

Zamani Abdul Ghani: Strengthening vigilance during turbulent times

Keynote address by Mr Zamani Abdul Ghani, Deputy Governor of the Central Bank of Malaysia, at the International Financial Crime and Terrorism Financing Conference 2009, Kuala Lumpur, 16 April 2009.

* * *

It is a pleasure to welcome all of you to this conference in particular, and to Malaysia and Kuala Lumpur as well. Today marks the inaugural of an international conference on financial crimes and terrorism financing, organized by the Compliance Officers Networking Group in Malaysia, or CONG in short. Let me take this opportunity, first of all, to thank the members of the organising committee. This committee comprises of staff of members of the Institute of Bankers Malaysia, the Securities Industry Development Centre, (SIDC), and the Malaysian Institute of Insurance, as well as staff of the Anti-Money Laundering Unit of the Royal Malaysia Police. Members of the CONG, deserve a special commendation for the efforts taken to conceptualise and make this conference a reality. Despite being the first conference of its kind to be organized in Malaysia, and the challenges encountered while organising this conference, we see today a room filled to capacity. I have the honour of being the Chairman of Malaysia's National Coordination Committee to Counter Money Laundering or the NCC, which comprised of 15 government ministries and agencies. On behalf of the NCC, I would also like to say "Tahniah" or congratulations to the CONG and the co-organisers. Indeed, the spirit of "acting for greater good" is clearly manifested by all those who are involved in the organisation of this conference.

We are also very pleased in having participants as well as experts and resource persons of multilateral agencies from as many as 12 different countries. The attendance of so many participants and experts from the domestic and the international community for this conference speaks volumes for the importance of this subject and the universal relevance of the issues to be deliberated in this conference. I would like to extend my heartfelt appreciation to the speakers and moderators who had make their way to Kuala Lumpur from all around the globe; it is indeed an honour to have all of you here to speak at this important conference. Our thanks to those international multilateral institutions in working with long-established domestic and regional organisations in participating or organising regional conferences on topical issues. On a few occasion, we have observed some multilateral institutions upstaging these regional bodies. This is not beneficial nor the right thing to do. It is better to collaborate and avoid duplicity so that, overall, it will be a win-win for all parties.

I. Remaining vigilant in facing turbulence amid economic downturn regionally and globally

The current global financial crisis is centred in the advanced economies and the severe financial instability and the resultant economic downturns has affected and infected the developing world as well. This shows that we live in an increasingly interconnected world. Global financial stability hinges on collective action at the international level, as well as the existence of effective national systems. Financial stability is also closely linked with financial integrity. The lack of anti-money laundering and the combating of the financing of terrorism, or AML/CFT regime, can contribute to undermine the soundness and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows. The global financial crisis amplifies such risks. In fact, 2009 is anticipated to be another highly challenging year, in which the full impact of the economic slowdown will continue to be global in nature. In this more fragile environment, problems in one country can quickly spread to other countries in the region or in other parts of the world. This, therefore, brings us to the **first theme of my speech** that is for everyone to remain vigilant. In the financial sector in particular, **financial system and institutions should continue to**

support the economy and protect it from abuses, including by money launderers and terrorist financiers.

For Malaysia, the Government has recently announced a RM60 billion stimulus package, i.e., the second stimulus package, and we expect to see its full impact during 2009 and 2010. We are quite fortunate that the banking system entered this difficult period from a position of strength. It is important to have a high level of vigilance to ensure that the banking and finance sector continues to support the economy. Surveillance has been and will be intensified to detect vulnerabilities that may emerge in this period of uncertainty. As such, the financial institutions as well as the designated non-financial businesses and professions, or the DNFBPs, must be **ready to respond to emerging risks and threats**. These risks and threats include money laundering and terrorism financing that may undermine the efforts undertaken to maintain financial stability.

For this purpose, it is apparent that the efforts to further strengthen the AML/CFT regime need to be intensified. Individual countries may benefit from robust AML/CFT regimes as enhanced financial sector integrity and stability facilitates their integration into the global financial system. They will also contribute to more transparent governance and effective fiscal administration.

At the international level, there is renewed interest to review policies relating to banking secrecy and transparency, which are two of the factors identified to have contributed to the current financial meltdown. In this regard, the **Financial Action Task Force (FATF) has initiated a study to assess the effectiveness of its policy tools** in response to the current financial and economic crisis. The FATF is now identifying policy tools which may need **further strengthening** and evaluating whether new policy tools or responses may be needed to meet any new challenges. This is an opportunity for us to provide feedback to the FATF on its 40+9 Recommendations, including **implementation challenges**.

Against this backdrop, the theme of this conference, "**Strengthening Vigilance During Turbulent Times**", aptly describes what I believe should be considered by every institution during this challenging time. This is further supported by the key content of the sessions covering the critical issues to be deliberated by the stakeholders involved in AML/CFT.

