Fintelekt’s Anti-Money Laundering (AML) Summit is the country's flagship conference on the subject, providing an exclusive platform for dialogue between regulators, financial industry practitioners and consultants on various aspects of AML and Combating the Financing of Terrorism (CFT). The AML Summit 2016 featured perspectives from regulators in Sri Lanka, Nepal and Bangladesh; compliance heads and top management from insurance companies, banks and mutual funds. Technology companies presented the latest solutions to deal with ever increasing threats of money laundering and terrorist financing.

The Summit brought together FIU directors of India as well as neighbouring countries who discussed various issues faced by the regulators and ways in which financial institutions (FIs) and regulators can collaborate on various issues. The panel consisting of Money Laundering Reporting Officers (MLROs) from insurance, mutual funds and banks talked about the top priorities for MLROs, ways of effectively complying with local and global regulatory requirements and strengthening Customer Due Diligence (CDD), Know Your Customer (KYC) and Ultimate Beneficial Owner (UBO) monitoring practices. The panel of compliance heads from banks discussed ways to combat Trade Based Money Laundering (TBML) and the need to strengthen monitoring of cross border transfers in line with red flag indicators and interaction between banks and law enforcement agencies. Technology companies discussed major issues being faced by the FIs today and the solutions they can provide to detect and report activities related to money laundering and terrorist financing.
Vikas Tandon, Global Head - AML Operations, Risk & Control, Citibank

Vikas discussed the transition in the role of AML practitioners over the last few years and the increasing pressures of dealing with money launderers and terrorist financiers. Globally, the role of the principal officer is set to become even more critical and their personal liability will increase further.

Key Takeaways

- Investment in technology and processes will be the key to AML. The regulators too are increasingly demanding this.
- AML monitoring will need to move to greater use of analytics to ensure that the right details are being captured and that these are meeting the necessary standards expected from the financial institutions.
- While the right technology and data is important, AML compliance professionals must regularly test and validate their systems and processes. Further, the right level of involvement of human intelligence and common sense in dealing with compliance issues will always be required.

The people who are master minding money laundering are always a step ahead because they don’t have to go through lengthy processes of approval. They decide and they act immediately.

- Vikas Tandon
Mr. Mishra discussed the importance of the relationship between Reporting Entities (REs), the FIU and law enforcement agencies. He highlighted the increase in Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs) over the last few years, which shows greater responsiveness of REs. He emphasized the importance of compliance functions within reporting entities and the need for these functions to work independently and be cognizant of risks.

Key Takeaways

- The compliance function is one of the key elements in the bank’s corporate governance structure. The compliance function has to be adequately enabled and made sufficiently independent.
- The accuracy of reports being filed was highlighted as a key concern. The integrity of the data is as important as the compliance relating to filing.
- Reports filed need to be correct, complete and timely to be valuable to the regulators.
- The mind set of regulatory agencies has undergone a paradigm shift as more emphasis is given to outreach and education of the entities rather than penalising them at the very first instance.
- Fraud is another area of concern. Money from credit card related frauds or cyber frauds is being deposited into banks. Banks need to make sure that their KYC is robust enough to prevent their banks from being used by such fraudsters.
H. Amaratunga, Director, Financial Intelligence Unit - Sri Lanka

Mr. Amaratunga shared the evolution and achievements of the FIU in Sri Lanka. He also discussed the challenges that banks in Sri Lanka are facing and stressed that co-operation among all stakeholders was the key to move forward on AML objectives for the country.

Key Takeaways

- A national risk assessment was recently conducted in Sri Lanka through which threats and vulnerabilities in various sectors were identified.
- New CDD rules have been issued this year, addressing beneficial ownership, money and value transfer services, PEPs and simplified CDD rules.
- The country is moving to a risk-based process, which mandates each financial institution to have its own process to identify risk factors, document its risk assessment and findings, keep its assessments up to date and define appropriate mechanisms to provide risk assessment information to supervisory authorities.
- Rules regarding NGOs, many of which are overseas organisations, have been strengthened and financial institutions have been directed to conduct enhanced CDD for NGOs and charities.
- Definition of PEPs (Politically Exposed Persons) has been extended to cover members and close relatives of PEPs.
Hari Kumar Nepal, Deputy Director, Financial Intelligence Unit – Nepal

Mr. Nepal shared his experience while working with FIU Nepal and presented key findings from a recent study on AML-CFT implementation in SAARC countries. He also pointed out the steps that FIU Nepal is taking to fight money laundering and terrorist financing.

