



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B10/14C

30 July 2020

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Coronavirus disease (COVID-19) and Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) measures – An Update

I am writing to share observations and industry practices to assist Authorized Institutions (AIs) in developing sustained efforts to cope with the evolving COVID-19 situation and support operational responses which are consistent with the risk-based approach (RBA). The HKMA has been reaching out to AIs following our letter dated 7 April 2020¹ and, as the situation continues to evolve, it has become clear that measures which were originally intended to be short-term may have to be kept in place by AIs for relatively longer or, in some cases, reintroduced as new clusters of COVID-19 cases emerge. Key observations and practices are highlighted below and further details are summarised in the *Annex*.

(I) Customer due diligence under social distancing and travel restrictions

Social distancing and a significant reduction in travel due to COVID-19 continue to significantly impact the ability of AIs to interact with existing and potential customers. This not only affects the mass retail segment but also corporate and private banking. We have, for example, observed that AIs are increasingly using video conferencing to interact with customers in the course of on-boarding and ongoing customer due diligence reviews. Some AIs utilise the flexibility provided in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance to delay verifying the customer's identity, while adopting appropriate risk mitigating measures. In addition to remote on-boarding for individual retail customers currently offered by more than 10 AIs, some AIs have also expedited testing of similar initiatives for corporate customers.

¹ HKMA Circular "Coronavirus disease (COVID-19) and Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) measures" issued on 7 April 2020 (<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200407e1.pdf>)

(II) Pressure on AML/CFT resources

All AIs have some form of business continuity planning in place to maintain sound operations. To address the pressure on resources, AIs have been adopting a number of responses, which collectively have minimised potential impact to AML/CFT processes. These include reprioritising work on the basis of ML/TF risks, reallocation of staff, staggering office hours and equipping staff with work-from-home capabilities. Some AIs are also expediting their exploration of regulatory technology (RegTech) solutions (e.g. machine learning) to reduce the number of false positives generated from transaction monitoring and screening systems, and thus enhancing efficiency and effectiveness.

The HKMA continues to monitor resource allocation as part of AIs' operational responses to ML/TF risk management and reiterates through this engagement the importance of applying the principles of the RBA, maintaining adequate records of decisions made and that relevant controls or risk appetite need not be compromised in the process.

(III) Emerging threats and changes in customers' behaviour

AIs have increased their understanding of and vigilance to emerging COVID-19 related financial crime risks, including through the Fraud and Money Laundering Intelligence Taskforce (FMLIT)² and a recently established Fraud Risk Management Taskforce under the Hong Kong Association of Banks, which is welcome. These collective efforts can help enhance the overall effectiveness of cooperation and information sharing between the public and private sectors on typologies and best practices. Consistent with the global trend³, some AIs identified changes in customer behaviour, such as digital payments and online transactions, and were working to incorporate their understanding of emerging risks into transaction monitoring rules and scenarios. We are also seeing examples where RegTech is helping to build out a more collaborative, intelligence-led approach to financial crime risk management and that some AIs are applying advanced analytics to help detect networks and common vulnerabilities.

The HKMA will continue to work closely with AIs to support ongoing industry efforts, and reiterates that the principles of the RBA provide the flexibility to be both pragmatic and responsive to the evolving COVID-19 situation and the challenges it presents.

² FMLIT was established in May 2017 led by the Police Force and participated by the HKMA and ten retail banks.

³ "COVID-19-related Money Laundering and Terrorist Financing Risks and Policy Responses" published by the Financial Action Task Force on 4 May 2020 highlights, among others, that online financial services are increasingly abused for moving and concealing illicit funds, while there has also been a global upsurge in corporate and personal fraud. The report can be found at: <https://www.fatf-gafi.org/media/fatf/documents/COVID-19-AML-CFT.pdf>

For any questions about this circular, please approach your usual contacts in the AML & Financial Crime Risk Division or aml@hkma.iclnet.hk.

Yours faithfully,

Carmen Chu
Executive Director (Enforcement and AML)

Encl.