

## Arthur Yuen: Regional approaches to global AML challenges

Speech by Mr Arthur Yuen, Deputy Chief Executive of the Hong Kong Monetary Authority, at the Association of Certified Anti-Money Laundering Specialists (ACAMS) 10th Annual AML & Financial Crime Conference, Hong Kong, 23 April 2018.

\* \* \*

Good Morning Ladies and gentlemen,

1. I am very honoured to be here today addressing such a distinguished audience. I would like to in particular thank ACAMS for your kind invitation, and for arranging this great event in Hong Kong. The topic for this event is very dear to my heart, since I have been closely involved in work that aims at enhancing the framework for countering money laundering and the financing of terrorism for almost 20 years as a banking supervisor. Indeed, tackling ML/TF is a core supervisory priority for the Hong Kong Monetary Authority (HKMA) in recent years, and so I am very delighted to have this opportunity to open the conference and meet so many professionals here to discuss how best to respond to some of the challenges posed to us by those who seek to abuse our highly efficient and international banking and payment systems.
2. From my perspective as a banking supervisor, everyone here - irrespective of your sector, experience and the jurisdiction that you work in - we all have an important role in combatting financial crime. Governments need your support in so many ways - in implementing relevant policies, in submitting suspicious transaction reports and sharing intelligence, to name just a few. And these are all important elements in achieving our objectives.
3. And talking about objectives, this is definitely something worth reiterating and reinforcing at the start of this conference. This is because there's always a danger, when we're up to our neck in discussions around compliance, policy developments and technology, so much so that we may tend to forget what AML is all about basically. So let's be clear about this upfront. ML and TF are crimes. And they facilitate other crimes - fraud, tax evasion, trafficking in drugs and people, and of course, terrorism. These crimes have economic and social effects that are far-reaching and often very nasty ones. They also generate financial flows – in fact significant financial flows - that divert resources away from economically and socially-productive uses. But more importantly, people get hurt. Victims, who are often from the more vulnerable segments in our societies, have their life savings stolen by fraudsters, our youth are damaged by drugs, or, in the case of terrorism, we see terrible acts of violence which kill and injure indiscriminately. Of course, investigating and prosecuting these crimes is the job of law enforcement agencies. But financial institutions do have a key role to play in helping to stop bad people doing bad things, and getting away with the proceeds from doing such bad things. This is the BASIC OBJECTIVE that one should remember next time when you are working on the details of CDD policy or calibrating the settings on your transaction monitoring and sanctions screening systems.
4. So the core message that I would like to highlight upfront is that we are all indeed fighting a good fight.
5. But good fight or not, we should also recognize that the issues involved are extremely complex. The complexity comes from, to start with, the fact that those issues involve multiple parties, including the Government, financial regulators, international standard setters and of course banks and the private sector more generally. Complexity also comes from the fact that those issues interact at the local, regional and global levels.
6. Secondly, complexity also exists because, while we know, more than ever before, about the social and economic consequences of financial crime today, we also know much more about the consequences of some of the actions that we take to fight financial crime. The resources required, for example. The costs involved is another one. And sometimes the

unintended, though may not be unexpected, consequences that came from the actions that we took. More specifically, the balance which is required to ensure, on the one hand, that controls are effective in detecting and deterring money launderers, while on the other hand, that bona-fide businesses would still have access to the financial services which are so important to their livelihood, is really a delicate balance that is often difficult to strike.

