

Opening of the Second Series of Anti-Money Laundering Training on 23 October 2001

Address by Mr. B.R. Gujadhur, Managing Director, Bank of Mauritius

Members of the Board, Bank of Mauritius

Members of the Board, Financial Services Commission

Chief Executive, FSC

Mr. Stephen Platt, Managing Director, Finance Sector Compliance Advisers Ltd.

Members of the Professional Bodies

Colleagues of the Financial Sector

Ladies and Gentlemen

On 16 May 2001, on the same platform, I had the honour of opening the first of a series of training programmes on money laundering which the Bank of Mauritius announced for the benefit of the financial sector, industry professionals and law enforcement agencies.

Today, five months after the first training programme, I have again the honour of opening the second training programme in that series. Allow me, ladies and gentlemen, to welcome you to this second training programme.

Allow me also to welcome Mr Stephen Platt, Managing Director of the Finance Sector Compliance Advisers of Jersey who is by now an acquaintance of Mauritius. Following the success of the first training programme he conducted in May this year, his presence among us today is the result of a strong demand

from the industry for further training from him. Mr Stephen Platt is, in the domain of money laundering known as a specialist in providing training to financial sector regulators. During the course of his visit to Mauritius, he will also impart training to higher management and compliance officers of financial institutions.

When we were planning for this training programme, the event of 11 September in America had not yet occurred. This programme has but therefore come at an opportune time.

Government Commitment

For Mauritius, the combat against money laundering started as far back as in the year 1988. On 20 December of that year, Government signed the United Nations Convention against Illicit Traffic in Narcotic

Drugs and Psychotropic Substances, commonly known as the Vienna Convention.

Subsequently, on 23 December 1997, Government committed itself to the Forty Recommendations of the Financial Action Task Force and to the Mutual Evaluation Procedure. As you know the Financial Action Task Force (FATF) is an intergovernmental body grouping 26 countries whose purpose is the development and promotion of policies to combat money laundering. They came forward with Forty Recommendations covering all aspects of the fight against money laundering.

In June 2000, the Economic Crime and Anti-Money Laundering legislation was enacted and it became operative on 7 July 2000. That legislation was drafted against the background of the Forty Recommendations of the FATF.

On 20 October 2000, Government again committed itself to the United Nations Minimum Performance Programme Standards agreed at the Global Programme Against Money Laundering Forum Plenary held in the Cayman Islands.

To further express its commitment to the fight against money laundering, Government has this year, under the hand of the Honourable Minister of Foreign Affairs and Regional Co-operation ratified the United Nations Conventions against illicit Traffic in Narcotic Drugs and Psychotropic Substances. The Vienna Convention is accordingly in force for Mauritius as from 4 June 2001.

Further, the Bank of Mauritius is a member of the offshore Group of Banking Supervisors (the OGBS) and the OGBS has, this year, been recognised as a FATF style regional body on the same footing as the CFATF, grouping countries of the Caribbean Basin and the Asia Pacific Group.

Mauritius is also a founder member of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG). It is indeed a pride for Mauritius that, among the signatories to the Memorandum of Understanding forming that Group, only Mauritius has a comprehensive anti-money laundering legislation in place. Swaziland, we are given to understand, will follow suit.

The Honourable Minister of Economic Development, Financial Services and Corporate Affairs attended personally the second meeting of the Council of Ministers of the Eastern and Southern Africa Anti Money Laundering Group which was held in Windhoek, Namibia this year. There could have been no better demonstration of the will of Government to join in the international efforts to eliminate the scourge of money laundering in Mauritius.

More recently, the Honourable Prime Minister announced the introduction shortly of a Prevention of Terrorism Act.

Strong political will, however, is not enough. If the fight against money laundering has to be a success, the other actors of the economy have to play their role. There must be an active involvement of all players in the economy. Regulators

have to play their role as well as the others.

