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Middle East think tank cements efforts to build financial crime public-private partnership

May 15 2018 Peter Shaw-Smith in Dubai

A recently formed Middle East think tank is well on the way to creating the framework for a successful regional public-private partnership (PPP) for tackling financial crime. It is a part of the world which has suffered de-risking more than most because of the sometimes opaque links between business and banking.

The Middle East and North Africa Financial Crime Compliance Group (MENA FCCG) aims to increase its membership to a final 15 banks later this year, by bringing in new members from Saudi Arabia and North Africa, a leading official has told Thomson Reuters Regulatory Intelligence (TRRI).

The Future of Financial Intelligence Sharing (FFIS) programme, which has called for financial information-sharing partnerships to improve crime prevention, recently commended efforts in Hong Kong, Singapore and Australia for achieving results on arrests and counter-terrorism measures.

"As it relates to data sharing with public authorities, including financial intelligence units (FIUs) and law enforcement, the group welcomes and appreciates the value of an open-loop dialogue," Michael Matossian, EVP chief compliance officer at Arab Bank and deputy chair, MENA FCCG, told TRRI.

Pubic-private sector dialogue

MENA FCCG, an industry-driven, voluntary initiative consisting today of 12 banks from eight countries across the region, brings together regional practitioners with compliance expertise, who understand the challenges faced in the MENA region. It aims to act as a think tank and a link between the private sector and external international bodies, regulators and correspondent banks.

"It aims to make MENA a safer place to do business and provide support to the compliance profession in the region, including through publications, complimentary webinars, and financial crime forums. In this increasingly complex environment, banks shoulder continually increased responsibility to ensure strong safeguards against potential illicit financial flows. We cannot rely on recommendations, policies and procedures alone," Matossian said.

"The first port of call to address this increased responsibility is to ensure the application of effective, targeted and proactive measures which can only be achieved through meaningful and effective 'dialogue' between the public and private sectors and among member institutions. MENA FCCG is making significant progress towards achieving this dialogue."

Twelve banks — a mix of nine Gulf Cooperation Council-based banks, as well as institutions in Jordan, Egypt and Lebanon —

are members of MENA FCCG, but the putative total is likely to rise to a final 15 soon.

"The group is targeting representation from Saudi Arabia and North Africa. No decision has been made on target banks yet, but the priority is to ensure that we have representative banks from Saudi Arabia on board before year-end," he said.

With dollar clearing a constant worry for the region's banks, particularly smaller ones, as a wave of de-risking has hit relationships with U.S. counterparts, Matossian said the possible formation of a regional dollar clearing centre, removing the need for transactions to take place on U.S. soil, was keenly awaited.

"The outcome of the Arab Regional Payments System, a central settlement platform currently under establishment in compliance with relevant international standards, is pending, so we need to wait and see. I am optimistic that the revised Wolfsberg [Group Anti-Money Laundering] Questionnaire will set an enhanced standard so that correspondent banks can operate on a more level playing field, mitigating de-risking."

The idea of forming a dedicated MENA AML-CTF working group was first raised during the Public-Private Sector Dialogue meeting in New York in October 2014. The suggestion won the support of the Union of Arab Banks (UAB), whose secretary general, a position held by Lebanese, Wissam H Fattouh, serves as permanent MENA FCCG chairman.

"It was followed by a series of discussions where we agreed on the initial financial Institutions that were contacted to form the founding members of the MENA FCCG as well as key governing documents and the assignment of roles and responsibilities to ensure group efficiency. The group was officially launched in September 2016 in an inaugural meeting in Bahrain," Matossian said.

Awareness and training initiatives

As part of its awareness and training initiatives, the group has posted three papers on its website tackling key risk indicators, compliance culture and customer complaints, while a paper on whistle-blowing is forthcoming.

The group has also delivered two complimentary webinars to MENA compliance professionals on the Organisation for Economic Cooperation and Development (OCED) Common Reporting Standard and Iran/Sudan sanctions compliance. It also submitted a paper to the Financial Action Task Force on recommendations to enhance counter-terrorist financing measures.

The group has also participated in various international events, including the U.S-MENA Banks Private Sector dialogue meeting in October 2017 at the Federal Reserve Bank of New York, to further the aims of MENA banking relationships with U.S. regulators and banks, for correspondent banking purposes. The group also met with the Wolfsberg Group in December 2017 to share insights on financial crime prevention while also attempting to raise confidence in MENA's financial sector.

Matossian said the group was planning two webinars on terrorist financing and EU General Data Protection Regulation, as well as publication of a survey of the practices used by MENA banks to combat financial crimes. In addition, the group is planning a Financial Crime Forum in Dubai in September 2018, bringing together top MENA and international correspondent banks.

"The forum is intended to take the form of a hands-on workshop including discussions on how to best comply with the revised

Wolfsberg Correspondent [Due Diligence] Banking Questionnaire," he said.

Sharing feedback and emerging typologies

While privacy and data protection limitations hindered the ability to share actual scenarios involving customer names, Matossian said group members constantly shared emerging typologies and regulatory requirements as they arose.

"As things stand, governmental entities and financial institutions are looking for the same criminal activity and actors through significantly different prisms. Government intelligence [agencies] possess trend information [but] lack … detail, while financial institutions can see detailed end-to-end global payment flows and lack trending information, thereby relying on anomalies detection," he said.

"Ongoing feedback not only will ensure better compliance … [but] will also reduce compliance costs, which are already extremely high. By way of example, providing feedback to financial institutions on suspicious activity reports (SARs) (e.g., whether the information is useful or whether any SARs result in actual cases) will significantly limit the number of defensive SARs, saving time and resources."

Technological innovation

Asked if he was daunted by the continually evolving challenges thrown up by the greater sophistication of fraudsters and money launderers, and by the possible subversion of sophisticated and impenetrable fintech- and blockchain-type systems, Matossian said that cultural differences in the region were no excuse for inaction.

"The system, as we know, was designed in a different era, well before globalisation and technological innovation and before financial institutions were officially situated as key tools in fulfilling global policy agendas. Inevitably, compliance responsibilities will continue to grow," he said.

"However, even with unprecedented enforcement, we continue to see situations where cultural failings have eroded the value of compliance initiatives and investments, which serve to remind us of the importance of harnessing 'soft controls' that determine how effectively 'hard controls' operate."

Corporate culture and integrity

Banks needed to invest in people by nurturing a culture of compliance accountability, while business units needed to see compliance as a matter of corporate integrity and a business imperative, rather than a regulatory objective.

"In essence, they need to manage their own [hazard], ensuring the risks taken are the risks intended. All employees should be encouraged to challenge each other's ideas, are held accountable, and are rewarded for responsible behaviour, supported with a strong whistle-blowing regime. In short, banks must strive to achieve success not at all cost, but only the right way and without ethical compromise," he said.

"We are motivated by the wish to do the right thing. It does start with the right governance, the right commitment."

DISCLAIMER: Thomson Reuters and the Union of Arab Banks act as strategic partners to MENA FCCG.

Peter Shaw-Smith *is a contributor editor to Thomson Reuters Regulatory Intelligence.*