The Regulatory and Financial Crime Conference
8th October 2019
Robert Contri
Global Financial Services Industry Leader, Deloitte US

Opening remarks
Thriving in the digital age
The future of financial services

Top 10
95% of financial marketers believe consumers expect more personalized banking experiences than they are currently getting.

How banks rate their ability to provide a personalized digital experience:

- Emerging: 59%
- Static: 34%
- Advanced: 6%
- No Plan: 1%

Source: Digital Banking Report: Power of Personalized Banking 2018
1. Digital channels, products, and client experience

Impact of recent client experience initiative

- **Significant positive impact**: 28%
- **Moderate positive impact**: 66%
- **No impact**: 6%

FSIs plan to invest more in customer experience

- **Investing more**: 80%
- **Investing less**: 2%
- **No change**: 9%
- **Unsure**: 9%

Source: Financial Brands: Improving Customer Experience in Banking
The future of financial services – Top 10

1. Digital channels, products, and client experience

2. Legacy platform transformation and digital impact
2. Legacy platform transformation and digital impact

<table>
<thead>
<tr>
<th>FSI use of legacy systems</th>
<th>Legacy system impact on cost of digital transformation projects</th>
<th>CIOs’ experience with impact of legacy systems on digital projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>~90%</td>
<td>2X</td>
<td>88%</td>
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<tr>
<td>$3 Trillion</td>
<td>66%</td>
<td>58%</td>
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Source: Annual Mainframe Research Study 2018; 2018 CIO Survey by Couchbase; CIO Survey by Couchbase, the innovative NoSQL database company
The future of financial services – Top 10

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New Tech and transformation of middle / back office

Savings of $1 Trillion

By Sector
- Banking $450
- Insurance $400
- Investment Management $200

By Office
- Back and middle office generate 60% of savings

Source: 2018 Impact of AI study by Autonomous
The future of financial services – Top 10

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4. Future of work and digital literacy
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How is your company addressing workforce digitization?

- Have implemented the strategy addressing the digitization of labor: 23%
- Have developed a strategy that covers the digitization of labor: 52%
- Believe an organization's ability to use digital sources of labor will be a key factor to future success: 80%
- Believe their organization needs to transform the way it sources and manages labor using digital technology: 82%

Workforce shortfall in millions of people

- 2020: 2.9
- 2025: 5.5
- 2030: 10.7

Source: Korn Ferry Institute's study

Preparing Digitization Workforce Report from The Economist Intelligence Unit (EIU) and sponsored by everis
The future of financial services – Top 10

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5. Big Tech: Friend or foe?
Big Tech: Friend or foe?

The competitive impact of BigTech may be greater than that of FinTech firms.

- BigTech has large customer networks, enjoy name recognition and are trusted.

- Customer data generated through other services like social media help tailor offerings matching individual customers’ preferences.

- Strong financial positions and access to low-cost capital = ability to scale quickly.
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Financial crime in a digital world

1. Cost of cyber attacks increase from $3 to $6 Trillion

2. 25% of all malware attacks hit FS institutions
   - Compromised credit cards up 212%
   - Credential leaks up 129%
   - Malicious apps up 102%

3. Criminal activity proceeds generate $1.6 - $4 Trillion annually

Source: Cybersecurity Ventures
Financial crime in a digital world
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7. Data – currency, risk, and challenge
Data – currency, risk, and challenge

Data, the new currency offers the potential to generate many new sources of revenue. These opportunities need to be balanced with the amplification of regulatory and compliance risk.

The digital universe: Zettabytes

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2020 F</th>
<th>2025 F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (Zettabytes)</td>
<td>0</td>
<td>50</td>
<td>200</td>
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Companies mentioning AI in earnings calls

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0</td>
<td>50</td>
<td>0</td>
<td>50</td>
<td>0</td>
<td>50</td>
<td>0</td>
<td>50</td>
<td>0</td>
<td>50</td>
<td>250</td>
</tr>
</tbody>
</table>

Data protection legislation around the globe

- GDPR
- PIPEDA
- HIPAA
- CCPA
- APPs

Source: UDC / Bloomberg from Fuel of the future: Data is giving rise to a new economy, The Economist
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8. AI governance and oversight
About a 1/3 of executives in Deloitte 2019 survey named **ethical risks as one of the top three potential concerns** related to AI.

