

# 15th Annual International Anti-Money Laundering Conference

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## **Examining the Role of AML: Where Do We Stand? Where Are We Headed? (Hazlewood)**

# Areas for discussion

- PEPs & PECs: Keeping it 'risk based'
  - Agreement on the 'foreign' issue. A single definition? Appendix A(1)
  - Industry workgroups on better 'sub-definitions' particularly in populous nations such as China and India. Appendix B, C, D, E
  - Does (should) a retired PEP ever come off the database?
  - PECs & reliance on databases: If a PEP doesn't actually control the entity, how is it a PEC? How might the industry work more closely with database vendors to improve the quality of PEP & PEC data? (ACAMS?)
- New thinking on compliance (AML) Testing
  - Business Managers have referred to this as "compliance cluster bombing". Is there an audit overlap?
  - Should we instead build quality assurance processes into our programs? (example; mystery shopping)
- Recognition to FIs that are striving to do the right thing
  - Is there a way to better encourage compliance?
  - Proactive management focus
- Substance over form
  - Let us ask ourselves, why are we in this profession? What is the objective?
  - Focusing on operational effectiveness rather than 'tick box compliance' and policy proliferation
- Focus on intelligence exchange and cooperation
  - One dimensional territorial thinking & turf wars
  - Workgroups with industry, law enforcement and regulators (FDSP)

# Where might we be heading?

- Taking the walls down:

- Greater focus on integrated enterprise-wide financial crime risk models (Appendix F-J): Implications; data privacy, case management, surveillance, policy frameworks, operating structures, training, audit and inspections
- Enhanced operational effectiveness and cost efficiency

- Policy Nirvana:

- Globally applicable customer acceptance procedures for each line of business (Appendix K)
- Keeping it simple and consistent
- Improving back-end operational efficiency and effectiveness

- Increasing momentum and focus on corruption (Appendix A3)

- Utilization of AML regime to achieve anti-corruption objectives
- Economic performance is inhibited by corruption in many developing countries
- UN Convention Against Corruption: *“To promote and strengthen measures to prevent and combat corruption more efficiently and effectively..... to promote, facilitate and support international cooperation and technical assistance in the prevention of and fight against corruption, including in asset recovery”*

# Appendices

# Appendix A(1)

## Selected PEP definitions

FATF	Basel Committee	Wolfsberg Group
<p>Individuals who are or have been entrusted with prominent public functions in a <b>foreign country</b>, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.</p>	<p>Individuals who are or have been entrusted with prominent public functions, including heads of state or of government, senior politicians, senior government, judicial or military officials, senior executives of publicly owned corporations and important political party officials</p>	<p>Individuals who have or have had positions of public trust such as government officials, senior executives of government corporations, politicians, important political party officials, etc. and their families and close associates</p> <p>Persons whose current or former („<b>Rule of thumb</b>“: <b>1 year after giving up any political function</b>) position can attract publicity beyond the borders of the country concerned</p>

# Appendix A(2): UN CONVENTION AGAINST CORRUPTION

- “Public official” shall mean: (i) any person holding a legislative, executive, administrative or judicial office of a State Party, whether appointed or elected, whether permanent or temporary, whether paid or unpaid, irrespective of that person’s seniority; (ii) any other person who performs a public function, including for a public agency or public enterprise, or provides a public service, as defined in the domestic law of the State Party and as applied in the pertinent area of law of that State Party; (iii) any other person defined as a “public official” in the domestic law of a State Party.

Source: [http://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026\\_E.pdf](http://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf)

