

## **Ajith Nivard Cabraal: Money laundering and terrorism financing**

Speech by Mr Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka, at the Asia-Pacific Group on Money Laundering Typologies Workshop 2008, Colombo, 27 October 2008.

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His Lordship, the Chief Justice, Hon Sarath N Silva, the Attorney General, other distinguished guests from Sri Lanka as well as from abroad; my dear friends.

At the outset, I wish to extend to all of you a very warm welcome to this Asia Pacific Group Seminar on Money Laundering and Terrorism Financing. It is indeed a pleasure to see all of you here, from 34 different countries, and we hope that you will have a wonderful stay and take back happy memories of your period here; not only as far as the Conference is concerned, but also by experiencing our country.

Sri Lanka has been in the forefront of the worldwide efforts on the containment of money laundering and terrorism financing. We have been associated with this effort in a special way, not only to help the international effort, but also to fulfil our own local needs. That is why we are very pleased to see such a large gathering of experts on this subject who are getting together to develop ways and means by which this vexed problem could be dealt with. We are also particularly pleased to have with us, His Lordship the Chief Justice who has graced this occasion and by doing so has unambiguously displayed the commitment of Sri Lanka's judiciary to this massive effort. Our effort against money laundering and terrorist financing cannot be made by one or two persons only, or by one or two agencies only. It has to be a co-ordinated and concentrated effort that needs the support of a wide range of people, both nationally and internationally. In that context, Sri Lanka's commitment is clear to everyone, and we are particularly pleased to have you with us, the Honourable Chief Justice.

My dear friends, the fight against terrorism cannot only be on the military field or battle ground. In my view, the fight has to be on four different fronts simultaneously. Although it is vitally important, one cannot defeat terrorism by a military effort only. To successfully deal with terrorism, we need a diplomatic offensive also. Diplomatically, we need to ensure that cohesive steps are taken so that, together, countries can meet this challenge. At the same time, the fight has to be on the international media front as well. Therefore, a media campaign in all parts of the world against terrorism is also very important. That is something that the world has clearly recognized today, and internationally, we see a greater co-ordination in the media in dealing with terrorism. The other important front in this war against terror is the stopping of financing for terrorism. Without finance, terrorism cannot progress. So, steps taken by countries to ensure that the funding lines to terrorism and money laundering are cut off, that terror financing transactions are interrupted or stopped, and that there is worldwide co-operation to track down persons who are suspected of being involved in terror financing in whatever way, is of vital importance.

Just take a small example. If at the end of the month, you do not receive your salary, you will find it difficult to comfortably progress with your next month's activities. In the same way, if we can stop the funds going to terrorist activities, that will put a dampener on their activities. It is very simple to understand. Therefore, not only should we deal with terrorists on a military basis, but we should disrupt their progress by cutting off and interrupting their funding lines. By doing so, we complicate their agenda.

In order to do so, and to continue to do so, we have to equip ourselves. The judiciary, the law enforcement agencies, the regulators, the media, the bankers, the prosecutors, all of these groups, have to equip themselves with whatever it takes, to meet with this challenge. We have to learn from each other. We have already learnt many lessons during our own activities in this field. But, it is important that we share such knowledge and experience with others as well. If we do so, perhaps others too, could replicate some of those efforts which

have been proved to be successful. Hence, there is an urgent need for us to create the awareness. We also have to enact the necessary laws. Sri Lanka has already passed the necessary laws for this purpose: so have many other countries. That is very important. Because, without the legal framework and the legal backing, our efforts will not succeed. Then, we have to build our own capacities. We have to have people who are trained and competent to deal with these challenges. Because, unless you have the competence, and the ability to recognize certain disguised transactions, the ability to see through the clever facades, and the ability to anticipate the next move of the terror financiers or money launderers, we would not be able to progress. Therefore, we have to diligently follow rules and detection principles. That is why this kind of conference is very important.

