KEY POINTS

- Money laundering, terrorism financing, and financial crime compliance are critical issues affecting trade and trade finance both globally and in Asia and the Pacific.
- Asia and the Pacific is particularly vulnerable to “de-risking,” where regional and international banks withdrew due to commercial drivers and (perceived) risks of financial crime.
- Public–private partnerships can improve analysis, investigation, and prosecution of financial crimes.
- Partnerships, technology, and the collection and sharing of data need to be emphasized to enhance cross-border intelligence and analysis.
- Talk must move to action with an understanding of operational and transaction realities and a focus on collecting, sharing and pursuing actionable intelligence.

Financial Crimes Compliance: The Power of Partnerships

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BACKGROUND: THE WEBINAR SERIES

The Asian Development Bank (ADB), Australian Transaction Reports and Analysis Centre (AUSTRAC), and Australia and New Zealand Banking Group Limited (ANZ) formed a unique collaboration in 2020 to host a webinar series highlighting key issues, challenges, and opportunities in financial crime compliance across Asia and the Pacific. This joint effort between a development bank, a regulator, and a private sector bank directly illustrates the overarching theme of the series: “The Power of Partnerships.”

Anti-money laundering (AML) and countering the financing of terrorism (CFT) are essential issues both globally and for Asia and the Pacific, a region that faces significant challenges to advance the efficacy of its various compliance regimes for financial crimes. Successes in Asia and the Pacific show the potential power of partnerships to tackle these issues globally.

Asia and the Pacific has been particularly affected by “de-risking,” where regional and international banks have withdrawn due to a combination of commercial drivers and (perceived) risks linked to the level of financial crime. This de-risking also reflects an assessment by banks of the adequacy of measures in the region to enhance compliance-related tools, capabilities, and technical competence.

The webinar series illustrated that important steps can and are being taken in Asia and the Pacific, demonstrating the positive impact of partnerships, the active pursuit of innovation, and the adoption of best practices.

The webinar series was structured as follows:

- Session 1: Setting the Stage—Global and Regional Perspective
- Public–Private Partnerships—Successes, Challenges, and Realities on the Ground
- Tools in Combatting AML/CFT
- AML/CFT Policy and Advocacy: Complexities and Opportunities
- Combatting AML/CFT: Forward View

The sessions were directly relevant to the priorities of Asia and the Pacific, as jurisdictions look to meet regulatory requirements and, perhaps more urgently, reduce or reverse de-risking decisions. By countering the de-risking trend, they hope to reconnect the region to global correspondent bank networks and international trade and investment flow.

The webinar series and multiple case studies that were presented offer several observations that have sufficient promise to serve as the basis for deliberation and action in other parts of the world. On that basis, the three co-hosts of the event highlight selected elements of the webinar series for a wider audience.

CONTEXT: FINANCIAL CRIME

Criminals and terrorists use the banking and financial system to hide, move, and spend money. The financial system is indispensable to criminal activity, both to its execution and to handling its proceeds.

Monitoring the flow of funds in the financial system can be a critical element of the wider intelligence and investigative effort to stop crimes or terrorist attacks and prosecute perpetrators. Authorities increasingly expect that the finance sector not only ensures compliance with financial crime regulation but that entities in the sector become critical contributors to investigative efforts.

“ANZ continues to invest and aspire to be a leading digital bank. New and emerging technologies provide many exciting opportunities, but unfortunately, they provide criminals with new ways to prey on the communities we support. This has accelerated the proliferation of financial crimes, which have become big business, and much of the profit is laundered through the global financial system. Along with these financial impacts are grave human consequences. Therefore, we must continue to work closely as a finance community to remain on the front foot developing technologies and evolving methods to combat these threats.”

Lisa Vasic, Managing Director, Transaction Banking,
Australia and New Zealand Banking Group Limited

Criminals and terrorists are becoming increasingly advanced in their use of financial fraud, money laundering, and related techniques. Financial services firms and investigative, intelligence, and regulatory authorities are likewise devising new techniques to thwart abuse of the financial system for illicit purposes.

“There is a gap. The public sector, primarily law enforcement, targets the threat—individual or organization, while the finance sector works to protect the “financial rails” from being used to support criminal and terrorist activity. Operations are happening in silos, resulting in a misallocation and inefficient use of resources. Banks often don’t understand how law enforcement builds a case; law enforcement doesn’t understand the role of banks.”

Michael Messier, Senior Advisor,
Global Compliance & Strategic Solutions LLC

Arguably the most underutilized asset of those involved in detecting and fighting financial crime is the ability to link up in true and substantive partnerships, in principle, in strategy and approach, and execution.