7. This then brings me to an important question: how effective are we in our AML work? Or if I may put this another way, do we even have a consistent view on what “success” in AML work would or should look like? Before I even try to address that, let’s be clear that I do not proclaim to have all the answers here, and I do believe that many of you are better qualified than I am in analysing and addressing these questions about effectiveness of AML efforts.
8. Furthermore, while we work to the same standards in the region, our systems are all evolving, and we have to admit that this evolution is happening at different pace in our respective markets and to address differing risks. And therefore the priorities in different markets will understandably differ, thereby making arriving at a consistent view on the question of “effectiveness” extremely challenging. I would also note that the Financial Action Task Force will do that job for Hong Kong later this year when they conduct the mutual evaluation exercise, while in roughly the same period, they and the IMF also assess other jurisdictions in the region.
9. Despite the fact that I do not have all the answers to the “effectiveness” questions, I think that it may be helpful to talk about some of the issues that arise out of those questions and try to relate them to the agenda for the conference. I hope this would help you to start thinking about some of the complex issues that you would be debating throughout this Conference.
10. Hong Kong, as an international financial centre with a highly externally-oriented economy, does face high ML/TF risks. Our competitive advantages here – namely, free flows of capital, people, goods and information; well-established legal system; sophisticated market infrastructure; and advanced professional services – also make our market attractive for criminals seeking to hide or move funds or evade financial sanctions. With such a risk profile, Hong Kong has a key role in that fight against attempts to abuse our systems, along with our regional partners who share many of these characteristics and fund flows. So this Conference – focusing on the regional response - is timely and very relevant.
11. Over the years, the regulatory landscape has changed. Since we started this line of work in the 90’s, we have seen a steady increase in the regulatory requirements and expectations we place on our financial institutions to combat ML/TF. More recently, the number of sectors and institutions which come within the regulatory remit also continues to grow. These are far from simple requirements however you look at them, particularly given the risk-based approach, a view which is supported by the experience of many financial institutions who have struggled getting it right.
12. The world of banking and finance has also changed significantly in the same period we have been applying these requirements. For example, technology has created new and significant opportunities for the development of the global economy, which has been good news for financial centres such as Hong Kong. But there have also been downsides and one of these has been the new and increased opportunities for financial crime, particularly in a cross-border sense.
13. In particular, the externally orientated economy of Hong Kong means that geopolitical events, and the increasing complex global sanctions as a response to those events, continue to challenge the sanctions screening and compliance programmes of banks. The HKMA has identified sanctions compliance – in particular the risks emanating from DPRK – as a core supervisory priority in the year ahead, and I am glad that there is an opportunity for my colleague to share some of our work in this area in one of the panel discussions later today.
14. Now to be clear : the developments I mentioned have actually driven changes for good. And I can say without hesitation that financial institutions are undoubtedly more capable of

combatting ML/TF risks than they were 10 or 15 years ago. Let me illustrate. Over the past few years all of our banks have put in place an assessment of ML/TF risk across the institution which informs the design of AML/CFT controls – this helps to ensure resources are targeted towards areas of higher risk. The banking sector also continues to pull its weight in reporting suspicious transactions - last year we saw a 25% increase from 2016 in terms of STRs. This is a reflection of the increased ability of upgraded monitoring systems to detect suspicious transactions on the one hand, and the willingness of banks to report suspicion where they see it as well as to take robust actions to mitigate the risk on the other hand. But these same developments have also resulted in “casualties” – a clear example of which is the “de-risking” phenomenon – and this has led to financial inclusion being one of the priorities for the current FATF Presidency. This is also something that we in Hong Kong are very committed to addressing.

