SPEECHES & INTERVIEWS

Governor's Keynote Address at the 10th International Conference on Financial Crime and Terrorism Financing - "Reshaping Malaysia's Future – Setting the goal for greater governance and transparency"

Speaker: Datuk Nor Shamsiah Mohd Yunus / Venue: Shangri-la Hotel, Kuala Lumpur / Language: English / Speech Date: 30 Oct 2018

A very good morning to all of you. It is my pleasure to address all of you today at this very important conference.

Financial crime. Terrorism financing. Corruption and money laundering. These are heavy words that carry the feelings of outrage and displeasure, amongst others. The United Nations Office of Drugs and Crime estimates that every year globally, a staggering amount of USD2.6 trillion is stolen through corruption.

Yet, I suspect, in reality, figures like these are so large that many may find it hard to relate to it. To put it in perspective, the figure is around eight times larger than the Malaysian economy. Let us also take the UN Sustainable Development Goals that aims to improve the lives of the poor, improve governance and address inequality. Some estimate that it will take around USD5-7 trillion to meet all the SDGs. This represents 2-3 years' worth of money lost to corruption. In other words, the money lost through financial crimes is a devastating opportunity cost, draining the resources that could have been used to permanently uplift the lives of billions in this world.

Thus, the human and societal cost is very real. It is pervasive and destructive, rippling across society, and if left unattended, will accumulate over time. Imagine the thousands of schools that could have been built, numerous hospitals with the best care and the strongest social safety nets that can help those most in need. The persistence of financial crimes will disproportionately impact the most vulnerable section of society. It erodes trust and leads to a breakdown in society.

We in the financial sector have an instrumental role to play in this area. Our job involves the intermediation of money flows. We have the ability to prevent and facilitate investigations and prosecution of these crimes.

In light of this, allow me to make three points on how we can achieve greater governance and transparency in the financial sector, which will reshape Malaysia's future for the better.

Shared responsibility to enhance compliance and prevention

The first point that I would like to make is that combating financial crime is a shared responsibility. It is not the sole responsibility of central bank supervisors, financial intelligent units, banks or even the compliance function within financial institutions.

Just as individuals, all of us have a collective responsibility to contribute to nation building, it is the responsibility of each player in the financial system, law enforcement agencies, prosecution agencies and the judiciary to look out for potential abuses, stamp out financial crimes and not let the perpetrators get away.

For financial crimes do not occur in isolation. They are a conduit for other forms of serious crimes. Almost all forms of serious crimes, such as human trafficking, drug trade and organised syndicates fund their activities through some form of financial crime. As such, financial crimes are inherently complex, and often will involve multiple enforcement agencies, sometimes even across borders. This reinforces the call for greater shared responsibility to shine a light on these dark areas of the financial system.

One of the key ways to exercise this responsibility is through the sharing of information. More effectively, this means putting in place an effective and mutually reinforcing ecosystem or platform where the relevant parties are able to partner together to report and investigate financial crime.

In Malaysia, this is a burgeoning area that we are looking to deepen. We are encouraged by the early results that explores adapting the public-private partnership model of other countries such as the United Kingdom and Australia. So far, partnerships between the Royal Malaysian Police, selected financial institutions and money services businesses have resulted in 9 successful cases being prosecuted in the area of terrorism and terrorism financing.

The idea behind these partnerships is to make intelligence sharing more meaningful and create an ecosystem where various pieces of the 'jigsaw puzzle' can be put together. Different parties will have different access to information and different comparative advantages. Fusing and complementing them will add to the number of cases that can be detected and prosecuted. This will also act as a deterrent as it signals the commitment and extent to which the relevant authorities and the industry will go to stamp out crime. Hence, we are looking forward to expand this partnership for different types of crimes.

Organisations such as the Compliance Officers Networking Group of Malaysia (CONG) and the industry associations can also play a role in enhancing the professionalism and capacity building of compliance officers in Malaysia. The development of human capital is essential in our efforts to combat financial crime. It is our biggest asset, more than any technology.