My dear friends, we have to realize that money launderers and terrorist financiers are also smart. Your Lordship, they may also be having conferences of this nature, in their own way, to see how best they can be a step ahead of all of us, to ensure that they will be able to perform their own dastardly deeds more successfully. They will take advantage of calamities. On many occasions we have seen how that has worked. Earthquakes, droughts, civil strife, tsunamis, etc. can be useful breeding grounds for this kind of illegal financing efforts. These terror financiers make use of unsuspecting bankers as their partners. Although sometimes, certain bankers can be knowingly involved, on many occasions, they may even be unknowingly involved. Sometimes these money launderers and terrorists use informal systems. They by-pass the formal systems and have other parallel systems. I am sure that, in your deliberations you would be discussing these matters and considering as to how these can be addressed. If there is a parallel system, which is operating side by side with the formal system, they can make use of such systems to do what they want. They also disguise transactions. Certain transactions which are actually for laundering money or which are financing terrorism would not be obvious, as they may be cleverly concealed. The transactions will be packaged in such a way that unless you have a vigilant or trained eye, you would not be able to spot it. Very often, the illegal financiers will also pretend to be very respectable people in society, and indeed, may even be considered so by the world at large. They may come in the guise of social workers, philanthropists, community workers, aid workers, NGOs, etc. Therefore, we have to be alert. We have to be a few steps ahead. We have to have bankers, media, regulators, prosecutors and a judiciary who will keep abreast of the methods and the ruses that could be adopted by these unscrupulous people. We must also have regular updates. Because in the same way that we are monitoring developments, terrorists and money launderers too, would be having their regular updates. So, the clear message is; we have to be a step ahead. We have to work together. We need to share our informational abilities, as well as our systems, with each other so that we can really put together a concerted effort against money laundering and terrorism financing.

My dear friends, I have, with great interest, gone through your workshop session programme. I have seen that it is very comprehensive. The topics range from legal frameworks to issues relating to casinos and gambling. It covers crime investigations and prosecutions, and the vulnerabilities caused by security situations. Sometimes, terror financiers and money launderers use the security situation in a country to disguise transactions. I note that you will be considering case studies on terrorist financing and also focus on studies on "following the money", as well as consider the ways of "asset recovery". I remember many years ago, when I was studying accountancy, one of the basics that we were trained in, was how to follow through transactions to a finish. Then only, you see exactly how a transaction takes place. That is very important. I was also particularly pleased that you are building up your own capacities to follow through transactions and also have an overview of the methods of cooperation between the Financial Intelligence Units. Because, today, there are millions of cross border transactions taking place all the time, across boundaries. In such instances, we need to have a close co-operation between the FIUs in order to ensure that we are able to be ahead of those with criminal intent. Further, I was particularly impressed that all of you are hoping to have an action plan to be implemented thereafter.

My dear friends, it goes without saying that we need to come out strongly in our efforts to deal with all these matters. We have seen world economic frameworks being threatened, and being under tremendous pressure during the past one month or so. We have seen unprecedented chaos and turbulence. Nevertheless, we have been able to come through because of the diligent work that we have done. In our own country, there were times when we were encouraged to deregulate, deregulate and deregulate. Fortunately, we did not deregulate as much as we were advised to, by certain quarters. Because of that, we had a few fences around our economy; and those fences today are the important buffers that are protecting us when the unparalleled financial tsunami is hitting the entire world. When you have fences, it is difficult for outsiders to come in. At the same time, however, when an external disaster strikes, the fences come in handy, because the fences protect you. So, in a way, we have been protected by some of the safeguards that we had installed in our systems. Even when we opened out our economy, we were careful, and we opened out slowly. When we removed one fence, we put in a different defence in some other way in order to make sure that we are sheltered. Those protective steps are vital in all economies.

These then are the challenges that all of us are facing. All in all, we have to protect our own economies from within as well as from outside. Let us therefore, look forward to the next three days with enthusiasm, because I believe that what you are going to do over the next three days will help the economies of the world to sustain and defend themselves, so that we can all move forward with confidence.

Let me also wish you a happy Deepavali, and extend my warm wishes on the occasion of the festival of lights. It is an important festival in Sri Lanka and we are happy that you are here to celebrate the day with us. It is also a holiday. But yet, I am glad to see so many dignitaries here today. I am sure that that is because all of you believe that this Conference is such an important event. In particular, I wish to thank the Honourable Chief Justice, His Lordship Sarath N Silva, the Attorney General, Mr Priyasath Dep, the Secretary, Ministry of Justice, Mr Suhada Gamlath, the foreign dignitaries and our own Deputy Governors who have been very involved in this process. I also wish to thank our own FIU, which has been a tremendous source of strength to us to protect our own financial system. We hope that the next three days will give you an opportunity to enjoy Sri Lanka, as well as to learn more about money laundering and terror financing. I wish you a pleasant stay and a very useful and successful conference.

Thank you very much.