According to experts of the FATF, cash remains the major if not the primary form in which illegal funds are generated today. One country has noted that, although there is nowadays, a general shift of the public to non-cash means of payment, there is also in its economy an increase in demand for banknotes. The explanation given was that it was due to the growth of a parallel, underground economy. In this respect, cash movement - especially across national borders - is becoming a more widespread element for large scale laundering schemes. The use of large denomination banknotes is favoured by criminals because it reduces the bulkiness of physical cash movements. As part of its response to money laundering and organised crime, Canada has recently decided to cease the issue of its 1000 dollar bank note and to withdraw existing such notes from circulation.

In our jurisdiction, a standing committee comprising regulators, the Police, the Customs and the Revenue Authority has been put in place to deal with suspicious cross border cash movements.

When the FATF Forty Recommendations were first issued in 1990, the focus of many of its preventative measures was on detecting money laundering at the cash proceeds stage. Accordingly, many of the anti-money laundering systems put into place emphasised the recording and reporting of large cash transactions. Today, the financial sector has evolved and so have the money laundering

methods. Conscious of this, the FATF is currently undergoing a revision of its Forty Recommendations. The views of Mauritius are being held in that respect through our membership of the Offshore Group of Banking Supervisors. The OGBS is represented at the FATF by Mr Colin Powell, its Chairman who is our mouthpiece in that forum.

Despite the continuing need to focus on the cash proceeds in money laundering operations, there is also a need to look at other forms of payment, which are being abused by money launderers.

The review of the Forty Recommendations of the FATF is considering, among others, new payment technologies such as the electronic purse, smartcards and WAP technology as a potential means of facilitating money laundering operations. WAP technology permits direct access to Internet through mobile phones. The implications for money laundering will likely be similar to those for on-line banking and other Internet related activities.

As I welcome you to this second of a series of anti-money laundering training organised by the Bank of Mauritius, your presence this morning makes me feel that one of our objectives in organising this training is met. It befalls on the Bank of Mauritius to keep all cash dealers and professional intermediaries alive to the subject of money laundering. Your active participation in today's event will meet this goal. Much work has been and continues to be done by international bodies such as the Financial Action Task Force (FATF),

the Basle Committee on Banking Supervision, the Council of Europe, the United Nations, the IMF and the World Bank to name but a few, to assist financial systems worldwide to deliver a concerted battle against money laundering. Why? For the simple reason that money laundering has become a single most important scourge threatening the integrity of both the national and international financial network. The threat from money laundering has increased with the rapid recent expansion of postal, telephone and electronic banking.

The combined effects of impersonal, borderless electronic banking and speed of transactions have heightened risks associated with money laundering. Inadequate Know Your Customer, KYC, procedures tend to expose both financial institutions and countries as a whole to several risks - reputational, operational, legal and customer concentration risks. The precise nature of these risks will become clearer as we proceed with today's business.

To avert these risks, cash dealers and professional intermediaries are called upon to adopt customer due diligence standards which correspond to the best practices. This is essential especially where the supervision of introduced business is multi-layered. Short of proving that we are actually operating at an acceptable level in this regard, we will be exposed to proposed concerted international actions now on the way to declare non-compliant jurisdictions unwelcome to do business with financial institutions located in the compliant

jurisdictions. You would recall the recent publication of a list of non-cooperative jurisdictions by the FATF in the fight against anti-money laundering. Some of you will also recall that early this year, Mauritius has undergone an FATF Mutual Evaluation to establish that we do abide by effective anti-money laundering standards. Increasingly, financial centres which host offshore activities are summarily picked up, without justification, as having lower standards of regulation and supervision compared to the more developed financial markets. As practitioners in Mauritius know, this kind of sweeping statement can, to say the least, be grossly unfair given the amount of supervisory effort expended by the regulators over here. Events, however, have proved and continue to prove that nobody is, in fact, immune from the threat of money laundering and that includes the important financial centres.