# Appendix A(3): The Singapore Approach

## **Monetary Authority of Singapore Notice 626:**

### **“politically exposed person” means:**

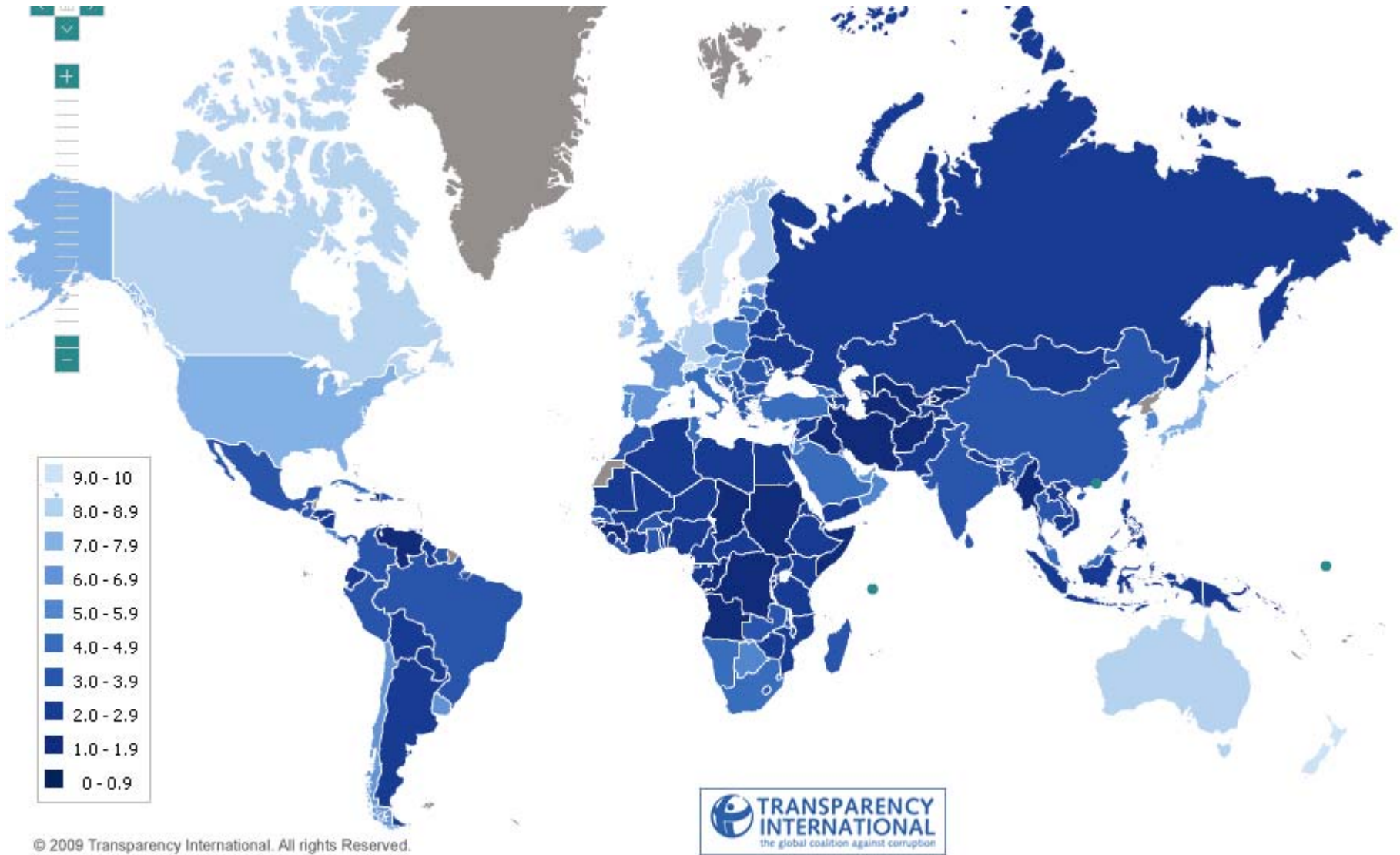
- (a) a natural person who is or has been entrusted with prominent public functions whether in Singapore or a foreign country;
- (b) immediate family members of such a person; or
- (c) close associates of such a person.

“prominent public functions” includes the roles held by a head of state, a head of government, government ministers, senior civil servants, senior judicial or military officials, senior executives of state owned corporations, and senior political party officials.

## **Association of Banks in Singapore (“ABS”) Guidelines**

MAS Notice 626 requires banks to apply enhanced CDD on domestic PEPs. With this change, MAS’ requirements to apply enhanced CDD on both domestic and foreign PEPs will be aligned with that of the United Nations Convention Against Corruption (UNCAC).

