

## **Ajith Nivard Cabraal: Protecting financial systems from money laundering and terrorist financing activities**

Keynote address by Mr Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka, at the World Bank Workshop on Capacity Enhancement for Anti Money Laundering and Combating the Financing of Terrorism, Colombo, 7-11 May 2007.

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Ladies & Gentlemen,

Let me welcome you to the inaugural ceremony of this Capacity Enhancement workshop and extend to all overseas participants and representatives a very warm welcome to our country.

I am also happy to be able today to share a few thoughts with you about the need to ensure the integrity of worldwide financial systems by protecting such systems from money laundering and terrorist financing activities.

This is a challenging task as advancements in technology, especially in the financial services industry, have made it easier for criminals including terrorists to take advantage of liberalized financial markets, innovative technologies and the ease with which cross-border flows of financial transactions can take place.

One of the most recent incidents in this regard is the sophistication with which, internationally active Tamil Tiger Terrorists have successfully perpetrated a massive credit card fraud in London costing the British public, according to reports, about 100 million Sterling Pounds by skimming credit cards belonging to the British public. Skimming has been a common technique used to raise funds for terrorists in Algeria, Kashmir and Chechnya, and now it is clear that it is being extensively practiced in the Western world too.

The modus operandi in this case was said to be the "cloning" of credit cards skimmed at petrol sheds in various parts of England by the Liberation Tigers of Tamil Eelam (LTTE) to fund its terrorist activities in Sri Lanka. It has been reported that about 200 independently owned petrol stations are said to be currently investigated where LTTE terrorists operating under the guise of petrol shed staff have been involved. The investigations have also apparently revealed that the Credit Cards cloned in Britain have been used to obtain funds in Thailand, and some other far off parts of the world. In that context, what is important to note here is that such criminal activities could very well be happening in our own countries too, and we may be inadvertently funding terrorism ourselves.

It is therefore clear that we have all got to be vigilant to ensure that these as well as other fund raising and laundering modalities are not adopted in our respective countries and to institute immediate and effective safeguards to combat them.

My dear friends, this massive fraud in England also demonstrates very strongly that Terrorists and Terrorism are not a threat only to the country where the actual terror is unleashed but, indeed, to every other peoples, countries and economies as well. So, it is imperative that we treat terrorists, their allies, sympathizers, and associates, with the same yard stick, and not get fooled by some of the sugar coated pills in which blatant and horrendous acts of terrorism are sometimes cleverly packaged and presented.

What are the other manifestation of these organized funding schemes?

We, in the South Asian Region, are conscious of the unofficial banking systems that operate, like the Hawala and Hundi, which pose a serious threat to our efforts to close the avenues available to money launderers and terrorists. These underground banking services provide the ideal framework and the means for laundering of money and financing terrorism. It has just been reported that the Indian Income Tax Department early this year, busted a money-laundering racket during a routine investigation into Hawala transactions. From the information unearthed so far, they have discovered that Transworld ICT was only a front for a huge money laundering scam. In this scam, a certain Delhi-based businessman, is said to have, by himself, remitted US \$ 1.4 billion between January and July 2006 "as proceeds of software business" through Transworld ICT Solutions, which essentially worked as an illegal clearing house.

We are of course, mindful of the efforts of the international standardsetters and watchdogs, to deal with these situations. They work tirelessly to review and recommend the preventive measures needed to be taken in this regard. They attempt to harmonize legislation and the regulatory tools which become imperatives, worldwide, against financial crime and terrorist financing.

At the same time, let us not forget that terrorists too, learn from each other. Sometimes the learning and co-operation may be direct. At other times, it could be indirect. Perhaps they too, have workshops like what we are having today. On 31st January 1996, Tamil terrorist suicide cadres drove a 500 kg. explosive laden commercial truck into the Central Bank of Sri Lanka building. About 5 ½ years later, on 11th September 2001, Al Qaeda terrorist suicide cadres piloted 2 jet fuel laden commercial air crafts into the WTC Twin Towers in New York. The scale and the means employed may have been different, in the two instances. But the method was similar. So, let us remember that terrorists and terrorist financiers will also surely learn from each other and wreck havoc in our respective societies, and they too, must be, obviously trying their best to be ahead of us.

Regulators need, therefore, to be constantly abreast of these methods, if not be ahead of them. We need to equip ourselves for this purpose by enhancing our capacity and processes to effectively meet the challenges of terrorism and terrorism financing.

I am happy to say that Sri Lanka has made considerable headway in this regard. In the years 2005 and 2006 three key laws were enacted, namely, The Convention on the Suppression of Terrorist Financing Act, The Prevention of Money Laundering Act, and the Financial Transactions Reporting Act. The FTR Act created the institutional body of the FIU within the Central Bank, with regulatory powers and a mandate, inter alia, to formulate policies and guidelines to meet the Financial Action Task Force (FATF) 40 + 9 recommendations.

