

Ewart S Williams: Anti-money laundering and combating the financing of terrorism

Address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the 6th Annual Compliance Conference on Anti-Money Laundering and Combating the Financing of Terrorism, Port-of-Spain, 14 January 2010.

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I would like to thank the Caribbean Financial Action Task Force (CFATF), the Ministry of National Security, the Commonwealth Secretariat and the United States Embassy of Trinidad and Tobago for jointly organizing this Conference and inviting me to speak. The timing could not be better given the increase attention that the international community is lending to sanctions for non-compliance and given our aspiration to be an international financial centre.

Money laundering is the process through which the gains derived from criminal activities are made to appear as if they originated from a legitimate source. The events of 9/11 highlighted a more threatening dimension of the problem – the use of the financial system to mobilize and direct funds for terrorist activities. In my remarks when I talk about anti-money laundering measures, I also include steps to counter the financing of terrorism.

Many people don't see money laundering as the serious crime that it is. Many people seem not to recognize that money laundering helps to perpetuate the crimes that generated the illegal money. The truth is that money laundering, if successful, makes crime pay.

We never rank money laundering with some of the heinous crimes like kidnapping and drug running for instance, ***not recognizing that very often money laundering keeps the kidnapper/drug runner in business.***

In addition to the social cost, money laundering poses significant legal and reputational risks. As you know, financial institutions are important catalysts for economic growth and development. Accordingly, a sound and strong financial system is vital to our country's growth process.

Money laundering, however, erodes the integrity of financial institutions by involving them in the proceeds of illegal activity and, in a way, by making them supportive (albeit unwittingly) of illegal activity. Such a connection can destroy the reputation of an institution but what's worse; the damage invariably transcends the institution and spreads, with far-reaching consequences, for the country and the region.

Globalisation, which has brought many benefits, has also increased the risk of money laundering by providing the channel for funds to flow freely across national boundaries. In addition technological advances have provided the locomotive for these funds to reach the most remote countries.

Over the past two decades the advanced countries have introduced a range of mechanisms to control money laundering. Criminals have however risen to the occasion by changing money laundering methods and techniques to overcome these barriers.

The shift in "the modus operandi" involves targeting small countries that have less robust defenses.

The recent financial crisis has prompted the establishment of a new international financial architecture that emphasizes close collaboration between countries, large and small. It has also raised the focus on ***greater transparency*** of financial transactions, and on good governance. At the same time, the international community has become less tolerant of jurisdictions that are not adhering to international standards and is now all the more ready to impose sanctions on countries that don't measure up. When Switzerland is forced to give up or modify its long-standing reputation for bank secrecy.

For countries like Trinidad and Tobago, the systemic risk from money laundering has increased exponentially in the past several years.

Firstly, our economy has become more open as barriers to trade and financial flows have been eliminated. In addition, we have become an important regional financial centre, and that necessarily brings with it the potential to attract both legal and illegal financial flows.

Second, while the potential sources of money to be laundered have expanded greatly in recent years, illegal drugs continue to be the most prolific. The fact that our region and our country are now recognized as important stops on a major north-south route for illegal drugs, **further increases our vulnerability.**

Third, money launderers are tenacious in probing financial systems for gaps, and creative for devising new methods to overcome safeguards. While the developed countries have been diligent in updating their legislative and regulatory frameworks to deal with money laundering (particularly after 9/11), the developing countries, Trinidad and Tobago included, have been slow in enhancing their frameworks, in so doing, creating another source of vulnerability.

To our credit, Trinidad and Tobago has embarked on a comprehensive programme to upgrade its financial infrastructure to facilitate our anti-money laundering efforts.

A new Financial Institutions Act was enacted in December 2008. This allows the Central Bank to issue compliance directions to licensed financial institutions **for non-compliance with AML/CFT Guidelines**. Similar amendments are being proposed for the Insurance Bill.

The Financial Institutions Act also allows for the sharing of information with other regulators (a critical requirement in anti-money laundering) and the Financial Intelligence Unit of Trinidad and Tobago (the FIU).

