

Ong Chong Tee: Combating financial crime – international and national efforts

Keynote address by Mr Ong Chong Tee, Deputy Managing Director (Financial Supervision) of the Monetary Authority of Singapore, at the ABS Financial Crime Seminar, Singapore, 2 July 2014.

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1 Distinguished guests, ladies and gentlemen, thank you for inviting me here this morning. The annual ABS Financial Crime Seminar has become a key event on Singapore's anti-money laundering and counter-terrorism financing (AML/CFT) calendar. It is a good opportunity for our banking industry at large to take stock of the current challenges and trends, as well as to discuss priorities. As the diverse programme of this conference shows, money laundering and terrorist financing (ML/TF) is a complex global issue, and I am heartened to see the number of experienced professionals and experts gathered here today to share perspectives and insights.

The international environment

2 Financial crime is a serious global threat. According to some UN estimates, the amount of money laundered globally is between 2% and 5% of global GDP annually, or to put this in US dollar terms, between US\$800 billion and US\$2 trillion a year. The challenge before us – as is often noted – is that the fight against money laundering and financing of terrorism is never done. Rapid advancements in information, communication and payment technologies have led to great conveniences around speed, ease, and often anonymity; so these developments also open up more potential loopholes and avenues for perpetrators to escape detection; hence the momentum on AML/CFT efforts must be maintained.

3 Indeed, the international community has not sat still. As many of you know, the Financial Action Task Force (FATF) was set up in 1989, and has been the key policy-making body that meets regularly to identify emerging risks and typology, provide guidance, as well as to strengthen or refine international standards. In 2012, a revised set of international standards to combat ML/TF risks was issued, and the FATF has since commenced a new round of mutual evaluations to ensure that countries put in place the necessary controls. Fundamental to this is the importance for countries to understand their ML/TF risks, and adopt appropriate measures to mitigate those risks effectively.

A national effort

4 Singapore has and will continue to play our part in this important global effort. As an international financial centre and business hub, our openness exposes us to cross-border financial crimes. Protecting our reputation as a well-regulated and clean financial centre is not negotiable. This is a fundamental tenet upon which our financial centre has developed, and the continued confidence in the integrity of our financial system is a necessary condition for sustaining growth of the sector. We therefore take our AML/CFT efforts very seriously, that include the surveillance and investigation work of our Financial Intelligence Unit in the Commercial Affairs Department.

5 In the last two years, more than 15 government agencies had come together to perform a comprehensive assessment of our ML/TF environment and the adequacy of measures. This culminated in a National Risk Assessment (NRA) report published in January. It is the first time that we have taken a consolidated and comprehensive look at the overall ML/TF risks to Singapore. What did we find? For one, the results largely validated the prevailing instinctive sense that high-risk sectors are primarily the cash intensive and internationally oriented ones, such as casinos and remittance agents. The NRA also revealed emerging risk areas

like virtual currencies and large-value precious stones and metals dealings, and we are looking into addressing the potential risks associated with these sectors.

6 Put simply, the NRA has been a useful “health-check” of the ML/TF risks facing Singapore, by highlighting areas that warrant more resources and attention. As with the importance of having regular medical “health-checks”, we intend to update the risk review regularly, every two to three years, to ensure that our understanding of Singapore’s ML/TF risks is current and accurate.

7 A better understanding of risks should also translate into more targeted mitigation measures. For example, in the non-financial sector, the Accounting and Corporate Regulatory Authority will implement an enhanced regulatory framework for corporate service providers, to minimise the risks of shell companies being set up for illicit purposes. This is expected to take effect from the last quarter of 2014. As another example, pawnbrokers are identified as a potential channel for money laundering. While pawnbrokers are already subject to basic AML/CFT obligations, further requirements will be introduced when changes to our pawnbroking legislation are put in place at the end of this year.

8 For the financial sector, the controls in place are assessed during the NRA exercise to be generally strong, which is not surprising given that the sector has built up considerable AML/CFT expertise and processes over many years. Nonetheless, there are newer areas to be considered. For instance, we have announced in March that we will regulate virtual currency intermediaries for AML/CFT purposes. Our approach is a targeted one, recognising that virtual currency intermediaries can facilitate anonymous cross border money transfers, not unlike the activities of money-changing and remittance businesses. They will thus be subject to similar AML/CFT requirements, and further details will be released in due course. Also, for remittance agents and money-changers themselves, MAS has stepped up supervision, inspection and enforcement efforts, and is also engaging the licensees on their ML/TF risks.

