

# AUSTRAC CEO Nicole Rose - Speaking notes at ACAMS 2nd Annual AML & Anti-Financial Crime Conference Australasia

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Thank you to Scott, Kieran and ACAMS for the invitation to be here today.

In reviewing the conference program, I was impressed by the range of issues being discussed. It is an effective reminder of just how pervasive and diverse the threats of money laundering and financial crime are, and the variety of ways criminals will look to exploit any and all vulnerabilities in our financial system.

The topics being covered over the next two days highlight the complexity of the landscape in which we operate. From perennial challenges like tax crime, to emerging trends such as virtual assets, there is much to navigate to ensure we successfully combat money laundering and financial crime in this country.

Today, I want to speak about how 'we' - that is AUSTRAC, together with our partners, Government and industry, indeed most of whom are represented in this room - are tackling these threats and I am pleased to say making a meaningful contribution to mitigating them.

Firstly, a high level overview of AUSTRAC and the journey we have been on. As most of you will know, AUSTRAC is Australia's Anti-Money Laundering and Counter-Terrorism Financing (or AML/CTF) Regulator, as well as, Australia's Financial Intelligence Unit. Simply put, our focus is on protecting the financial system through our strong education and regulation of industry, and contributing financial intelligence to broader national security and law enforcement priorities.

What you may not know, is that AUSTRAC in one form or another has been in existence for over 30 years and its early legislative framework was what created the 100 point check for identity.

However, what I will focus on today is our somewhat action-packed journey over the last five, or so, years and some of the things we are preparing for in the future.

AUSTRAC's unique value is its dual, interconnected regulation and intelligence functions, and its collaboration with industry and government partners in working toward the vision of a financial system free from criminal abuse. AUSTRAC's regulation hardens the financial sector

against criminal exploitation, while its intelligence provides crucial financial intelligence to national security and law enforcement partners. This dual model is considered by many as world's best practice.

As AML/CTF regulator, AUSTRAC regulates more than 16,000 reporting entities across the financial, remittance, bullion, digital currency and gambling sectors. We use insights from both our regulatory and intelligence functions to understand risks and vulnerabilities within the financial system. We take a risk-based approach so we can focus our limited resources on those areas and sectors that pose the highest ML/TF risk.

Everyone in this room understands the harms of money laundering and why financial crime matters. However, when I started at AUSTRAC just over four and a half years ago, I was perplexed by the blank expressions I received in response to raising the devastating causes and impacts of money laundering on our community.

At that time, AUSTRAC had just settled a record \$45 million penalty with TabCorp and I thought that avoiding this sort of outcome would be an absolute priority for discussion in Australian Boardrooms. Of course, as we know now, that has taken some time to transpire. I won't go into further detail as you will hear more on this from AUSTRAC's Alex Elith and the Australian Government Solicitor's Sonja Marsic tomorrow, who will share some observations from our recent enforcement activities. What I will simply say is that it has been at times a hard journey. However, looking at how far we have come as a country makes it undoubtedly worthwhile.

After TabCorp, our campaign to raise awareness amongst the regulated population saw us focus our efforts on our banks. Clearly, as Australia's largest financial institutions and therefore where there was significant exposure to money laundering, combined with observing international trends, we knew significant uplift was required. And, I am pleased to say that by concentrating on the institutions who manage the majority of financial transactions in this country, we have together been able to significantly harden the foundation of our financial system.

Around 2019, we started to invest more resources in the gambling sector, in recognition of the unique risks and challenges posed by casinos, betting agencies and pubs and clubs. We also dealt more deeply with the remittance sector in targeted campaigns, commenced the registration of the newly emerging digital currency exchanges (DCE) and engaging with new businesses such as the buy now pay later sector.

Sure enough, we started to see an uplift across wider segments of our reporting population. But how do we know if this has had an impact?

The people in this room for a start. Your deepening expertise, the increased resources available to you and your ability to be heard by your CEOs and/or Boards are all tangible results of this uplift.

We see it in the quantity of reporting. Over the five years to 30 June 2021, AUSTRAC has seen a 318% increase in the reporting of suspicious financial activity, and a 63% increase in International Funds Transfer Instruction (IFTI) reports received.

And importantly, the quality. Whilst we were concerned that this increase was merely responsive and was going to be of limited intelligence value, that is increasingly less of a concern. By improving the capability and compliance among our reporting entities, they (or you) have been much more vigilant and effective at reporting suspicious matters (SMRs) to AUSTRAC — which in turn, is providing us with a much clearer, richer picture of the threat environment. The operational results of which I will come back to when I touch on the Fintel Alliance. And lastly, overall compliance.