In the light of these events, we must reckon that pushing ahead the development of the financial sector of Mauritius is going to be tough but it remains a clear possibility despite all the competition, specially these days with global economic recession a clear but hopefully short-lived phenomenon. In addition to the efforts to be put in to catch on to new business, which is not all too evident from this part of the world, we need to meet the expectations of the international community in terms of complying strictly with extra-territorial norms of business practices. In such a difficult environment, it will be a disservice to the country at large if any bank or other

financial institution or professional intermediary was blamed publicly for negligent involvement in a money laundering scandal of any proportion. We cannot also afford to destroy the burgeoning financial sector of Mauritius by ourselves arousing unfounded suspicions about its ability and willingness to govern itself within broadly accepted international parameters.

I have frequently referred to two expressions, namely the 'Know Your Customer' and 'due diligence' concepts. The Know Your Customer or KYC principle is the bedrock on which the 40 recommendations of the FATF are founded. As the key concept in the anti-money laundering framework, KYC refers to an adequate package of policies, practices and procedures implemented by cash dealers and professional intermediaries for them to efficiently and effectively manage and control (1) client acceptance policy, (2) client identification, (3) on-going monitoring of high risk accounts and (4) risk management. Due diligence refers to the procedures adopted by financial institutions and professional intermediaries in the KYC context to fully know the clients with whom they are dealing.

KYC safeguards go beyond simple account opening and record keeping. They deal with the formulation of appropriate customer acceptance policy as well as an effective customer identification programme based on special due diligence for higher risk accounts and proactive monitoring of suspicious activities. Concern in terms of rigorous

customer due diligence involves not only banks and non-bank financial institutions but also professional intermediaries of financial services such as lawyers and accountants. Given prevailing extensive networking of global transactions, all those service providers should, in the observance of effective KYC standards, be able to aggregate and monitor significant balances and activities on accounts located in several offices across different countries. The amount of worldwide consolidation now required in this context calls, therefore, for extensive collaboration among all the intermediaries. This collaborative effort among stakeholders is expected to develop further and will assume even greater importance in future. We need to work more closely than before as a consequence.

This may appear to make inroads on the concept of confidential treatment of private information. In practice, however, information can be streamed up under proper safeguards without violating confidentiality of private transactions under appropriate collaboration at different levels. We must reckon that the alternative, that is, the risks of failing to track down suspicious activities, are high. I have already referred to loss of reputation as one key risk. There is more to it. It may severely undermine public confidence in the ethical standards not only of the service provider but also that of the financial centre as a whole. Costly information requests may arise, accompanied by freeze and seize orders. There could also be actions for damages by the victims and financial losses by

intermediaries. In simple terms, the damage done will far outweigh the cost of maintaining high standards of due diligence.

There are on-going discussions right now in some international fora on actions to be taken against those who do not abide by accepted standards. One of the actions contemplated is to deny transactions with counterpart financial institutions that do not have similar customer due diligence standards. Correspondent relationships between banks in different jurisdictions are being called into question and there is a possibility that banks in certain jurisdictions will be called upon not to establish correspondent relationships with foreign banks that are not subject to effective supervision by the authorities or which do not have effective customer acceptance and KYC policies.

In conclusion, I have this to say, that there is no alternative than to have performing systems in place to detect suspicious and unusual patterns of activity. Concepts such as the "should have known" principle make the task of tracking and monitoring even more arduous. What better can we do than to arm ourselves with efficient management information systems in order to avoid being exposed to all the risks I enumerated earlier? The banking system of Mauritius comprises several international banks which are bound to keep track of the latest techniques adopted by money launderers with the aim of keeping their institutions clean.

The Bank of Mauritius has issued Guidance Notes earlier this year to the

whole industry and to professional intermediaries setting out in detail the KYC principles to be adopted by every one. We are also pursuing an across the board training programme, such as the one today. I have much confidence personally in the skills of Mr Stephen Platt and in his ability to pass on to you, our stakeholders, the knowledge with which you should be equipped in order to fully respond to the challenges that are coming up from this front. I am confident that when we leave today, we will be fully convinced that committed efforts within our institutions with all concerned, namely compliance officers, internal and external auditors, supervisors and professional intermediaries, to remove any potential stain on the good repute of our jurisdiction, will pave the way for Mauritius to derive an even larger share of international financial business.

With these words, let me invite Mr Platt to take over.

Thank you.