For Bank Negara Malaysia, we will also play our role by ensuring that the regulatory and supervisory framework will provide the necessary environment to prevent, detect and prosecute financial crimes. For us, fighting financial crime is not just about increasing the compliance cost of banks through greater reporting requirements.

Instead, we are committed to ensure that the financial sector is well-equipped to support our law enforcement agencies in order to avert these threats. Since the beginning of this year, we have published Red Flag and Typologies reports on several type of crimes including terrorism and proliferation financing, corruption and fraud.

These reports aims to provide insights and create awareness, amongst the reporting institutions, of the trends, methods, and techniques used in these crimes. Enhanced understanding of such risks would assist reporting institutions in identification and early detection in order to assist law enforcement agencies to combat such crimes. While improving understanding is crucial, it also needs to be complemented with concrete actions that would improve the effectiveness of preventive and enforcement actions. For example, this could be done by incorporating and overlaying these insights into the transaction monitoring process and customer profiling.

The implementation of the Financial Action Task Force (FATF) recommendations will allow more effective actions to be undertaken. Both aspects of compliance, that is, technical and effectiveness, are equally important. The philosophy behind the intended outcomes is the integrated manner in which countries should combat financial crimes. This would require cooperation from all parties involved and encompass the whole eco-system of combating financial crime: investigation, prosecution, conviction and confiscation. No stone should be left unturned. FATF in its 2015 evaluation, recognised Malaysia as having high technical compliance but called on Malaysia to ensure greater effectiveness in producing the desired outcomes of our system especially in the area of investigation, prosecution, and forfeiture of laundered properties.

Understanding of new and emerging risks and having a comprehensive toolkit

My second point is the need to have a deep understanding of new and emerging risks and a comprehensive toolkit to effectively execute our shared responsibility to eradicate financial crime. All of you may have heard this many times, but it is worth restating that the rapid advancement in technology is a major running story for our age. While this presents wonderful opportunities for economic development, it also creates attendant risks and fresh set of challenges.

As such, it is important for the industry to be aware of the trade-offs that come with adoption of these technologies. In pushing the boundaries of innovation, the industry needs to understand the risks that they pose.

One example is the rise of mobile banking, e-payments and virtual assets. In Malaysia, mobile banking transactions have multiplied greatly, from around 500 million transactions in 2016 to almost 1.3 trillion transactions in August this year. The ubiquity of mobile internet and increasing dependency on our smartphones is expected to increase the importance of this medium.

This technology fosters financial inclusion and offers potential for greater customer engagement. One such potential is in meeting and strengthening know-your-customer requirements. By leveraging on technology, financial institutions will be able to conduct e-KYC with greater efficiency while making the customer experience more seamless. One such solution is being tested in the Bank's FinTech sandbox.

Another area of growth comes from virtual assets. Between the end of 2016 to date, market capitalisation of virtual assets have grown by an extraordinary rate of over 1000% from around USD 20 billion to around USD 200 billion.

While the technologies behind virtual assets may present great potential to revolutionise the way we conduct finance, the risks associated with virtual assets is an area that deserves much scrutiny. Features that may allow anonymous or pseudonymous transactions and easier cross-border transfers of values carry money laundering and terrorism financing risks that need to be addressed. The fact that the reason for many virtual currencies is to skirt the formal financial system adds further to the reservations of many.

On this front, the Financial Action Task Force (FATF) has published a number of reports on risks and guidance for risk-based approach in mitigating money laundering risks associated with technology such as virtual assets and internet-based payment services. Understanding, monitoring and supervising virtual assets would require development of new techniques and methods.

Last but not least, in watching out for new and emerging risks, we must not forget that old risks may rear its head in new ways. There are two issues in relation to this:

Firstly, while the number of terrorist attacks have declined over the past few years, the nature of terrorism and terrorism financing have evolved. New modus operandi such as lone-wolf attacks and remote terrorist cells, as well as availability of new products in the financial sector, such as prepaid cards and mobile banking, has given rise to new patterns and methods of financing terrorism that are different from a decade ago. We must not forget that dealing with these financial crimes should remain a high priority due to the direct and immediate human costs involved.

