AML Knowledge-Sharing: Latest Challenges

David Clark, CAMS  
Financial Crime Leader, *GE Capital International (UK)*

John Ward  
Senior Manager FCR, Legal & Compliance, Consumer Banking  
*Standard Chartered Bank (SG)*

Erik Wilgenhof Plante, CAMS  
Senior Manager – Compliance SE Asia, *PayPal (SG)*

SGChapter@acams.org
Disclaimer

The opinions expressed in this presentation are those of the presenter and do not necessarily represent the views of GE Capital.
IF...

1. Your institution has AML, and Sanctions, and Anti-Bribery & Corruption together in one Compliance function.

SGChapter@acams.org
if...

1. Your institution has AML, and Sanctions, and Anti- Bribery & corruption together in one Compliance function.

   Please Keep your hands up IF...

2. Your institution also includes Fraud in this functional grouping.
Singapore Chapter Launch

Foreign Corrupt Practices Act (FCPA)

The Bribery Act 2010

Know Risk!

SGChapter@acams.org
Singapore Chapter Launch
Singapore Chapter Launch

SGChapter@acams.org
ACAMS® Association of Certified Anti-Money Laundering Specialists®

Singapore Chapter Launch

Enterprise-wide Risk Management

ABC TM
AML TM
Fraud
Market Surv.

SGChapter@acams.org
“The only evidence I have is that we are not getting the money. We have evidence of the quantities that are being mined and exported – but nothing is coming into the fiscus. I don’t know where it is going. It is not coming to us. That means some person is getting it. They are not getting it legally. So he or she is a thief.”

Tenda Biti, Zimbabwe’s Finance Minister
“The only evidence I have is that we are not getting the money. We have evidence of the quantities that are being mined and exported – but nothing is coming into the fiscus. I don’t know where it is going. It is not coming to us. That means some person is getting it. They are not getting it legally. So he or she is a thief.” Tenda Biti, Zimbabwe’s Finance Minister

Journalist: “...you can appreciate why I am saying this. Because my client is from Zimbabwe and he’s the liaison officer between the Zimbabwean government and the rich diamond mines.”
“The only evidence I have is that we are not getting the money. We have evidence of the quantities that are being mined and exported – but nothing is coming into the fiscus. I don’t know where it is going. It is not coming to us. That means some person is getting it. They are not getting it legally. So he or she is a thief.”
Tenda Biti, Zimbabwe’s Finance Minister

Journalist: “…you can appreciate why I am saying this. Because my client is from Zimbabwe and he’s the liaison officer between the Zimbabwean government and the rich diamond mines.”

Zen: “Yep, we don’t want to know that. That is the sort of thing we can’t have knowledge of. If we have knowledge of that, we have to put it forwards. So I haven’t heard a word you said in the last couple of minutes.”
“The only evidence I have is that we are not getting the money. We have evidence of the quantities that are being mined and exported – but nothing is coming into the fiscus. I don’t know where it is going. It is not coming to us. That means some person is getting it. They are not getting it legally. So he or she is a thief.”
Tenda Biti, Zimbabwe’s Finance Minister

Journalist: “... you can appreciate why I am saying this. Because my client is from Zimbabwe and he’s the liaison officer between the Zimbabwean government and the rich diamond mines.”

Zen: “Yep, we don’t want to know that. That is the sort of thing we can’t have knowledge of. If we have knowledge of that, we have to put it forwards. So I haven’t heard a word you said in the last couple of minutes.

Zen: You can put a company inside a company inside a company if you want to. <all registered in different offshore jurisdictions; it makes it impossible to trace because> No-one is going to try to chase that sort of information.
Delaware, Den of Thieves? 01/11/13

Last month, Representatives Maxine Waters of California and Carolyn B. Maloney of New York, the top Democrats on the House Financial Services Committee, introduced legislation that would require United States corporations to disclose to the Treasury Department their beneficial owners. On Thursday, Prime Minister David Cameron of Britain went even further, that a planned national registry of companies’ true owners would be open to the public, not just to law enforcement authorities.
Delaware, Den of Thieves? 01/11/13
Last month, Representatives Maxine Waters of California and Carolyn B. Maloney of New York, the top Democrats on the House Financial Services Committee, introduced legislation that would require United States corporations to disclose to the Treasury Department their beneficial owners. On Thursday, Prime Minister David Cameron of Britain went even further, that a planned national registry of companies’ true owners would be open to the public, not just to law enforcement authorities.

