

# Improving AML / CFT



## José Manuel Campa

Chairperson, European Banking Authority

### Strengthening AML/CFT supervision in the EU

Money laundering and terrorist financing (ML/TF) need to be stopped. They undermine the trust of citizens in financial institutions, negatively affect market integrity and threaten the stability of the financial system. ML/TF cannot be fought in isolation. Governments, public authorities and the private sector all have a role to play. This is why, since its inception, the EBA has been working to foster a consistent and effective approach to anti-money laundering and countering the financing of terrorism (AML/CFT) by authorities and financial institutions. Financial crime respects no borders and a

weakness in one area of the single market opens up the entire single market to abuse.

The high-profile scandals of the last few years have shown that Europe's AML/CFT defences must be strengthened. As a first step, the European legislature gave the EBA an enhanced objective to prevent the use of the financial system for the purposes of ML/TF. It also gave the EBA new powers to lead, coordinate and monitor EU supervisors' fight against ML/TF, which we are rolling out in 2020.

#### Leading the way in effective supervision

The EBA will continue to lead EU AML/CFT policy work in the financial services sector, and support effective implementation through training and assistance to competent authorities. In 2019, we introduced staff led reviews of competent authorities' approaches to the AML/CFT supervision of banks. Each review concludes with feedback on which aspects of a competent authority's approach work well, and which aspects could be improved.

We published our aggregate first round findings in February. They suggest that change is underway, but that many competent authorities continue to find AML/CFT supervision difficult. As a result, the EBA is carrying out targeted revisions of its core AML/CFT guidelines whilst maintaining the cycle of implementation reviews.

#### Coordinating cooperation

We will be coordinating information flows and working to strengthen supervisory

cooperation, which is key to effective AML/CFT supervision, especially across borders. This is why, in 2019, we created a framework to foster cooperation and information exchange including the establishment of AML/CFT colleges, which we will support in 2020.

We are also setting up a central database that brings together information currently held by individual competent authorities. As part of this we will be working to ensure all relevant information is shared effectively, whether it be on emerging geographical or product risk or the impact of new technologies.

#### Monitoring

The EBA's database will also allow us to obtain a clear view of the ML/TF risks in the EU, and take action where warranted to strengthen EU supervisors' response to those risks. For example, the EBA can ask a competent authority to investigate or consider taking corrective measures should there be indications that a financial institution might be in breach of its AML/CFT obligations.

The EBA is uniquely placed to work with, strengthen and coordinate the work of AML/CFT authorities across the EU. We are committed to using our resources and powers to contribute to making the EU's financial system a truly hostile place for financial crime, as well as ensuring the EBA is well placed to contribute to the establishment of any new EU AML authority in the future. ●

## Martin Merlin

Director, Banks, Insurance and Financial Crime, DG for Financial Stability, Financial Services and Capital Markets Union, European Commission

### Shaping up a comprehensive AML policy

The current unprecedented global crisis has certainly shifted attention to the need to use all the adequate tools to bring

back stability and growth. Anti-money laundering is certainly not the first field that springs to mind among the many issues that we need to tackle in the very near future. Still, our commitment to have in place a truly comprehensive and coordinated EU approach to preventing and fighting money laundering is unfaltering. Over the last year or so, we have clearly identified the missing pieces of the puzzle needed for this approach.

The Commission remains dedicated to delivering the backbone of an effective AML policy, including harmonisation,

enforcement and supervision, confident that the values that underpin an effective anti-money laundering framework go hand in hand with solid growth.

There is increasing realisation that more efforts are needed to improve the current minimum harmonisation in the EU anti-money laundering regime. Today, we are faced with different compliance and supervisory cultures and inadequate cross-border collaboration. A reinforced and more effective EU regime will need to deliver on transparency, traceability, and accountability. It should capture new ►



► business models and emerging risks in a fast-changing financial environment and be sufficiently flexible to fit the cross-border dimension of financial activities.

Delivering on these aims means building on the existing rules, with precise objectives in mind and with the ambition to have in place a truly integrated action.

They will be spelled out in a soon-to-be adopted strategic document, inviting experts to contribute their views to the process.

Improving the EU's anti-money laundering policy will have to tackle the need to have in place common rules, directly applicable in all corners of the Union. This implies having in place a Regulation. A framework combining a full and targeted harmonisation of issues such as obliged entities, customer due diligence and maybe sanctions, with more flexibility allowed to distinct Member States in other areas may be the most effective way forward. This would constitute a single anti-money laundering rule-book setting out the full spectrum of requirements.