# Appendix (B) Corruption Perceptions Index; macro view



## Appendix (C) Corruption Perceptions Index; selected view

79	China	3.6	9	3.0 - 4.2
84	India	3.4	10	3.2 - 3.6
84	Thailand	3.4	9	3.0 - 3.8
111	Indonesia	2.8	9	2.4 - 3.2
139	Bangladesh	2.4	7	2.0 - 2.8
139	Pakistan	2.4	7	2.1 - 2.7
139	Philippines	2.4	9	2.1 - 2.7
143	Nepal	2.3	6	2.0 - 2.6
154	Papua New Guinea	2.1	5	1.7 - 2.5
158	Cambodia	2.0	8	1.8 - 2.2
178	Myanmar	1.4	3	0.9 - 1.8
179	Afghanistan	1.3	4	1.0 - 1.5

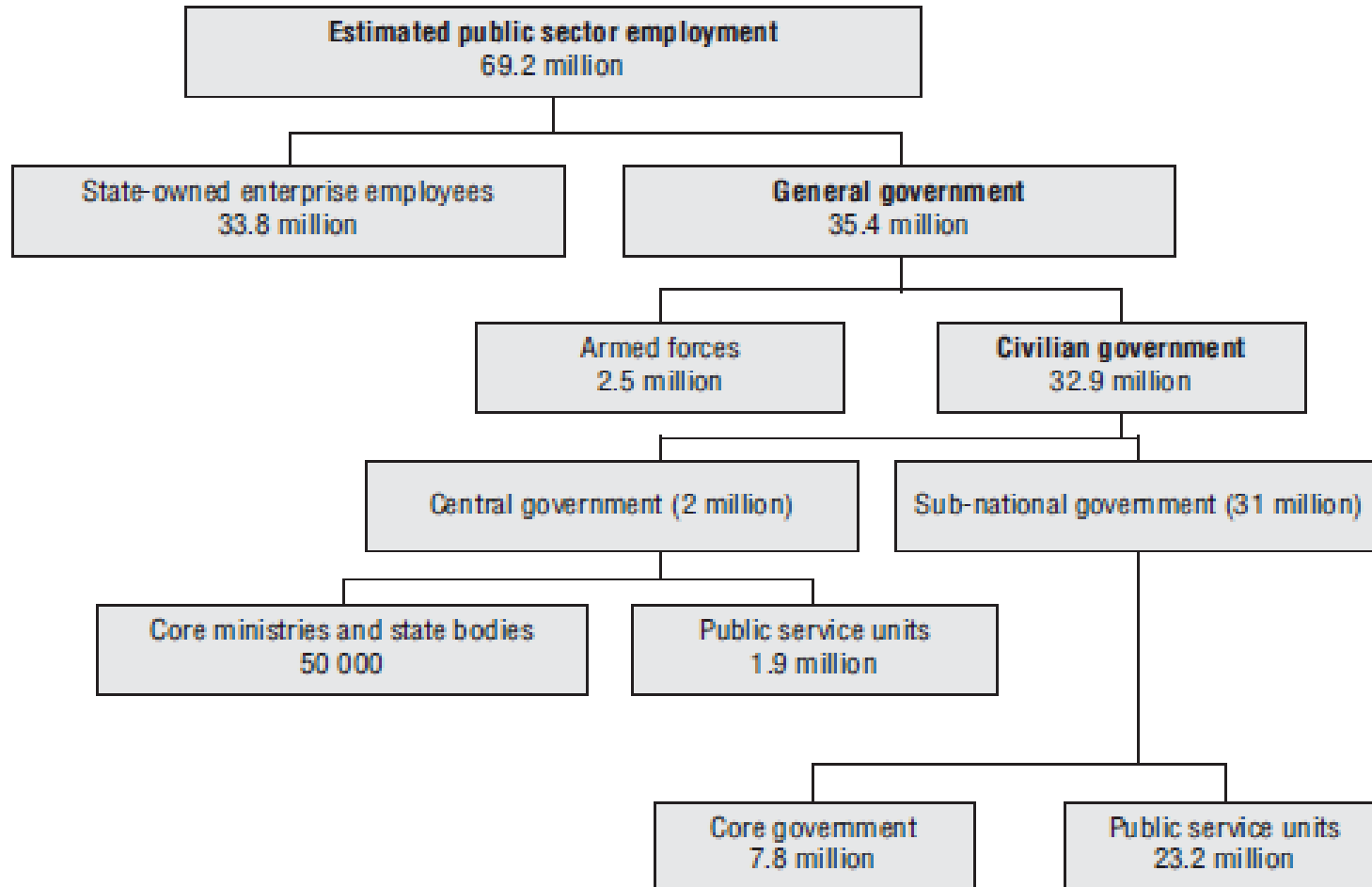
Rank	Country/Territory	CPI 2009 Score	Surveys Used	Confidence Range
1	New Zealand	9.4	6	9.1 - 9.5
2	Denmark	9.3	6	9.1 - 9.5
3	Singapore	9.2	9	9.0 - 9.4
3	Sweden	9.2	6	9.0 - 9.3
5	Switzerland	9.0	6	8.9 - 9.1
6	Finland	8.9	6	8.4 - 9.4
6	Netherlands	8.9	6	8.7 - 9.0
8	Australia	8.7	8	8.3 - 9.0
8	Canada	8.7	6	8.5 - 9.0
8	Iceland	8.7	4	7.5 - 9.4
11	Norway	8.6	6	8.2 - 9.1
12	Hong Kong	8.2	8	7.9 - 8.5