Compliance reporting across the entire population has continued to increase in both quality and quantity, particularly in some sectors that were coming off a very low base indeed.

So what are we working on now and working towards? We all continue to operate in a challenging environment of rapidly evolving technologies, a changing financial system and an increasingly complex geopolitical environment.

Serious financial crime continues to evolve, with transnational serious and organised crime groups harnessing new technologies, professional facilitators, and offshore service providers, to exploit vulnerabilities and launder the proceeds of their crime. At AUSTRAC, it is the specialist skill-set of our highly competent analysts – and our robust partnerships and collaboration with industry and intelligence partners - that enables us to provide critical intelligence to law enforcement that has directly led to arrests and convictions.

The complex and cross-border nature of many of these crimes highlights this need for strong collaboration. As serious and organised criminal groups adapt to take advantage of changes in the way Australians live their lives, the Fintel Alliance has been able to leverage the resources and expertise from government and private sector organisations to better protect the community.

The effectiveness of this collaborative approach was recently recognised in London by the International Compliance Association, who awarded the AUSTRAC-led Fintel Alliance with the 'Best Collaboration of the Year' for their work with the Western Australian Police, CBA, NAB, Westpac and ANZ on a joint intelligence operation. The Fintel Alliance was able to identify money laundering syndicates seeking to move the proceeds of crime through ATMs around Australia. To date, the project has led to law enforcement making 13 arrests across the country, as well as the seizure of millions in cash and assets.

In addition to operational outcomes, the cooperation of the Fintel Alliance influences positive behavioural change among industry partners. For example, the operation outlined above resulted in major banks taking steps to introduce fund limits on ATM deposits - hardening their businesses to criminal exploitation. More generally, learnings from the Fintel Alliance are shared with a wider audience through the release of various financial crime guides.

We publish Financial Crime Guides to assist regulated businesses to identify emerging issues and understand, identify and report suspicious financial activity, and to detect and prevent criminal activities. They provide detailed information about the financial aspects of different crime types, as well as case studies and indicators to help the financial sector identify suspicious transactions.

We continue to concentrate on uplifting AML/CTF awareness and culture among the financial sector and ensuring appropriate investment in compliance programs – with, as I mentioned, our efforts currently focused on the gambling sector.

I spoke recently about culture at Deloitte's Financial Crime Symposium where I highlighted that strong leadership and oversight are a critical part of protecting a business from criminal exploitation.

Again, I cannot emphasise enough the importance of governance and the role of the Board and senior management in setting and maintaining a culture of compliance in terms of oversight and management of AML/CTF obligations - setting the tone from the top.

We continue to investigate non-compliance among various Australian casinos following the filing of civil penalty proceedings against Crown. As was previously the case with the banks, there is a need for a general uplift in investment and programs by the sector to mitigate the significant risks posed. But, I am hopeful that the sector will heed our advice to take these lessons and meaningfully invest in this space - as effective reporting from casinos would be of great value to AUSTRAC and our law enforcement partners.

The critical task of investigating and prosecuting money laundering rests with our law enforcement agencies and we want to make sure that we provide them with the best financial intelligence possible to support that task. My colleagues Jeff Gough from the ACIC and Jason Whybrow from Sports Integrity Australia will speak more to those needs tomorrow.

Accordingly, we have a National Casino Strategy, which strengthens our intelligence lines of effort to address the significant risks of money laundering through casinos, and supports regulation and education of the gambling sector. This work enables AUSTRAC to produce more detailed national insights reports and actionable law enforcement referrals into high-risk entities and patterns of activity, and identify new and emerging money laundering methodologies and trends.

As we have seen in recent months with Crown and Star, casinos have been systematically targeted by transnational crime syndicates to launder money. But let's not lose sight of the fact that the whole gambling sector, by its very nature, is vulnerable to money laundering. We are therefore heavily investing in the education of pubs and clubs so they understand the importance and ramifications of money laundering in their venues, but also the need for compliance programs.

Pubs and clubs are uniquely placed to identify illegal activity in their own venues. They often have the benefit of knowing their regular customers, the source of their wealth, and the normal limits of their available funds for gambling.

In December 2021, AUSTRAC published a new regulatory guide to help pubs and clubs with electronic gaming machines to understand and apply their obligations. Since then, we have conducted an education campaign across the country, visiting 224 venues covering 398 regulated businesses which operate a total of 663 pubs and clubs. This campaign is one part of our much broader objective to enhance industry engagement and outreach to support and educate businesses on their obligations and assist them to identify their specific financial crime risks.

