

SEMINAR ON ANTI-MONEY LAUNDERING

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Mr. Prime Minister,
Distinguished Guests,
Ladies and Gentlemen:

Good morning. I am honoured to welcome you all to this international seminar on anti-money laundering. I am grateful to the Prime Minister for taking time out of his busy schedule and inaugurate this seminar. I would like to extend a special welcome to the foreign visitors and wish them a pleasant and productive stay in our country.

The topic of the seminar is of great importance in today's world. One of the main objectives of this seminar is to discuss the core issues, which significantly involve financial sector in the fight against money laundering and terrorist financing. I hope the seminar comes up with practical suggestions for effective tackling of money laundering and terrorist financing.

While the speakers would be highlighting the technical aspects of money laundering and terrorist financing, I would like to mention a few general observations about

¹ Welcome Speech delivered at the Anti-Money Laundering Seminar held in Islamabad on March 29 and 30, 2005.

the menaces. The process of laundering dirty money by way of placement, layering and integration is harmful for each and every segment of the society. Its ill effects on society, institutions and governments have been enormous. The tainted money adversely affects productive sectors of the economy in multifarious ways.

The financial sector is particularly hurt if used for laundering of ill-gotten proceeds. The adverse consequences for financial institutions include reputational risk, operational risk, legal and concentration risks. It costs the financial institutions, in the following ways:

- Loss of profitable business
- Liquidity problems through sudden withdrawal of funds
- Termination of correspondent banking facilities
- Investigations costs and fines/ penalties
- Assets seizures
- Loans losses
- Use of senior management's time in doing damage control.
- Declines in the stock value of the financial institution concerned.

Society, as a whole, bears the costs of money laundering in multiple ways. Unchecked money laundering enables criminals to enjoy the profits of their crimes who in turn commit more crimes. When there are more frauds and robberies in banks, depositors will receive less return on their deposits and will have to pay high rates on their loans. When public projects are inflated by corruption, citizens have to pay in the form of more taxes. These acts further distort equitable distribution of wealth and, hence, increase in the incidence of poverty.

Terrorism in its all forms and facets is one of the greatest challenges of today's world. One of the key measures to check terrorism is to choke off financial resources flowing toward perpetrators of terrorist acts i.e. counter finance terrorism. Terrorist financing is in a way a case of "reverse money laundering". In money laundering, crime precedes the process of laundering whereas in terrorist financing clean or dirty money is pooled to support a violent act in future.

The tackling of the issues is by no means an isolated activity. It needs coordinated effort of host of stakeholders including financial institutions, regulators,

law enforcement agencies and active involvement of host of other government functionaries to frustrate money laundering and terrorist financing. However, financial sector is believed to be at the core of the problem.

Let me briefly mention some of the steps which State bank of Pakistan has taken to prevent use of banking sector from crime proceeds.

- Introduced a comprehensive regulatory framework by issuing prudential regulations for banks/ DFIs. These regulations cover the necessary features of AML regime for financial institutions as required under FATF recommendations. Implementation of these regulations is ensured through on-site examination and off-site surveillance. Our inspectors specifically verify the adequacy of KYC policies and other Anti-money laundering safeguards.
- Another major step is the replacement of Money Changers with properly regulated Exchange Companies, hence, formalizing the business of money changing and the underlying transactions.
- State Bank of Pakistan has been instrumental in freezing bank accounts of proscribed entities and

individuals as per UNSC Resolutions. Report of freezing accounts is called from banks and proper record of frozen accounts maintained.

- State Bank of Pakistan has signed MOUs with a number of Central banks for exchange of information and expertise, which also covers the anti-money laundering and terrorist-financing areas.
- The banks in Pakistan were issuing Traveller Cheques in local currency called "Rupee Travellers Cheques" (RTCs) in exceptionally high denomination of upto Rs.500,000 which was not in line with the true spirit and purpose of Traveller Cheques. Instead of using RTCs to meet the needs of travellers, the holder of these instruments often used them as a mode of settling undocumented transactions thereby, defeating the objective of the Government of documentation of the economy. SBP, therefore, prohibited the issuance of RTCs in denominations exceeding Rs.10,000/- in May, 2002.
- Various kinds of bearer instruments were previously available in the market which have been gradually phased out in collaboration with the Federal

Government. The measure is helping the Government's efforts towards documentation of the economy.

I would urge upon the leaders of the banking community present here, to avail this opportunity of learning from the international and regional experiences and highlight concerns, if any. Your involvement is vital for success of the seminar and the subject matter itself. We are fortunate to have with us today resource persons who are professionals of international repute. At the same time, State Bank, in its capacity of regulator, welcomes suggestions and recommendations for improving regulatory and supervisory systems for a clean and healthy banking sector.

In conclusion, I would like to acknowledge that the Prime Minister's presence has provided us tremendous support and confidence. This is reflective of the government's resolve and priority in tackling the issues of money laundering and terrorist financing. I would like to acknowledge the support and cooperation of World Bank and IMF in hosting this seminar.
