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Implementing an Anti-Money Laundering System – Is it Worth It?

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Financial intelligence units around the world and the regulators responsible for implementing the new anti-money laundering regimes are quick to use statistics to prove the effectiveness of the new rules. However some leading academics challenge these claims, and in fact say that there is no evidence to support the importance currently being attached to effective AML processes.

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The new compliance and reporting rules are now well and truly part of the everyday business landscape. No matter whether you manage a one-person bureau de change, or whether you are the compliance officer for a global bank, you have the same obligation to satisfy the regulators that you have a robust anti-money laundering & counter-terrorism financing process in place within your business.

Making these processes an intrinsic part of your business is costly and time consuming, not just during the implementation but as part of your on-going business. Whether it is the cost of buying and deploying an automated computer based system, or the on-going labour costs of what is often to some extent a manual process.

The Australian regulator and financial intelligence unit Austrac, is regarded by many similar international organisations as a world leader – the 'gold standard' in the design and implementation of compliance and reporting procedures. The CEO of Austrac, Neil Jensen, claims that information from the Austrac FIU has been instrumental in many hundreds of successful prosecutions, and thus it follows that the collection of financial data can have a direct impact on the detection and apprehension of perpetrators of many types of crime, not just financial.

His opinion is backed up by Antonio Gustavo Rodrigues, the head of the Brazilian FIU and President of the Financial Action Task Force, which effectively guides international government policy on AML/CTF measures. Mr Rodrigues says that making it more difficult for criminals to launder money has an effect on 'predicate' crimes, those crimes that generate the black money in the first place. The social value of this success should not be underestimated.

To most people, making it difficult to launder money sounds like common sense, and many would simply assume that there is no downside to doing this.

However at a recent AML & CTF conference in Sydney Australia, entitled "Managing Risk: Australian and International Perspectives", several leading academics dropped an apparent bombshell when they claimed that there is scant if any evidence that the ever increasing compliance requirements being imposed on business have any effect at all on the reduction of predicate crimes.

Professor Peter Reuter, from the University of Maryland, the author of several books on both money laundering and the economics of the drug business, suggested that far too much resource is being invested in attempting to quantify the size of the money laundering problem (perhaps to justify the size of the response), and that in fact this is impossible to determine. He went further and claimed that there is no meaningful evidence to support the premise that making money laundering difficult automatically causes a reduction in associated crime.

Professor Margaret Beare from York University in Canada, speaking on the relationship between organised crime and money laundering, put forward the results of her research quite bluntly when she claimed that criminals with a large amount of money burning a hole in their pocket, like most people, simply 'fritter it away' on expensive lifestyle items, reducing the demand for money laundering services. She claims that in Canada, in the few cases where criminals have been unearthed by financial intelligence, they were already under investigation anyway.

Leading criminologist, Russell Smith from the Australian Institute of Criminology, spoke about the concept of 'displacement' – how making the laundering process more difficult can have the effect of moving crimes to other 'locations', being either financial channels or geographic locations.

In fact Professor Rohan Gunaratna, head of the International Centre for Political Violence and Terrorism, and an acknowledged expert on terrorism financing, implored banks to continue to offer banking services to suspected terrorists, so that the possibility of following the money trail is not lost.

Though the representatives from Austrac, who were hosting the conference, recognised the value of healthy debate and alternative points of view, they must have felt a certain level of discomfort at some of these claims, which are in direct opposition to the many statistics put forward by advocates of tough anti-money laundering regimes, and no doubt some of the hosts were wishing they had vetted the speakers notes more carefully before the invitations were issued.

No matter whose statistics you believe, the point is somewhat moot, as the regulations are in place and compliance is required. But when compliance requires money and a lot of someone's time, it would be nice to be able to feel good about why you are doing it – not just because the regulator says you have to.

While there is general agreement, even by Austrac, that the new laws have not been in place for long enough yet to be able to really determine their effectiveness, some others are able to put forward compelling support for robust AML compliance, which is not reliant on any crime fighting statistics.

The data collected as part of an AML program can lead to a body of financial intelligence, which is often useful as part of enterprise wide risk management. For example AML data is often equally useful in fraud detection, and while these areas typically demand different skill sets on the part of compliance officers, the underlying data supporting investigations is often from the same source. Thus for a financial institution, fraud detection can be a money-saving side effect of an AML program, and many argue that fraud and AML programs should be a combined effort within an organisation.

Some go much further in their support of AML compliance. Michael Matossian, Global Head of Regulatory Compliance at Arab Bank, is passionate in his support for compliance programs in general. His mantra is 'compliance is good for business' and his case is compelling. The 'front end' of AML compliance generally involves collecting extra data about a customer, something that could be intrusive, but he argues that this can be turned into a positive for both the business and the customer. Most AML systems involve profiling customers in order to be able to flag any significant changes of behaviour. Gaining this intimate level of understanding of a customer's business can allow the organisation to anticipate the customer's needs and serve them better.

Above all, Mr Matossian argues that good compliance demonstrates organisational integrity, and sets a healthy tone within an organisation with respect to how the business operates in the wider world. The converse is also true – a bad AML program reflects badly on an institution. Compliance is also vital for protecting the reputation of the organisation, and thus should be undertaken whether compelled by regulation or not.

Whether the current financial crisis has a major impact on the evolution of AML controls remains to be seen. Some fear that there is a danger of diminished investment in AML programs by organisations, as they find higher priorities for stretched resources. Critically, at the same time, there is the possibility that the same lack of funds at an individual level may increase the motivation of some to perpetrate fraud and money laundering, or the predicate crimes, in the first place. Thus now more than ever, there is a strong argument for good quality AML programs and policies.

The regulators such as Austrac, and agencies such as the Australian Crime Commission, stress the belief that the government must rely on a partnership with the private sector to effectively gather financial intelligence and use that knowledge to combat crime. So there is no doubt that the AML compliance regime is here to stay, and the only question is how quickly it will move from the current risk-based approach into a more structured, prescriptive basis. Some say, within the next year.

About IMX

IMX Software is the global leader in banknote trading and travel money technology solutions. Founded in 1991 and headquartered in London, the company specialises in developing software solutions for three market segments: wholesale currency and banknote trading; currency distribution and fulfilment; and retail foreign exchange and travel money products for business-to-business.

IMX wholesale and distribution solutions automate the processes that support the purchase, sale, fulfilment, secure shipment and settlement of high volume bank note, foreign currency and precious metal trading with integrated reporting tools that support internal audit and compliance obligations to the high standards demanded by central banks. IMX retail solutions automate the provision of travel money products and cash, and foreign currency exchange via point-of-sale and e-commerce channels, with full support for international anti-money laundering regulations governing such transactions.

Over 100 organisations across the globe have benefited from IMX's solutions, including American Express, HSBC, M&S Money, ANZ Bank, Credit Suisse, Commerzbank, Royal Bank of Scotland, Travelex and the UK and Australian Post Offices.

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