

Presentation Speech by
MR LAURIE MELLOP, MANAGER DIRECTOR, COLONIAL FIJI
FIU Anti Money Laundering Conference
on Wednesday 18 February 2009 at 2:45pm at the Holiday Inn, Suva

Introduction

Bula Vinaka!

Thank you for the invitation and the opportunity to speak to you today.

Today's volatile economic environment has created unprecedented pressure on financial institutions to cut costs and increase the productivity of existing resources.

Despite these demands, regulators world wide warn of the dire consequences of cutting back on AML requirements and compliance.

Now, more than ever, it is critical that we optimize the efficiency of our AML operations to prevent criminals from abusing the financial system while it's in turmoil – however these come at a cost!

I have been asked to speak on Compliance with the FTR Act, from Colonial's perspective, what is involved and the cost of complying.

I will attempt to keep my presentation light but focused.

Overview

Financial institutions are at the forefront of the battle against money launderers. It is not only our institutions that money launderers target to use in their various nefarious schemes but under current legislation we are responsible for policing the financial dealings and reporting:

- any suspicious transactions,
- all cash and electronic credit card transactions of \$10,000 and above,
- all SWIFT transactions, irrespective of value.

We are also responsible for the proper identification of our customers, also known as “know your customer” or “customer due diligence”

Financial institutions are affected by money laundering; in a legal sense because of the obligations placed on us by legislation and financially because of the need for compliance.

The FTR Act and Regulations require financial institutions to put in place systems and processes to deter money laundering, and to assist the relevant authorities to prevent and deter money laundering activities.

I have outlined here, the process we put in place when the regulations were promulgated.

Process

Our obligations were extracted from the **Legislation** by our legal team.

Upon identifying the **obligations**, a project team was formed to commence creating the necessary documents and processes required in order to comply with the customer due diligence obligations.

At the same time consultation with the FIU was held to establish system and business requirements to satisfy the reporting obligations.

FIU signed off our internal processes.

After obtaining sign off, our people in the respective **business units** were **trained**.

Procedures and system changes were implemented, after satisfaction that our people were aware of the requirements and our systems were capable to support the reporting obligations.

P.I.R – Post Implementation Review. At this stage, we performed a post implementation review of all supporting processes:

- Stakeholder feedback was gathered and analyzed.
- The learnings requires us to further review our processes to bring about more efficiencies. It is about continuous improvement without compromising our compliance obligations. It is not a once-off review.
- Stakeholders are always consulted on the revised processes.

Retrain/Refresh. The staff in the respective business units are retrained on the revised processes and then implemented.

There is an ongoing process for continuous improvement through reviews and consultation with stakeholders to bring about efficiency in the process, without compromising our obligations and controls.

Specifically what was involved?

In terms of the specifics of what was involved.

We were one of the first to implement changes.

Customer Due Diligence (CDD) checks and requirements were introduced. Customer identification requirements were enhanced to satisfy obligations.

- We established checklists for our front line staff to follow when handling transactions and or opening new accounts.
- We created a Letter of Identification where key professionals can identify customers.

The legislation requires all customers to be identified. We agreed with FIU that we would implement CDD for **new** customers first, with existing customers being put through the CDD process at a later stage. All customers have been categorized into high and low risk categories.

We now put CDD checks on all new customers when a transaction takes place.

The next phase will be to perform CDD on existing high risk customers, followed by low risk.

We estimate this to take approximately 5 years to complete as we catch up on verifying all our customers to comply with CDD requirements.

System changes to satisfy our reporting obligations were implemented.

This took a lot of consultation between ourselves and the FIU, with detailed testing to get our reporting mechanism correct and to be compatible with FIU's database. The reports implemented were:

- Cash Transaction Reporting (CTR) – this report captures all cash transactions of \$10k and above or its equivalent in foreign currency. These are uploaded to the FIU database daily.
- Electronic Funds Transaction Reporting (EFTR) – reports all transactions that move in and out of the country irrespective of amount. These are also uploaded to the FIU database daily.
- Suspicious Transaction Reporting (STR) – although no system enhancements were required for these, internet access had to be enabled to allow our staff to provide these reports through online reporting into the FIU database. Suspicious Transaction Reporting is based on factors such as nature of transaction, level of activity, type of account, occupation and other factors from time to time which may show elements of any suspicion. Reporting of STR's are done as and when any suspicious transactions are identified.

Challenges

Some of the challenges we face are:

Insufficient documents:

- We find that majority of the rural and suburban customers do not have all the necessary documents required to open accounts or clarify transactions that meet CDD requirements.
- We introduced a Letter of Identification to have key professions identify customers to assist customers who do not have all relevant documents.
- Most elderly customers do not have birth certificates.
- Insurance sales agents out in the field find that the majority of people do not readily have all required documents available. This in turn has extended the time for policies to be issued, increasing customer dissatisfaction and liability issues if policies are not processed in time.
- Verifying customer's physical address and location is difficult as most customers do not have utility bills addressed to them; many live with extended families or in communities that share mailing addresses.

Fraud: Keeping ahead of fraudsters is any financial institutions biggest challenge. We are liable for the security of our customers' information and monies.

