Instituting AML Compliance within the Non-Bank Financial Sectors

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MFI project

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Topics

Risks of Money Laundering

- Macro-economic level
- Institutional level

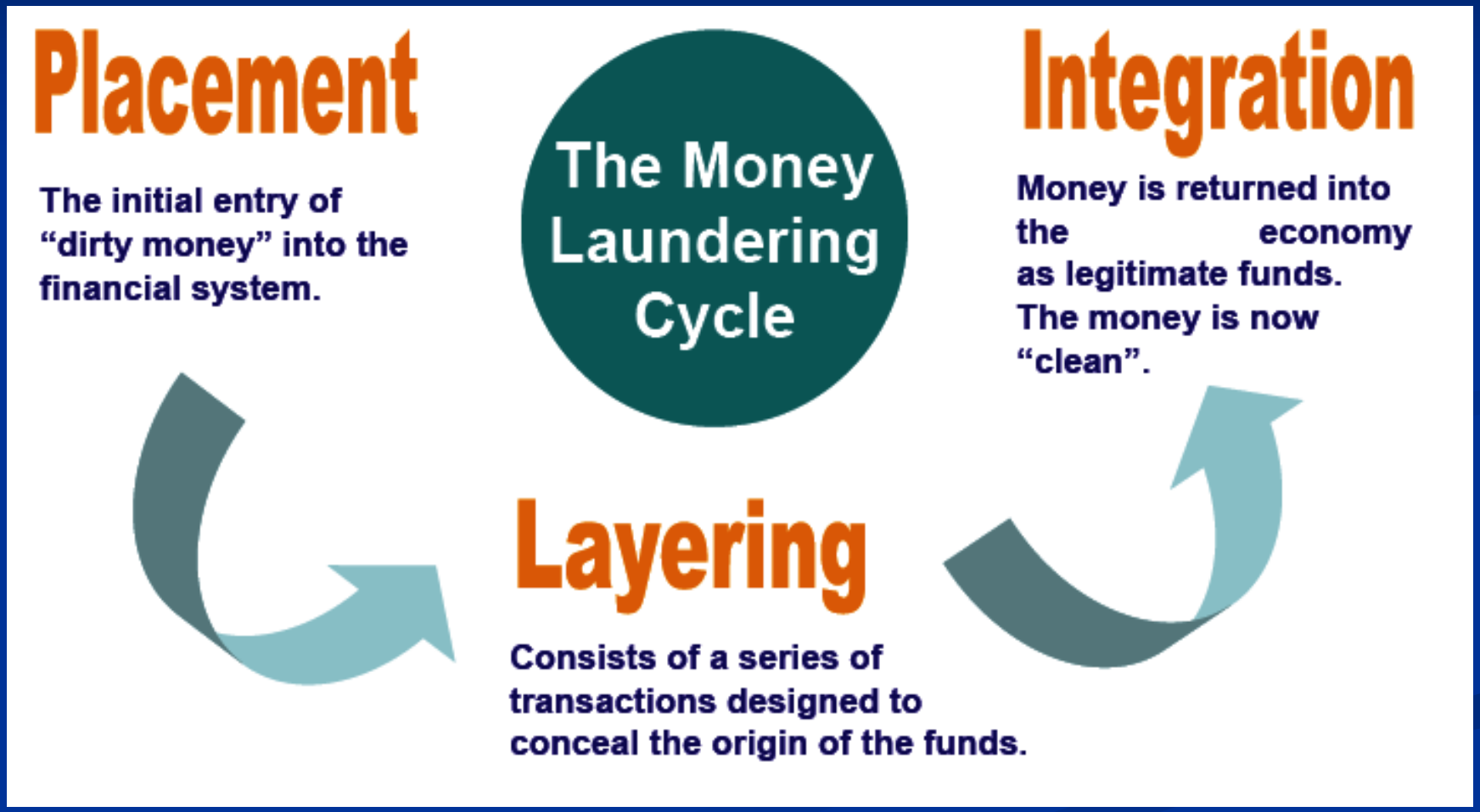
Obligations of Financial Institutions

Cost v. Profit

Justifying the Investment in AML compliance

- Reducing Risk
- Improving Integrity
- Marketing Potential
- Improving the Bottom Line

Money Laundering



Risks of Money Laundering

Macro-economic level

- Destabilizes economy (skews prices, risk of capital flight, ML is non- productive)
- Allows criminals to influence economy and politics
- Deters good legitimate productive investment
- Reflects negatively in foreign relations and trade (risk of economic sanctions)

Risk of Money Laundering

Institutional level

- Poses risk of instability
- Reputational risk
- Deters good customers
- Risk of internal crime within the institution
- Risk of administrative sanction, large fines, penalties, and closure

What benefits can Palestinian institutions derive from AML compliance?

