Anti-Money Laundering (AML) / Countering Terrorist Financing (CTF)

Presentation by Pornsan Chuaphanich
November 2018
AML around the world

Wells Fargo Settles With SEC Over AML Reporting

NAB failing KYC standards as Australian banks struggle with compliance

PARADISE PAPERS

Intesa fined €1m by Central Bank for failures over money laundering

J.P. Morgan

Swiss regulator finds JPMorgan broke money-laundering rules

Bank of Ireland Fined €3M For Anti-Money Laundering Failure
Panama papers break out

Panama papers
https://www.youtube.com/watch?v=fiu-vWLTqWs

What is panama papers?
https://www.youtube.com/watch?v=pNV-R6YHdlY
What is Money Laundering?

“*The process whereby criminals attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities, thereby avoiding prosecution, conviction and confiscation of the criminal funds.*”

Money laundering is not the same as fraud
- Fraud involves the loss or disappearance of assets or revenue; whereas
- Money laundering involves the movement of large quantities of illicit proceeds
- However, there may still be a overlap between fraud (as a predicate offence) and money laundering

AML systems are not the same as financial systems
What is Money Laundering?

Money Laundering a Hypothetical Guide
https://www.youtube.com/watch?v=1ObJPaSZxCs

What is Money Laundering?
https://www.youtube.com/watch?v=257wV-AbKaE
How does Money Laundering link into Economic crime?

Money laundering offence is **ALWAYS** a secondary offence resulting from the involvement of handling the proceeds of crime.

It can not exist alone, but money laundering **automatically** happens when relevant illegal activities (primary offence) generate any form of assets that are then handled or processed further on.
Money Laundering Scheme
Three stages of money laundering

ORIGIN

Placement (disconnect)
Cash deposit on a bank account

Layering (disguise)
Funds are transferred to different institutions in order to hide their origin

Integration (convert)
Funds are used for a legitimate acquisition

DESTINATION

Distribution
Funds are distributed to finance criminal/terrorism activities

Layering
Funds are transferred to further financial institutions in order to hide their origin

Placement
Assets are deposited into the financial system

« Traditional » Money laundering mechanism

Financing of criminal/terrorism activities

Legitimate Assets

Bank account

Bank account

$ $ $ $ $ $ $
What difference between money laundering and terrorist financing?

Many of controls are meant to serve the dual purposes of combating both money laundering and terrorist financing.
Why in money laundering a problem?

**Reputational Risk**
- From being used as a conduit for the proceeds of crime

**Compliance Risk**
- Non compliance with laws and regulations can lead to large fines

**Legal risk**
- Law enforcement agencies suspicion that business has been infiltrated by money launderers
Setting the scene – why AML is important?

If you think Compliance is expensive, try non-compliance.

Former US Deputy Attorney General – P. McNulty

USD fines for breaches (Million)
Setting the scene – why AML is important?

REGIONAL FINES BY USD$

23.56bn North America
1.7bn Europe
609m APAC
9.5m Middle East

Source: https://www.fenergo.com/aml-kyc-sanction-fines
Money laundering destroys value. It facilitates economic crime and nefarious activities such as corruption, terrorism, tax evasion, and drug and human trafficking, by holding or transferring the funds necessary to commit these crimes.
Heightened regulatory standards are driving sharp increases in enforcement action.

Our survey shows that the level of enforcement of anti-money laundering and combating the financing of terrorism (CFT) measures has created challenges for even sophisticated financial institutions.

