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Measures to improve effectiveness of anti-money laundering supervision

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“There are interesting ideas about placing parts of this supervision at the EU level. I believe that joint analytical resources and supervision methods in the long run could lead to more effective supervision, in part due to improved insight into cross-border payment flows”, asserted Erik Thedéen at the international conference Finance Summit 2020 in Paris.

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- **Speaker:** Erik Thedéen
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Greater harmonization and more coordination between EU's Member States are key ingredients to achieving more robust and effective anti-money laundering supervision in the Union. The future structure of anti-money laundering supervision in the EU is being discussed in many arenas. There are interesting ideas about placing parts of this supervision at the EU level. I believe that joint analytical resources and supervision methods in the long run could lead to more effective supervision, in part due to improved insight into cross-border payment flows. But we cannot simply wait for large reforms. By enhancing the cooperation both between various authorities and between authorities and financial institutions, we can already take important steps here and now to improve the effectiveness of the work to combat money laundering.

Money laundering is a global problem for both society and the financial system. Money laundering is of course not a new phenomenon, but given the greater degree of globalisation and the advancements in financial technology, it has grown and become more complex. Over the past few years, it has become increasingly evident that financial institutions in Europe have been used for extensive money laundering and other financial crime. These cases show that a number of institutions have not sufficiently understood this type of risk and its consequences. In turn, some institutions have not taken the threats seriously and did not invest enough in their risk-mitigation efforts. Skewed incentive structures may also have contributed to the problem, and at times the desire to manage the risk of being misused for money laundering purposes appears to have been lacking.

The anti-money laundering regulations have been gradually tightened in the EU. Authorities in Europe have also recently investigated and intervened against financial firms that are not in compliance with current regulations. But as authorities we should also reflect over whether we could have done more, and earlier. And, most importantly: what we can do now to make the anti-money laundering work more effective.

Anti-money laundering supervision within the financial sector is an important part of the work to prevent money laundering. It aims to ensure that the financial firms comply with the regulations and have the proper procedures and methods in place to be able to prevent money laundering and identify and report suspicious transactions and activities to the police.

In light of the money laundering scandals that were revealed the past few years, which often featured cross-border transactions, many have concluded that the anti-money laundering supervision within the EU has been too national and fragmented. I agree to some extent. There appears to have been in many cases too little supervision-related cooperation across national borders. As a result, information about deficiencies in multinational banking groups has not always been shared between supervisory authorities in different countries. In addition, regulatory requirements and, most importantly, supervision methods differ between Member States. This means, for example, that the authorities in each Member State do not have the same possibilities for issuing sanctions against firms that do not comply with the anti-money laundering regulations and that the resources allocated to anti-money laundering supervision differ. At the same time, the financial system within the EU is highly integrated and many financial institutions have cross-border operations. Given these conditions, there is a risk that criminals will turn to the countries with more relaxed rules and weaker supervision to bring illegal money into the banking system and then transfer the money onward. The system is therefore not stronger than its weakest link.

This indicates a need for greater harmonisation and more international coordination. One such step is the European Banking Authority's enhanced mandate to coordinate and monitor the national supervisory authorities' work to prevent money laundering. This is a step in the right direction, and I think we need to continue to strive towards more harmonised conditions for anti-money laundering supervision within the EU. This means, for example, that we need to find common approaches to risk assessments and supervision methods. This also means that all countries need to have sufficient resources and a sufficient ability to conduct anti-money laundering supervision.

Several ideas currently being discussed at the EU level aim to strengthen the joint framework to combat money laundering, including whether a new EU authority should be responsible for parts of the anti-money laundering supervision. The benefits include, in addition to the possibilities for greater harmonisation, improved conditions for gathering expertise, developing supervision methods, and allocating resources to the geographic areas and sectors where the risks are largest.

I believe this is the right path to follow. But it is important to first investigate thoroughly how and to what extent it is appropriate to move responsibilities from the national authorities to a central authority. Anti-money laundering supervision differs from traditional stability supervision of financial institutions since its fundamental aim is to fight crime. Supervisory authorities therefore need to work closely with the financial investigation units and other crime prevention authorities, which are mainly national. In addition, the anti-money laundering regulations include many more types of firms than just financial institutions. For example, in Sweden there are currently 16 different authorities that cooperate on anti-money laundering over a broad spectrum of sectors, including real estate agents, auditors, auction houses, and gambling companies. It is therefore important to maintain in-depth knowledge about local conditions and close cooperation between national authorities. Our experiences have also indicated a need for a close cooperation between anti-money laundering supervision and prudential supervision of financial

institutions, in particular for matters related to corporate governance, authorisation applications and suitability assessments of owners and management.

