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INTERVIEW

Bank clients in spotlight in dirty money fight

by Muralikumar Anantharaman, Reuters

SINGAPORE, August 25 (Reuters) - An African investor recently approached a Singapore branch of a European private bank wanting to deposit $50 million.

His business was declined, said Kees Stoute, Asian head of MeesPierson bank, because the investor had no references and was vague about where the money came from.

The unit of Dutch-Belgian bancassurer Fortis has a policy of turning away unsolicited clients who bring in large sums of questionable origin and it does not open accounts with cash, he says.

The practice is a far cry from a decade ago, when many banks would have welcomed such a large sum and asked few questions. The Sept. 11, 2001, attacks in the United States changed everything for bankers.

Banks and specialists handling private wealth find themselves under growing pressure from regulators to tackle money laundering, facing fines and jail if they do not do enough to know their clients, or the source of their money.

In February, the Tokyo branch of Standard Chartered Bank was ordered to suspend some services for at least a year over suspicious transactions.

In May, Swiss-based UBS was fined $100 million over accusations that employees had illegally transferred between $4 billion and $5 billion in freshly printed U.S. bank notes to countries under U.S. economic sanctions. It did not admit to guilt in settling with U.S. authorities.

"The most specific thing we can do to tackle money laundering is ask: do we know the client? That is really the most important thing," says Stoute of MeesPierson.

Knowing customers was a central theme at a conference on anti-money laundering held last month by consultants PricewaterhouseCoopers for banks in Singapore, a major fund management and offshore private banking centre.

Money laundering - the processing of cash or other property derived from criminal activity to disguise its illegal origin - is estimated to account for between 2 and 5 percent of global annual gross domestic product, or up to $1.82 trillion, according to the International Monetary Fund.

While it now ranks as the third-largest business globally after foreign exchange and oil, industry groups estimate that about $250 billion is laundered annually in the Asia-Pacific, where cash transactions and alternative remittance systems are dominant in many countries.

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The inter-governmental Financial Action Task Force (FATF), the global watchdog for money laundering and terror financing, lists private and commercial banking as areas with a high money-laundering risk, along with businesses such as casinos, real estate agencies and sales of precious metals and gems.

Due to their emphasis on confidentiality, private banks are seen as especially at risk of laundering from politically exposed persons (PEPs).

This is industry jargon for people who are, or have been, entrusted with prominent public roles in a foreign country such as heads of state, senior politicians and senior military, government or judicial officials and their firms and trusts.

Even in the 1990s, private banks would ask few questions of clients with large sums of money and allow them to operate numbered accounts. "The business that faces a huge risk from PEPs is actually private banking," says Rohan Bedi, head of anti-money laundering services at PricewaterhouseCoopers in Singapore.

Bedi said private banks can serve as an unwitting link between PEPs from high-risk countries and terrorist financing, which "is evolving and is becoming more and more similar to money laundering in its use of illegal sources of funds and laundering techniques".

Private and commercial banks are now using more technology to flag accounts that are high-risk and to check clients' bonafides and analyse transaction trends.

Boston-based research and consulting firm Celent Communications estimated in a 2002 report that the U.S. Patriot Act passed after the Sept. 11 attacks would lead the U.S. financial industry to spend about $11 billion up to 2005 on anti-money laundering systems. "When acquiring clients, we adhere to strict internal and regulatory policies.

We need to know our clients thoroughly including the origins of their wealth," says Peter Triggs, Singapore and Malaysia head of Citigroup Private Bank.

Companies such as London-based World-Check, a four-year-old firm that provides information about high-risk individuals and organizations from publicly available data, are already reaping the benefits of the increased focus on money laundering.

"You don't have to go very far to see the fines that are being imposed on banks and bankers for being negligent on this front.

And it just makes good banking practice," says Jay Jhaveri, director in Asia for World-Check, which counts more than 500 banks and financial institutions as its clients.

This 2003 interview also appeared in Streats (Singapore), Daily News (Sri Lanka), Yahoo News, Daily Times (Pakistan), etc.