We need to know who really owns and controls our companies, not just who owns them legally, but who really benefits financially from their existence. Illegality…is bad for the developing world, as corrupt regimes can stash their money abroad under different identities… illegality…<is bad for the> economy too, as people evade their taxes through untraceable trails of paperwork. Not only is this hugely unfair to the millions of hard working people…who pay their taxes, it is also bad for business.. So that’s why we need to shine a spotlight on who owns what and where money is really flowing.

SGChapter@acams.org
Not a cloud in sight.... !
Exposure yourself to US Law & Regulation

Which of the following BEST describes the geographic footprint of your customer base? (479 responders)

- ONLY in the U.S. 25.1%
- Primarily within the U.S. with minimum exposure to other countries 23.8%
- Primarily outside of the U.S. with minimum exposure to the U.S. 21.5%
- Split fairly equally between the U.S. and other countries 17.1%
- ONLY outside the U.S. 12.5%

SGChapter@acams.org
Licci v. Lebanese Canadian Bank
New York’s ever-growing jurisdiction over foreign financial institutions
Regulators in Washington have accomplished what the global financial crisis could not: drive Jamie Dimon’s JPMorgan Chase to a quarterly loss. The country’s largest bank announced a **loss of $380 million** this morning, after booking more than $9 billion in legal charges in response to an onslaught of government investigations. “While we had strong underlying performance across the businesses, unfortunately, the quarter was marred by large legal expense,” chief executive officer Dimon said in a statement. “We continuously evaluate our legal reserves, but in this highly charged and unpredictable environment, with escalating demands and penalties from multiple government agencies, we thought it was prudent to significantly strengthen them.”

Dimon agreed to pay **nearly $1 billion** Sept. 19 to settle charges with four agencies in the United States and United Kingdom related to its “London Whale” trading fiasco, which cost the company more than $6 billion in losses and knocked JPMorgan off its pedestal as the most respected bank in the land. But JPMorgan still faces a potential $11 billion settlement over alleged wrongdoing in its mortgage business. It’s also under investigation for a **possible violation of bribery laws in Asia**. In July JPMorgan agreed to pay **$410 million** to resolve a Federal Energy Regulatory Commission probe into its energy trading unit. And the Whale saga is not quite over: two former employees of the London office that made the trades were indicted Sept. 16 on charges of securities fraud.
Hervé Falciani, a former employee of banking group HSBC in Geneva, was arrested in July 2012 on an international warrant after he left France by sea and tried to enter Spain through the northeastern port of Barcelona.

The former banker was held in custody until December, when he was given a conditional release. He is now fighting extradition to Switzerland, where he is accused of stealing information between 2006 and 2007 related to at least 24,000 customers with private accounts with the Swiss division of HSBC. He appeared before an extradition hearing on April 15. A court decision is expected in the coming weeks.

France's former finance minister, Christine Lagarde, now head of the International Monetary Fund, passed the list on to the US and several European Union countries, thereby exposing many of the bank's clients to prosecution for tax evasion.

The documents have added more pressure on Switzerland from its European neighbours and the United States to crack down on tax evasion.
Still in the Dark Ages

Time-Consuming and Manual Process
Performing an AML Risk Assessment and gathering Customer Due Diligence is currently a cumbersome, complex and time-consuming, manual operation. According to the survey:

1. Only 5% of financial institutions have fully automated AML Risk Assessment or Customer Due Diligence systems,

2. Nearly two-thirds (62%) use manual spreadsheets or documents to conduct and track internal AML Risk Assessment, and

3. 18% spend a quarter of the year or longer to complete their AML Risk Assessment process.
And the Enlightenment

• Automated Dynamic Risk Rating
  – Risk rating methodologies at on boarding (product, geography, business, and customer type)
  – Risk rating post on-boarding (trigger events & changing customer risk rating)
  – Risk elements and risk reasons
  – Customer transaction profiling (leveraging off existing TS and developing detection scenarios)
Lancore Services Ltd -v- Barclays Bank Plc; CA 23-Jul-2009

