand the difference between acceptable and unacceptable behavior.

## 4 Result and Analysis

According to the research by Hair et al (2015), the important analysis and result plays an immense role in the development and conclusion of the research questions and objectives. The result is analyzed through the findings of the secondary and qualitative research approach. However, through conducting questionnaire among the employees and customers it has been identified that the strict laws and regulation can also result in causing problems for the customers.

Due to the increased rate of the financial crimes, terror financing and money laundering issues all around the world and the international banking system, the European Union and Finland have presented a strict and tough regulatory programs within the banking system. The phenomenon is causing a challenge for the customers and employees to deal with the long verification and identification process. According to the qualitative research and findings, in Finland, the regulatory system in the financial sector is extremely strict and generally initiating problem for the general public (de Luna-Martínez, et al, 2012). The bank systems are reviewed on the basis of European laws and orders and are given instant decisions against the small as well as large banks all around the world. The Finnish banks are more specifically identified as the strictest banking system, especially for foreign customers. They are more concerned about their economy and do

not provide accessible facilities for the general public to open their accounts. In Finland, the foreign passport is not eligible for opening the account and it is important for the public to have a Finnish Identity card as the valid document (De Koker, 2006). Due to this many foreigners and European citizens are facing challenges in opening their account. It is important for the researchers to highlight the important aspect of applying an equal and moderate amount of regulation over the general public and maintain effective relationships.

#### 4.1 Banking Procedures in Finland

To safeguard their financial assets, to ensure the safety of money and to know something can easily be bought or sold without making use of cash (i.e., through debit/credit card, checks, drafts, etc.) a bank account is considered highly important. In Finland however, especially if the person is a foreigner—one will have to go through numerous procedures in order to avail the services of the banks operating in Finland. It is worth noting, different banks have different modus operandi relating to this matter (Kalmi, 2016). But, overall, the general scenario painted is the same for all banks. Foreigners find no problem vis-à-vis language—since most people, today, are acquainted with the English tongue (because of its global status). Other than this, most of the procedures are not only time-consuming but arduous as well. (TransferWise, 2019) Primarily, a person interested in opening a bank account must arrive at the branch of the bank he desires with all his documents. Banks in Finland do not allow the process of account-opening without first being able to scrutinize the customer. Passport, ID card (issued by the Finnish authorities), resident permit, etc., are required by the bank—in some cases, much more is required (Anon, 2019). Some banks (Nordea is a classic example) can even reject the application of an individual without mentioning any specific reasons.

The financial sectors in Finland operate responsibly as it focusses more on developing an efficient banking system and to develop better economic growth. Due to this highly sensitive economic growth policies the level of consumer confidence requirement is at a high level as compare to the European countries and contain a high level of regulation laws and orders (Kettunen, 2016). For the financial sectors in Finland, the responsibility is also dependent on the sustainable development and regulating principle that also becomes the cause of challenges in the financial sector. However, strict regulation in opening of the account and containing high income and money transfer in Finland has

become difficult in the past few years by the financial sectors. It has been said that the legislative compliance is always considered by the financial sector to make decisions on the basis of social, economic and environmental aspects also (Mikkilä, et al., 2016). These factors have increased the rate of challenges for the consumers and business in Finland as it requires highly sensitive rules and regulation on keeping up with the banking sectors. The financial sector is also responsible for investing in different appliances and a governmental scheme that led the consumers without a Finnish passport to invest and maintain their financial statement in the banking system. The financial sectors in Finland actively participate in the corporate responsibility and measures the illegal activities hence Finnish financial sector support the internationally targeted regulation against the money laundering limit the global warming issues too. All these responsibilities of the Finnish Financial sector result as a challenge for the consumers and business to make money transactions and opening of an account in Finland.

However, the assessment of the credit applicant in Finland is said to be the ability to repay the investment and comparatively higher than the other countries. Due to this, the Finnish banks experience challenges in fulfilling the consumer's requirement and losses from housing loans and expenses as people are not able to earn and save their money (Vlcek, 2018). The European banking authority and the financial supervisors of the Finnish Banks conduct stress testing to understand the lacking and to maintain the good capital adequacy even in the poor economic development than expected (Nykänen, 2017). Finnish government follow up with a comprehensive and structured procedure to prevent the excessive indebtedness of households and migrated consumers. The Finnish government decided to overcome the average risk of certain banks and house loans of consumers. The Banks sectors set limits for the income inked debts and make it difficult for the people to transfer the money and save in the account hence lead to an unreasonable situation. The result of the study shows the significant challenges for the foreign citizen and for foreigners generally in the private banking services. It also shows the quality of services that are needed to be improved for potential customers.

