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OPENING REMARKS

at the

"Caribbean Financial Action Task Force AML/CFT Compliance Conference"

by

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I would like to commend the Caribbean Financial Action Task Force (CFATF) for arranging this seminar, which is as important for us here in the Caribbean, as it is timely. I have noted the wide scope of the agenda and I am most impressed by the high quality and the range of experience of the listed presenters. You have all the ingredients for a most enlightening three day seminar.

In my brief remarks, I would like to approach the challenge of anti-money laundering from the **vantage point of the Central Bank as Regulator** and a key player in macro-economic management in the country. I take this restrictive approach even while acknowledging that effectively

controlling money laundering requires a much broader focus than on banks and other financial institutions, and even while recognizing that successful anti-money laundering efforts must be based on collaboration between a wide range of domestic institutions as well as cross-border cooperation.

Money laundering and terrorist financing are not typically perceived as having an impact on financial stability; and that's understandable because very often the link is not obvious. But there is a link and a strong one at that, because money laundering is not simply a manifestation of serious criminal activity, it also undermines the integrity of the institutions involved – be it the specific financial institutions or **in extreme cases**, the entire financial system.

When a financial institution is used, wittingly or unwittingly by criminal elements (or terrorists), it risks damage to its reputation : and when a financial center is widely perceived to be vulnerable to money laundering, it runs the risk of **losing clean money** and **reputable investors**. And once the integrity of an institution or a financial center is brought into question, its long term viability is at risk with potentially serious economic consequences.

Money laundering involves transforming the proceeds of crime into usable form and disguising their illegal origins. Terrorist financing can be defined as the processing of funds from any source (perhaps a legitimate source) to be used to finance terrorists activity that has been or will be committed. It is thought to use many of the same techniques as money laundering and therefore many of the possible countermeasures are similar. For this reason, I use the term money laundering generically, to include terrorist financing.

Money laundering can carry a number of adverse macro-economic consequences, particularly for small economies like ours. These normally include in-explicable increases in the demand for real estate (leading to spiraling real estate prices); greater prudential risks to bank soundness (since bank flows are governed by non-economic considerations); greater volatility of international capital flows and unusual pressures on foreign exchange markets and exchange rates, due to unanticipated cross-border asset transfers.

The rapid advance of globalization and the liberalization of financial markets have no doubt facilitated money laundering and have made it truly a global phenomenon. These factors have also underscored the critical need for universal strategies to fight against money laundering. All countries must participate in the fight against money laundering or the money being laundered would flow quickly to the weakest point in the international chain.

It is in recognition of this reality that several international bodies, most prominently the Financial Action Task Force (FATF) and its regional counterparts, including the CFATF, have developed a host of recommendations and best practices to help all countries strengthen their anti-money laundering efforts.

The AML tool-box includes:

Firstly as a pre-requisite, **the establishment of a legal framework that defines and criminalizes** money laundering and terrorist financing, with suitably graduated penalties.

Typically, the legislation sets out reporting requirements for financial institutions, sometimes for transactions beyond a certain threshold. In small countries like ours, banks come under greater scrutiny. However, AML systems erected for banks alone will be of limited value, if it is easy to launder money say, through insurance companies, or credit unions or money express companies or security firms. For primary legislation to be operational, there must be accompanying regulations. In most jurisdictions, "know your customer" rules or a due diligence obligation is an important part of the regulations.

Secondly, the AML framework includes measures to ensure that criminals do not gain control of financial institutions. Accordingly, regulators are required to ensure that major shareholders and senior executives in financial institutions meet a "fit and proper" test.

Third, there need to be systems in place to ensure the effective supervision of anti-money laundering measures. Generally, the financial sector regulator is responsible for supervising AML/CFT procedures followed by financial institutions. Much of this supervision is done in conjunction with the normal prudential supervision to exploit economies of scale.

Most countries have set up specialized agencies, called financial intelligence units (FIU) to spearhead their anti-money laundering programme. These agencies investigate, analyze and pass on to the appropriate authorities, financial and related information concerning suspected proceeds of crime. A key component of an FIU's work is to share information about suspicious transactions across borders.

To be effective, the above initiatives need to be supported by a general raising of awareness of the nature of money laundering and its pernicious effects and by appropriate training of regulators and staff in financial institutions to ensure appropriate vigilance.

Briefly, **how well are we doing in relation to this anti-money laundering framework?**

Based on peer reviews conducted under the umbrella of the CFATF, we are not doing as well as we ought to, particularly given:

(i) our pivotal role in the regional financial system;

(ii) our proximity to the South American homeland, a location that makes us an attractive trans-shipment point for drugs destined for the North American and European markets; and

(iii) our determination to be the Pan-Caribbean Financial Center.

We have taken some important initiatives to set in place a robust anti-money laundering framework. For example, Parliament has passed the Proceeds of Crime Act, 2000 and the Anti-Terrorism Act 2005. In addition the Central Bank has issued guidelines for regulated financial institutions (which currently cover only the banks, the non-banks and the insurance companies).

However, as our peer review underscores, we need to broaden our strategy and intensify our surveillance. Three immediate imperatives are:

- Fast-tracking the parliamentary approval of the draft regulations which would give effect and teeth to the AML/CFT legislation;

- Quickly rolling out an appropriate regime for the supervision of designated non-financial businesses and professionals; and

- Broadening the definition of money-laundering to cover all illicit activity – in addition to drug trafficking.

A recent global AML survey, done by KPMG, noted, inter alia, that while many banks now have, **on paper**, tighter systems and controls, the effectiveness of these systems remain an open question. In Trinidad and Tobago there is a great disparity among the banks as regards the level of preparation and commitment to implement robust anti-money laundering strategies. This is so, in part because rigorous implementation is seen to be placing an onerous administrative burden (and increased costs) on the financial institutions. Some banks also seem to think that, in a small country like ours, strict implementation of the AML/CFT guidelines could also raise personal security concerns for their staff.

These are clearly difficult questions which need to be addressed since tightening anti-money laundering controls is important for all of us. It is indeed likely that the ambivalence on the part of some financial institutions derives from an inadequate recognition of the potential cost that the absence of robust anti-money laundering systems could impose on an institution and on the country. The case of Riggs Bank of the USA is perhaps a good example to point to. Convicted of money laundering, the Bank was levied some US$50 million in fines, penalties and settlements. But this was only

the beginning of its demise. Senior executives were indicted for turning a blind eye to money laundering and the Board of Directors was found to have betrayed their responsibilities. Eventually, the Bank's share price plummeted and a once prestigious and respected banking institution was forced out of business.

I cite this extreme case to emphasize that the potential costs of not dealing with money laundering are serious and real. For most developing countries, for instance, there is the risk of impairment to a bank's correspondent relationships because of inadequate ant-money laundering safeguards. In fact correspondent banks in many jurisdictions may be required to sever relations with institutions or countries that do not apply adequate AML/CFT safeguards.

Ladies and Gentlemen, I take your presence here today as testimony to your institution's and to your country's commitment to fortify its defenses against money laundering and terrorist financing.

I strongly suggest that you use this seminar as an opportunity for networking, for getting to know each other better. As I said before, dealing with money laundering requires a collaborative approach and you all have the responsibility to **protect the region from this scourge**.

We are in your hands …. I wish you three days of fruitful and stimulating discussions.

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