



Industry Sharing Session on “Thematic Review of AIs’ Application of AML/CFT Controls in the SME Segment”

**Opening Remarks by Carmen Chu
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It is my great pleasure to welcome you all here in this and the adjacent room to participate in this session today to share industry practices of how risk-based AML controls are applied in the small and medium-sized enterprise (SME) customer segment.

First, regarding the context, the SME segment plays an essential role in Hong Kong’s economy; there are about 340,000 SMEs in Hong Kong. They constitute over 98% of business establishments and employ almost half of the workforce in the private sector. Their vitality, business performance and active participation in the digital transformation of our economy are of crucial importance.

Boosting SME potential depends to a great degree on conducive framework conditions. The thematic work addresses one important aspect of that framework, mainly responding to some comments or perception that banks apply AML controls disproportionately and thus unduly affecting SMEs’ access to banking services.

I wish to start the discussion with an acknowledgment of the complex nature of the tasks of banks: how to apply the risk based approach to such a diverse segment where every customer has its own characteristics, business nature and form, beneficial ownership, counterparties, geographical footprint etc. It gets even more complicated if the business is based outside Hong Kong, or where you are dealing with a new or



start-up business that doesn't have a track record and is unable to provide standard customer due diligence (CDD) information.

The risks are also very clear and have been highlighted in Hong Kong's ML/TF risk assessment: companies and other legal structures are internationally recognised as a plausible camouflage to move money around for illegal purposes like tax or sanction evasion. At the same time, increasingly customers expect to deal with banks remotely, which has benefits in terms of cost and convenience, while also bringing along impersonation risk. Technology is rapidly developing, representing both challenges and opportunities.

Further to the HKMA guidance in April on tiered account services and simple bank accounts for corporate customers, you will all be aware of the circular we issued in June based on the thematic work, which is the subject of the discussion today. While it is not intended to be introducing any new regulatory requirements, the purpose of this exercise is to gather good practices and areas for improvement, and share them among banks to promote learning from one another.

I would like to thank the project consultant, PwC, for carrying out the field work and sharing its observations to the banking industry today. I would also like to thank the banks that took part in this review. There is a wide range of practices and approaches to SME customers in the banking sector and drawing lessons that are generally applicable is not easy.

I should end by highlighting a few important points:

1. It is in every stakeholder's interests that AML controls work effectively for banks and also their customers. As we have said before, that means focusing attention on the genuine high risks while exploring ways to enhance efficiency, transparency and



reasonableness of CDD processes.

2. The risks of inadvertently dealing with the proceeds of crime are well known while the need to apply risk-based approach for CDD processes are also clear; a balance has to be struck between effectively managing money laundering and other financial crime risks on the one hand, and facilitating legitimate businesses to get banking services on the other.
3. While the task is not easy, we firmly believe that effective AML/CFT controls and financial inclusion are complementary goals. While there is no one-size-fits-all, we did note good practices of some banks from the thematic review, and we encourage learning from one another to race to the top.
4. Last but not least, let me thank all of you for the useful input and contribution to the recent FATF/APG Mutual Evaluation. You may be aware by now that the overall outcome is positive for Hong Kong and we expect the full report to be issued in the very near future. The risk-based approach that we collectively adopt is praised while there are also areas where we need to enhance our understanding. This thematic work will contribute to those efforts and will demonstrate that we are not complacent but keep up our efforts to maintain an effective AML/CFT regime in Hong Kong.

I'll stop here and hand over to Stewart to chair the panel discussion.
Thank you.