AUSTRAC develops guidance and information based on research and ongoing consultation, to ensure that guidance content meets reporting entities' needs. In the last 12 months AUSTRAC has produced: 12 guidance products, presented at over 50 stakeholder events to

well over 5000 participants, and facilitated 19 induction workshops to over 700 participants from over 280 reporting entities.

We continue to invest in an improved engagement and reporting capability for industry through the delivery of our Reporting Entities System Transformation (REST) Program. The new system will deliver a modern, secure and intuitive experience to enable reporting entities to more easily comply, report and interact with AUSTRAC. The Program delivery continues to progress well, thanks in part to our industry partners, who have been wonderfully willing to work with us to ensure the system meets their needs.

And of course there is the continued simplification and continual improvement of our legislation. We recognise the complexity of our legislative regime. That is why we continually work with our policy agency to look for ways to: minimise regulatory costs; improve our approach to regulation; progress legislative reform; and streamline reporting processes and systems.

Given Australia's regime places the responsibility on industry to identify and manage their own risks, we acknowledge the importance of undertaking genuine and wide ranging consultation on reform.

AUSTRAC's unique offerings - AUSTRAC's Risk Assessments assess overall ML/TF risks and vulnerabilities within specific sectors or in relation to specific financial products, at a national level to understand, identify, mitigate and manage risks and vulnerabilities; enhance transaction monitoring programs and enterprise risk assessment processes; and of course, strengthen their suspicious matter reporting.

Risk assessments are a result of our close engagement with the Australian financial sector, regulatory, intelligence, and law enforcement agencies. These combined efforts provide critical insights about the criminal threats and vulnerabilities facing Australia's financial sector and community.

I strongly encourage sectors to use these risk assessments to protect their business, customers and the community from criminal threats.

Four risk assessments were released late 2021 examining: Australia's major banks; Australia's other domestic banks; Foreign bank branches in Australia; and, Foreign subsidiaries in Australia.

Upcoming risk assessments will focus on: Remittance network providers and their affiliates; Independent remittance providers; Australian casinos; and, the Bullion sector. A Criminal Threat Update is also being developed for the superannuation sector.

Cyber-enabled crime is obviously a growing threat to us all. Cyber capabilities and scams are increasingly being deployed to steal customer's details and commercially sensitive information, as well as target and exploit payment systems across the financial sector. We are observing cryptocurrencies being exploited across many traditional and emerging crime types, including; terrorism financing, national security, money laundering, child exploitation and ransomware. According to the Australian Cyber Security Centre (ACSC), 500 ransomware attacks were reported last financial year, an increase of nearly 15 per cent in 12 months, and they are just the attacks reported.

Digital currencies are increasing in popularity, with Australians proving to be rapid adopters. As this market continues evolve, we are seeing that digital currencies are increasingly being used in the commission of serious crime. Therefore, there is an ongoing need to be agile and able to evolve our digital currency intelligence capability to deal with the increased uptake of virtual assets and to detect the illicit use from the legitimate. This includes ensuring tools, data and training available to our analysts remain fit-for-purpose, scalable and future facing.

In April, AUSTRAC released two financial crime guides that contain practical information and indicators to help businesses identify and report if a payment could be related to ransomware attacks, or someone could be using digital currency to commit serious crimes such as money laundering, scams, or terrorism financing.

Modern slavery, global human trafficking and child exploitation - sadly an enduring theme of work for AUSTRAC is crimes affecting the most vulnerable members of the community. We recognise the role all partners have to play in protecting vulnerable members of the community from financial crime.

As examples, through the Fintel Alliance, we have led projects on: combating child sexual exploitation; targeting fraud against the National Disability Insurance Scheme; preventing domestic payment abuse; disrupting illegal phoenixing activity; and, stopping forced sexual servitude.

Environmental crime - recognising the diverse range of unique animals and plants that are vulnerable to criminal exploitation, the Fintel Alliance established a project working in partnership with the Department of Agriculture, Water and the Environment. The project presented opportunities to identify, target and disrupt wildlife trafficking in Australia; specifically, the trafficking of Australian native reptiles for the international exotic pet market.

Exotic flora and fauna command high prices on the black market, their scarcity driving lucrative prices, especially for endangered species. Australia's unique biodiversity makes it an attractive target for organised crime groups due to demand from collectors, with some Australian reptiles being sold for up to \$20,000 on the black market.

The illegal wildlife trade is big business for organised crime syndicates, generating revenues of up to \$23 billion annually. Criminal organisations have established entire supply chains targeting native flora and fauna, replicating trafficking routes and methodologies used in other illicit activities including drug trafficking and money laundering.

As part of this project, a financial crime guide was published to highlight methodologies and indicators to assist financial institutions to identify and report this type of activity.