Dedicated action in the areas of supervision, enforcement, inter-agency cooperation and global outreach will complete the picture. An EU-wide supervisory system would also need to take shape. Given the many recent case studies that proved the current supervisory system

to be flawed, an integrated, effective and truly deterrent institutional architecture would be required. At the heart of the new system, it is essential to have a central, independent supervisory Union body. In close cooperation with the national supervisors, the Commission is seeking to clarify how the Union can bring added value where risks are most felt, so that we are able to collectively map out risks and direct supervisory efforts and resources.

/// *Dedicated to delivering the backbone of an effective AML policy.*

International influence and representation of the Union, including in the FATF, the dedicated forum, needs to also be strengthened. This way, we ensure that we are able to export our high standards in areas such as beneficial ownership transparency, bank account registers or smooth onboarding processes and turn them into the global standard. ●

## Jesper Berg

Director General, Danish  
Financial Supervisory Authority  
(Finanstilsynet)

### The potential of technology – a common front in fighting ML and TF

In recent years, much has been done to combat money laundering (ML) and terrorist financing (TF), by strengthening our toolbox and regulatory framework and increasing our supervisory intensity. But more can and must be done, not least to strengthen the first line of defence.

In December last year, the Council adopted conclusions on strategic AML-priorities, highlighting many important aspects and possible measures. Some elements have attracted much attention, such as the possible creation of an EU AML supervisor, others less – and I would like to focus on one of those less prominent but nonetheless vital and necessary steps forward – the exploration of opportunities

and challenges in using technological innovation to combat ML.

This does not mean that we should stop focusing on strengthened supervision and coordination. Supervisory colleges add clear value as for a for information sharing – and they should be mandatory to create for all financial institutions with cross-border entities. Other initiatives to strengthen supervisory cooperation could also be envisaged. For instance, we have established a common Nordic-Baltic working group to intensify and formalize regional supervisory cooperation. It is key that new initiatives add value to our supervisory tasks. But increased supervisory cooperation cannot stand alone.

/// *Current CDD processes are vital, but also cumbersome for both customers and banks. The use of technology should be a key priority.*

We also need to strengthen the first line of defence in financial institutions, not least the customer due diligence (CDD) processes they carry out to know their



customers – a crucial prerequisite for them in assessing whether customers' transactions are unusual and suspicious. Current CDD processes are vital, but also cumbersome for both customers and banks. Vital because it is the first step in the value chain on which subsequent actions are taken, and cumbersome due to friction in getting access to information and lack of automated processes. The use of technology and better access to and use of existing infrastructure and databases or the creation of a new, shared European ►

► platform can improve financial institution's AML/CTF efforts and should be a key priority.

It could deliver higher quality CDD, allowing suspicious behaviour and patterns to be identified earlier and resources to be allocated more efficiently. One step would be to support the financial sector in building such a common infrastructure, where information can be safely shared and assessed, ideally at a European level.

This is easier said than done. The creation of such a platform, and the extent and consequences of the underlying elements, such as what information it should contain, needs to be thoroughly assessed. And the legal complexity and possible regulatory obstacles must also be carefully considered, such as the sharing of personal data. It is a difficult but necessary agenda.

Giving financial institutions further access to databases or establishing a shared

European platform would simplify and increase the quality of CDD-processes and add value to the efforts in the first line of defence.

The Commission will soon publish an EU AML action plan. It is a window of opportunity for us to launch new initiatives to help build a common infrastructure, which enables data sharing across the EU. This could be a true game changer and make a real difference. ●



## Līga Kļaviņa

Deputy State Secretary on Financial Policy Issues, Ministry of Finance of Republic of Latvia

### Main challenges in the field of AML supervision and operational implementation

At the time of writing the world is experiencing spread of COVID-19. Besides the tragic human consequences all around the globe, slowdown of economy will affect all the sectors and financial sector might be exposed to the new challenges. Governments across the EU are announcing financial stimulus and economic response packages and institutions – EC, ECB and ESM are massively launching financial stimulus in hundreds of billions EUR to retain confidence of the markets and euro currency, as well as to protect economy and jobs.

Financial sector actors will be vested with the tasks to transmit the financial means and support the economies and ease the liquidity shortage while maintaining the sound banking principles. EBA has already announced the postponement of the EU-wide stress tests and invited national competent authorities make full use of flexibility embedded in existing regulation thus supporting bank focus on performing their core activities in extraordinary circumstances.

