

Anti-Money Laundering wake-up call: key takeaways from recent FCA fines

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Introduction

Recent Financial Conduct Authority (FCA) fines against major UK banks including Barclays, Monzo, Starling and Metro, highlight that persistent shortcomings in the sector's Anti-Money Laundering (AML) controls remain. From inadequate Customer Due Diligence (CDD) at onboarding, to flawed Enhanced Due Diligence (EDD) and inconsistent transaction monitoring, these failures reveal systemic issues that firms need to show they are addressing if they want to avoid the scrutiny of the regulator.

Deficient CDD and CRA Processes and Practices

A recurring pattern in FCA decisions was evidence of inadequate CDD being carried out at onboarding and throughout client relationships. In both the Barclays and Monzo decisions the regulator found a failure to obtain sufficient information on the nature of business, purpose of account, and source of wealth/funds (SoW/SoF). Insufficient customer risk assessments (CRAs) meant that banks produced inaccurate risk ratings. In Monzo's case, there was also a failure to verify the addresses of its clients as well as the identity of all beneficial owners.

Inadequate CDD is an area of weakness we often see at Pathlight when conducting Skilled Person reviews, with nearly all reviews having findings of this nature to varying degrees of severity. Worryingly in just under 40% of cases we would describe those findings as material.

In our experience, the most common fundamental weakness is that CRAs have been developed that are not reflective of the firm's business or that do not cover all necessary AML risk factors, as well as CRAs that are simply not completed properly. Firms also struggle with a lack of visibility and awareness of the Ultimate Beneficial Owners (UBOs) and/or Persons of Significant Control (PSCs) of end clients. In addition, we regularly see infrequent (or even non-existent) periodic reviews of customer files (including CRAs), meaning that the information held is out of date.

Deficient EDD Processes and Practices

Another related finding common to both Monzo and Starling cases was deficient Enhanced Due Diligence (EDD) processes. Both banks failed to apply EDD even when circumstances indicated higher risk customers. For Monzo, this also included absence of a clear internal definition of a Politically Exposed Person (PEP) and inadequate processes to identify PEPs. This resulted in PEPs transacting while due diligence was ongoing or with backlogs in PEP red flag assessments.

Findings on deficiencies in completion of EDD have been a constant in the reviews we have undertaken in the last 5 years, in particular within the Fintech sector. In reviews for firms where EDD is required due to customer risk exposure, we have found material issues in around 50% of reviews. Some firms cited that EDD had not been completed as the extra time and work required erodes competitive advantage.

A common issue for EDD practices is inadequate design and completion of firms' CRA producing inaccurate ratings. This has led to end customers being underrated (and therefore erroneously not having EDD applied) and in some cases overrated (leading to unnecessary work).



More generally though, we have seen cases where EDD has been insufficiently applied, has been waived without robust supporting rationale or has not been conducted at all.

Weaknesses in Transaction Monitoring

A final point noted in the Metro, Monzo and Barclays cases is weaknesses in transaction monitoring. The FCA's findings for Barclays and Monzo included the banks' failure to conduct appropriate ongoing monitoring and scrutinise whether transactions were consistent with customer profiles. In Metro Bank's notice, the deficiencies were related to automated systems used for transaction monitoring.

In our experience, transaction monitoring is a mixed picture. Most firms have processes in place or are establishing processes, however, we have seen some firms with no transaction monitoring in place. In some cases, firms were starting to use AI to help with analysis and identification of patterns. A regular area of weakness related to transaction monitoring is the inadequate application of discounting or escalation procedures, resulting in the wrong or inconsistent decisions being made.

The FCA's repeated fines underscore that many banks are still struggling to embed robust AML frameworks that meet regulatory expectations. Whether due to poor risk assessments, insufficient oversight of beneficial ownership, or ineffective monitoring systems, these lapses pose serious reputational and operational risks. As regulatory scrutiny intensifies, firms must move beyond reactive fixes and invest in sustainable compliance strategies if they are to avoid future penalties.