#### 4.2 Regulations imposed on customers

The succeeding lines and paragraphs are going to illustrate certain constraints and rules that one must follow and obey placed by the Finnish authorities to be an account holder. Anyone wishing to be an account holder must physically visit the branch of the bank,

without this the banks are not going to entertain their future customer's online submission is not possible in Finland (Finanssiala, 2016). Documents have to be provided to the authorities of the bank for the processing of the application form. Finnish banks are very strict with regard to this matter. An ID card (issued by the Finnish government), passport, address, etc., are to be provided to the bank—submitting documents is absolutely necessary. Rules vary from bank to bank: take the example of Nordea bank, it desires that you specify the origin of your savings; a person unable to mention this fact will have no account in Nordea. OP bank, on the other hand, has a rule that the account holder wishing to deposit cash in his account must elucidate how he got the money in the first place, same is the issue with Danske Bank (Finanssiala, 2016). While the author has mentioned some of the procedures and rules in the above paragraphs, the reader must note that these are only some of the few constraints placed on an individual wishing to hold an account in the bank. But suffice it to say that these specific examples clearly illustrate the difficulties one has to counter in order to avail the banking services of Finnish banks.

#### 4.3 Distress and Sufferings for Customers

With these many rules and regulations, the client inevitably suffers a lot; the regulation on the part of the authorities proves detrimental for the well-being of banks and customers in general (TransferWise, 2019). People who have to follow the tiresome procedure mentioned above have to waste their precious time, money and energy on this effort. Banks have a duty, too: they must employ the enormous amount of employees, buy different technological equipment, and then make sure that the potential customer they are serving is in line with the rules and regulations stipulated by the regulatory authorities or not (Kalmi, 2016). Because of this, most clients are not able to open and access their accounts—banks, on the other hand, lose many of their customers in this; at the same time, the costs imposed on banks are high, because they must employ many people to do the screening job.

Finland is a prosperous country, many people each year immigrate to her soil in order to upgrade their standard of living and well-being; numerous students, scholars, and professionals flock to this land for the purpose of enhancing their talent and knowledge along with their purse (Anon, 2019). But due to the tough regulation imposed on the financial sector by the Finnish authorities, the businesses along with the clients, small

share-holders, and immigrants face a difficult task of managing their affairs. According to one study, low-income earners and small businesses are more negatively affected by banking compliance than high-income earners or big, giant institutions (Goldman Sachs, 2019). Therefore, these regulations are not productive for the people of the middle-class bracket—the backbone of every country, the people government is supposed to be protecting through these rules and regulations.

From the author's personal experience, she has been facing some check-ups in banks if wanted to put cash to her account, they always been asking where the money come from even if it was a small amount. They got extremely surprised when the author told them that they are from the under the mattress (as a joke as many old fashioned people are still keeping their savings hidden in different places in their apartment). If her parents wanted to transfer her some money, they must have always explained their relations and specify the purpose of the money. Ridiculous questions the author got were from the Western Union, even If she has been sending money as a gift for her sister's birthday, she had to answer such questions as to when was the last time she saw her sister? Is it the first time sending her money? Does she know where the money is going to be spent? And so on. Even so, those questions sounded odd, now she can at least understand the purpose of those questions.

#### 4.3.1 Investigation via questions

Asking tough questions from banks has become an integral component of the Finnish bank compliance structure. This is done in order to screen the person making any transaction; the purpose of this act is to see whether the client has not obtained his money through illegal means. When a person wishes to deposit his money into his account, or he feels like giving a gift to his kith or kin via banking channels, the banks are bound to ask certain questions (Buch et al, 2010). Numerous questions are asked, then, regarding the desired transaction. Some clients are bound to record their statement through pen by writing. In many cases, the person wishing to deposit or transfer his money has to provide the evidence through receipts or any other documentary evidence, in order to show that he has not obtained his money through illicit means. (Finanssiala, 2019) This is extremely derogatory—this psychologically produces a feeling inside the client that he is being asked questions that a potential criminal or corrupt person is asked (Jonung et al, 2009). No one wants to be scrutinized like a crook. This has a damaging

effect on the customer's mentality. This is all part of customer due diligence (CDD) and know your customer (KYC).