Secondly, we must also not forget that even with the emergence of the technologies described earlier, we are still very much reliant on cash. Demand for cash worldwide continues to rise. For Malaysia, currency in circulation has increased by around 150% over the past decade. However, if we scale it to the country's GDP, it was in the range between 6.1 to 6.9% over the past five years. Thus, despite the headway we have made in advancing e-payments, the persistency of cash among the public and small and medium sized businesses remains high. This opens up the economy to risks as cash is still being used by criminals to launder illegal proceeds, as we have seen from some high-profile cases over the past year or so. Similarly, this is the preferred mode to finance terrorist activities, which will involve transacting in cash.

Therefore, it is timely for us to look at ways to strengthen the controls to mitigate financial crime; namely the cash threshold reporting requirement. When we compare Malaysia with other countries, our current threshold is too high and disconnected from the size of our economy, especially relative to our purchasing power. Hence, it needs to be updated. In this regard, we would like to announce that we will be lowering the daily cash threshold report to RM25,000 effective 1 January 2019.

This will bring the cash threshold report in Malaysia to be more at par with other countries. We do not anticipate any impact in terms of economic activity but an increase in effectiveness in taming the black economy that is still heavily reliant on cash transactions.

Robust compliance function

The compliance function of a financial institution is an important element in mitigating risks of abuse of the financial system, especially financial crime and terrorism financing risks. To this end, financial institutions are expected to ensure that the compliance function is independent and have sufficient authority, stature and resources to perform its function effectively.

The required AML/CFT compliance program of each institution must clearly describe and outline the roles and responsibility of different segments of the institutions with respect to its compliance function. In this regard, the principle of collective responsibility between senior managements and compliance officers should be upheld in the case of failure.

In compliance, continued vigilance is necessary and required. The 2017 National Risk Assessment, by the National Coordinating Committee for Money Laundering (NCC) and the financial sector, showed that the banking sector continues to face high money laundering risk and medium high terrorism financing risk. The sector records the highest value of cash transactions and high risk customers; and provides the highest number of high risk products compared to other sectors within the financial industry. This reflects the central role of the banking sector in intermediating money flows within an economy.

One important compliance function that needs to be undertaken is the identity of the ultimate beneficial owner of companies, assets and financial transactions. Financial institutions need to have controls and procedures to identify, verify and conduct due diligence on the beneficiaries. This must be complemented by a rigorous monitoring process. Adherence to this requirement will inject transparency, accountability and ensure the integrity of the financial system. It will prevent criminals from hiding their ownership of companies and assets through complex methods and vehicles.

I last spoke at this conference in 2011. The theme of the 2011 conference was “Raising the bar in enforcement and compliance”. Looking back and taking stock of the present state, I am glad to see that the whole industry has matured and progressed in such a significant way. This is validated by the NCC report that the sector’s control measures for both money laundering and terrorism financing are strong. Further, fines imposed by the Bank on financial institutions has decreased over the past few years, reflecting the progress made by institutions in ensuring adequate controls. I hope the industry continues to strengthen its capability to fight crime.

Another area in which progress has been made is the priority accorded within each institution to compliance. The focus of the compliance function has developed to become more comprehensive as financial institutions have a better understanding of the threats and risks involved. With increasing awareness of the direct and indirect costs of non-compliance, the compliance function is no longer viewed only as adherence to rules set by regulators, but is instead, an integral part of the organisation’s culture. The very fact that the theme of this conference is on reshaping the future, governance and transparency is a testament to this.

Conclusion

I spoke at length today about the responsibility that we have to combat crime and the ways to do so. Let me end by saying that eradicating financial crime makes good business sense. Financial crime is a cost and burden to all of society.

Robust governance and greater transparency is good for business. It creates an environment of trust and a level-playing field for businesses to flourish. This is important as we seek to ensure longevity and continuity of businesses and the health of the economy as a whole.

Therefore, let us be united in working for a better and brighter future for Malaysia. Greater governance and transparency will get us there. Thank you.

SPEECH BY

GOVERNOR