Subject to a limited exception in the case of IPSPs and MSPs (as identified above), the Scheme Rules prohibit, and prohibited, "aggregation" (sometimes referred to as "laundering"). This occurs when a merchant who has entered into an MSA processes card transactions for the supply of goods or the provision of services by a third party who has not entered into an MSA. If a merchant aggregates, there is nothing in the data submitted to the merchant acquirer or the card issuer to alert them to that fact. In such a situation, goods and services are being supplied by an entity which has not been scrutinised by the merchant acquirer. Often it occurs precisely because the supplier does not want to be the subject of such scrutiny. In such circumstances, aggregation can be a cloak for transactions which are illegal, of a sort which a merchant acquirer would not wish to be associated with, and in respect of which it would not have entered into an MSA with the true supplier had it been approached to do so.

Aggregation therefore presents particular risks for both merchant acquirers and for card issuers. Because the merchant acquirer does not know the true nature of the transactions being entered into, it is not in a position to assess the extent of, or to mitigate, the chargeback risk, the risk of sanction under the Scheme Rules, reputational risk, or regulatory risk. Because a UK card issuer has a potential liability to cardholders arising out of section 75 of the Consumer Credit Act 1974 in relation to each transaction, aggregation means that the card issuer may be potentially exposed to claims in respect of transactions with suppliers who choose not to be the subject of scrutiny or due diligence by a merchant acquirer, and with whom the merchant acquirer might not have been prepared, or allowed, to deal at all. Because aggregation is regarded as a risk to the integrity of the system as a whole, it was, and is, a fundamental obligation on a merchant acquirer that, for each merchant, there should be a separate and distinct merchant number, and that the transactions processed by that merchant should be settled by the merchant acquirer into a bank account in that merchant's name. The Scheme Rules also prohibit, and prohibited, the processing of payment data in respect of illegal transactions.

Where have all the profits gone........?
Online Money Laundering
The first ever online transaction

In 1971 or 1972, Stanford students using Arpanet accounts at Stanford University's Artificial Intelligence Laboratory engaged in a commercial transaction with their counterparts at Massachusetts Institute of Technology.

Before Amazon, before eBay, the seminal act of e-commerce was a drug deal. The students used the network to quietly arrange the sale of an undetermined amount of marijuana.
Online Money Laundering; the early days

Drug lords and other bad guys have found a new way to launder money: via online "virtual world" games that have thousands of players worldwide. "Drug cartels are having great success laundering money and buying property in scores of different nations by using Internet games,"
In 2008 a money laundering operation (working with gold farmers and MMO account thieves) was busted while trying to move $38 million between Korea and China. The money laundering ring reportedly sold game money illegally produced in China using cheap labor and virus programs. They are believed to have taken a commission of three to five percent of the money traded to purchase game money."

Games that attract Gold Farmers include World of Warcraft, League of Legends and Runescape.
Liberty Reserve was a Costa Rica-based website that billed itself as the "oldest, safest and most popular payment processor ... serving millions all around a world".

In 2011, Liberty Reserve was linked to attempts to sell thousands of stolen Australian bank account numbers and British bank cards. In 2012, a group of hackers attempted to blackmail anti-virus software company Symantec into transferring $50,000 into a Liberty Reserve account.

The site had over one million users when it was shut down by the United States government. Prosecutors argued that due to lax security, alleged criminal activity largely went undetected, which ultimately led to them seizing the service in May 2013.

Liberty Reserve purposely used “willful blindness” by not requiring any form of identification at all.
Bitcoin is a distributed, peer-to-peer digital currency that functions without the intermediation of any central authority. The concept was introduced in a 2008 paper by a pseudonymous developer known as "Satoshi Nakamoto".

Other versions of cryptocurrency are:

- Litecoin
- Namecoin
- PP coin

All cryptocurrencies have one factor in common with fiat currencies; users need to trust the source.

Hundreds of real life legitimate vendors already accept Bitcoin.

SGChapter@acams.org
Silk Road was an online trading place that let anonymous users trade drugs and illegal services using Bitcoin.

On October 2, 2013, Ross William Ulbricht, alleged by the FBI to be the owner of Silk Road and the person behind the pseudonym "Dread Pirate Roberts," was arrested in San Francisco.

The site was seized but alternate sites have already sprung up
Tech Revolution

Digital Banking

Will the consumers .... Ahem ! ...money launderers love it