PARTNERSHIPS

There is a unique dynamic between law enforcement, regulatory authorities, and the banks and financial institutions they need to work with to counter financial crime. Open dialogue and trust can be challenging to develop, and information-sharing is complicated. Some of the realities that contribute to this unhelpful situation include:

- legal or regulatory limits on data-sharing, especially across borders;
- the (understandable) authority dynamic between regulators and those being regulated;
- capacity constraints among intelligence and law enforcement authorities in being able to focus on and investigate financial crime; and
- a culture of confidentiality in the financial system extends beyond what is legally necessary and impedes dialogue and information or intelligence-sharing.

Some of these barriers to partnership exist for legitimate reasons, while others could be eliminated or reduced. What is needed is a broad realization among interested parties that public and/or private, industry/regulator/investigator partnerships are fundamental to success in combatting financial crime and its predicate crimes. True partnership models stand out when they are achieved.

“Financial intelligence is being increasingly used by law enforcement and intelligence agencies, with partnership at the very foundation of how we work at AUSTRAC. Money is the driver for almost all serious and organized crime, and where it’s not, it’s inevitably a key enabler. AUSTRAC receives over 160 million transaction reports each year; they form the backbone of our financial crimes analysis. Analysts utilize this data and transform it into actionable financial intelligence products sharing these products and our data with nearly 6,000 officers across Australia to support them in their criminal investigations..”

Chris Collett, Deputy CEO, AUSTRAC

The evolution of those successful partnerships, from initial conversations to substantive coordinated action, holds lessons of great value for other jurisdictions.

The private sector wants to be part of the solution, even as its members walk a fine line between engagement with authorities and the risk of inadvertently falling afoul of the rules, not least because standards and expectations can vary significantly between jurisdictions. Public sector authorities are also increasingly open to adopting partnership approaches, as they also navigate the right balance between collaboration and the need to maintain an appropriate regulatory posture relative to the finance sector.

“Corruption touches every sector of the economy. Corruption proceeds from the region are more likely to be laundered in the region, typically through the banking system. Politically Exposed Persons (PEPs) are a high-risk element and must be the subject of greater due diligence. Financial institutions and Financial Intelligence Units (FIUs) need greater clarity and certainty on the definition of a PEP, and would benefit from more guidance, technical notes, and rich information on red flags and relevant typologies.”

Dian Ediana Rae, Chair, PPATK, Indonesia

EVOLVING THE PARTNERSHIP MODEL

The industry supports the public-private partnerships (PPP) model, even while acknowledging the complexities and challenges it raises in practice. The fundamental importance of such an approach is coming sharply into focus as the financial crimes space gets more complex.

“Financial crimes and illicit financial flows erode trust in public institutions that are so crucial for governments to succeed in their public tasks. The private sector is critical in addressing the large market gaps that exist across Asia and the Pacific.”

John Versantvoort, Head,
Office of Anticorruption and Integrity
Asian Development Bank

Political support is critical for the evolution of PPPs. Well-informed political authorities can facilitate the setup and success of PPP in financial crimes compliance. Those without the knowledge needed to play a part will be ineffectual at best and a significant obstacle at worst.

“We are all of the same minds in believing that engaging effectively in advocacy, that guidance from the Financial Action Task Force, the Asia Pacific Group on Money Laundering and the like is critical in improving regulation, enhancing compliance, and advancing the fight against financial crime. While there is a big need to enhance AML/CFT literacy at all levels of society, we must start with our political leaders. If we aspire to make a difference in our efforts to fight financial crimes, we should begin the advocacy with our leaders.”

Ngongo Kioa, Governor, Central Bank of Tonga

The power of partnerships and the receptiveness to adapt and adopt best practices from other regions of the world are fundamental to progress in Asia and the Pacific and jurisdictions worldwide. Highlighting the need to enhance literacy in financial crime is both principled and necessary: even some of the most advanced financial intelligence units (FIUs) worldwide are just beginning to grapple with the importance of countering trade-based money laundering, for example.

Awareness-raising among political leaders, regulatory authorities, private sector players, and other stakeholders is the foundation for the fight against financial crime and related criminal and terrorist activities. Given the cross-border nature of financial crime, solutions need to be global. Success in Asia and the Pacific will ripple out to other jurisdictions and reduce the options of criminals, who seek out and exploit local weaknesses wherever they can find them.

“ANZ has a presence in 12 countries across the Pacific. We believe we have an important role to play, alongside governments and regulators, in keeping the region safe. Quite simply, combatting financial crime is crucial to ensuring remittance corridors remain open, compliant, and efficient. It is a lot more than a policy or a procedure; it is about keeping the criminals who can do immense harm to our communities out. Our success in combatting financial crime will require strong collaboration between all stakeholders. Partnerships will help us future-proof the model. We are encouraged by continued efforts to develop private and public partnerships, including the Fintel Alliance led by AUSTRAC, which ANZ supports.”

