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Compliance Money Laundering

Untangling Asia's mixed signals on AML

Surprisingly, Singapore and Hong Kong are not at the cutting edge of anti-money laundering. But they are making efforts to catch up with the rest of the international community. Ellen Davis reports

Although Singapore and Hong Kong are two of the Asia-Pacific region's most dynamic economies, the anti-money laundering (AML) regime in both places is more about talk and less about action, say bankers, software vendors and consultants. Although both jurisdictions are promulgating new AML rules, banks are not purchasing technology or consulting services to improve their frameworks. And those banks that are taking action are opting to build systems internally. One software vendor says: "You would think that Singapore and Hong Kong would be at the cutting edge of AML in Asia, but they are not."

Singapore's AML environment is a good example of the mixed signals that financial institutions and the software industry are trying to untangle. Singapore's government is very keen to be seen as actively fighting the 'war on terror'. Its domestic television stations urge citizens to report suspicious or unusual activity, and its government has used strong rhetoric in describing its efforts to hunt down potential terrorists. This zeal may stem in part from the fact that Singapore's closest neighbour is Malaysia – a country with a high Muslim population – and Singapore's own ethnic makeup is a mix of Chinese, Malay and Indian peoples. But it also is a product of the island nation's aspirations to be a global economic and political power in its own right, recognised alongside Japan, the US and the UK.

Indeed, the government announced at the beginning of November that it will be hosting the Financial Action Task Force's June plenary session – the FATF is an inter-governmental body that developed regulatory and legislative guidelines for AML enforcement, and provides support in various ways to initiatives to implement AML frameworks. Also, the Association of Banks in Singapore – a government-sanctioned trade association for financial services based in the Monetary Authority of Singapore's (MAS) own building on Shenton Way – will be publishing its own revised AML guidelines before the end of the year. The last set were published in September 2001, days before the US terrorist attacks, according to Sim Tze Min, executive officer at the ABS in Singapore. The guidelines incorporate all the FATF's revised recommendations on AML and terrorist financing, and as a result have expanded from just 20 or so pages to more than 90. As of press time, they were with the MAS for approval, she said. The MAS is expected to revise and update its own AML regulations by the end of the first quarter of 2005, according to industry sources.

Indeed, Singaporean government officials grew agitated in late October when a US State Department document suggested that the country – alongside most of the Group of Ten – experienced large-scale money laundering by international criminals. "Singapore considers itself to be squeaky clean in any event, which it is, it is a very clean place," says Michael Thomas, group chief executive officer of STB Systems in London. "But of course it is a huge money centre, so money to be laundered ultimately has to go through a squeaky clean money centre. So money is going through there, just as it goes through the US and the UK and everywhere else. But the Singaporeans don't like to be told that this is happening."

But that doesn't mean that firms are implementing technology or are hiring consultants to implement AML frameworks. An informal poll of AML technology companies for this article showed that most vendors had seen little relaxing of the purse strings in Singapore, or indeed elsewhere in Asia up until now.

The situation is similar in Hong Kong. Although the Special Administrative Region's financial regulator, the Hong Kong Monetary Authority, updated its rules in June, banks there are fairly laid back when discussing AML frameworks. They say that for the regulator, AML implementation simply isn't a priority at the moment, so although the government is keen to be seen to be 'fighting the good fight' on the AML frontier, little action is being taken to enforce the rules.

However, Hong Kong has far more to worry about on the AML front. While the island of Singapore is essentially a crime-free oasis – the penalty for the first offence of drug dealing is the death penalty – Hong Kong has dirty money surging through its financial system from China, thanks to corrupt mainland government officials, high levels of various forms of economic crime in the mainland, and the presence of the triads both in China and Hong Kong. Hong Kong has long had an active anti-corruption regime and a strong police force, but when it comes to stopping money launderers, the former colony has a poorer track record. Although it has recently strengthened its oversight of charities – it has previously been a very easy jurisdiction to set up and run a charity in – AML industry officials say more action is needed.

This is because Asia's banks are not really ramping up their AML efforts, or if they are, they are choosing to build more modest frameworks in-house. For example, Singapore-based DBS chose to enhance its surveillance system in-house, instead of purchasing a software product, according to Ong Siew Mooi, managing director and head of compliance at the bank. She points out that an AML system has to be closely integrated with a bank's own transaction processing technologies. As the bank is currently moving towards data warehousing, it is easier and cheaper in the interim to build a system rather than try to adapt a vendor package. At the beginning of the year, it rolled out the new system to key business lines, and now it is expanding the use of similar systems throughout the organisation. It is also evaluating and fine-tuning the rules that the software checks to throw up potentially suspicious transactions.

Other firms echo the 'easier and cheaper' argument, and vendors as well as consultants express their frustration. One consultant says: "Asian banks have this 'do it themselves' approach. This is true of most markets in Asia. They don't want to pay the big bucks to consultants, or even small bucks. They think they have all the talent in-house. And there is a little bit of psychology – they believe that they know it. They believe that they are already there."

Other vendors point out that budget is a problem as well – bank officials often complain that US and European software packages are too expensive, and are not developed with the idiosyncrasies of the Asian market in mind. For example, DBS's Ong points out that software designed to compare names with AML lists often throw up a lot of false positives in Asia because names are often very similar.

Vendors and consultants note that the regulators have not yet taken the 'name and shame' approach to AML enforcement that US and UK supervisors have. Both countries have levied large fines against banks that do not have robust enough AML frameworks in place, and issued strongly worded press releases on other offenders. "The general feeling I get from Asia is that the banks would rather not have to spend money on AML," says Thomas. "Until the regulators decide they are going to penalise financial institutions rather than just catch the money launderers, that is going to continue."

Both bankers and vendors in Asia would like to see regulators provide – at the very least – broad technology selection guidelines defining what software packages should contain. Rohan Bedi, head of AML services at PricewaterhouseCoopers in Singapore, says such guidelines would be helpful, as would more detailed guidelines from industry bodies (and perhaps as a second stage even a full fledged accreditation process), so that firms know that what they are spending money on meets minimum regulatory/industry standards.

Still, it seems vendors agree that "it's going to be quite some time – three to five years – before multi-million-dollar systems are put in place," says Jay Jhaveri, director of Asia for World Check, a politically exposed persons database vendor. "There is a willingness. It is moving towards best practices. It is purely a budgetary issue and this is linked to buy-in from senior management." And buy-in will only come, says Jhaveri, when regulators crack the whip. **OpRisk**