Key Takeaways

- There is a legal and institutional system to tackle money laundering in SAARC countries. But it is enforcement that needs to be focused on. REs have to be more agile in reporting suspicious/criminal cases.
- Tax evasion has an economic, political as well as socio-cultural impact and poses as one of the biggest threats to any country, necessitating a control mechanism. The money from tax evasion generally makes it to financial institutions. If the systems of these institutions are robust, then such transactions can be detected and reported on time.
- Revised FATF standards have included domestic as well as international PEPs in the list of PEPs for a country.
- One of the major problems faced in Nepal is that beneficial ownership is not identified.
- Technology is becoming a serious issue in Nepal. Without good IT systems, implementing AML-CFT measures is extremely difficult.
- Nepal is a predominantly cash-based economy. All the cash transactions cannot be accounted for. This is creating a huge problem for the law enforcement agencies, as they cannot prosecute criminals without evidence. Nepal has already enacted a provision to control cash transactions. The government of Nepal can impose certain limitations on cash transactions with recommendations from the Central Bank.

- It will be easier to control theft, drugs and murder if we can control tax evasion and corruption.
  - Hari Kumar Nepal
Mr. Alam shared the evolution and achievements of the FIU in Bangladesh over the last few years and discussed recent changes that have taken place, which are expected to strengthen the AML/CFT regime in the country.

**Key Takeaways**

- Generally, money laundering and terrorist financing are seen to go hand in hand, hence timely filing of STRs is very important to detect and stop such cases.
- Penalties are being charged to the reporting entities for late or false reporting.
Rahul Oberai, Head of Sales (South Asia), Accuity

Rahul drew attention to the changing paradigms and technology advancements to control money laundering and terrorist financing. He presented the value that Accuity provides to deal with increasing money laundering and terrorist financing frauds.

Key Takeaways

- With increasing complexity, the quality of suspicious transactions filed is deteriorating. Experience is not enough. To file correct and timely STRs, financial institutions need data as well as technology. But with this, the cost of compliance increases.
- Instead of using a look-up approach (where a counter party or correspondent bank is evaluated every 3 to 6 months), a data-push approach would help in reacting timely.
- For trade screening, the reaction time would improve by screening transactions on an on-going basis, rather than on a point basis.
- Customer screening has to be a daily process, which needs to be done using technology and not manually.
- A unified view of risks can enable companies to have a single view of the customer and thereby enable all departments to work together to profile a customer.
- In a trade transaction, block chain can potentially improve traceability of transactions which slip through because there is no match with negative data.
- In future, there will still be a lot of reviews which will be manual, but these will be quality reviews coming from high risk identified areas. The rest should be either outsourced or left to the robots.

Accuity collaborates with payments and compliance professionals to deliver accurate data and innovative solutions that optimise payments pathways and defend the good names of individuals and organisations.

- Rahul Oberai
Panel Discussion: Top Priorities for MLROs

The panel discussed strengthening CDD, KYC and UBO practices and effectively complying with local and global regulatory requirements. The financial industry is facing a lot of challenges and there are lots of disruptive changes. Risk mitigation in these circumstances will be based on the use of new technologies as well as a collaborative approach to reduce mutual risk.

Key Takeaways

- **Red flag indicators**: REs need to be agile and work to evolve the existing processes. Money launderers today are intellectually transferring money out of the country, defying all existing red flag indicators. The industry needs to jointly find new systems and processes to match the pace of money launderers.

- **KYC Challenges**: Re-KYC is a problem faced by all banks. To be able to move to a centralised KYC registry similar to the mutual funds industry, several challenges will need to be overcome. The next step in this journey is to centralize UBO details.

- **Insurance company challenges**: In the insurance industry, there is a mismatch between aggregation of risk from a business perspective and from an AML perspective. From an AML perspective, risk needs to be assessed across various insurance companies. Centralized KYC and e-KYC will assist with this in future. The segregation of beneficial nominees and assignment of policies are other challenges being faced.

- **MSB (Money services business)**: MSBs adopt the risk based approach to mitigate risk. To mitigate the risk of transfers coming from high risk jurisdictions, controls need to be stronger in addition to the regulators’ requirements, in terms of systems, due diligence checks by agents, name screening, data collection, and other measures.