Pleasingly, in late-2021, the Fintel Alliance was awarded the 'Partnerships in Conservation Award' by INTERPOL in recognition of its contribution to protecting wildlife from illegal trafficking.

Continued financial intelligence support and leadership relating to Russian sanctions. Despite the devastating circumstances, the Ukraine/Russia sanctions work has provided another opportunity for AUSTRAC to engage with the financial sector, government partners and like-minded international counterparts.

The Australian Sanctions Office, in the Department of Foreign Affairs and Trade, is responsible for the regulation of sanctions in Australia, but AUSTRAC has been contributing our expertise, datasets and existing industry networks to support their efforts. I know my colleagues Andrew Walter from DFAT and Christiaan Barnard from NZ Police will be on the 'Sanctions: The Cost of Conscience' panel this afternoon and will no doubt go into more detail.

Meanwhile, we are continuing to work with key domestic and international partners to produce financial intelligence. Firstly to identify wealth networks and financial profiles of sanctioned entities, and, then to jointly track the movement of funds internationally in an effort to identify opportunities to target individuals and entities subject to sanctions.

And just as importantly, AUSTRAC is fostering greater operational and strategic engagement in our Region. At the 'Financial Crime 2022: Emerging Trends and Typologies' session this afternoon, the topic of money laundering risk factors in the Pacific Islands and Papua New Guinea will be discussed. AUSTRAC's Pacific Operations Team through the Pacific Financial Intelligence Community, which is a forum of Pacific FIUs dedicated to mutual collaboration and co-chaired by AUSTRAC and PNG's FIU, will be delivering three capacity building programs in the region.

Key objectives include fostering greater operational and strategic engagement, capacity building and research to better identify, disrupt and deter common money laundering and terrorism financing threats. I know my colleague Stephen Dametto from the AFP will speak further to those threats later today.

I am very much looking forward to co-hosting a Pacific Financial Intelligence Committee meeting with my PNG FIU colleagues in PNG at the end of this year, which will provide a great opportunity to bring together face-to-face and Financial Intelligence Units from across the region.

Finally, other challenges - de-banking. The issue of de-banking is a complex global problem and cannot be considered solely on the basis of AML/CTF compliance obligations. Over the past decade, the range of businesses impacted by a loss or limitation of access to banking services has expanded. Money transfer businesses (or remitters), digital currency exchanges, not-for-profit organisations (NPO) and FinTechs are facing bank account closures. Banking services in the Pacific region previously enabled through Australian banks are also facing challenges.

As many of you know, key drivers of de-banking include:

- commercial and competition considerations, e.g. the profitability of providing banking services to high-risk customers;
- reputational risk;
- uncertainty associated with the customer's business models;
- broader policy considerations such as climate change;
- expectations of overseas correspondent banks in relation to Australian institutions;
- compliance with sanctions requirements; and
- compliance with AML/CTF requirements.

Of course some level of de-banking is a likely outcome of appropriate risk controls being applied. However, the effect of de-banking of legitimate and lawful financial services businesses can increase the risks of money laundering and terrorism financing and can negatively impact Australia's economy. For this reason, AUSTRAC continues to discourage the indiscriminate and widespread closure of accounts across entire financial services sectors.

AUSTRAC expects reporting entities, including banks, to apply a risk-based approach to providing financial services and assessing the risk of customers on a case-by-case basis. The risk-based approach is central to the implementation of obligations under the Act and FATF's international standards for combating ML/TF.

To work through these challenges, AUSTRAC is participating in two inter-governmental groups:

- a Department of Foreign Affairs and Trade led Interdepartmental Committee, focused on banking services in the Pacific, with AUSTRAC's capacity building in the region being a key part of the solution suite being developed;
- and the Council of Financial Regulators Working Group on De-banking, focused on policy responses to address sectoral de-banking in Australia.

We are also developing guidance on providing financial services to customers from higher risk sectors to assist regulated entities to understand that, under AML/CTF regulation, they *can* provide services to such customers. The guidance aims to clarify AUSTRAC's regulatory expectations of financial institutions when assessing and providing services to higher risk sectors. It will also support financial institutions to apply appropriate risk identification, mitigation, management systems and controls, to assess these customers.

So I will stop there to ensure we have time for Q&A, but I hope that has given you a better understanding of our current work program and where we are seeing the future opportunities and challenges.

Additionally, can I also say how pleased I am to see so many AUSTRAC colleagues, Fintel Alliance members, law enforcement partners and respected experts in this room and involved in the panels. I have no doubt you are going to have some really thought-provoking conversations over the next couple of days and I look forward to hearing about the outcomes.