- International recognition and acceptance into global financial system
- Enhancement of business opportunities
- Entry into new markets and products
- Growth in new investments
- Increased public confidence and trust
- More effective competition

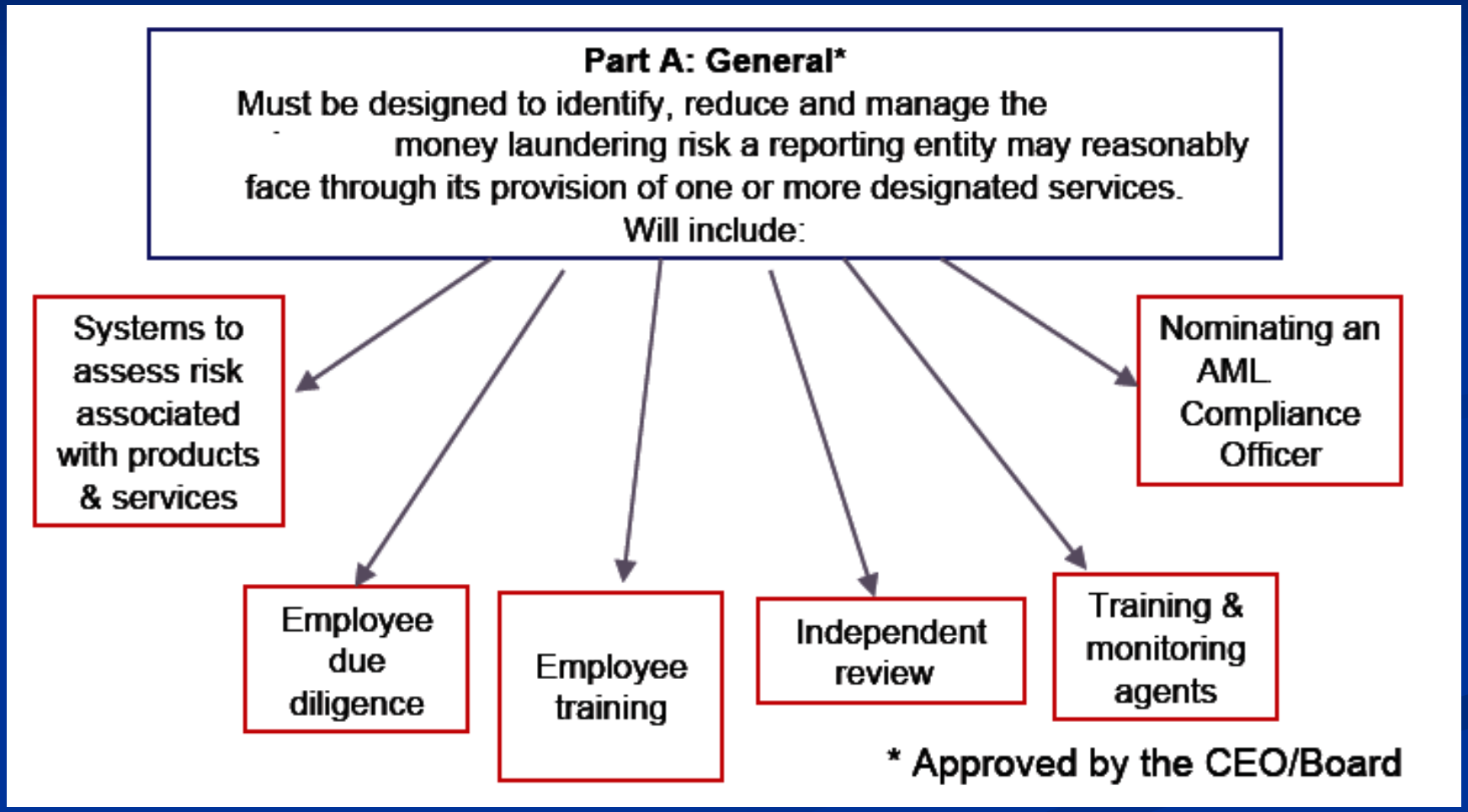
Benefits can be at a personal level

- Protecting your family
  –Fighting money laundering deters the underlying crimes that can affect you and your family directly
- Protecting your community
  –Creating an environment that is hostile to criminal enterprise deters the criminalization of your community
- Protecting your organization
  –Preventing your company from being used to launder proceeds of crime protects your company and your jobs
- Protecting Palestine's financial system
  –Maintaining the world standing of Palestine's financial system protects your investments, pensions, shares, etc.