One should admit that last two years banking sector, especially in the geographies with misused financial system, has gone through substantial de-risking process when it comes to AML/TF issues. These questions are high at the agenda of new European Commission agenda who adopted “zero tolerance” approach and have to launch infringement procedures against several MS that have not transposed AMLD5 as of beginning of year 2020, which already encompasses many safeguards and enhanced practices to combat illicit financing. Still persistent divergence in interpretation, implementation and application of AML/CFT legislation, among others future looking proposals, leads to the need of Regulation provisions. This would result in more precise and less prone to interpretation legislation.

Apart from anticipated global shift in the behavioral patterns of consumers and businesses, inevitable outcome of the COVID-19 situation is the removal of still existing artificial barriers to online and digital services. It will facilitate the demand for an alternative, fast and cheap payment system to the ones provided by the banks and at the same time, there will emerge the need to acknowledge the new services, products and discuss the possible use of them; while protecting customer

and financial system. Probably one of the technical solution that could eliminate the risks of anonymous users and subsequent AML/CFT implication could be the facilitation of digital identification or any other means of trustworthy electronic verification systems. Though Latvia is one of few pioneer countries using handy digital app (Smart-ID) which grants access to digitalized financial and state provided services, system might serve its purpose if it is compatible and used in the EU. When it comes the digitalization and harmonization of systems, much depend on the countries digital culture, IT literacy and financial resources to launch such projects.

/// *New “post-COVID” environment might challenge many aspects, but safety and security is a result of collective consensus and effort.*

Numerous studies and post mortem analysis proved that EU-level AML/CFT supervisory authority could be of value added for the overall EU financial services architecture thus facilitating the implementation of possible single AML/CTF rulebook across the sectors. Integrated system of central and local level supervisors could use the utmost of common best practices, expertise and resources. Moreover, possible expansion of its scope to non-financial sector would provide more broad coverage since AML/TF neither stops by the border nor it attributed to the specific sector of financial services. New, “post-COVID” environment might challenge many aspects of our lifestyle, but safety and security of the individuals is a result of collective consensus and effort. ●



## Tristan Van Der Vijver

Head of Compliance, Payments and  
WUIB, Western Union

### Two sides of the same coin: fighting crime in a single market

Over the many Eurofi seminars we attended Western Union has consistently called for harmonised anti-money laundering and anti-terrorism financing rules. Therefore, I am absolutely delighted that these proposals today find the political attention they deserve.

Western Union has always been at the forefront of developing new AML solutions at a global level. The remittance industry in general and Western Union in particular is committed to delivering fast, secure and convenient cash and electronic transfers to every corner of the globe. Today we operate in across more than 200 countries and territories.

Our single largest cost of doing business is compliance with AML rules: identifying customers correctly, monitoring the purpose of transactions and reporting suspicious transactions. These tasks are fundamental to all our safety and security. Western Union will not compromise on that.

Nonetheless, we question the efficiency of today's regulatory and supervisory AML framework which unintentionally contributes to fragmentation, duplication and is not always as efficient as it could be. Why is that?

Looking only at the European Single Market, each Member State imposes slightly different requirements on companies. Reporting templates are not harmonised and cooperation between national authorities or across borders within the EU remains sub-optimal. This prevents the financial services industry from adopting a single EU-wide approach to AML and to deploy and scale new technologies effectively and efficiently across Europe

At Western Union, we welcome plans by the European Commission to move towards more harmonisation of the AML rules, as well as to a clearer supervisory and reporting framework.

Ideally, we would like at a minimum to see four measures in this new legislation:

- A common suspicious transaction filing system;
- Harmonised customer due diligences requirements;
- The introduction of EU-wide electronic identification; and
- Better information sharing between public and private sectors. ●

## Tony Blanco

Secretary General and Member of the  
Executive Board, La Banque Postale

### Improving cooperation, information-sharing and use of new technologies

Banks have been involved alongside member states in the anti-money laundering (AML) fight for almost 30 years. They have continually invested huge amounts in IT and compliance tools and adapted their internal processes to regulatory requirements provided for in the 5 subsequent directives. By setting up dedicated services for investigations, they are the main providers of information to FIU (financial intelligence unit). The strengthening of both banks obligations (KYC, beneficial owner, PEP) and resources allocated to this fight went together

with greater intensity of supervision and sanction by the supervisory authorities (€ 16 billion in fines paid by European banks between 2012 and 2018).

