

Zeti Akhtar Aziz: Welcoming remarks to the Asia/Pacific Group on Money Laundering

Remarks by Dr Zeti Akhtar Aziz, Governor of the Bank Negara Malaysia, to the Asia/Pacific Group on Money Laundering's 4th Annual Meeting, Kuala Lumpur, 22 May 2001.

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Yang Berhormat Tun,
Distinguished Guests,
Ladies and Gentlemen,

I am pleased to welcome you to the 4th Annual Meeting of the Asia/Pacific Group on Money Laundering. Let me also welcome our distinguished delegates from abroad to our country. I hope that you will also have the time to experience Malaysia while you are here. It is indeed an honour for Malaysia in partnership with the Asia/Pacific Group on Money Laundering, to host this Meeting.

The APG, the Asia/Pacific Group on Money Laundering was established in 1997 at the Fourth Asia/Pacific Money Laundering Symposium in Bangkok and is based in Sydney, Australia. Malaysia and Australia are the current co-chairs of the APG. The APG consists of 19 members and, I understand, will be welcoming 3 new members into its fold at this Meeting. The APG also has several 'observer' jurisdictions. Malaysia became an APG member a year ago in May 2000 and has since participated in the APG as co-chair and now as host to this Meeting. It reflects our commitment to the efforts in fighting money laundering in Malaysia and in the region.

The FATF, the Financial Action Task Force on Money Laundering was founded in 1989 by the G7 countries and today consists mainly of OECD members. The APG is one of the FATF regional groups and its work is underpinned by the 40 Recommendations of the FATF, which has become the internationally accepted standards against money laundering. Malaysia, as well as all other APG members, have made a commitment to implement legislation and other measures based on the 40 FATF Recommendations. The APG's primary purpose therefore is to provide a regional focus for co-operation against money laundering, especially in the implementation of the 40 FATF Recommendations in the legal, financial and law enforcement sectors.

This Meeting brings together official representatives from government, finance and the private sectors providing a platform for discussion and co-operation. The Meeting is important as it brings about a better understanding of, and action against, money laundering and promotes the establishment of extensive and useful working relationships among countries in the Asia/Pacific region. The event is designed to support members in their efforts to prevent and deter money laundering and provides an opportunity to discuss the practical issues associated with the implementation of money laundering measures while taking into account each member's own particular economic, social and political characteristics. The Meeting will also review work done and set a course for future regional co-operation and progress against money laundering.

Malaysia recognises that it is important to have a co-ordinated national effort in the fight against money laundering and realises that this fight requires a multi-disciplinary approach. For this purpose, the National Co-ordination Committee to Counter Money Laundering was set up involving 13 ministries and government agencies as its members. The NCC provides a forum for co-ordinating national anti-money laundering strategies and policies in Malaysia. It is responsible for developing national policies and measures to counter money laundering and co-ordinates Malaysia's responses to international initiatives against money laundering.

The members of the NCC who are present here this morning have also provided their support in moving forward Malaysia's effort in enacting the anti-money laundering legislation that criminalizes money laundering. However, enacting the Anti-Money Laundering Bill 2001 is only the first step, albeit a very important step. The Central Bank of Malaysia, as the lead agency of NCC, looks forward to working closely with the ministries and agencies through the NCC to ensure the success of the national anti-money laundering strategies. In this respect, I am pleased to inform the Meeting that the

Bank Negara Malaysia has been part of the process spearheading the formulation and enactment of the Anti-Money Laundering Bill 2001 that was recently passed by the Parliament.

Let me now turn to the banking system, which has long since been the focal point of money launderers. In the initial stage of money laundering, the criminal and the money launderer will need to place their ill-gotten gains into the financial system to legitimise the funds. Thus, these illicit funds are introduced into the financial system. After these funds have entered the financial system, the second stage typically involves a series of transactions to distance the funds from their illegal source and to disguise their origin as being from criminal activity.

The Central Bank is committed to ensure that the integrity of the Malaysian financial system is not in any way compromised by these criminal activities. In this connection, the Central Bank has introduced a number of initiatives to counter money laundering including, the "Know Your Customer" Guidelines which was issued in June 1989 and revised in December 1993 in compliance with the FATF's 40 Recommendations through the requirement of customer identification and verification, financial record keeping and mandatory reporting of suspicious activity. The Guidelines were issued to prevent banking institutions from being used as a conduit for money laundering. It requires banking institutions to determine the true identity of customers opening accounts and to develop a "transaction profile" of each customer and setting document retention policies with the objective of identifying unusual or suspicious transactions. Banking institutions are also required to identify a single reference point within their organisation to which unusual or suspicious transactions can be reported promptly. Banking institutions are also required to report to the Central Bank all cases of unusual or suspicious transactions that they have knowledge of, irrespective of the amount.