The Bank has expanded its regulatory purview to money **remitters via an amendment to the Central Bank Act**. In other countries, money remitters have been a major source of money laundering. An effective licensing and supervisory regime for money remitters is being developed and is expected to be implemented by June 2010.

Moreover, (as indicated by the Minister of National Security), Parliament approved three key money-laundering legislations in October 2009. Prior to this legislation, the centre-piece of our money-laundering framework for financial institutions was the Bank's AML/CFT guidelines, which were based on the FATF 40 +9 recommendations, but, which did not have the force of law and carried no sanctions. The Central Bank, however, conducted assessments of compliance with these guidelines, as part of our onsite examinations among banks and insurance companies.

In general, the report card coming out of these assessments have been mixed.

Among the banking system, for example, the foreign banks are seen to have fairly sophisticated AML systems since they need to meet their head-office standards. In general, the local banking institutions have less robust AML systems, though it is fair to say, that they have been working hard to strengthen these arrangements.

Unfortunately, the insurance sector, as a whole, has not seen money laundering as a major challenge, largely because, some argue, they receive payment mostly by cheques, which are drawn on banks, and which themselves are subject to money laundering procedures. The fact is however, that many insurance intermediaries deal in cash (for example, in collecting insurance premiums) and herein lies one potential source of money laundering.

The passage of the three key pieces of anti-money laundering legislation in October 2009 – the Proceeds of Crime Amendment Act, the Financial Intelligence Unit of Trinidad and Tobago Act and the Financial Obligations Regulations – is intended to serve as a catalyst for a major upgrade of the country's AML systems. This legislative package has brought Trinidad and Tobago more in line with FATF's 40 + 9 recommendations for Anti-Money Laundering and the Combating of the Financing of Terrorism (AML/CFT). One of the key

provisions of the new legislation is the establishment of the Financial Intelligence Unit. This Unit will be responsible for the collection of financial intelligence and information and for the analysis and distribution of such information to our local law enforcement agencies, financial institutions and businesses in Trinidad and Tobago.

The fourth and final piece of the legislative package, the Anti-Terrorist Amendment Bill is expected to be laid in Parliament this month.

But for all the improvements in the legislation, ultimately our AML framework is only as good as the quality of implementation and by the vigilance expended by our financial institutions.

There are four things institutions need to focus on:

- First, ***know your customers***. Customer identification is the first line of defense against money laundering. Financial institutions should obtain satisfactory evidence of customers' identities, have effective procedures for verifying the bona fides of new customers, and screen them against the various lists of suspected money launderers and terrorists.
- Second, ***report all suspicious transactions***. Once you have established a customer relationship, maintain good records of all financial transactions and look out for unusual activities. If you suspect funds are derived illegally or belong to any terrorist, file a report promptly to the FIU. You do not have to conduct an investigation to verify. That is the job of the FIU.
- Third, ***ensure that staff is well-trained***. New staff, "front-line" staff, staff dealing with new customers, and supervisors and managers should be given appropriate training and refresher training, on AML/CFT policies and procedures.
- Finally, ***adopt a risk-based rather than rule-based approach***. Seek to approach AML/CFT issues from a risk perspective, rather than a purely regulatory compliance perspective. Look out systematically for products, customers and geographic locations that pose a higher risk of money laundering or terrorism financing.

Of course, it would be a mistake to assume that money laundering and the need for proper controls are confined to the banks. Virtually all financial service firms can be used as a vehicle for money laundering; and the more control-conscious banks become, the more other types of institutions will be targeted by those wishing to launder money. An effective money laundering regime will also require extending AML measures to designated non-financial businesses and professions, including lawyers, accountants, real estate agents and others.

Let me conclude by emphasizing that anti-money laundering is everybody's business, requiring active collaboration and partnership among industry, the regulator and enforcement agencies. Our anti-money laundering framework should seek to achieve rigorous implementation of international standards, active international co-operation, robust and comprehensive regulation and ongoing supervision.

Our message to those who launder money or finance terrorism must be clear, consistent and strong: crime does not pay.

I wish you fruitful discussions. Thank you.