

Nor Shamsiah Mohd Yunus: Raising the bar in compliance and enforcement

Opening address by Ms Nor Shamsiah Mohd Yunus, Deputy Governor of the Central Bank of Malaysia, at the International Conference on Financial Crime and Terrorism Financing (IFCTF) 2011 – “Raising the Bar in Compliance and Enforcement”, Kuala Lumpur, 19 September 2011.

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It is my pleasure to wish all of you a warm welcome to this Third Annual International Conference on Financial Crime and Terrorism Financing. We are indeed privileged today to have the presence of Yang Berhormat Dato' Seri Hishammuddin Tun Hussein, Minister of Home Affairs of Malaysia, who has kindly agreed to deliver the keynote address, and officiate the opening of this conference. His presence reflects the significance placed by the Government of Malaysia on the roles and contributions of the financial sector in supporting the national agenda to combat and reduce crime, particularly economic and financial crime as well as terrorist financing, which is crucial in maintaining the integrity and stability of our financial system. On behalf of the financial sector, I wish to extend our gratitude to Yang Berhormat Dato' Seri for gracing today's event.

I also am heartened by the continuous and encouraging participation of the private and public sectors in this conference. Now in its third year, this conference has become a hallmark event that brings together various stakeholders in Malaysia and from abroad, to discuss issues relating to financial crimes and terrorist financing. In addition, this conference continues to receive support from, and participation of, renowned international experts and our regional counterparts. I bid you a warm welcome to Malaysia, and would like to take this opportunity to extend our appreciation for your support and contributions.

Allow me to also to congratulate the organiser of this event, the Compliance Officers Networking Group of Malaysia (CONG) and the collaborating partners, namely the Institute of Bankers Malaysia, the Securities Industry Development Corporation, the Malaysian Insurance Institute, Islamic Banking and Finance Institute Malaysia (IBFIM) and the Asian Institute of Finance for successfully putting this event together. I have been made to understand that for the first time, this conference has also received support from the academia, with the participation of Universiti Teknologi MARA as a collaborating partner.

Financial crime continues to evolve in modus operandi, multiply in scale and complexity, and hence, the greater the potential harm they can inflict on the smooth functioning of the financial markets and payment systems, financial sector stability and economic development globally. As an unintended consequence of enhanced access to financial services and greater mobility of funds, facilitated by increased globalisation, technological advancements and ongoing efforts to promote financial sector development and financial inclusion, the opportunity and attractiveness for criminal elements to abuse the financial sector, and use it as a conduit to move illicit funds, and to disguise criminal activities, have increased. The International Monetary Fund or the IMF has estimated the amount of money laundered worldwide to be in the region of 2% to 5% of global GDP annually or equivalent to USD800 billion to USD2 trillion a year. Indeed, the financial community now regards financial crime such as fraud, money laundering and terrorist financing, including cyber terrorism and crime, as one of the top operational risks that they face.

While the direct cost of financial crimes to individual financial institutions may be substantial, it pales in comparison to the damage to the overall financial system that can arise from the failure to implement adequate measures to effectively combat financial crimes, in particular those relating to money laundering and terrorist financing. Such costs include reputational damage to the institution and country, loss of confidence of key stakeholders such as

depositors, investors and the public at large and perhaps more damaging, the loss of or restricted access to international financial system, including correspondent banking relationships. With the increasing trend by supranational bodies to publicly name jurisdictions that are seen to be uncooperative, and to call on their respective members and the broader international community to implement appropriate countermeasures in dealing with institutions and entities from these jurisdictions, the implications, both financially and socially, can be devastating to the countries concerned.

Over the years, the risk areas and thus the scope of regulations to prevent the use of the financial system as a conduit for illegal and other undesirable activities that can pose threats to global security have also increased. From money laundering to terrorist financing, the regulations and standards are being extended to comprehensively address new and emerging threats. This is evident in the ongoing review of the Financial Action Task Force (FATF) 40+9 Recommendations, where among others, several policy goals and initiatives for combating corruption, and addressing proliferation financing more effectively, are being thoroughly discussed and deliberated. A major development in the review of the standards, that is relevant to the industry, is the higher emphasis that will be placed on assessing the effectiveness of measures implemented to counter the risks of money laundering and terrorist financing, rather than merely looking at technical compliance.

This is indeed very relevant to the theme of this year's conference "Raising the Bar in Compliance and Enforcement". As Malaysia's AML/CFT regime grows in maturity, the benchmark for compliance by financial institutions will be measured more in terms of its effectiveness in deterring and preventing financial crimes before they occur, and in effectively supporting the relevant law enforcement agencies to bring the perpetrators to justice when such crimes happen, despite our best efforts. In this regard, I urge the industry to take advantage of the knowledge and experience of the panel of experts assembled here at this conference, to better understand and prepare for the implications of the review of the FATF 40+9 Recommendations, and the expectations on financial institutions and boards of directors moving forward.

For Bank Negara Malaysia, the enhancement to the nation's infrastructure to combat financial crimes will remain as one of our key priorities. In this regard, our role as Malaysia's primary financial regulator will continue to focus three broad areas. The first is to deter and prevent criminals from abusing the financial system to be the conduit for illegal activities by ensuring the continued effectiveness of Malaysia's legal and other relevant infrastructure, systems and processes in combating financial crimes. Secondly, is to ensure all financial institutions continue to strengthen their defences against such threats and risks via our regulatory policies as well as risk-based supervisory and surveillance activities; and thirdly, to strengthen collaboration between the financial industry with other domestic and international stakeholders in AML/CFT initiatives to protect the integrity and stability of our financial system, including implementing capacity building programmes, such as this Conference.

While the financial sector has, over the years, strengthened its risk management and control functions to combat financial crimes, a higher degree of emphasis and attention by senior management and the Board, on issues relating to AML/CFT, can further improve the standards of compliance and the effectiveness of measures put in place to fight against money laundering and terrorist financing. We also observed that financial institutions exhibiting effective defences against financial crimes shared four common attributes in their AML/CFT framework. These are: (i) well developed and clearly articulated policies and procedures; (ii) effective governance structure, particularly on the compliance function; (iii) incorporation of AML/CFT compliance assessments in the audit and capacity development programmes; and (iv) increased and effective use of information technology and management information systems for AML/CFT risk monitoring and management. therefore, talent development in this area is becoming increasingly critical. A well trained workforce is a valuable asset that would contribute to the implementation of an effective compliance framework with impactful results. This can be achieved through the formulation

of structured and coordinated capacity development programmes aimed at elevating the level of technical skills, leadership and professionalism.

On this note, Bank Negara Malaysia lauds the initiative by the financial sector in formulating the AML/CFT Certification Programme for compliance officers that will be launched during this conference.

This conference and indeed the theme “Raising the Bar in Compliance and Enforcement” is very timely and relevant. It is our hope this and other similar platforms will foster greater collaboration and sharing of ideas among the industry, compliance practitioners, regulators, law enforcement agencies and other relevant stakeholders and further contribute towards the enhancement of our framework and initiatives to combat financial crimes and preserve our financial and macro-economic stability. With that, I wish to thank you for your kind attention and wish you a productive conference.