

Savenaca Narube: Protecting Fiji from money laundering

Closing remarks by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the National Anti-Money Laundering Conference, Suva, 18 February 2009.

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Introduction

I trust that you have found this day-long conference useful and informative. I was not able to be here for most of the day but I believe that you had a good day of discussion. The organizers have selected very relevant and interesting topics. The speakers have elaborated on a variety of issues on preventing money laundering.

I am told that this is the first conference of its kind on this important topic. Preventing money laundering must concern us all. We should therefore be aware that we have a role to play in fighting money laundering. It is not only government and law enforcement agencies that need to be concerned. The public sector, businesses, the private sector and yes, even ordinary citizens must play a role in combating money laundering. This conference to me is therefore a timely one. It brings all stakeholders together to discuss these issues. I would like to suggest to the FIU that we make this an annual conference.

Why do we need to fight money laundering? What are the consequences of not doing enough? We are an isolated small island in the big Pacific Ocean. Why should we be spending much needed resources to fight money laundering in Fiji? The Attorney General answered some of these questions this morning and you may have discussed these in the course of today. But let me share with you my thoughts on them.

I have just returned last night from a conference of central bankers on the global financial crisis. The crisis or particularly its depth and coverage have brought up some very fundamental questions like whether capitalism is sustainable and whether globalization is now under threat. Almost the entire world has embraced capitalism. The supporters of Karl Max's centrally controlled economy are very few and declining. As you know, in a capitalist society entrepreneurship and innovation thrive. They provide the engine of growth and drive profitability. Rewards are associated with risk taking. This is well and good. But we all know too that in real life there are those that use this capitalistic world to forge their illegal businesses. Criminals can be the most innovative and entrepreneurship people in the private sector.

Ladies and gentlemen, criminal activities are therefore part and parcel of private enterprise. They are a world wide reality. Criminals spread their operations far and wide. Globalization has provided the channel for these funds to flow freely around the globe. Technology has provided the locomotive for these to reach the remote parts of the globe. So while we may say or feel in Fiji that we do not need to worry too much about these activities, let me tell you today that the evidences show otherwise. Fiji is not immune. Recent arrests have surprised everyone that such sophisticated crimes can happen under our very noses.

We are part of the global village whether we like it or not. I believe that globalization is here to stay. Therefore, while the center of these international crimes is definitely not in Fiji, their ramifications will reach us. To be successful, the fight against crime must be a universal one. Like water which will find its way to the lowest possible level, criminal will find the easiest spot through which to operate or launder their illegal funds. Fiji must take its place in this crusade. We must join the global community in taking all necessary measures to make life difficult for these criminals.

The global financial system is now under immense stress. But it has evolved and matured particularly in the last 20 years and is now much harder today to hide criminally derived funds

then it was before that. Unfortunately, criminals are also rising to the occasion and changing money laundering methods and techniques to overcome these barriers.

That is exactly why we are here today at Fiji's first national anti-money laundering conference – ***To Protect Fiji from Money Laundering***. Public awareness is an important weapon in our battle. The FIU has been busy in undertaking this public awareness. Such conferences as this that bring everyone together in one room are extremely useful. I would like to acknowledge this and congratulate all of you for your participation. I thank the FIU for this initiative and the arrangements made for the conference.

Establishment of the FIU

The Financial Intelligence Unit is spearheading our fight against this crime. I would therefore like to say something briefly on the establishment and the current arrangement of the FIU.

For many years the Reserve Bank of Fiji has been following the progress in the international efforts to fight money laundering. It was quite obvious that every country was being asked to take the necessary measures to prevent money laundering and terrorist financing. We convinced government that Fiji also needed to do the same.

As the custodian of the financial system, it was quite obvious to me that the Reserve Bank will need to spearhead the work on anti money laundering which we did. The FIU was then temporarily set up in the Reserve Bank as we developed the legislation. We carried the FIU for some time until it was formally established by law in 2006.

There was some discussion on where the FIU should be located. In some countries it is with government or under a law enforcement agency like the Police. Some are with the central bank. In others they are administered under a separate body. Many stakeholders that we consulted preferred that it be with the Reserve Bank. I did not argue too much against this suggestion. I knew that practically this was the best option for the FIU where we could quickly nurture and develop the skills and the processes that are needed to establish the unit.

However, I had expected that while the Bank can administer the FIU, the Government should foot the bill. Like many good government, they also passed this bill to the Reserve Bank. The Bank now covers the full cost of the FIU from its own resources.

As part of the agreement with government, the Minister for Justice has delegated almost all of his powers under the Act to the Governor of the Reserve Bank of Fiji. However, I wish to stress that the functions of the FIU are totally independent of the Bank. I made sure that this independence is well protected. The FIU uses some administrative processes from the Bank. It also operates as a separate cost center with its own budget approved by the Board.

The independence of the FIU is paramount and must be respected and protected. Neither the Governor nor the Minister must interfere in FIU carrying out its functions. While the current set up is working well, it should really be temporary. I am of the view that government should seriously think of allowing the FIU to be an independent body. It will give the Unit more freedom and flexibility in its work. The FIU should also be independently funded from the proceeds of its own work as allowed under the Act. This will give it additional independence that it needs.

With independence comes accountability. This accountability is extremely important for an agency like FIU. The Unit collects many confidential information. It must make sure that these are used only for the purpose of the Act. The FIU right now is accountable to the Governor and the Minister. They should also be accountable to Parliament through the Minister. We need to work out in greater detail how this accountability can be improved. The FIU is accountable to the Board of the RBF on how it uses its funds. I am glad to say that the accounts of the FIU are audited together with the audit of the Bank. The FIU has already

published its annual report. I would like to see that the next report also include its financial accounts.

