

Building an AML Regime for the Future: Are we there yet?

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1. Thank you for your kind introduction and it is a pleasure to once again represent the Hong Kong Monetary Authority at this important annual event.
2. Two years ago, I spoke at this same conference and outlined two things: The need to question how effective we were being in Anti-Money Laundering (AML) work and the need for innovation and change if we were going to continue protecting the integrity of our financial system in an ever-changing and more uncertain world.
3. And we asked some tough questions:
 - (i) *How should our approach evolve: could we turn to technology, to not only improve compliance but to ramp up outcomes in AML work?*
4. The emphasis here was not only on the increasingly important role of technology but also the increased focus within the local and global anti-money laundering regimes on ‘outcomes’ – which on one hand represents intelligence provided to law enforcement agencies (LEAs) so they can investigate and seize and return funds to victims of crime, while on the other also speaks to customer experience and inclusion, making sure that our AML work targets genuine higher ML/TF risks and does not disenfranchise your customer base with overly burdensome customer due diligence work.
 - (ii) *How could we make innovation part of our DNA, where problem solving is central to the role of a Money Laundering Reporting Officer?*

5. The challenge we set ourselves was to make these changes long lasting. The behaviours that catalyse problem solving and transformational change must be a natural part of the DNA of financial crime leadership or put another way, business as usual.

(iii) What did the HKMA need to do next: how could we promote responsible innovation?

6. It should come as no surprise to any of you that the HKMA is actively stimulating certain innovation within the sector on AML because we believe it will deliver public value. Fintech 2025 represents the HKMA's wider vision in this regard.

7. So two years ago we set out an ambitious plan – starting with the AML/CFT Regtech Forum in late 2019 to address what we recognised was our diminishing operational advantage in AML work and to take the necessary steps forward to deliver into the future.

8. Doing nothing was not an option in a world of accelerating technological change, the expansion in criminal threats, particularly to the delivery means via the internet and the increased challenge to the relevancy of our AML systems to protect and the international rules and standards upon which those systems are based.

9. I won't repeat what the forum represented – we have covered that well many times – but I will explain my use of photographs of two of the HKMA senior leadership team to illustrate a point. We understand the industry desire to have “technology-active supervisors” – supervisors willing to engage on technology issues and provide express support that leads to increased interest, investment and trust in new technologies, despite the challenges. If you look at the webpage of the AML Division you will see how our leadership team is providing that steer and clarity – this has been an important element of our ongoing communication strategy.

10. So let me fast forward back to today and ask what have we achieved in these two years?

11. Concrete steps have been taken by banks, as key frontline gatekeepers of our financial system, across four areas which collectively will determine the future of how results in the ecosystem are achieved.

12. Let me start with understanding of risk: In order to be effective, assessing risk in priority areas has become more proactive with banks focusing on threats related to priorities through processes which in our leading banks are more agile and less prescriptive than before. More detailed information is being shared, domestic and international financial crime typologies and cases, through the Fraud and Money Laundering Intelligence Taskforce (FMLIT) and the Anti-Deception Coordination Centre (ADCC), as well as reporting suspicion to and feedback from the Joint Financial Intelligence Unit (JFIU).
13. As part of their risk-based approach, we are aware from our most recent data collection that more banks have developed the capability to leverage richer data streams like digital footprint information, which, when plugged into the gains from analytics and technology-enabled information sharing partnership can deliver better targeted, more responsive and actionable suspicious activity reporting.
14. The sharing of case specific information through increased collaboration has been one the major success stories of the last two years, resulting in banks identifying and reporting over 12,000 accounts previously unknown to LEAs; banks' round-the-clock assistance to ADCC led to the interception of HK\$3 billion in 2020; and this is on top of the significant share (85%) of over 57,000 suspicious transaction reports last year which continue to be made by the banking sector to the JFIU for law enforcement action.
15. On data and technology, we are seeing real progress. For example, from our most recent data collection exercise we know concrete, measured steps have been taken toward broader adoption and acceptance of artificial intelligence: in 2019 only 28 banks were applying artificial intelligence to enhance their AML/CFT controls but today that figure is 45.
16. We have done a lot of work around the importance of alternative data and it is also pleasing to see real progress there too: 53 banks are now using or exploring alternative data to perform AML/CFT analyses or investigations and the use of alternative data has led to the detection of unusual activity or relationships for 37 of these banks, 36 of which have developed the capability to use graph / network analytics for AML/CFT purposes.

17. These are capabilities which we have encouraged in the break out groups from the 2019 Forum and most recently featured in our report “AML/CFT Regtech: Case Studies and Insights”.
18. So within the Hong Kong AML eco-system we have deepened banks’ contribution and strengthened the ability of the sector to protect and report by working ever closer with LEAs and other key partners within that system.
19. More broadly, we have encouraged a level of innovation as banks have further shifted the workforce balance within the eco-system to maximise the use of data and technology. Most recently, we ran a webinar to better inform and understand some key industry data and technology applications which have proved invaluable in better identifying criminal networks involved in Covid-19 related scams.
20. In two years these are some achievements, but they are not good enough. However successful we may have been so far, it is also apparent we have only scratched the surface of our ambition. The sector is modernising its approach to AML but we are still some way off true transformation.
21. So what’s next?
22. We must take this opportunity and accelerate our work if we are to deliver what the public, justly, expects from banks in AML work. It has for example become increasingly clear that an understanding of data – access to and quality of conventional and new, alternative data, is an area we must also focus our collective attention if we are to achieve our vision.
23. Some of our existing ways of doing AML work must not be allowed to reinforce outdated behaviours and restrict the application of more updated approaches to problem solving; multi-disciplinary diversity of thought; fail-fast behaviours; and the constant challenge to existing ‘norms’ that are now instinctive amongst world-leading institutions.
24. We have also been clear in our determination that this should be a partnership approach with banks, with industry, with the firms working in this area and our partners in the global AML eco-system. With that I mind, let me share with you some of what is coming next from us to help that process:

- AML and Financial Crime Regtech Labs: Starting in November 2021, experimenting and engaging with new technologies and emerging data analytics techniques
- AML/CFT Innovation Event: To promote innovative uses of emerging technologies to tackle AML/CFT challenges – working collaboratively with Hong Kong’s AML/CFT ecosystem
- AML/CFT Regtech Case Studies & Insights Volume 2: Working with representatives from the industry to produce a follow-up to the January 2021 publication: AML/CFT Regtech: Case Studies and Insights

25. So coming back to the question I posed at the start: Building an AML Regime for the Future: Are we there yet? The answer must be no, but the difference today from two years ago is that we now have a clear roadmap to where we are going and how to get there.

26. I am hoping the panel will give you some further insights.

[Remarks: This is the text of the presentation as drafted and may differ slightly from the delivered version.]