The enactment of the necessary AML/CFT legislation in Sri Lanka, early last year and the establishment of the Financial Intelligence Unit soon after, demonstrates Sri Lanka's strong commitment to the global efforts to fight financial crime and terrorism. Naturally, therefore, in this effort, the areas of vulnerability have been identified and adequate measures taken to deal effectively with the weaknesses. The stakeholders also need to be adequately equipped to discharge their responsibilities effectively. We therefore, see today's effort at building capacity and processes, as one of the most important pre-requisites for the implementation of an effective AML/CFT regime, and we commend the World Bank and all others who are involved in this endeavour.

My dear friends, Sri Lanka has been ever mindful of its obligations in this regard and has been a pioneer in this field. Long before the advent of the AML and CFT legislation, certain safeguards to insulate our financial system from money launderers and terrorists were in fact put in place by us. This was done through legislation such as the Exchange Control Act, the Banking Act and the Customs Ordinance. Adequate reporting requirements were also imposed to monitor large cross-border flows of currency. "Know-your-customer" guidelines were issued to the banks as far back as 2001.

However, the ever increasing sophistication with which criminals and terrorists operate globally have made our task to fight financial crime and terrorist financing even more daunting. In the final analysis, it is clear that, the financing of crime and terrorism is one of the most important dimensions of the physical violent acts unleashed by terrorists in the form of suicide bomb attacks, killing of innocent civilians, etc. This realization should confirm to us that very often we may be able to, through our collaborative efforts, prevent acts of terrorism by preventing the financing of crime and terrorism. If we can do that effectively, perhaps more than three fourths of the battle may be won. Without finances to equip themselves with sophisticated arms, intelligence, equipment, skills, machinery and techniques, terrorism will surely be on the wane. This then, is a fact that we must always be mindful of.

9/11 shocked the world. At the same time, it also united the world in its quest to defeat terrorism and eradicate financing of terrorism. Post 9/11, the whole world has renewed its battle against, this ever growing threat of terrorism. Until then, in a sad sort of a way, we in Sri Lanka, used to think that we were fighting this battle alone. But today, the many international conventions and the resultant resolutions that have taken place, post 9/11 to which we have all become signatories, consolidates our international obligations in the fight against terrorism. That indicates to us, that we are not alone in this struggle. In fact, today, we witness a closing of ranks amongst all the countries of the world to fight terrorism.

While these efforts are commendable, all of us would also have to grudgingly admit that, notwithstanding the enhanced global counter-measures, terrorism worldwide is still on the increase. According to a US report released recently, an increase of 29% has been recorded last year in

worldwide terror attacks, which have become even deadlier. As a result, global terrorism deaths have recorded a 40% increase last year. In Afghanistan alone which is represented here at this Forum, the number of terror attacks have almost doubled. The self destruction in the form of suicide bombers that Sri Lanka's Tamil terrorists launched in recent times, have now become commonplace in many parts of the world. Such incidents are almost a daily occurrence, making human life a cheap commodity as a means to an end in the armoury of terrorists.

In the meantime, the economic effects of terrorism in almost all our countries, is also becoming very challenging. In this regard, the recent air attacks by Tiger Terrorists may have opened a new chapter in the book of international terrorism. If unchecked, it may only be a matter of time, before terror groups in other parts of the world also emulate these dastardly attacks. It is therefore, vital that all countries quickly assist Sri Lanka to eradicate this threat, as otherwise, it may only be a matter of time, before this too becomes a new tool in the armoury of terrorists.

Today, combating terrorism cannot be considered the sole responsibility of single governments or of single sets of soldiers who fight at the front at the risk of their lives. We must all get involved in an international effort if we are to defeat this menace. In these efforts, financial institutions and all other corporate entities, especially, NGO's must also actively help prevent the funding and the flow of goods and services to terrorist organizations. We must all be wise to the type of trade we are engaged in, and be mindful of the impact it can have in facilitating terrorist activity. It therefore becomes imperative that any loopholes in banking which can be identified as facilitating the financing of terrorism and strict adherence to regulations to prevent such financing, receive the immediate attention of the regulatory institutions.

The aftermath of natural disasters also often provide happy hunting grounds for money launderers and terrorists. Sri Lanka's experience post-tsunami is ample testimony to this reality. Organisations and individuals emerged from nowhere after the Tsunami, with absolutely no track record of humanitarian work, to descend on us in the guise of humanitarian relief. In the critical circumstances of the aftermath of the tsunami, it was perhaps not possible for us to closely verify their bona fides. However, we are now much wiser about the humanitarian face of money launderers and terrorists. We now know that several terrorist front organizations have used the official banking channels to solicit and remit funding, on the grounds of humanitarian relief. A large inflow of funds also came through the official banking channels post-tsunami, which may not, in normal circumstances, have penetrated our banking system. I would therefore, urge all participants to endeavour to learn from these types of experiences, and, through an exchange of views in these experiences, enrich themselves with the necessary expertise to be able to impart to their counterparts, the techniques and the knowledge necessary to achieve our collective goals.

Finally, let me express my grateful thanks to the World Bank and to all of you, for your efforts to organize and equip each other to be a cohesive force in eradicating money laundering and the financing of terrorism in your respective countries.

I wish all of you a very fruitful learning experience and stimulating exchanges, and a very successful workshop.