Ultimately, the mandate for a new EU authority is a political matter. But it is my assessment that a central authority would be most effective if it targeted cross-border supervision, international coordination and the development of effective and appropriate supervision methods. I also see benefits from being able to gather joint analytical resources and allocate them to where they are needed most. The goal is to be able to achieve more unified and effective anti-money laundering supervision, in part based on better insight into cross-border payment flows.

I would also like to emphasise that it is already possible today, within existing regulations and structures, to achieve better international coordination, information sharing, and operational partnerships between authorities in different countries. Let me list a few examples from our activities. In the spring of 2019, we established a permanent working group with our Nordic and Baltic supervisory colleagues to promote more coordinated anti-money laundering supervision in the region and sharing of information. This cooperation is occurring at both the strategic level and the operational level. The countries have signed a Memorandum of Understanding for this cooperation. Another example is the current dialogue between Finansinspektionen and the three Baltic authorities regarding the investigations into Swedish banks' governance and control of anti-money laundering measures in Baltic subsidiaries. Here, we are communicating at several levels within the organisations, and we are sharing information and assessments on an ongoing basis. This has given Finansinspektionen the possibility of gaining access to detailed information about circumstances in the subsidiaries that we otherwise would not have had. This also helps all involved parties to gain a better overview of the groups' anti-money laundering work. I mention these examples to show that we are not merely waiting for the large-scale and long-term solutions. If we are open to new types of cooperation, I take the position that we can already come quite far here and now.

Stricter regulations, greater harmonisation and more coordinated supervision improve our chances to combat money laundering. But more is required to solve the problems associated with financial institutions being misused for money laundering. It is ultimately the financial institutions themselves that are responsible for understanding, mitigating and monitoring their money laundering risks and reporting suspicious transactions and activities to the police. Actively preventing money laundering and other financial crime must be high on the agenda for every serious financial institution. Their motivation should not come from avoiding reputation risk or sanctions for non-compliance. It is about them undertaking their social responsibility and by doing so preventing crime.

This is of course both difficult and challenging. Money laundering risks have a different dynamic than the more traditional risks that financial institutions are exposed to and have experience at managing. In addition, the regulations in the area are newer, and neither the banks nor authorities are as experienced in these provisions as they are, for example, in those related to credit risk management. This is not an excuse. It is rather an argument that we all need to prioritise matters related to how we can best develop and improve the anti-money laundering work.

I also want to highlight the need for enhanced cooperation and information sharing between not only financial institutions but also institutions and authorities. As long as the financial institutions are working with customer due diligence and monitoring transactions individually and at arm's length from the police,

they will only have a partial overview of, for example, criminal networks. It is thus difficult to identify more complex money laundering schemes.

A challenge in this respect is that rules of confidentiality often limit authorities from sharing information with other parties. The confidentiality rules are important for protecting personal integrity, among other things, but when they prevent effective combating of money laundering, we need to seek new avenues. One solution is of course to review the confidentiality rules, which is currently happening both in Sweden and elsewhere. The involved parties, however, also need to be open to new solutions and willing to cooperate. The ongoing private-public anti-money laundering partnerships in the UK, the Netherlands and Australia are good examples of such solutions. The aim of these partnerships is to enable operational cooperation between the participating parties, in part by gathering and sharing intelligence on money laundering. The result is a more comprehensive overview of money laundering patterns, which makes them easier to identify and combat. It is positive that the Swedish Government is investigating the possibilities for applying similar methods in Sweden.

Finally, I would like to emphasise that we should take advantage of the strong focus on the importance of fighting money laundering and the willingness that currently exists among politicians and the public. And the greater awareness about the risks of not taking responsibility that many institutions are now experiencing. The initiatives being discussed at the EU level are based on an important idea – creating a more harmonised and robust foundation for both authorities' supervision and financial institutions' anti-money laundering work. However, the proposals are still new and need to be analysed. But we must not stop. During this time, we should promote an enhanced partnership between various authorities, both within and outside the country's borders and both between financial institutions and between institutions and authorities. Financial institutions should work at the same time to ensure that their activities are being influenced by the right culture and attitude. Even when money laundering scandals are not front-page news, the question of how we can effectively combat financial crime should be high on the agenda, both with authorities and in the financial institutions' board rooms and management teams.