

Keeping track of the cash

NEW SANCTIONS TACKLE MONEY LAUNDERING IN ASIA'S FINANCIAL HUBS SUCH AS SINGAPORE AND HONG KONG

By KRISTINE YANG in Hong Kong
For China Daily Asia Weekly

One of the largest currency notes in the world went out of circulation on July 10 when the Monetary Authority of Singapore (MAS) said it would stop issuing S\$10,000 (\$8,000) notes. It was one among several measures Singapore is taking to cut down on a rising incidence of money laundering.

In a July 15 paper, the MAS proposed tougher supervision of financial institutions to counter the financing of terrorism, including additional requirements for cross-border wire transfers exceeding S\$1,500 such as greater requirements for customer due diligence and more information on payment instructions.

"The increase in money laundering convictions over the past few years is in part due to a new crime trend that specifically involves money laundering in Singapore," Chew Wan Lin, head of anti-money laundering policy in the Commercial Affairs Department of the Singapore Police, tells *China Daily Asia Weekly*.

The new trend emerged in 2012 with money mules, recruited from social networking websites with promises of love and friendship, used to launder money.

The issue is significant for most countries in the region, and particularly financial centers like Singapore and Hong Kong.

"Money laundering (in Asia) has increased. At the same time, the sanctions applied to money laundering have also grown. A large number of international banks have been significantly punished by US authorities. So institutions are very aware that money laundering is a very significant issue," says Ben Wootliff, a director at Control Risks, an international risk consultancy.

Kyran McCarthy, Asia Pacific head of anti-money laundering and sanctions services at KPMG China, believes the increase is driven by greater awareness.

"You can see regulators, particularly in Hong Kong, Singapore and China, have increased regulatory



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People walk past the Singapore stock exchange building in the heart of the financial district. The country is implementing new measures to curb the rising incidence of money laundering and to counter the financing of terrorism.

supervision of financial institutions' compliance with local (anti-money laundering) laws and regulations," McCarthy tells *China Daily Asia Weekly*. "There is much more focus to identify money laundering, as a result ... that means regulation is working."

"I don't think there is an increase of money laundering activities but there is necessarily an increase of regulation across Asia. The increase

in regulation has clearly enhanced awareness of money laundering and put more pressure on financial institutions."

Singapore seized a record S\$115 million from criminal proceeds in 2013 linked to money laundering, according to the Commercial Affairs Department's annual report. The number of Suspicious Transaction Reports (STR) rose 25 percent to 22,417 on almost 371,000 Cash Trans-

action Reports.

Singapore has tripled the resources it dedicates to financial investigations and set up branches for international cooperation, terrorist financing, investigations into the proceeds of crime and serious tax crimes, said Tan Boon Gin, director of the Commercial Affairs Department of Singapore, in its annual report.

Hong Kong has also reported growth in suspicious transactions.

Last year, Hong Kong's Joint Financial Intelligence Unit received 32,907 STRs, up 41 percent from 2012. Over 90 percent of STRs were lodged by financial institutions, such as banks, securities and insurance companies.

"Police believe that the rise in STRs reflects an enhanced degree of awareness of the Anti Money Laundering and Counter-Terrorism Financing Ordinance and the relevant statutory reporting obligations in the community," Financial Services Secretary KC Chan told the Legislative Council in May.

"It is not necessarily easier to launder money in Asia, but there is more money coming in," says Wootliff.

But money laundering is a global issue. In North America and Europe, regulators have been active and issued billion-dollar fines at times.

"The extra-territorial enforcement by authorities in the (United States) of AML (anti-money laundering) and sanction measures continues to drive significant change for multinational financial institutions," says Philip Rodd, a financial services partner at EY, a global accounting firm.

Other Asian countries are also stepping up the fight against money laundering, according to the Financial Action Task Force (FATF) of the Organization for Economic Cooperation and Development.

In June, the FATF removed Australia and South Korea from a regular follow-up process. The latter, the FATF said, has "made sufficient progress in addressing the deficiencies identified in its 2009 mutual evaluation report".

Indonesia and Myanmar have also taken steps to improve their AML and terrorism financing regimes, but more work remains.

Japan has failed to address deficiencies in its own system identified in a 2008 report.

"The FATF is concerned by Japan's continued failure to remedy the

numerous and serious deficiencies ... despite Japan's high-level political commitment," said FATF in a July 3 announcement.

An economic slowdown and a crackdown on corruption in China have also had an impact. An unusual accusation by China's State-owned CCTV network earlier this month against Bank of China (BOC), one of the four big State-owned banks in China, drew attention to the issue.

CCTV accused BOC of "blatantly" laundering money through "You Hui Tong", an investment program that allows Chinese to move capital overseas. BOC said the product is fully authorized. The People's Bank of China (PBOC) said it is checking on the allegations.

"I think there is a conflict between Beijing's interest in increasing convertibility of the yuan and making it a more global currency, and the ability of regulators monitoring this flow," Andrew Collier, managing director of Orient Capital Research and former president of Bank of China International USA, tells *China Daily Asia Weekly*.

"PBOC has been encouraging banks to allow freer flow of funds between China and the outside world. The Shanghai Free Trade Zone attempts to create a flow of capital into China. It is not money laundering. But it is a large flow of money. And we have seen BOC has been approved to experiment with capital flow. Now they are accused of engaging in money laundering.

"With the decline in GDP growth, the opportunities are fewer (in the property market) and the rich have started to move their money offshore. So I suspect money laundering would become quite substantial in the next few years," adds Collier.

And there are links between China, Hong Kong and Singapore that lead to greater flows of capital.

"You've got a great deal of money by the rich who don't want to keep it in China. You've got declining investment opportunities in China. The property market bubble is starting to collapse and you have a crackdown on corruption," says Collier.

The growth and spread of virtual currency pose a new threat. Virtual transactions are backed by actual deposits, and tracking those transactions back to tainted funds is another challenge for bank compliance and operating systems, consultancy PricewaterhouseCoopers (PwC) said.

According to the PwC 2014 *Glob-*

al Economic Crime Survey, which polled 5,128 company executives from 95 countries and territories, not only is money laundering on the rise but so are bribery, corruption and cyber crime. The rate of respondents who have been exposed to money laundering in one way or another rose to 11 percent this year from 9 percent in 2011.

As many as 27 percent of respondents in the financial sector reported experiencing money laundering, more than double the number from the next closest sector, insurance, in which 11 percent of respondents were exposed.

Hong Kong and Macao have the highest rate of money laundering in Asia and the ninth highest globally. Twenty-seven percent of respondents in the Chinese mainland and 16 percent in Hong Kong and Macao reported having experienced economic crimes, compared with 32 percent in Asia Pacific and 37 percent globally.

"You've got a lot of easy ways to launder money (in Macao and Hong Kong), such as gambling and the sale of high-value goods. And many people would launder money for you," says Wootliff.

"In Asia, the greatest challenge for financial institutions is transaction monitoring," says McCarthy. "Financial institutions are expected to have such robust manual and automated transaction monitoring systems. But it is quite difficult, because of different levels of maturity and understanding, on how to effectively implement and maintain these systems."