Since 2017, more than **two dozen national governments have released AI strategies**, road maps, or plans that focus on developing ethics standards, policies, regulations, or frameworks.

Governments are setting up **AI ethics councils or task forces and collaborating** with other national governments, corporations, and other organizations on the ethics of AI.

BigTech such as Google, IBM, and Facebook **have developed tools, designed guidelines, and appointed dedicated AI governance teams** to address ethical issues.

**Source:** Deloitte Insights April 2019 – Can AI be ethical? Why enterprises shouldn’t wait for AI regulation
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10. M&A and industry consolidation
### M&A and industry consolidation

<table>
<thead>
<tr>
<th>Region</th>
<th># of Banks</th>
</tr>
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<tbody>
<tr>
<td>Americas</td>
<td></td>
</tr>
<tr>
<td>Top 1000</td>
<td>231</td>
</tr>
<tr>
<td>Cap IQ Banks</td>
<td>5,760</td>
</tr>
<tr>
<td>EMEA</td>
<td></td>
</tr>
<tr>
<td>Top 1000</td>
<td>375</td>
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<tr>
<td>Cap IQ Banks</td>
<td>6,716</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td></td>
</tr>
<tr>
<td>Top 1000</td>
<td>394</td>
</tr>
<tr>
<td>Cap IQ Banks</td>
<td>6,230</td>
</tr>
</tbody>
</table>

*Source: The Banker’s World’s 1,000 Largest Banks Ranking; Cap IQ Database*
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Rebecca Kelly
Partner,
Morgan Lewis

Financial crime compliance: Lessons learnt from recent global enforcement
FINANCIAL CRIME COMPLIANCE – LESSONS LEARNED FROM ENFORCEMENT AROUND THE WORLD

8 October 2019
Topics to be covered

- **Background**
  Global developments

- **UAE and GCC**
  The current and future regime

- **EU and UK**
  The current regime and enforcement actions

- **Asia - Pacific**
  Enforcement actions

- **Case Study:**
  Standard Chartered Bank

- **Compliance: Lessons learned**

- **Questions**
BACKGROUND
Background

Breakdown
- **US:** $23.52bn (90%)
- **Europe:** $1.7bn (7%)
- **APAC:** $609m (3%)
- **MENA:** $9.5M

Europe
- 1.7 bn: 83 fines, 17 regulators, 15 countries
- UK (FCA) 30%

APAC
- 40+ Regulators
- $609m / $541m H1 2018

MENA
- DFSA most active – 9.5 M fines
- $10.69 M imposed on MENA FI by international regulators

- **Failings in systems and controls rather than actual laundering of money or financing of terrorism**

- **DFSA fine** - failing to ensure anti-money laundering systems operated effectively; contraventions relating to internal governance or deficiencies in KYC processes.
### Background: Common Themes

<table>
<thead>
<tr>
<th>Inadequate <strong>RISK ASSESSMENT and RISK FRAMEWORK</strong></th>
<th><strong>No cohesive global AML programme</strong></th>
<th><strong>Inadequate DOCUMENTATION</strong></th>
<th><strong>SANCTIONS</strong> Screening processes ignoring the status of sanctioned entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate customer <strong>DUE DILIGENCE procedures</strong></td>
<td><strong>Insufficient and inadequate TRAINING</strong></td>
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UNITED ARAB EMIRATES
GCC UPDATE
UAE: Regime

Developments

1. Federal Law No. (20) of 2018 on Anti Money Laundering

2. Cabinet Resolution (10) of 2019 - Implementing Regulations


4. goAML - new UN reporting platform launched in UAE in June 2019 by FIU

5. 2019 FATF mutual evaluation – last FATF assessment published 2008
GCC Developments

Bahrain
• Revised AML regime in 2013 and 2017
• September 2018 FATF Mutual Evaluation Report

Saudi Arabia
• Currently seeking to become a full member of FATF (rather than observer)

Oman
• MENAFATF onsite visit in 2010. Next visit in 2020. Lacking key developments in 2010 and expect legislative changes in advance of next visit.