9 Banks are critical gatekeepers against illicit fund flows. This is why MAS must continue to take proactive measures to maintain a robust and effective regime. Our approach is preventive, pre-emptive and prescriptive (where specific rules are needed). This morning, allow me to outline three key features, namely:

- a) a strong legal and regulatory framework that is in line with international standards;
- b) an effective supervisory regime; as well as
- c) a collaborative partnership with the industry.

A strong legal and regulatory framework

10 A strong legal and regulatory framework is the basis of any effective regime. Over the years, MAS has updated our AML/CFT Notices for financial institutions several times, to take into account the latest global developments, as well as to incorporate emerging best practices. Our efforts to stay ahead of the curve are recognised internationally. In the 2008 FATF evaluation exercise, Singapore is assessed to have a strict and rigorous AML/CFT regime. We have agreed to undergo another evaluation in 2015.

11 We should not be complacent, for the reasons that I mentioned earlier. MAS will continue to strengthen the AML/CFT regime for financial institutions, to maintain relevance and effectiveness. Later this month, we will be issuing a public consultation on proposed amendments to a range of MAS’ AML/CFT Notices for financial institutions. This round of amendments draws reference from the revised FATF recommendations as well as international best practices, and should not be a surprise for those of you who have been following these developments. While there are a few new requirements in response to FATF recommendations, many of the proposed changes formalise existing practices and supervisory expectations. But let me highlight one change.

12 When banks first started their ML/TF risk assessments, the focus has largely been around processes to identify and deal with customers with high ML/TF risks. This level of risk assessment is necessary but insufficient now. Just as how a bank should look at the credit risk of its overall loan portfolio and not just of individual customers, ML/TF risk assessments can also benefit from the same approach. We will therefore require financial institutions to assess ML/TF risks at the institution level, to complement individual transaction level checks. This will in essence be the banking industry-equivalent of what the government has done in the NRA. There are several banks that already have such a practice in place, so this requirement will level-up the industry as a whole.

13 Other changes in our impending consultation document will include formalising the need to screen one's customers, tightening the threshold for enhanced measures on cross-border wire transfers, and providing a risk-based approach for politically exposed persons. Details of these and other amendments will be laid out in the consultation paper. Overall, we do not expect the revisions to require major changes to existing processes, and I welcome your inputs during the consultation.

An effective supervisory regime

14 However, even the best regulatory framework is futile, if it is not backed by effective supervision. As I have alluded, MAS' supervisory approach is premised on "prevention is better than cure". Rather than having to impose hefty fines on a financial institution after a major incident or lapse in controls, we prefer that such incidents not happen in the first place. This means that we will not be apologetic about being intrusive and probing in our supervision work, and ML/FT risks will continue to be a key thematic area of focus.

15 The NRA exercise has noted that the controls adopted by banks are generally strong, but there is scope to strengthen the control processes especially in the areas of trade finance and correspondent banking. For example, during some of our inspections, we found that some banks did not screen all the key items in trade documents, and there were also inadequate controls when processing related party client transactions. We are looking to arrange roundtable sessions to share best practices in these two areas.

16 Apart from strengthening control frameworks and processes, the human factor is just as important. We have noted instances where banks have good systems and processes in place, but line departments did not implement the measures properly. Some of the common reasons include inadequate risk awareness, mis-communication across departments, and lack of management oversight. There is therefore a need to invest in the human capabilities, and not just rely on system capabilities in our AML/CFT efforts.

17 One of the more topical issues relating to supervision is that of tax crimes. Singapore designated serious tax crimes as money laundering predicate offences in the middle of last year. Financial institutions have been asked to review their customer accounts for tax-illicit funds. One of the practical difficulties faced by financial institutions is how to determine whether a given pool of funds is fully tax compliant, when even a tax lawyer may be hesitant to make a call, unless he has full visibility of the customer's other transactions beyond the bank. International guidance on this area is still evolving, and the process to become more proficient in detecting tax-illicit monies will understandably be an iterative one.

18 Nonetheless, we have found the quality of the recent tax risk reviews to be satisfactory, and I like to commend you all for the efforts put in. More importantly, this exercise has raised general awareness among financial institutions, which are now better prepared to manage risks arising from the laundering of proceeds from tax crimes. Arising from the review, a handful of customers may have chosen to close their accounts or even have had their accounts terminated – if they chose not to be subject to the heightened scrutiny. Suspicious Transaction Reports have also been filed in a few cases. Overall, the message is clear and consistent – tax-illicit funds are not welcome here.