All this is done in order to curb illegal functions damaging the society. Politicians or people of authority—who are suspected of nepotism or corruption; or who, as a matter of fact, are genuinely corrupt—usually transfer their (illegally obtained) wealth abroad in any distant land of their choice. Their purpose is to hide the money which they have obtained by delivering their illegitimate services. These people are called Politically Exposed Persons. The measures of the numerous banks, discussed above, are due to these people—since these corrupt individuals are in a position of power, they seldom associate their black money on their name. They usually use someone else for transferring the money (Buch et al, 2010). Therefore, regulatory authorities impose certain rules on banks to make sure whether the money obtained by the banks is rightfully the property of the individual doing the transaction or not. But, is this fruitful; is regulation of this kind stopping or mitigating the activities of Politically Exposed individuals?

#### 4.4 Politically Exposed persons - least affected

The policymakers need to understand that the people involved in corrupt practices and having authority does not behave and operate like ordinary persons with a limited network who go to the bank to deposit their money (Choo, 2010). People wishing to transfer their black money in a bank employ professional people to guide them—these people do not go directly to the bank to transfer their money (Rossi et al, 2012). They find loopholes; employ people who know the financial system. The enormous amount of money these people derive through their trickery is employed to find professionals who, also, work underground. They channel their money in a bank account through clever and subtle schemes. When the bank asks questions, or when it desires documents or evidence, these people will be the least to be bothered by such regulation—they have people who train them to pass through all these hurdles swiftly without any difficulty (Schiffer, 2011). Therefore, it is fair to conclude that the people least suffering from these regulations are Politically Exposed persons. Most of the times, the common, and ordinary individual bears the brunt of the enormous amount of rules and regulations.

## 5 Conclusion

By conducting the review through the published articles and journals the current situation of the Finnish banking sectors is analyzed and understood through the findings that significantly identify the challenges that the customers face due to compliance and due diligence. It has been summarised that the excessive transfer of money from one country to another has greatly exploited the economies and the procedure of the financial sectors. The current situation of the banking sectors for the local and foreign citizen in the different part of Finland highly troublesome as they are facing genuine challenges in making a banking transaction. These regulations are due to the global trend of the money laundering and to promote clean money transactions. These regulations are issued by the “Financial Supervisory Authority” and the federation of the financial sectors in Finland to identify the possible risks and vulnerabilities. The related organizations regulate and implement laws and regulations in order to conduct ethical banking services and offer better facilities to domestic and foreign customers. These regulations and laws are highly strict in the region of Finland as it helps to control financial crime causing a great obstacle to ordinary customers. As a result of the instruction from The Finnish government banks thoroughly investigate the background of the customers and grant a fine or terminating license for obtaining the banking services in Finland if the required procedures are not fulfilled. The services of “know your customers” is eligible for the establishment of the stabled banking services and offer the potential services for the foreigners and the domestic population. However, the banking sector in Finland is said to be the strictest and potential system for opening account as well as for the transaction of money from one country to another The due diligence and the regulation of the financial sector required for establishing the customer relationship and the efficient movement of money all around the country, hence improving the economy and stable governance. The documentation for the customer relationship is maintained to manage the banking sectors and its employees to regulate the clean transfer of money and prevent the process of money laundering. With the increase in the rate of globalization the risk of money and its management is increasing as the money laundering is one of the known trends in the past few years. The Risk management department carries out the surveillance and makes aware the employees about the situation and sensitivity of money transactions. The risk management is estimated according to the financing, investment, and basic banking services in order to avoid any illegal activities. The results and findings of the research provide a sufficient understanding of the banking and financial sectors that promote the customer's oriented due diligence.

Businesses and everything and everyone associated with the financial sector is extremely affected by regulation on the part of the governmental agencies. Societies throughout the ages have seen downfall when the governments have tried to push too hard on commerce. One cannot neglect that the burden imposed on businesses is directly shifted to the common, ordinary man who has no savior other than his talents. The lessening of regulations—the verdict of history is crystal clear on this subject—results in economic prosperity. Reduction of rules and regulations ensures the smooth functioning of financial assets and resources at the disposal of people. People see a sharp increment in their standard of living; in short, this is the path governments must embrace if they are to lessen misery and increase happiness at the same time. Finland is part of this world. The laws of finance and human behavior regulating other societies are present in her soil as well. If Finland is going to continue these policies - mentioned and debated upon throughout this research - then it will suffer from many problems. Finland is a destination of many people who are seeking education, home, and job. If the regulations of this country are going to hinder people from freely conducting their business, then the Finland economy is going to see a decline in its capital. Regulations end up slowing business activities; customers become impatient due to the bureaucratic hurdles which they have to face; and, as a result, everyone suffers, enormously. Therefore, it is in the interest of Finnish society - and the world in general - to pursue a more business-friendly policy. This can only happen once the leadership decides to cut regulation and leave businesses to operate themselves as they wish without being dictated like a child by the regulatory authorities.



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