Qatar

Kuwait
• MER published in 2011 - next visit October 2021
EUROPEAN UNION & UNITED KINGDOM
EU: Regime

- Fourth EU Money Laundering Directive
- Fifth EU Money Laundering Directive (2020)
  - transparency around ultimate beneficial ownership
  - virtual currencies included
  - Financial Intelligence Unit enhanced powers
  - EDD for high risk jurisdictions
- Member States: Responsible for implementation and enforcement
EU: Failings to date

- Multiple: Danske, Swedbank, Nordea Bank, ING, Credit Agricole, Deutsche Bank, KBC, Raiffeisen Bank International, ABN Amro and Rabobank
- Europol found that 0.7 – 1.28% of EU’s GDP is “detected as being involved in suspect financial activity”
- Lack of Member State Regulation and Enforcement
- Co-ordination poor across Member States
- European Commission published paper in July 2019 on improving implementation of AML and CTF framework in Europe to address failures
• Growing willingness of EU regulators to penalize AML failures with large multi-million $ fines

• 2008 – 2018: $1.19bn, 16 regulators

• Skewed by $900m Dutch resolution

• Switzerland & Luxembourg: activities targeted by US, less local enforcement

• Demark & Sweden: 5 fines past 5 years – total $17.2m

• Reaction to Danske and Nordea
UK: Enforcement Examples

- 04/19: Standard Chartered: £102.2m (more later)
- 03/19: Goldman Sachs: £34.3 million for transaction reporting failures
- 06/18: Canara Bank: £896,100 plus business restriction
- 01/17: Deutsche Bank: £163,076,224
- 10/16: Sonali Bank (UK): £3,250,660
  - Sonali Bank CEO: fine plus prohibition – under challenge
  - Sonali Bank Compliance Officer: £17,900 plus prohibition
ASIA - PACIFIC
Asia: Enforcement

- Hong Kong:
  - 02/19: Guosen Securities Brokerage: record HKD 15.2 million fine from SFC
  - 01/19: JP Morgan fined HKD 12.5 million for AML / CTF lapses including lack of CDD

- Singapore:
  - 03/18: Standard Chartered - SGD$6.4m: AML and terrorist financing risk
  - 10/16: 1MDB funds flow
    - Falcon Bank: SGD$4.3m plus status withdrawal
    - DBS Bank: SGD$1m
    - UBS Singapore: SGD$1.3m
CASE STUDY: STANDARD CHARTERED
Case Study

Standard Chartered

- Accepted breaches of UK MLRs and equivalent in non-EEA branches
- AML and sanctions
- Dubai and UAE
- Correspondent Banking
- UK £102m part of settlement: $947m to US
Case Study: Standard Chartered failings (1)

- AML controls (and oversight)
- Due diligence
- Ongoing monitoring
- First and second lines of defence
- Identifying and mitigating material AML risks
- Training
- Escalation of AML risks
- Culture

Morgan Lewis
Case Study: Standard Chartered failings (2)

- Increased risks of breaching sanctions or laundering proceeds of crime

- Examples:
  - opening account with AED 3 million cash in suitcase with little evidence of origin of funds
  - insufficient information about customer exporting dual use goods to over 75 countries, some in armed conflict
  - not reviewing due diligence on a customer after another Bank blocked a transaction because of a link to a sanctioned entity
Case Study: Remedial steps are instructive

- Review and update due diligence policies and procedures
- Investment to improve quality of due diligence: electronic platform
- Resource increased to manage financial crime risk: 4 x
- Integrated global financial crime strategy with clear governance
- New quality assurance checks
- Clear oversight and governance of Correspondent Banking business
- Linked to remuneration
COMPLIANCE:
LESSONS LEARNED
Compliance: Lessons learned (1)

- Clear documented risk assessment and risk framework
- Address different businesses and their risks
- Oversight and governance
- Regularly monitor and update risk assessments, policies and procedures, training
- Adequacy of specialist resource: first, second and third line
- Clear escalation process
- Proper process for decision-making on escalation
Compliance: Lessons learned (2)

- Cost advantages arising from proper risk assessments
- Benefits of working with law enforcement agencies and regulators
- Culture is important
- Crisis Management
- Document decisions taken and judgement calls
- Brand and reputation protection and enhancement
THANK YOU
Rebecca Kelly counsels clients on arbitration, litigation, corporate and regulatory compliance, regulatory investigations, occupational safety and health, and white collar crime issues.

Rebecca advises public and private corporations on corporate governance and regulatory compliance. She counsels clients involved in regional and international criminal and quasi-criminal investigations and prosecutions. She also conducts fraud investigations, and files international criminal and civil proceedings to recover misappropriated assets worldwide.
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