

**Moving the Needle:
Improving Outcomes in Anti-Money Laundering**

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1. Thank you for inviting me here to speak this afternoon – it's great to be back at this annual event.
2. Regular attendees over the last few years will have become accustomed to me talking about the collective journey we have all been on to build an effective response in Hong Kong to what is a global problem.
3. And we have been trying very hard: Our collective efforts have recently been assessed by the Financial Action Task Force who have given us a very good score card; we have been able to demonstrate that controls and supervision in our banking system are risk-based, effective and in line with international standards.
4. In fact Hong Kong has received one of the higher scores to date amongst members assessed under the latest methodology.
5. That positive endorsement is all well and good, but at the HKMA we've also taken a step back and used the experience to ask ourselves whether the system is working as well as we would like it to be. What does the report mean for us at the HKMA and for you in the industry? And more importantly how should the HKMA drive change in the post-FATF evaluation regime?

6. The Mutual Evaluation (ME) report reviews what we have done in the past and reflects that the ME process has served one of its purposes very well – it has focused attention in Hong Kong on the area of AML. Huge steps forward have been taken.
7. But with reference to the theme of this event - looking forward into future - and the opportunities which are presented with, it is now becoming increasingly clear that there are ways to do AML work potentially much better, more efficiently and at reduced cost to both banks and customers, using methods and approaches that were not part of the ME assessment.
8. Let me turn here to efficiency and effectiveness: systemic effectiveness in practice across the regime – and how we can best achieve this using all of our activity, all of our investment, all of our resources in AML which have the potential – through greater collaboration – to make a much bigger difference to society by helping to combat financial and other crimes.
9. This brings me to the role of innovation, and more specifically technology, in delivering that.
10. Can we turn to technology, to not only improve compliance but to ramp up our response to AML, from the point where we are now? The challenge for the HKMA is how to instigate that change and promote responsible innovation.
11. For the HKMA, promoting *responsible* innovation in AML work means 3 things:
 - (i) First, making sure new and emerging sectors can develop in a responsible way, with adequate safeguards built in so they are not exploited by bad actors. Stored value facility licensees and virtual banks are two good examples.
 - (ii) Second, ensuring that our requirements are up-to-date and enable everyone fighting against money laundering and terrorist financing to take full advantage of the opportunities offered by new technology. The most

recent update to our AML/CFT Guideline, in which we modified certain requirements to remove perceived barriers to the use of technology, is a good example.

- (iii) Third, it also means enabling change that is consistent with the HKMA's objectives - not only in banks but equally importantly at the HKMA itself, so that we can continue to supervise effectively; in our supervision we need to think and act in a way that is consistent with the changes occurring in the sectors we supervise. We recognize that the better banks are able to interact with their own data, the more successful we will be as a supervisor in delivering on what we are trying to achieve, so there is a very strong and direct benefit to enabling and encouraging change in this way. And, with an eye on what our peers are doing and what changes are taking place around us, remaining relevant and competitive.
12. These are not new objectives or themes: this time last year the HKMA's Deputy Chief Executive, Arthur Yuen, talked about some of these concepts and how we understood they were being applied by the industry. He talked about the potential of machine learning to optimize screening alerts, for example.
13. We have not been idle since that time. Over the past year we have continued to instigate that change. Most of you will know that we are already offering bespoke regulatory support through our Fintech Supervisory Chatroom and providing Fintech Supervisory Sandbox so that products can be launched and safely tested.
14. In these forums we have offered early supervisory responses to new ideas and supported proofs of concept that we believe are viable, based on the use case examples. We believe that this has encouraged banks to embrace new ways of doing things.
15. These forums have become busier: more banks are exploring how technology can help make compliance processes more efficient and effective but if we are to really 'move the needle'

we need to see innovation at scale. We have to increase the number of banks prepared to really explore innovation beyond the major institutions, and challenge our thinking on how we tackle some of the most difficult problems, such as criminal networks that sit across the sector and don't respect borders. This relates to willingness and appetite. At the same time we need to leverage these developments within the eco-system of our AML regime – this is the collaboration part - to make better use of mechanisms which have the potential to significantly boost our efforts, for example public private information sharing partnerships.

16. So the question is: how should our approach evolve and what does the HKMA do next? How can we stimulate greater change across the sector and promote responsible innovation?
17. To advance our thinking we have been working with an international consulting firm and are now at the point where we have a clearer vision of what we need to do next and how we want to do it.
20. We want to do more to focus attention on how innovation – more specifically Regtech – can help meet the challenge of AML work across all of our banks. This means providing more proactive stimulation so that innovation becomes Business As Usual, recognizing the growing consensus that AML risk management is at an inflection point.
21. To help create those conditions we are going to launch this work with a many-to-many Regtech / AML event later in the year. We don't intend this event to be just more talk, we want to help to enable change to happen. The event will make clear that the approach will be collaborative and highlight the communities/working groups that need to come together to collectively own and drive the agenda forward.
22. As a risk-based regulator, we are also investing time and resources in applying Suptech to the way we conduct AML supervision, moving to a more data-driven, predictive model in

which we use data to assist the objective assessment of inherent money laundering risks facing banks. This has already started. We have been using a Suptech solution to test screening systems for some time and have recently issued an invitation for tender for consultancy services in the area of transaction monitoring. These are just two initiatives that will change the way we interact with you as a supervisor.

23. A good ME report is not an end in itself, it is a means to build a more effective more efficient system that delivers real outcomes to society. Technology is an enabler in delivering that and is dramatically changing the face of financial crime risk and the means by which it will be effectively mitigated.
24. If we are going to remain effective, relevant and competitive in anti-money laundering work then the responsible use of Regtech and greater collaboration across our eco-system has to become the norm.
25. The challenge is moving the needle to get there.

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