Partnership with the industry

19 We need to work together to tackle financial crime. At the government level, law enforcement agencies meet regularly with the financial and non-financial sector supervisors to coordinate policy, so that we effectively deter illicit funds as a country. Yet no amount of supervision can substitute for the industry being similarly committed to this cause.

20 In this regard, I am happy to note that the ABS has published additional guidance on AML/CFT earlier this year. This demonstrates that there is ownership amongst financial institutions to ensure that the framework that is in place is translated into meaningful application on the ground.

21 On MAS' part, we will continue to proactively engage the industry on key issues and developments. Prior to the publication of the NRA, we had invited some of you to a focus group discussion to validate the findings not just relating to banks, but of other sectors as well. More recently, MAS released a report on the private banking industry, setting out key observations and supervisory expectations, so as to promote broader sharing of best practices. I understand that the report has been well-received by the industry. I should add that while the report relates to private banking activities, many sound practices are relevant for other customer-facing business lines. I therefore strongly encourage all financial institutions to leverage on the report to benchmark their controls, and to put in place enhancements where relevant.

22 I had mentioned about deepening manpower capabilities. In this regard, competency building is imperative, to uplift AML/CFT standards amongst industry professionals. I commend the ABS for its suite of training options on AML/CFT, ranging from thematic workshops, classroom trainings, to seminars such as this. I understand that attendance at this seminar and related AML/CFT courses has been growing each year, and I hope this positive trend continues. Attention to AML/CFT has certainly been increasing, with certification providers like the International Compliance Training Academy and the Association of Certified Anti-Money Laundering Specialists (ACAMS) seeing more sign-ups. ACAMS had also set up a Singapore Chapter late last year. In all, the resources and training avenues are there, so it is for all of you to tap on them. An effective culture of AML/CFT cannot be created by hiring a few experts from elsewhere. Instead, it is about raising awareness throughout the firm; so do focus on "growing your own timber" alongside importing relevant expertise.

Strengthening the framework further

23 Before I close this morning, I would like to announce two further measures that MAS will undertake to strengthen our AML/CFT regime:

- a. First, MAS has been progressively increasing the level of disclosure on supervisory actions taken for breaches of AML/CFT requirements. At this seminar last year, we disclosed aggregated figures of sanctions imposed for the preceding three years. While a gross picture can give an indication of how well the industry has implemented AML/CFT measures, they do not sufficiently highlight any common or severe issue. Building on this, MAS will be looking to publish details of more severe penalties imposed on financial institutions for such breaches. In addition to deterring errant behaviour, this move will reinforce our preventive supervisory approach, and draw financial institutions' attention to more severe instances of deficiencies and breaches. Financial institutions can then pre-emptively strengthen their own controls to prevent similar failures.
- b. Second, the NRA highlighted ML/TF risks inherent in cash-intensive industries and large value cash transactions. In May, the Ministry of Home Affairs, the Ministry of Finance and MAS consulted publicly on a cash transaction reporting regime for precious stones and metals dealers. In a similar vein, given the risks associated with

large value cash transactions and high face-value notes, MAS will be discontinuing the issuance of the \$10,000 note, starting from 1 October 2014. The development of more advanced and secured electronic payment systems has reduced the need for large value cash-based transactions. Therefore, we do not expect the discontinuation of the note's issuance to create any major inconvenience. Existing \$10,000 notes in circulation will remain legal tender, including all notes under the Currency Inter-changeability Agreement with Brunei. However, we expect the stock of such notes to dwindle over time, as worn notes are returned to us and not replaced.

Conclusion

24 Let me sum up.

25 Singapore is fully committed to the global efforts against financial crime. The evolving risk environment requires proactive and collective actions in all jurisdictions. MAS has, and will continue to take steps to further enhance our AML/CFT regime, along with other government agencies for the non-financial sectors.

26 The financial sector has always been a critical gatekeeper in the fight against ML/TF, hence it shoulders a great responsibility to ensure strong safeguards against potential criminal fund flows. The American philosopher and author Eric Hoffer once said that "we are prone to generalise the bad than the good. We assume that the bad is more potent and contagious". In this case, I think it is a good idea not to be complacent. Some paranoia is not a bad thing. But let me emphasise that as a key financial centre, we are coming from a position of strength in combating ML/FT risks. We must remain so, by constantly addressing new or evolving vulnerabilities, in a manner consistent with FATF recommendations.

27 On this note, may I wish all of you a most fruitful and stimulating seminar.