

# THE BUSINESS TIMES

## Clamping down on money laundering

A practitioner's approach is needed to sniff out and foil bad actors.

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IN SEPTEMBER this year, the CEO of Danske Bank resigned from his post after a report revealed that up to US\$230 billion may have been laundered through its Estonia branch over a nine-year period. In that worst-case scenario, the Danske scandal would rank as potentially the largest case of systemised money laundering in history.

With criminals becoming ever more sophisticated at finding cracks in the financial system to launder dirty money, a practitioner's approach is essential to sniff out bad actors.

Money laundering is not a new occurrence nor is it confined to obscure, far flung geographies; it is a ubiquitous, global problem. And it is occurring at a relentless frequency. Asia is familiar with the issue. According to the Joint Financial Intelligence Unit, financial institutions in Hong Kong reported 92,115 suspect transactions in 2017.

Meanwhile, Malaysia's (now ex-) prime minister of nine years, Najib Razak, faces charges that could send him to jail for life, after US\$4.5 billion was alleged to have gone missing from the state investment fund, 1MDB. Over the last 18 months in Singapore, the Monetary Authority of Singapore (MAS) has handed out fines to Standard Chartered and United Overseas Bank for breaches of anti-money laundering laws.

## **LACK OF COORDINATION**

The European Union has been at the forefront of the fight against anti-money laundering, but recent scandals at institutions within the bloc's jurisdiction have exposed a lack of coordination in tackling the issue.

Dirty money is always looking to exploit weak links, and the fragmented implementation of central EU laws and regulation has been a gift for criminals. They have quickly seen through the differences in both the pace and substance of implementation in member states.

Similarly, in Asia the 1MDB scandal has raised serious questions around the level of regional regulatory capacity, resourcing and timely coordination needed to be effective in combating sophisticated and determined bad actors. The nefarious and murky transactions at the heart of this scandal appear to have relied on a traditional money laundering playbook: exploiting regulatory coordination gaps across multiple jurisdictions to gain opaque advantage.

## **NEW THREATS - CYBER AND CRYPTO**

As technologies have evolved, so have the means by which criminals have manipulated them to their benefit. Jerome Powell, chairman of the US Federal Reserve, recently told Congress that "cryptocurrencies are great if you're trying to hide or launder money", while a recent report found that theft of cryptocurrencies through hacking of exchanges and trading platforms soared to US\$927 million in the first nine months of 2018.

Singapore has been closely studying the threat that money laundering through cryptocurrencies poses, and last year the MAS imposed requirements on intermediaries that buy, sell or exchange virtual currencies as part of their public consultation on the new Payment Services Bill. Meanwhile, the European Union has also this year issued regulations focusing on cryptocurrency platforms.

Earlier this year, the MAS published extensive guidelines for banks on how to effectively implement anti-money laundering controls. After inspecting banks in Singapore over a period of 18 months, the guidelines outline the four key elements in effective transaction monitoring, including: a well-calibrated and regularly reviewed framework; robust risk awareness executed by competent and well-trained staff; meaningful integration implemented across three lines of defence (frontline staff, compliance, independent auditors), and active oversight by the board and senior management.

On a regional level, the Asia Pacific Group on Money Laundering has grown to 41 active members since its inception in 1997, coordinating programmes, issuing policies and governance standards, and interacting with supranational bodies such as the Asian Development Bank, International Monetary Fund, World Bank and the United Nations.

Further afield, the European Union released in June this year its fifth Anti-Money Laundering Directive (AMLD 5), that will have to be implemented into member states' national law by 2020. AMLD 5 is a wide-ranging initiative, including the aforementioned portion on cryptocurrencies, but also expands to: traders of art at values over 10,000 euros; monitoring transactions from high risk territories and politically exposed persons; creating easier access to the central transparency register; simpler monitoring through Financial Intelligence Units, and limiting the issuance on non-rechargeable prepaid cards to 150 euros (\$235).

However, despite these efforts being made by regulators, we still regularly see banks suffering money laundering breaches and policy failures.

There are many reasons for this: increased globalisation continues to bring the benefits of increased market depth and liquidity, but it also brings new laundering opportunities with those new flows.

In Asia, large cross-border infrastructure projects, such as the "Belt and Road" initiative, necessarily involve vast numbers of private/public sector interactions that are replete with money laundering and corruption vulnerabilities.

And as for technology, huge advances lubricate innovation and market change, but they also oil the tech wheels of bad actor vehicles.

Banks are filled to the brim with controls, policies and procedures, but many times driven by belated regulatory reactions to past failures. These regulatory imperatives end up locking precious banking compliance resources in a morale-destroying cycle of having to constantly fasten new stable doors to empty barns.

This leaves too little time and too few resources to focus on the meaningful pre-emptive action needed to secure the stable doors before the next horses bolt, not after the fact.

## **PLEASING NO ONE**

Everyone ends up unhappy. Boards and business leaders become incredibly frustrated with the "cost of compliance", seemingly having to constantly pump more and more expense into a profit-killing black hole.

They cry for metrics to measure the return on this investment and frequently are met with what they see as defensive and opaque explanations. Compliance for its part feels under-appreciated, under-resourced and under attack. And so the cycle perpetuates.

Budgets continue to tighten, with new technology investment sucking up any available precious funds. As one senior business manager put it to me recently: "I thought AI was the answer, now it turns out they need more compliance staff to implement the AI, and the regulator has started raising a whole bunch of new questions. I feel like the business just can't win".

And the public doesn't win either.

Rather than drowning second-line staff with forms and procedures and promoting a "tick-box" approach, effective anti-money laundering requires knowing a client's motive, their history and reputation, knowing their real objectives and digging into the substance hidden within the paper trail.

This is where experience is key. To address the increased threats posed by money launderers in the financial system, companies need to keep a focus on the importance of having experienced subject matter experts with proven, real-life, practitioner's experience.

When the financial world is absolutely abuzz with the seductive whizz-bang of new tech, while simultaneously drowning in compliance policies and forms, it pays to stand back and remind ourselves that the public interest objective is always the ultimate driver of the oversight process. We must never let the compliance process itself become the objective.

Preventing bad actors from abusing essential financial systems needs experienced practitioners who can look through the policy labyrinth, past the maze of forms and tick boxes, and who are able to leverage technology to support intelligence, not over-rely on technology as a substitute for professional judgment.

More than ever, we need practitioners who can keep their eyes firmly on the big picture objective: our shared public interest in a clean banking system.

- **The writer is chief executive officer of Temple Grange Partners. He was formerly global chief central compliance officer at Credit Suisse (2010-2016).**