15. The reality is that we often see institutions implementing more capable AML systems, and in that process collecting a lot more information on customers or including more scenarios in transaction monitoring. This is all good, but this may not always translate into greater effectiveness, and too often there is not a sufficient focus on answering the questions of : “Does it deliver the right results or outcomes?” And “Is the system more effective in detecting and preventing criminals from abusing the institution?”
16. So I would highlight in particular three issues as having the potential to significantly change how effective we are in this work and which are being discussed at this event.
17. The first issue is technological innovation - both in the form of financial technology and regulatory technology. Regionally, technology is making our financial institutions and their customers more connected than ever. Technology is an enabler, while it also brings risks along with rewards. Easier access to financial services benefits us all, but there is a risk that it may also create more opportunities for criminals - if it’s convenient for us to move money in real time using our smart phones, it would also be convenient for money launderers as well. And there is no shortage of smart people looking for ways to exploit such new developments.
18. But technology, especially the fast-growing field of data analytics, has the potential to offer more effective and efficient ways to undertake our AML work. In particular, recent developments in artificial intelligence and data analytics, while still at an early stage, appear promising. For example, AI is already being used to – apologies for the jargon – “triage” alerts generated by monitoring systems to make subsequent case investigations by old-fashioned human beings more focused and efficient. And data analytics is being used to identify what normal behaviour looks like for particular segments or types of customer, thereby making it easier to spot behaviour that departs from the norm and which may therefore need to be scrutinised further. This has the potential to make monitoring less “ex-post” and allow potential problems to be spotted in real time to a greater extent. And I would once again stress the word “efficient” here: the HKMA is a banking regulator and we have an interest in seeing the banking sector’s cost-to-income ratios kept down, while without compromising effective controls.
19. The second issue I would like to highlight is a emerging focus internationally on the sharing of information between the public and private sectors, which I believe offers great potential in enhancing the effectiveness of our AML efforts. Increasingly, law enforcement agencies, regulators and the financial sector are cooperating in ways that go beyond the filing of STRs and assistance with investigations although these, of course, remain essential. The focus is now more on two-way sharing of information on trends and typologies.
20. In Hong Kong, the Fraud and Money Laundering Intelligence Taskforce, led by the Police and with participation by the HKMA and the banking sector, was established as a pilot scheme in 2017. This is a public-private platform along similar lines to initiatives overseas, notably in Australia and Singapore, and while it is at an early stage, it has already shown concrete results, not least in the freezing or restraint of some \$2.8 million as well as 71 arrests over a 10-month period. I believe that this kind of cooperation shows real promise for sustainable

enhancement to the effectiveness of our framework, and the HKMA strongly supports its continuation and development.

21. The third issue is that we all need to keep under constant review whether we are getting the risk-based approach right. To implement AML efforts using an approach based on risk is the cornerstone of the FATF Recommendations. No one – neither institutions nor regulators – can be watching all risk areas all the time. Even if it were physically possible, in a world of limited resources, it just isn't practical. So it is essential that we all focus our inherently limited efforts and resources on those risks that are assessed to be the greatest. And this has to be done at the level of the jurisdiction, different sectors within the financial industry, individual institutions and customers. Fundamental to getting that right is a thorough understanding of the risks that we face. Many of you will be aware that Hong Kong will shortly publish its first ML/TF risk assessment, and the HKMA will be holding briefings for the banking and SVF sectors in the coming weeks to communicate the risks identified in that assessment process in order to help institutions reflect such in their own risk assessments. The Hong Kong ML/TF risk assessment is the first comprehensive, jurisdiction-wide exercise with input from Government, law enforcement agencies, the financial regulators and other sectors and will inform both institutional and customer risk assessments.
22. And that brings me to something that is very important when we consider the risk-based approach: risks are never static. Developments in business, the economy and technology, and – most of all – the fraudsters and terrorists trying to move and hide money, mean that new risks are emerging, and old ones are changing, all the time. No risk assessment is ever really complete and it is essential for all of us to keep up with what is going on to ensure that we are employing our resources as effectively and efficiently as possible, while achieving the dual objectives of risk-based AML/CFT efforts as well as ensuring legitimate customers have access to services.
23. So those are the three issues that I would like to highlight and which would be explored in the various sessions of this Conference. All in all, I would emphasise that the global AML landscape is an evolving one - geopolitical developments will continue to affect sanctions risks, criminals will come up with new ways of stealing money and of hiding and moving those money. Technology can hinder or help us in our AML efforts, and I have to say that although we are already doing a lot, we are far from having the perfect solution. The challenge that we face collectively, in the region, is to develop responses to existing and new risks that:
  - ♦ Are agile and adaptable, while providing a framework of principles and rules that that we can all agree to and follow;
  - ♦ Recognise innovation and make the best use of technology; and perhaps more importantly
  - ♦ Challenge our established ways of meeting some expectations, and ensure the response always relates to effectiveness.
24. I note that you have a very full agenda the coming days covering these and other topics. And I hope very much that my remarks will offer you some food for thought about the issues and challenges that we all face. I wish you all fruitful discussions on these issues. And once again, thank you very much to ACAMS for inviting me here today.