Source: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009/cpi\\_2009\\_table](http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table)

# Appendix (D) Selected Statistics

- The population of China is **1.3 billion**. India's population is **1.2 billion**. The USA has a population of **304 million**
- China has 69 million people in public sector employment (see next slide)
- As at 2008, there were 651 cities and 19,249 towns in China (i.e. 20,000 sets of local government infrastructure)
- 1 million people sat the China civil service entrance exam in 2010
- At 2.5million, the Chinese military is larger than the population of Toronto
- Four of the five most populous cities in the world are in Asia (Seoul, Mumbai, Jakarta, Karachi)
- 29 different languages are spoken in India

# Appendix (E) Chinese Public Sector

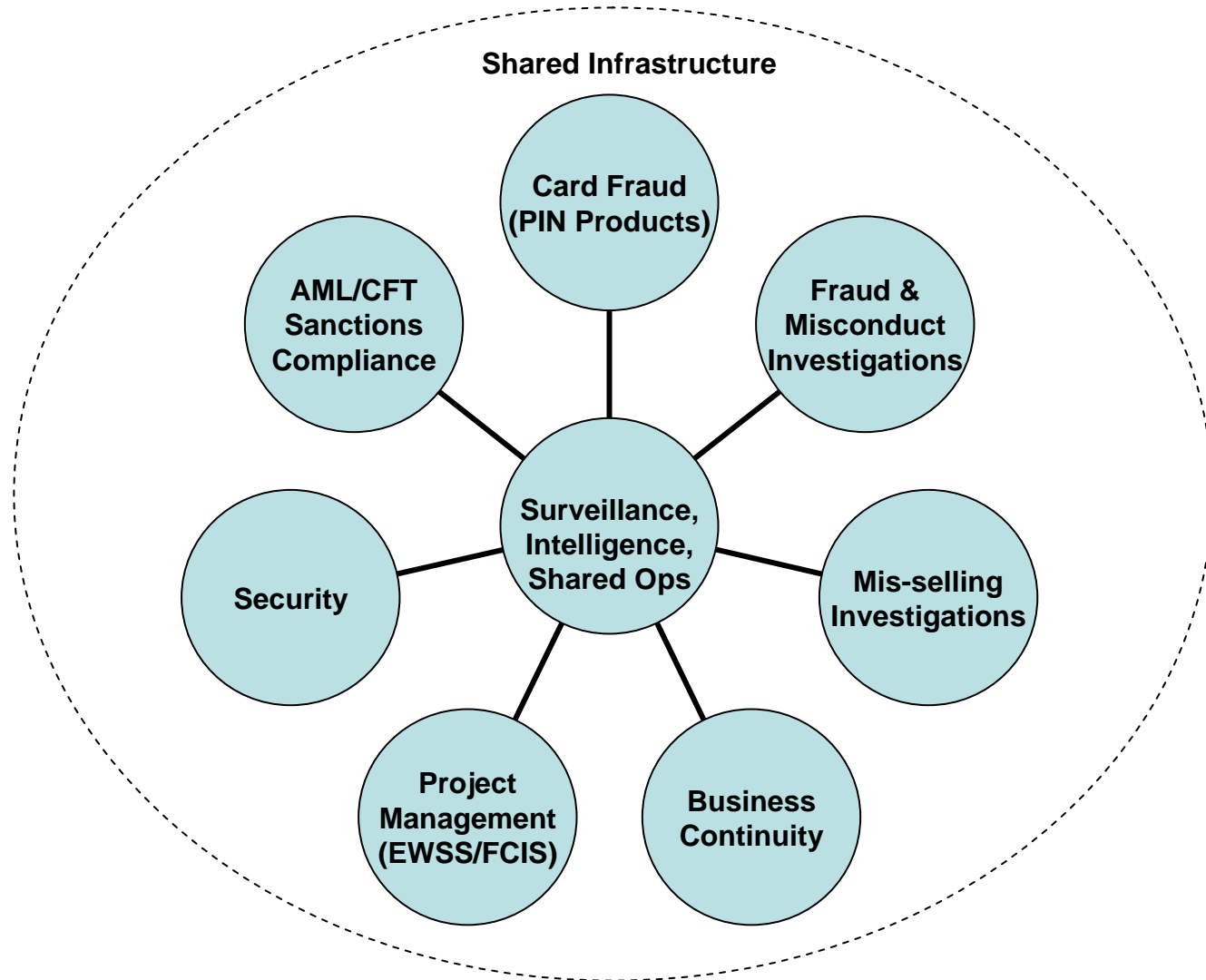


Source: National Bureau of Statistics

# Appendix F: Integrated Programmes

- ***“A global risk management programme for KYC should incorporate consistent identification and monitoring of customer accounts globally across business lines and geographical locations, as well as oversight at the parent level, in order to capture instances and patterns of unusual transactions that might otherwise go undetected. Such comprehensive treatment of customer information can significantly contribute to a bank’s overall reputational, concentration, operational and legal risk management through the detection of potentially harmful activities” .....BIS Consolidated KYC Risk Management Paper 2003***
- ***Some firms, particularly in Europe, are beginning to consolidate their financial crime efforts into one department; “Group Integrity Department” combining AML, fraud and, in some cases, security into one unit”..... Celent AML Survey 2007***