Certain governments have imposed fines – and in some cases, pursued criminal actions – against financial institutions that have not implemented sufficient controls to monitor their global transactions. Some financial institutions have come into the crosshairs of regulators in one country for illicit business practices in another. Often there is confusion about where an institution can legitimately operate, if it is under sanctions elsewhere.
��道的客户，今天和明天。

透明度到您的客户基础，超越了仅仅识别和验证他们提供的信息。这必须是一个动态行为，而不是一个静态行为。它至关重要的是持续地监视和可疑活动的定期监控。特别值得注意的是，客户的业务关系和交易——尤其是当他们与居住在AML法规弱或不足的国家的人们进行业务时。

图24：减少AML/CFT风险的措施

- 增强了解您的客户（KYC）要求，60%
- 优化和报告系统，55%
- 实施更高的控制和/或质量保证措施，52%
- 交易监控数据验证，43%
- 人员、技术和流程，以确保一致的全球方法，43%
- 通过退出高风险客户，31%
- 机构数据隐私限制，15%
- 审查共享信息的交易监控，12%
- 考虑将总部或某些功能转移至其他司法管辖区，3%
- 其他，10%
Know Your Client (KYC)

เปิดข้อกำหนดที่ดีสำหรับ หลักสูตรเติมเต็มประเทศแบบบัญชี

เผยรายชื่อ 7 ธนาคาร ปล่อยแก้ล็อกเจ็นเตอร์หลักทรัพย์ "มิช่า" ไปเปิดบัญชี โดยไม่ตรวจลองด้านลูกค้า

พุธที่ 10 มกราคม 2561 เวลา 20.19 น.
Know Your Client (KYC)

Banks keen on e-KYC to raise account numbers

Bangkok Bank, SCB testing in BoT sandbox

14 Aug 2018 at 04:00 0 comments
NEWSPAPER SECTION: BUSINESS | WRITER: SOMRUEI BANCHONGDUANG

Cabinet gives nod to draft digital ID bill

Aiming for fast, secure authentication process

12 Sep 2018 at 04:00 4 comments

The SCB Easy mobile app features e-KYC, letting customers open accounts using facial recognition software.
PwC Global Economic Crime Survey 2016 - Thailand

**Top five types of fraud in the FS sector**

- Asset misappropriation: 59%
- Cybercrime: 52%
- Money laundering: 27%
- Accounting fraud: 20%
- Mortgage fraud: 17%

**Top five types of fraud in the non-FS sector**

- Asset misappropriation: 66%
- Bribery & corruption: 27%
- Procurement fraud: 27%
- Cybercrime: 24%
- Accounting fraud: 17%
Methods used by financial services to identify suspicious money laundering/financing of terrorism activity

- **17%** Tip-offs
- **35%** Transaction monitoring
- **48%** Internal reporting

It shows that most of the respondents rely on internal reporting, indicating that organisations still rely heavily on human reporting methods.
Unfortunately, the supply of talent continues to fall behind demand. Mix among AML and compliance staff is high, and competition for top-shelf people is significant for both financial services and non-financial services companies.

Top 3 challenges in relation to complying with local AML/CFT requirements:

- 28% Ability to hire experienced AML/CFT staff
- 20% Complying with AML requirements from multiple jurisdictions
- 16% Negative impact on customers
- 16% Technology requirements
- 16% Other
What law and standards apply in AML?

- Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) standards set by the Financial Action Task Force (FATF)

- “FATF 40 recommendations + 9 special recommendations” in 2012.
  - Risk-based approach
  - Terrorist Financing: sanction regime
  - Customer Due Diligence (CDD)
  - Enhanced Due Diligence (EDD)
  - Suspicious Transaction Reporting (STR)
  - Expanded coverage of Industries
  - Transparency and Beneficial Owners
  - Power and Responsibilities of Competent Authorities
  - International Cooperation
  - Designated Categories of Offenses
Which industries exposed to AML?

**Banks and Other Depository Institutions**
- Electronic banking and fund transfer
- Third party payment
- Correspondent Accounts (Domestic/Foreign)
- Private Banking and etc.

**Non-Bank Financial Institutions**
- Credit card industry
- Money remitters and Money exchange house
- Insurance companies
- Securities Broker-Dealer

**Designated Non-Financial Businesses and Professions (DNFBPs)**
- Casino and Gambling businesses
- Dealer in high value items (Jewellery, Precious Metals, Art, etc.)
- Travel agencies
- Vehicle sellers
- Accountants, Auditors, Lawyers
- Trust and Company Service Providers (TCSP)
- Real Estate
Money laundering in insurance industry

FATF Report

“The experts viewed the insurance sector as potentially vulnerable to money laundering because of the size of the industry, the easy availability and diversity of its products and the structure of its business.”