Tessa Price, Regional Executive for the Pacific,
Australia and New Zealand Banking Group Limited

Advocacy is needed to advance the evolution of PPPs, and by extension, improve the efficacy and impact of financial crimes compliance. This must include both awareness and literacy on the issues at the political level, leading to greater collaboration among international bodies and institutions engaged in the fight against financial crime.

Collaboration does not imply a loss of sovereign authority or a compromise of security and confidentiality. Thought leaders in AML/CFT and financial crimes compliance genuinely see the potential to devise effective, secure, and appropriately inclusive partnerships with full consideration for authorities' concerns around issues connected to PPPs.

Calls are increasing for a smarter, more strategic use of technology and data and related analytics in the fight against financial crimes. This is relevant to both the finance sector, where detection and reporting of suspicious activities are initiated, and in law enforcement and government, where investigation, intelligence-gathering, and analysis can benefit substantially, leading to the prosecution of crimes.

For one example, advocacy and the smarter use of technology connect where data sharing is enabled due to informed political decision-making. In such cases, technology and analytics can be applied against data across jurisdictions to gather actionable intelligence and build solid prosecution cases.

When these elements do not connect, opportunities are lost.

“There are opportunities to share resources between banks and FIU. PPPs are a first step, but the creation of “resource clusters” with resources contributed by banks and public sector entities to support country-level AML/CFT functions. Such models can be useful in areas such as the Pacific region, and can be very valuable in collecting and sharing actionable intelligence.”

David Shannon, Director,
Asia Pacific Group on Money Laundering

The United Nations Office on Drugs and Crime platform goAML collects data from 79,000 reporting agencies and banks, from inception covering over one billion transactions worldwide. The potential intelligence, analytical, and prosecutorial value of aggregating this much information into a centralized data warehouse is obvious, yet legislative constraints on cross-border data sharing impede progress.

The banking system itself also needs to consider its actions regarding AML/CFT engagement. Following the Global Financial Crisis of 2008, banks consolidated and re-trenched. They exited entire markets and dissolved correspondent bank relationships as well as corporate and commercial relationships. De-risking is the term used to cover the result, but that only partially reflects the underlying basis or motivation for the action, which left parts of the

world dangerously disconnected from the global financial system and, therefore, from international trade.

De-risking has been justified based on the need to exit relationships that failed to meet thresholds related to financial crimes compliance. This is undoubtedly the case in some instances. But profitability and the commercial viability of relationships were also part of the calculus, even if they were less widely discussed. A second dimension for banks has been the level of detail required in customer and counterparty due diligence and know your customer (KYC) or know your customer's customer (KYCC) activities aimed at meeting regulatory requirements.

Various guidance notes and other references published by regulatory authorities and supervisory bodies have helped clear up some misconceptions. However, a more open, substantive, and trust-based collaborative dynamic between authorities and banks will help in the shared fight against financial crimes.

CONCRETE ACTION

“In the conduct of investigations, the last thing law enforcement wants is to have a bank account closed, especially if an individual or organization linked to that account is being targeted. The loss of intelligence is significant and unhelpful. Banks also have an opportunity to better integrate compliance and KYC activities into the sales and business development process. Open communications between internal compliance units and line of business staff can enhance compliance and identify new opportunities to serve a client while improving the collection of actionable intelligence and improving collaboration with regulatory and law enforcement entities. These issues are even more relevant now when we are seeing money laundering evolving from a transfer of funds to a transfer of value, for example, through informal networks.”

Michael Messier, Senior Advisor,
Global Compliance & Strategic Solutions LLC

Industry-level collaboration in the form of KYC utilities, such as the one created by Belgium-based SWIFT, or the one envisioned as a central KYC utility for Asia and the Pacific, reflects how collaboration and partnership are evolving and will materially enhance the fight against financial crime. Development and adoption of such centralized utilities offer the added benefit of leveraging KYC efforts and data, thus reducing the cost of KYC overall and potentially removing or reducing the compliance cost element of a de-risking argument.

Increasing attention to AML/CFT-related Suspicious Activity Reports (SARs) also referred to as Suspicious Matter Reports and Suspicious Transaction Reports, is evident in various jurisdictions, including the United States, the United Kingdom, and Hong Kong, China. Updating processes, enhancing data collection, reporting,

and analysis, and evolving SARs to be fit-for-purpose for specialist areas like trade and trade finance are areas of focus.

