

Terrorist Financing: Who is hiding in your customer base?

Since the attacks of 9/11, banks have been playing an increasingly important role in the war against terror

By Fahim Uz Zaman

THE FINANCIAL SERVICES WORLD has been at the forefront in the fight against terrorism by identifying terrorist financing routes.

"The financial community is the first public sector to be called upon to assist government and the intelligence community to crack down on terrorism since 9/11," said **David Leppan**, CEO of World-Check.

Leppan added that the banking industry now has a moral responsibility to prevent terror finance.

According to Leppan, dealing with the issue of terrorism will require managing the risk and reducing the threat for the next 20 to 30 years.

"If we can stop the finances and channels of finance, it will reduce the level of threat," he added.

The management of terrorism is of course foremost a problem for law enforcement agencies and the immigration authorities but subsequent to 9/11, the security agencies have assigned the task of detection and enforcement of terror related funds to the banks and the financial services firms.

According to Leppan, the recent

change in the world's geopolitical environment has led towards increasing the scope of responsibility of banks to the wider world.

He said, "It is very curious to see that their responsibility used to be limited to shareholders, customers and regulators. Now the banking community is beginning to actively work with the financial intelligence units, regulators and law enforcement agencies.

"In working together, the banking community certainly plays an important role in helping restrict the access to both criminal and terrorist funds."

Yet the moral responsibility and burden of compliance are not the only two driving forces behind banks' drive to create a prudent KYC culture throughout the organisation.

"It is not the law that motivates the financial institutions to be diligent about KYC practices but rather it is the risk which motivates them. One of the most significant risks is that of reputation. No one wants to be known as the bank of criminals," he said adding, "they do not want to appear to be helping the

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terrorists and laundering their money. Let us not forget that a bad reputation can affect a banks ability to do business."

Emphasising the same point, **Jay Jhaveri**, Director, Asia of World-Check said, "Banks' greatest risk is that of reputation. This is true not just from the perspective of regulatory compliance but also from the perspective of corporate governance."

Recounting some of the recent incidents, he said, "A large UK bank with significant business interests in Asia was held responsible for handling payments for organised crime. The bank is being held responsible, in part, for not knowing its clients' client - KYCC, if you will.

"Recently, a bank in Cyprus and a bank in Belarus have been banished from operating in the USA.

In addition, no US institution may hold a correspondent account for these two banks either. This effectively means they have been "shut down" for US Dollar business."

He said that these are but some of the recent illustrations of risks banks face while dealing with customer accounts and in the event of lack of appropriate preparedness on KYC and due diligence the results could be very serious for the banks.

As the island republic is attracting a significant amount of financial services related business, of which a considerable portion is from foreigners, the absence of prudent controls, at all levels of banking, could spell disaster for irresponsible banks.

However, it is encouraging to note that the laws and regulations in place are up to the best global



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standards. The framework has been laid to ensure the attractiveness of Singapore as a world class financial centre.

It is now the banks that must buy-in to the process and culture of global best practices. This can be achieved only by allocating greater resources and technology to ensure that undesirable customers and dirty money are effectively shut out from Singapore.

David Leppan says that banks not only have a legal obligation to identify and help shut down terrorist financing and other criminal related financing, but also a moral duty to help make society safer.