The US Department of Treasury, Financial Crimes Enforcement Network (FinCEN) has identified certain “covered products” that pose a “higher degree of risk for money laundering.”

- permanent life-insurance policy, other than a group life insurance policy;
- an annuity contract, other than a group annuity contract; and
- any other insurance product with cash value or investment features.

Not all insurance products are at risk of being used by money launderers.

Money laundering was through life-insurance products (between 1999 and 2003, FATF)

ML risk is in the life insurance sector. (The American Council of Life Insurers)

“Products allow a customer to place large amounts of funds into the financial system and seamlessly transfer such funds to disguise their true origin.”
Thank you

Pornsan Chuaphanich
Senior Manager
pornsan.chuaphanich@th.pwc.com
+66 81 912 4400

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Icons — Outline

Icons can be re-coloured by changing the fill colour. Only use black, white, orange, red, rose or medium grey.

Airplane  Alert  Arrow Decrease  Arrow Increase  Audience  Avatar  Bar Graph  Brightness  Bubble Plot
Building  Calendar  Camera  Center Map  Circle Checkmark  Circle Delete  Circle Minus  Circle More  Circle Plus
Clinic  Close  Cloud  Comment  Confirmed  Convert  Delete  DOC  Door Closed
Door Open  Down Chevron  Down Chevron Circle  Download  Download Save  Download Simple  Downtrend  Duplicate  Edit
Icons — Filled

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- Airplane
- Alert
- Arrow Decrease
- Arrow Increase
- Audience
- Avatar
- Bar Graph
- Brightness
- Bubble Plot
- Building
- Calendar
- Camera
- Center Map
- Circle Checkmark
- Circle Delete
- Circle Minus
- Circle More
- Circle Plus
- Clinic
- Close
- Cloud
- Comment
- Confirmed
- Convert
- Delete
- DOC
- Door Closed
- Door Open
- Down Chevron
- Down Chevron Circle
- Download
- Download Save
- Download Simple
- Downtrend
- Duplicate
- Edit

30 November 2018
Icons — Outline

Icons can be re-coloured by changing the fill colour. Only use black, white, orange, red, rose or medium grey.

Email  End Process  Expand  File  Filter  Folder  Folder Open  Globe  Grid View
Heart  Help Question  Home  Hook  Horizontal More  Hospital  Icon Folder Open  Image  Information
Left Chevron  Left Chevron Circle  List View  Location  Login  Logout  Mark  Menu  Menu View
Minimize  Minus  Move  New User  News  Notifications  Pause  PDF  Person

READ & DELETE BEFORE USING

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Left Chevron  Left Chevron Circle  List View  Location  Login  Logout  Mark  Menu  Menu View
Minimize  Minus  Move  New User  News  Notifications  Pause  PDF  Person

30 November 2018
Icons — Outline

Physician  Pie Chart  Plus  PPT  Printer  Radio  Refresh  Right Chevron  Right Chevron Circle

Save  Search  Settings  Share  Sort Ascent  Sort Default  Sort Descent  Spark Line  Spiderchart

Star  Survey  Table Data  Target  Time  Toggle  Up Chevron  Up Chevron Circle  Upload

Upload  Uptrend  Vertical More  View  Volume Down  Volume Off  Volume Up  XLS  Thumbs Up

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Icons — Harvey Balls

Icons can be re-coloured by changing the fill colour. Only use black, white, orange, red, rose or medium grey.

3 Quarter Left
3 Quarter Right
Empty
Full
Full Dot
Half Bottom
Half Left
Half Right
Half Top
Quarter Left
Quarter Right
Editable pictograms to colour and scale
Pictograms can be re-coloured by changing the fill colour. Only use black, white, orange, red, rose or medium grey.