An ADB-led initiative, featured in the latest Financial Action Task Force/Egmont Trade-based Money Laundering: Trends and Developments, is intended to enrich the data reported through the SAR filing process to generate higher-quality, actionable intelligence. With a focus on Asia and the Pacific, it is supported by Indonesia's Financial Intelligence Unit, the Asia Pacific Group, and others acting in an observer/advisory capacity, including AUSTRAC. goAML has expressed support in principle, as have several other FIUs, most recently Hong Kong, China. A feedback process from FIUs to filing entities aims to enhance the quality of SARs and reduce the volume of poor-quality and/or "defensive" SARs filed by banks. It should reduce the diversion of already limited intelligence and analytical resources now used to review low-value SARs.

"The Asian Development Bank-led Trade STR initiative takes a good amount of inspiration from the 2012 TBML Typology report by the Asia Pacific Group on Money Laundering, where they emphasized the fact that the lack of reliable trade-based money laundering (TBML) statistics has greatly impeded the efforts of regulators to identify trends effectively, build a case for TBML investigation, and efficiently exchange formatted and harmonized TBML data with other jurisdictions. Hence, one of APG's policy recommendations is to have standard formatting of how TBML statistics are to be recorded and maintained so that trends are more easily identifiable. And this is something that is perfectly aligned with our proposal to include trade-relevant data elements in existing STR formats. We consulted with the Singapore working group on this—in a workshop convened by the ADB—and we found out that there is so much trade data that are readily available in the banks, especially those that relate to trade finance transactions. We think that these efforts to enhance STR data quality could potentially make a substantial difference in the fight against TBML."

Catherine Daza-Estrada,
Consultant (AML-CFT),
Trade and Supply Chain Finance Program
Asian Development Bank

Figure 1: Suspicious Transaction Reports in Trade

Source: KPMG Proof of Concept on the use of Machine Learning in Transaction Monitoring, Pacific AML-CFT Webinar, December 2020.

Figure 2: Personal Remittances Received in Pacific Island Small States (% of GDP)

GDP = gross domestic product
Source: World Bank Group. Personal remittances received (% of GDP) - Pacific island small states | Data (worldbank.org).

Financial crimes are also often facilitated by or perpetrated through cross-border remittances, which represent a significant—even critically important—inflow of funds for many developing economies worldwide, including jurisdictions across the Pacific region.

According to an analysis by the World Bank, inbound remittances represent a staggering 37.2% of GDP in Tonga, for example. Given this reality, the need to ensure ongoing flows while simultaneously addressing the AML/CFT concerns of authorities, international bodies, and financial institutions presents a complex balancing act.

However, the ADB/AUSTRAC/ANZ webinar series highlighted that support from local authorities, innovative approaches, and a genuine desire to develop substantive collaborations and partnerships can lead to game-changing outcomes.

The Tonga Development Bank presented the 'AVE PA'ANGA PAU solution: a program that aims to enable affordable remittance transactions into Tonga, shifting these flows from black or gray market players where the risk of illicit activity is multiplied to the legitimate finance sector.

Figure 3: Tonga Development Bank—Affordable Remittance Flow Solution

a shift to substantive collaboration, the impact of financial crimes compliance activities can be leveraged, and success can grow exponentially.

Without this fundamental evolution, progress in fighting financial crime and its predicates will be marginal at best, or its impact relative to growing financial crime activity will get proportionately smaller with time.

Asia and the Pacific has an excellent opportunity to advance its ability to combat financial crime. Significant pressure exists to do so, given the need for Asia and the Pacific to engage with the global financial and trade system closer. There is a willingness to address the need for awareness-raising and political engagement and multiple concrete and innovative initiatives aimed at these issues. There is also the opportunity to learn from and engage with world-class partnership models.

Success for Asia and the Pacific will encourage and enable other jurisdictions facing similar challenges. Financial crimes and inadequate or ill-designed reporting systems exact a huge direct and indirect toll on economies, societies, and communities. The urgency of addressing AML/CFT through substantive partnerships and the application of best practices cannot be overstated.

This effort demonstrates the importance of cooperation and partnership between the private sector, regulators, and others involved in combatting financial crime. This kind of cooperation is a key component of ADB's support for the growth of its developing member countries, and something we at ADB's Private Sector Operations Department value across the range of issues we work on."

*Suzanne Gaboury, Director General,
Private Sector Operations Department, ADB*

CONCLUSION

Financial crime needs to be addressed through focused investigation under a context in which effective, successful interventions from intelligence analysts, law enforcement entities, and supervisory and/or regulatory authorities can be aimed at the issue. Technology is evolving, professionalism is rising through the Association of Certified Anti-Money-Laundering Specialists, and powerful and deep analytics are available.

Collaboration and partnership—moving beyond niceties and grand pronouncements to substance—can have a significant impact. If we can further develop trust between key stakeholders, and encourage

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ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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