Obviously, an agency like the FIU can never be fully transparent in its operations. This is taken. But in my view it will still need to be transparent in the results of its work. These results are already included in its annual report and other publications.

Summary of some notable achievements

We have come a long way since we established an informal FIU in the RBF. Some of the notable achievements of Fiji's anti-money framework that I would like to mention this afternoon are as follows:

1. We now have comprehensive anti-money laundering laws that includes the Proceeds of Crime Act, Mutual Assistance in Criminal Matters Act and Financial Transactions Reporting Act together with its Regulations. This has virtually completed our legislation work.
2. We have formally established the national AML Officials Committee under the Act and formed various sub committees to assist in its work.
3. We have widened the coverage of the Act to commercial banks, non-bank financial institutions, as well as other financial service providers and businesses (such as lawyers, accountants & real estate agents).
4. We have started to report the results of the suspicious transaction reporting framework.
5. We have introduced the \$10,000 border currency reporting, \$10,000 cash transaction reporting, and the reporting of all international electronic funds transfers.
6. We have set up special investigation units such as, the Transnational Crime Unit, the Police Money Laundering Investigation Unit, and FIRCA's Fraud & Evasion Unit.
7. We have developed the FIU's online electronic reporting and data management IT system that the Minister launched this morning.

International obligations

Where do we stand on global anti-money laundering standards?

The Minister this morning referred to the World Bank assessment of Fiji's framework for combating money laundering and terrorist financing in early 2006. I am happy to say that we have not done too badly as a small developing island nation. At the same time, Fiji has worked hard since the publication of the report to implement many of the key recommendations.

These include the border currency reporting framework that I have mentioned and the issuance of the FTR regulations.

What will happen if we fail to comply with these international standards? We will send out a signal to criminals that they can launder money through our country. We can then be blacklisted by the international community. Sending money to Fiji will be very cumbersome and expensive. Remittances will decline. We will also send the wrong signal to potential investors that Fiji's financial system may not be robust enough. This will scare away investors. They will go to other jurisdictions that have a stronger standards than we do. We need investment to promote growth and we need remittances to support our foreign reserves. So the ramifications of not keeping up with world standards can be extremely serious. We should therefore continue to do what we can to comply with international standards.

Incidentally, some of our Pacific neighbours were threatened to be blacklisted some years ago because they did not comply with these standards. I can still recall high level delegations from these islands scurrying off to New York to try to get them off the list. Almost all succeeded except perhaps one. You see, these islands had established offshore financial centers before these anti money laundering standards were introduced. Some 20 years ago Fiji seriously contemplated setting up similar offshore financial centers. I remember writing papers on this and actually visiting the Caribbean to study this issue. Fortunately, the RBF was able to convince Government that this was not a prudent thing to do and this advice remains as of today.

Results

What are the results so far? The FIU received 479 suspicious transactions in 2008. It was able to analyze 372 STRs which resulted in the dissemination of 202 case reports to relevant law enforcement agencies such as the Fiji Police Force, FIRCA and the Transnational Crime Unit.

The FIU also received over 100,000 cash and international electronic fund transfer transactions last year.

Integrated effort

We must ask ourselves, have we done enough today to protect ourselves from money laundering activities? I think that we still have some way to go.

Combating money laundering starts at the detection stage and as I have said we have done a lot in this area. But that is not enough. We need to successfully investigate and prosecute those that launder money in Fiji. That means that our law enforcement agencies, prosecution offices and the courts must be adequately geared-up to make sure that crime does not pay. In my assessment we have some way to go in this area.

Have we really looked at various products and services provided by our banking sector under the anti-money laundering microscope? We should continue to deepen our understanding and our assessment of these products. The use of technology in banking is a wonderful idea but they do bring with them higher risks of their use for illegal purposes. We need to up skill our supervisors to be able to properly assess these modern products, instruments and systems. The on site supervision of financial institutions now includes examination of anti money laundering. Key concepts like CDD (**Customer Due Diligence**) and KYC (**Know Your Customer**) are well in place in our commercial banks and other non-bank institutions.

I know that these controls incur costs which are invariably borne by customers. But in my view the cost of not having them in place for the whole country can be even more.

Capacity building

Let me end with a word on capacity building. We can have the best laws to combat money laundering, the best system to prosecute the offenders and the best database but if we lack the human capacity to implement them then our efforts will be in vain. Building local capacity must therefore be at the forefront of our efforts. Supervisors and analysts must be able to know what to ask and where to look. At the Bank and the FIU, this capacity building is an ongoing priority.

Needless to say, the judiciary and law enforcement agencies must also be adequately resourced in people, facilities and technology if we are to have a chance to successfully investigate and prosecute criminals.

Conclusion

In concluding, let me repeat that it's in everyone's responsibility to do something about **"Protecting Fiji from Money Laundering"**. I urge those of us here today, to be champions in this global war on money laundering.

We live in an integrated world where financial systems have been regularly subjected to crisis. The present one seems to be the mother of all crises. The global economic fall out is painful. Wealth has been virtually halved over night. Massive job losses have occurred across the globe. These are indeed unprecedented times.

If ever there was a time to work closely together and collaborate on an integrated approach this is it. We need a collaborative approach to our economic challenges. And we certainly need the same collaborative approach to fighting money laundering. We each have a role to play and I look forward to your corporation

I now have the pleasure of formally closing the 2009 National Anti-Money Laundering Conference.

Vinaka Vakalevu.