- ***AML is no longer a standalone part of compliance. .... There will be a much tighter integration of AML, internal controls and risk management in general. Risk management at all financial institutions, both large and small, will need to be more focused and a broader view of enterprise wide risk management is needed. The firms that will survive this complicated and uncertain time are those that can adapt easily and those that will learn to think out of the box when it comes to compliance and fraud prevention.... Fiserv White Paper 2009***

**Appendix G:  
Model operates on shared infrastructure and revolves around a surveillance & intelligence hub**



# Appendix H: Business Intelligence Programmes

## Event Capture & Clearing

### Event capture:

- 1)Media & bulletins
- 2)Regulatory alerts
- 3)Alerts from other offices
- 4)Investigations & SARs
- 5)Informal sources
- 6)Subpoenas/orders
- 7)BCAP capture
- 8)Email surveillance
- 9)Transaction surveillance
- 10)Internal escalation channels
- 11)External escalation channels

## Record & Report

### Event tracking & reporting:

- Indexing in FCIS (Financial Crime Intelligence System)
- Customer tagging in Core Banking systems
- Credit escalation
- STR/SAR reporting
- Metrics production
- Daily incident reports
- Weeklies
- Exco/MC/Board Reports

## Research Services

### Research:

- 1)Data selection services & vendor management
- 2)Caution list and commercial database management & training
- 3)Awareness campaigns
- 4)Pre-employment screening
- 5)Media sweeps
- 6)Enhanced due diligence research
- 7)Production order/subpoena research

# Appendix K: Attempting Global Customer Acceptance Initiatives