*“Capture the opportunity  
for a more effective and  
efficient AML approach  
at European level.”*

Thus, given the amount of sanctions, AML-CFT fight has become one of the major concerns for bank executive managers. However the current situation is clearly sub-optimal: financial institutions have to monitor billions of transactions to identify those that would be problematic, with a disappointingly low conversion rate: a bank could get tens or hundreds of thousands “hits” / year, that would translate into only a few thousand SAR (suspicious activity reports) to the supervisors, which themselves would typically lead to only a few tens of legal investigations. Not only



that, but the current quest for “zero failure”, without a shared framework to think about relevant trade-offs between cost and impact, leads to ever more requirements and controls, with diminishing returns.

Furthermore, the current AML rules, methods and supervision remain fragmented. Current gaps in directive ▶

► transpositions are particularly detrimental as the strength of the whole AML system depends on its weakest part. And, last but not least, data sharing is limited, and the power of AI is not yet widely leveraged.

So what are the possible actions that could lead to a more effective and efficient system?

- Cooperation and information sharing: not only between authorities, as provided for in the 5th directive, but also to all the actors involved in this fight, especially banks. For example, shared resources and common platforms implementation,

gathering suspicious activity reports or aggregating customer knowledge information could be considered.

- Prioritization and trade-offs: public authorities could identify the main threats on which institutions should focus on. Implementing performance indicators with regard to specific goals would make it possible to ensure the commitment of financial players and help develop and share best practices.
- Fully leveraging new technologies: notably by exploiting the full potential of data science in processing and sharing KYC information, or by using IA and machine learning to sort critical transactions

and identify patterns in AML activity. Authorities should support a wider use of such future-proof tools and monitor initiatives to identify best practices or potential regulatory barriers.

- Harmonization of European regulation and supervision: to ensure greater alignment between countries, some aspects of the AML legislation should probably take the form of a regulation rather than a directive as the former is directly applicable. And a greater standardization of supervision rules and practices could also be explored to reinforce the harmonization of supervision. ●



## Che Sidanius

Global Head of Financial Crime and Industry Affairs, Refinitiv

### Europe's Anti-Money Laundering Framework needs further reforming

Following the spate of money-laundering breaches by European banks and further digital developments in the last two years, it has become apparent that the current EU framework needs to be profoundly reformed if the fight against financial crime is to yield meaningful successes in the future. The EU has gone some way to improve the current situation

in its last mandate by revising the Anti-Money Laundering Directive (AMLD), where supervisory powers are now more anchored in the European Banking Authority (EBA), and by developing an AML action plan; however, there remains five key areas where more could be done to strengthen the effectiveness of the current regime - with little or no added costs for supervisors or businesses.

The money laundering scandals in Europe involving credit institutions have demonstrated that more needs to be done in terms of risk assessments and customer due diligence. However, it is also important to note that financial crime is not simply an issue of compliance, it also has significant consequences from a financial stability perspective. Whilst Europe has formed very significant and important initiatives to create a prudential and market regulatory framework to prevent the next financial crisis, the possibility of a large financial institution becoming insolvent due to money-laundering is a real possibility. Money laundering has become one of the most important potential sources of financial instability.

This new legislative mandate offers EU leaders a unique opportunity to reform its AML framework and become a global leader in the fight against financial crime which, as we explain further below, also links to Europe's ambitions on leading the climate change and digital revolutions.

Money laundering and other types of financial crime do not happen in isolation. More often than not, they are global in

nature and part of a much wider criminal operation - with real societal impact, ranging from the funding of terrorism, to modern slavery and child-related crime and even environmental degradation. As such, Europe needs to be a global leader also on the fight against financial crime if it aspires to be a global leader on the fight for a greener and more sustainable future. As often the first line of defense against financial crime, the private sector has a key role to play in helping reduce current financial crime figures, if utilized properly - i.e. if there is more collaboration between both the public and private sector.

### /// Making the fight against financial crime more effective

Obligated and non-obligated firms, such as third-party vendors, hold valuable information for law enforcement authorities. However, communication flows are often a one-way street between the private sector and Financial Intelligence Units (FIUs).

Building on the work of, for example, Europol's Financial Intelligence Public-Private Partnership or the UK's Joint Money Laundering Intelligence Taskforce (JMLIT), the EU could be at the vanguard of fighting financial crime if it established some form of similar public-private information sharing arrangement at EU level. This has been called for by the European Parliament in recommendations from its special committees on tax and terrorism (e.g. TERR and TAX3). ●