Whilst not so much a challenge, legislation such as the FTR not only protects customers but also safeguards the country's financial system and assists financial institutions reduce potential fraud.

The challenge is keeping ahead of fraud and fraudsters.

Capturing identification where majority of customers do not have primary identification, is one of our biggest challenges.

There is a general lack of awareness and appreciation by the public for the need to provide information when requested.

Identity theft is growing in Fiji, with globalisation and internet accessibility; criminals are always finding ways to beat the system (e-crimes, e-fraud!).

Recent identity theft statistics released by the FBI claims that 9.91 million Americans were identity theft victims and have experienced losses totaling \$52.6 billion.

In Australia, identity theft is estimated to cost \$2 billion a year (although some estimates put the figure as high as \$3.5 billion).

Interpretation of the legislation in terms of obligation is another challenge!

Example: Identifying the beneficiary of funds is impractical, particularly if international financial institutions are involved, they would have their own identification requirements to follow when processing transactions.

To overcome this Colonial only deals with banks that comply with AML requirements in their country and approved by our parent company, the Commonwealth Bank of Australia.

PIN and card issuance is another challenge as fraudsters try to keep ahead of financial institutions security requirements and monitoring.

Finally '**angry customer**'!

They do not fully appreciate and understand the requirements:

- Why the sudden need to have all these documents?
- Why now? Before I could do the same transaction without any documents?
- Legitimate businesses and customers are disadvantaged!

We are a **diverse financial institution**, governed by different regulators - RBF and CMDA!

We also need to comply with our **Group standards**.

CBA, our parent company has to comply with RBA, ASIC, APRA.

CBA issues their minimum group standards that we must comply with as a wholly owned subsidiary of theirs; they are bound by their own regulators to ensure that their entities also comply with Australian regulations.

We are unique! Having to cope with demands of satisfying Fiji, Australia and New Zealand requirements.

Costs & Impact

Money Laundering involves moving criminal proceeds, "dirty money", into legitimate bank accounts.

We know that criminals use three independent and often simultaneous steps:

1. Placement - Physically placing bulk cash proceeds.
2. Layering - Separating the proceeds of criminal activity from their origins through layers of complex financial transactions.
3. Integration - Providing an apparently legitimate explanation for the illicit proceeds.

Costs of implementing include a combination of one-off and ongoing costs. Costs that are incurred within organizations, external costs incurred and other related activity costs becomes difficult to quantify.

For individual banks in Fiji, the actual costs are likely to be quite different depending on their own particular circumstances.

From US experience, based on survey report conducted by US Securities Industry Association on Financial Markets; in 2004 total spent by companies listed in the stock market on compliance and related activities was US\$23.2b, in 2005 it was projected at US\$25.5b.

From the experience in Europe, based on report on Europe Economics Chancery House, London; 40 companies surveyed mentioned increases in their operating costs due to compliance ranged from 2% to 20%.

Do we have similar statistics for Fiji?

Within Colonial:

We had to enhance existing **IT systems** to comply with reporting obligation requirements. I touched on the specific reports we had to develop in earlier slides.

Training & Ongoing Refresher. We have had to review and refresh processes and provide ongoing training to our staff.

We have had to **increase FTE** in our support areas to support all the compliance reporting, monitoring and training needs.

We have had to increase our focus on monitoring compliance at our front line and in our support areas and have layers of checks to ensure obligations are met.

Increases in Warrants & Search requests. The notable increase in these requests to provide information is a result of the FTR implementation and we believe stems from STR that are reported by institutions'. The impact is spread. We have had to establish dedicated resources to handle these requests.

In Closing

Receiving feedback on the reporting we provide will give satisfaction that the compliance and monitoring we are doing is adding value.

Providing assessments and trends to help financial institutions effectively identify and 'spot' AML activities using various daily electronic reports submitted will assist.

In some cases there has been repetition in providing the same information across different agencies for the same customer.

Perhaps we should ask ourselves the question:

Have we really implemented a developed country's legislation into a developing country?

Some matters to consider are:

- Do we allow other means of identification? Some customers ask, "can our VKB registration suffice"?
- Have we done enough to create awareness and have all supporting structure in place?

- Should we have a national campaign? The public need to be aware that this is not a 'banks only' requirement as customers are now comparing banks.
- We must strike a balance between effective prevention, detection to avoid burdening the financial institutions and in the end, increasing costs for consumers. Focus efforts on risks and then impose cost effective controls
- Can FIU establish a consolidated database on their website of all black listed people and countries rather than sending out separate bulletins for financial institutions to manage themselves, it becomes the responsibility of financial institutions to access and verify; almost like the credit / data bureau process.

It is admirable to be the first in the Pacific Region, but at what cost?

- Australia implemented their reporting obligations in December last year.
- New Zealand if approved, will implement first half of 2009.
- Fiji Act was in 2004 with reporting obligations coming into effect in January 2008.

And for more thoughts:

We use the 3 C's in our leadership development programs. Can we tick off that all stakeholders impacted by this legislation actually satisfy the 3 C's?

- Is there **Clarity** within the regulations, do people fully understand?
- Are all stakeholders **Capable** and can support this legislation?
- Is the **Culture** of our country/people suited?

Thank you for the opportunity to speak to you today.

Vinaka.

- END -