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Anti-money laundering experts highlight risks and challenges to Bermuda's financial institutions

22 April 2009, Bermuda – At a special presentation hosted by PricewaterhouseCoopers, a panel of industry experts spoke out on the challenges of monitoring money-laundering and terrorist financing in Bermuda.

The presentation focussed on the recent anti-money laundering (AML) and anti-terrorist financing (ATF) legislation initiatives enacted locally, the importance of compliance with these regulations in protecting Bermuda's reputation as an international banking and investment centre, and the challenges faced by local financial institutions.

Cheryl-Ann Lister, Chairman of the National Anti-Money Laundering Committee (NAMLC) opened the session by giving the audience an overview on Bermuda's anti-money laundering (AML) requirements including current legislative requirements, assessments of actions taken to date and the role of industry partners in making sure the island is ready for the next review in 2010.

She told the attendees that the objectives of Bermuda's legislation were "to safeguard the security and economic well-being of Bermuda from money laundering and terrorist funding and to ensure Bermuda plays a role in the global fight against money laundering and terrorist funding".

"Although Bermuda is not seen as a major money laundering centre it is critical that we meet the global standards. If we don't, the impact on our reputation is far too great," she said. "Other countries are looking at us. We've got to do what's necessary to protect our borders and our reputation."

Mr William Kattan, Director of Legal Services and Enforcement at the Bermuda Monetary Authority (BMA) advised attendees on the BMA registration process for non-licensed financial institutions within scope of the legislation (i.e. institutions that are exempted from licensing) operating on island and mentioned the serious consequences of failure to register by the cut-off date of 30 June 2009.

As of 1 January, 2009 the BMA is required to monitor all AML/ATF regulated financial institutions to make sure they are compliant with the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008. Mr. Kattan said that regulated institutions, whether licensed or non-licensed, must update their AML/ATF policies and procedures to ensure that they are compliant with and reflect the new regulatory framework, and outlined the actions that could be taken by the BMA if institutions do not implement corrective measures to become compliant with the legislation.

Evonne Thompson, Manager, Advisory Services at PricewaterhouseCoopers spoke about the importance of a risk-based approach to AML and ATF, because the threat of money-laundering differs across businesses and jurisdictions and a 'one size fits all' approach is no longer enough to mitigate the risks that companies face.

"To have an effective anti-money laundering programme, financial institutions must identify risks and controls to minimise risks and keep pace with an evolving business environment, "she said. "Compliance with AML and ATF legislation must become part of the company's ERM (enterprise risk management) programme as well as part of their culture."

She defined AML and ATF risks "the risk of impairment to an organisation's business model, reputation, and financial condition resulting from the failure to meet laws and regulations, internal standards and policies, and expectations of key stakeholders".

In order to implement a risk-based approach, Ms. Thompson explained that companies must first identify the risks by looking at the customer's behaviour, the way they do business, and the products and services they use. Then they need to assess the risks and establish criteria to determine whether these risks are high or low. This process must be reviewed on an ongoing basis and adjusted accordingly.

John Campbell, AML Practice Leader, Principal, Advisory Risk and Regulatory Services of PricewaterhouseCoopers New York ended the session by speaking about the challenges Bermuda faces as it tackles money-laundering.

Mr Campbell pointed out that the island was a natural target for money-launderers because of the geographic size, isolated location and small population. He said that local financial institutions needed to be very careful about what was coming into the island from offshore.

The current economic climate is also creating challenges for financial institutions. Mr Campbell explained that regulators have taken their eyes off AML because resources are currently being absorbed by the financial crisis. He said money launderers know this and are taking advantage.

Also, employers are placing an emphasis on cost-saving right now. Employees feel pressure to be more cost efficient and the funds are not available to invest in anti-money laundering monitoring systems.

"Companies must be especially vigilant during this time," he reiterated. "'Be careful who you do business with. Your reputation can be harmed without you even knowing it's being harmed because of money laundering."

He went on to confirm the value of a risk-based approach to anti-money laundering and anti-terrorist financing, telling the audience to maintain an effective AML programme and understand the issues and challenges of compliance with AML and ATF legislation.

The session took place at the Fairmont Hamilton Princess on Wednesday, 22 April and was attended by over 80 people from local banks, investment companies and the insurance sector.