Obligations of Institutions to Comply with AML

- Adopt company AML policy and procedures
- Director/Manager "buy-in" of AML program
- Implementation of KYC and CDD
- Development of Risk Management Scheme
- Designation of Compliance Staff

Internal AML program



More Obligations

- Review and Monitoring of Customers, Accounts, and Transactions
- Reporting Requirements
- Recordkeeping
- Staff recruitment checks
- Training
- Internal audits

Transaction Monitoring

Be alert to complex or unusual transaction patterns with no apparent economic or lawful purpose.

Examples include:

- significant transactions (in terms of amount or volume) for that customer
- transactions that exceed transaction or amount limits
- very high account turnover inconsistent with the size of the balance
- transactions outside the regular pattern of an account's activity

Cost v. Profit

- Financial institutions are intended to be profitable
- Natural resistance to spending money
- Reluctance to admit risk of money laundering (good name)
- Difficulty in justifying costs to directors/shareholders

Cost v. Profit (2)

- Regulatory compliance means extra work and staff which means increased costs of doing business
- Offsets/Benefits for such costs are often not readily tangible or apparent

Justifying the Investment

Benefits to Financial Institutions

- Reduce Risk through better assessment and management techniques
- Improve Integrity
- Marketing Potential
- Increased Opportunity to Connect to Customers and their Needs
- Improving the Bottom Line

Reducing Risk

- Instills discipline within the institution as to managing risk
- Develops better knowledge and understanding of the institution's customer base, product lines and geographic service areas

Risk Factors

- Customers (identification, financial profile, true beneficiary, PEPs)
- Products or Services (cash-oriented, quick/easy turnover)
- Geographic locations (foreign transactions, etc.)
- Method of transaction or delivery (face to face, over the phone, wire transfer, etc.)

Improving Integrity

- Improves relationship of directors/managers to the operational aspects of the institution
- Review of staff hires reduces risk of internal theft and other improprieties
- Training of staff improves competence
- Effective AML and KYC improves confidence in dealing with the institution's customers and others
- Internal audit function can identify weaknesses or problems within the institutions which can then be corrected

Improving Integrity (2)

- Compliance avoids bad reputation
- Installation of AML software may mean improvement of overall IT capabilities of an institution
- Compliance improves the relationship between the regulators and the institutions
- Effective enforcement "weeds" out bad institutions thereby improving competitive opportunities and market share

Marketing Potential

- KYC provides better information about a customer and his financial profile (less risk of ID theft)
- As the profile of a customer changes, new products or services can be offered
- Public awareness of KYC can also be used to promote the institution
- Compliance can be seen as "value added"
- Less risk to institution means less risk to customer

Marketing (2)

- Effective AML compliance is a “must” for any institution to participate in the global economy

Improving the "Bottom Line"

- Risk review can identify unacceptable areas of risk which the institution may drop or modify
- KYC can provide marketing opportunities both in terms of the individual customer as well as the customer base as a whole

Finally

- AML Compliance is REQUIRED BY LAW
- Effective AML program can do much to avoid large penalties and heavy sanctions, even closure

AML Compliance is Key to Palestinian Autonomy

- International Community (FATF, World Bank, IMF) are commenting on compliance efforts
- Donors are vigilant on compliance to ensure funds are being used properly
- Investors want to ensure safety and integrity of their investment
- Reputation depends on how well compliance is achieved not only at the governmental level, but also at institutional level

Further information resources

- **October 2009 Report on Money Laundering in the Securities Sector at** *www.**fatf**-gafi.org/…/0,3417,en_32250379_32235720_33625510_1_1_1_1,00.html*

QUESTIONS

THANK YOU FOR YOUR ATTENTION!!