II. Emerging trends and risks of money laundering and terrorism financing

It is a permanent battle to put in place a robust AML/CFT regime that could effectively deter and detect serious offence by removing the economic incentives attached to the crime. There will be continuous and sustained attempts to out-manoeuvre the AML/CFT system. For this, let me share some thoughts with you on the second theme of this speech, which is **on the emerging trends of money laundering and terrorism financing** in this region.

Today, while the purpose and criminal intent remains unchanged, i.e., to disguise illegal proceeds as legitimate assets, the launderers are now using **more complex structures and sophisticated methods** to launder money and circumvent the preventive measures that have been put in place. Allow me to share four examples as follows:

1. It is observed that instead of the simple structuring of transactions (or smurfing), recent cases have highlighted the **increasing use of third parties to layer the proceeds of crime** to distance them from their origins. The setting up of front shops and complex trust accounts using nominees are some of the common tools increasingly being used by the perpetrators;
2. As reflected in the FATF Strategic Surveillance Survey 2008, there is also an **increasing trend of criminals leveraging on technology advancements** to further their activities. For this, the use of internet banking, e-money, remittance platform and other use of internet technologies for money laundering activities are on the rise. New

technologies are also being used to perpetrate crimes such as dealing in illegal drugs over the internet and e-crimes, including *phishing* and internet auction frauds;

3. There are also instances on the **use of dummies, or an international network of shell companies as well as other intermediaries to handle the transactions**; and
4. **The use of electronic fund transfers as one of the preferred methods for the layering** of criminal proceeds once they enter the legitimate financial system. There are cases where these proceeds are smuggled out of one country, deposited in another country or other countries, and then wired back to the country of origin.

III. Strategic focus to strengthen the national AML/CFT regime

As the challenges to address the emerging trends intensify, it becomes imperative that the overarching objective upon which an AML/CFT regime has been built remains intact and achievable. The key is to sustain the robustness of the AML/CFT regime to effectively deter and detect money laundering and terrorism financing offences. Thus the third and the last theme of my speech is on Malaysia's strategic focus in strengthening the national AML/CFT regime. Against this backdrop, five key areas has been identified.

First is to strengthen collaboration and cooperation among key stakeholders. Foremost is to enhance the public-private sector partnership as synchronised actions deliver better result. The move to increase the resources for money laundering and terrorism financing investigations by the domestic law enforcement agencies, which currently is the emerging trend, needs to be supported with swift actions from the FIU and prompt response from reporting institutions. Another is that, at the international level, Malaysia will continue to enhance multilateral and bilateral relationships. I am happy to inform that we have recently concluded an MoU with the National Bank of Cambodia, bringing the total number of MoUs signed to 18. We have and will continue to provide assistance to countries in the Asia/Pacific region.

Second is to provide greater focus in enhancing the competency and capacity of key stakeholders, i.e., the analysts, law enforcement officers and compliance officers. Despite the unfavourable economic condition, human resources and capacity building remain as one of our top focus. We plan to roll out capacity building programmes for analysts and enforcement officers covering fundamental, intermediate and advance level training programmes. The Certified Financial Investigators Programme, or CFIP, i.e., our flagship basic programme for financial investigators has produced 83 investigators with knowledge on the Anti-Money Laundering and Anti-Terrorism Financing Act 2001, as well as financial investigation techniques. We are open to collaborate with our foreign counterparts to conduct advanced level workshops.

The third area is to further improve the quality of analysis. High quality STRs underpins an effective mechanism as quality STRs provide valuable intelligence for investigations. It is our expectation that the board of directors and senior management of institutions to play their roles in ensuring that the compliance programme is fully implemented and that any money laundering and terrorism financing activities are promptly detected and reported. Hence, I urge all reporting institutions to **improve** both the quantity and quality of STR submitted. In the same vein, the FIU will continue to **improve its feedback** mechanism to reporting institutions.

The fourth area is to give greater emphasis on compliance. This is important so as to improve the compliance level among the reporting institutions in order to preserve the integrity and stability of the financial system. More focus will be given to enhance and raise the compliance level among DNFBPs in view of the emerging risks. To this end, greater collaboration between the FIU and the various self-regulatory organisations would be pursued actively during the year.

The fifth and last area is to ensure that the enforcement of the AML/CFT regime should be achieved without undue increase in the regulatory cost. It is important that the controls in place are commensurate with the associated money laundering and terrorism financing risks and the risk mitigation measures are adequate. This underscores the progressive introduction of more risk-based approach in the national AML/CFT regime. I understand that this is among key topics to be discussed in this conference, and I am sure it will generate interesting discussions between the experts and the participants.

Today's conference provides a platform to widen the knowledge and understanding on the critical issues confronting the effective implementation of the AML/CFT regime. Please do take advantage of and benefit from this opportunity.

On this note, I wish you a productive and successful conference.

Thank you.