In addition, the central bank's *Minimum Guidelines on the Provision of Internet Banking Services*, which was issued in May 2000, requires banking institutions to have face-to-face interaction with customers prior to the opening of accounts or the extension of credit. Banking institutions are also required to establish appropriate measures to identify customers reached over third party websites and the customer verification process as stringent as that for face-to-face customers. In providing Internet banking services, banking institutions are also required to implement monitoring and reporting mechanisms to identify potential money laundering activities. This enables the Central Bank to ensure that the banking industry, while keeping abreast with developments in ICT, that is, information, communications and technology, would maintain the integrity of the financial system and prevent it from being abused by the money launderers.

On 25 April 2001, the Central Bank also issued "Guidelines on Anti-Money Laundering Measures for the Insurance Industry". These Guidelines require insurance intermediaries to put in place controls to counter money laundering in accordance with the concept of due diligence which requires the verification of the identity of their customers, keeping of records, recognition and reporting of suspicious customers or transactions.

With the enactment of the Anti Money Laundering Bill 2001, the reporting requirements and obligations in the Guidelines would have the force of law. In addition, financial institutions have to put in place more stringent and efficient measures and mechanisms to fight against money laundering. These obligations are not new as the banking institutions are already complying with them. To complement these obligations, the new law has also provided these institutions protection from any action taken against them for reporting the activities of money launderers.

Rapid developments in the financial system and globalisation have made the world increasingly borderless. As countries implement countermeasures, criminals with their ill gotten gains and money launderers who disguise the criminal proceeds have developed new and more sophisticated methods for moving money around the globe. Money launderers are swift in probing the financial system for vulnerabilities and using their ingenuity to devise new methods to circumvent the system and adapt their methods to exploit these vulnerabilities. It is, therefore, imperative that the banking industry be vigilant to ensure that all efforts of the money launderer are thwarted. While, we do not expect banking institutions to be detectives, there should be an awareness of the potential for money laundering activities and the need to report any suspicion of such activities. Banks have to ensure that they have sufficient controls to prevent their institution from being used by money launderers. The need to have rigorous processes in place to minimise any risk of banking institutions dealing, even unwittingly, with the proceeds of criminal activity cannot be over emphasised in order to protect against them against credit, reputational and other risks.

Offshore financial centers have been the focus of the international community as being vulnerable to being abused by money launderers. as you may be aware Malaysia has its own offshore financial

center the Labuan International Offshore Financial Centre. With regard to Labuan IOFC, the Labuan Offshore Financial Services Authority (LOFSA) will continuously assess and upgrade the legal and supervisory framework to ensure that it is on par with the latest international supervisory requirements. The relevant supervisory structures within LOFSA had been enhanced, particularly the compliance function, to preserve Labuan IOFC's image as a reputable offshore centre conducive for quality players and genuine players. In addition, LOFSA, being an NCC member would continue to promote Labuan IOFC's image as a well regulated and clean centre. This is reflected in the stringent policy of admitting only reputable and full-fledged players to Labuan. To demonstrate Labuan's commitment in fighting money-laundering activities, Labuan had volunteered to be assessed by the APG. The evaluation team comprising evaluators from the APG and the Offshore Group of Banking Supervisors (OGBS) has met with the respective ministries and government agencies and the Labuan offshore players. I understand that the report of the evaluation on Labuan would be tabled accordingly.

Although the focus of my remarks has been confined to the banking industry, money laundering, and the need for proper controls to prevent it, are not confined to banks. Virtually any financial service provider can be used as a vehicle. To effectively combat money laundering, the whole financial system has to be vigilant and work together.

The APG Secretariat and members of the NCC have worked together with the Secretariat of the Central Bank in organizing this Meeting and for this, I would like to take this opportunity to express our sincere appreciation for their contribution, time and effort in making this Meeting a success.

Last but not least, I would like to thank Yang Berhormat Tun Daim Zainuddin for having so graciously accepting to deliver the keynote address on this occasion at the fourth annual meeting of the Asia Pacific Group on Money Laundering.

On that note, I wish you meaningful discussions over the next three days.