Imagine a scenario where, if you are opening a bank account or a trading account, buying an insurance policy or a mutual fund policy, there is only one KYC repository through which all the data would be exchanged across financial markets – that would be a true disruption in the information space.

- Bhalchandra Joshi
Key Takeaways

✓ **TBML from a non-banking view:** Companies are seeking a balance between simplification of processes and maintaining compliance levels in an increasingly multi-party scenario. Steps need to be taken to make this process more holistic, to train counter parties equally well.

✓ **Cash-based transactions:** This is another risky area, where banks have limited control and minimum knowledge about transactions. The solution is to move away from a silo-based approach and provide up-to-date training, especially for the front-end staff.

✓ **Red Flag Indicators:** The RFIs defined currently relate to document checks, payments, high risk jurisdictions goods, high risk goods, remittance methods, etc. which are very difficult to configure in a software. These checks have to be manually applied. The next step is to have a feedback loop, which runs across all departments. The risk detected at one function has to be passed on to all other functions by use of technology. Banks need to train AML teams to spot potential TBML activities, and sensitize RMs to be alert about such transactions.

A one-size-fits-all kind of due diligence is not sufficient. We need to have specific due diligence for trade transactions and customers.

- Praveen Dayal
Beneficial ownership is a topic which is gaining more and more importance in today’s world. Complex ownership structures make it really difficult for financial institutions to correctly detect the ultimate beneficial owner. Abhishek shared how solutions provided by Bureau van Dijk can be used to handle such situations more effectively.

**Key Takeaways**

- **Beneficial Ownership:** The term beneficial ownership may not just mean a percentage threshold that gets outlined in the regulations, but also control. It has to be ultimately owned or controlled and it has to be a person that exercises ultimate control.

- **Need of the hour:** Proper business rules to risk categorize all the customers is critical. The tools used to identify beneficial ownership should have the capability to differentiate between different levels of beneficial ownerships based on specific needs. Teams should be proactive and be prepared for any domestic or international scrutiny.

- **Circular Ownership/Complex ownerships:** It is very important to understand circular ownerships or complex ownerships, where it seems that holding percentage of one company in another may be below the threshold limit, but if investigated deeper, it may be a lot more. It is not sufficient to investigate just one company, but to investigate its owners as well as subsidiaries.

Presentation: Getting to Grips with the Challenges of Beneficial Ownership

Abhishek Jain, Consultant, Bureau van Dijk

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Case Study: Axis Bank and Jocata

Shailesh Verma, Senior Vice President & Head Financial Crime Management Department, Axis Bank  
Sharad Nair, Vice President, Axis Bank  
Prashant Muddu, CEO, Jocata  
Santosh Kumar Myadam, Director, Product Strategy, Jocata

Finding the correct technology for an organisation has become one of the biggest challenges that compliance heads are facing. The speakers in this session shared how Axis Bank and Jocata jointly conceived the idea to build the platform - Suspicious Transaction Analysis and Reporting (STAR) - which allows the bank to write rules on their own, including their own analytics.

Key Takeaways

✓ Important features included in the software are:
  i. The capability to have dynamic rule engines  
  ii. Customer level monitoring  
  iii. Comprehensive case management  
  iv. Multilevel work flow management

✓ The platform is mobile-compatible, flexible and automated.
✓ The rule builder is user friendly and provides complete control to the builder.
✓ Specific regulatory login has been created, which can be used by regulators to view the rules that are running and give them an overall picture of the monitoring levels.
✓ Ability of the system to learn from past data has been added to the software, so that the system can predict what can happen in the future. Scoring mechanisms are built into the system so that it can prioritize the alerts generated.
Srinivas Yanamandra, Senior Director Compliance & Principal Officer AML, IDFC Bank

Srinivas shared some success stories from IDFC in the past year. He pointed out the benefits of not carrying the burden of “legacy”, and the changes the bank was able to bring about compared to existing financial institutions owing to a fresh perspective.

Key Takeaways

- The bank uses analytics based monitoring as opposed to alert based monitoring.
- Too much dependence on risk models has led to a shift in the focus area of banks, technology companies and regulators from the risk involved to the tool involved.
- Analytics is as important as the model itself, because technology can be built as per requirements, but the usage of technology is always in the hands of compliance personnel. Analytics based monitoring is not going to take away the utility of the alert based monitoring tools, but it is going to show whether the right kind of data is being thrown by the alert based tools.

The skill of a true compliance professional lies in working with half information, because access to full information is a myth.

- Srinivas Yanamandra