

Money laundering: Scope and challenges

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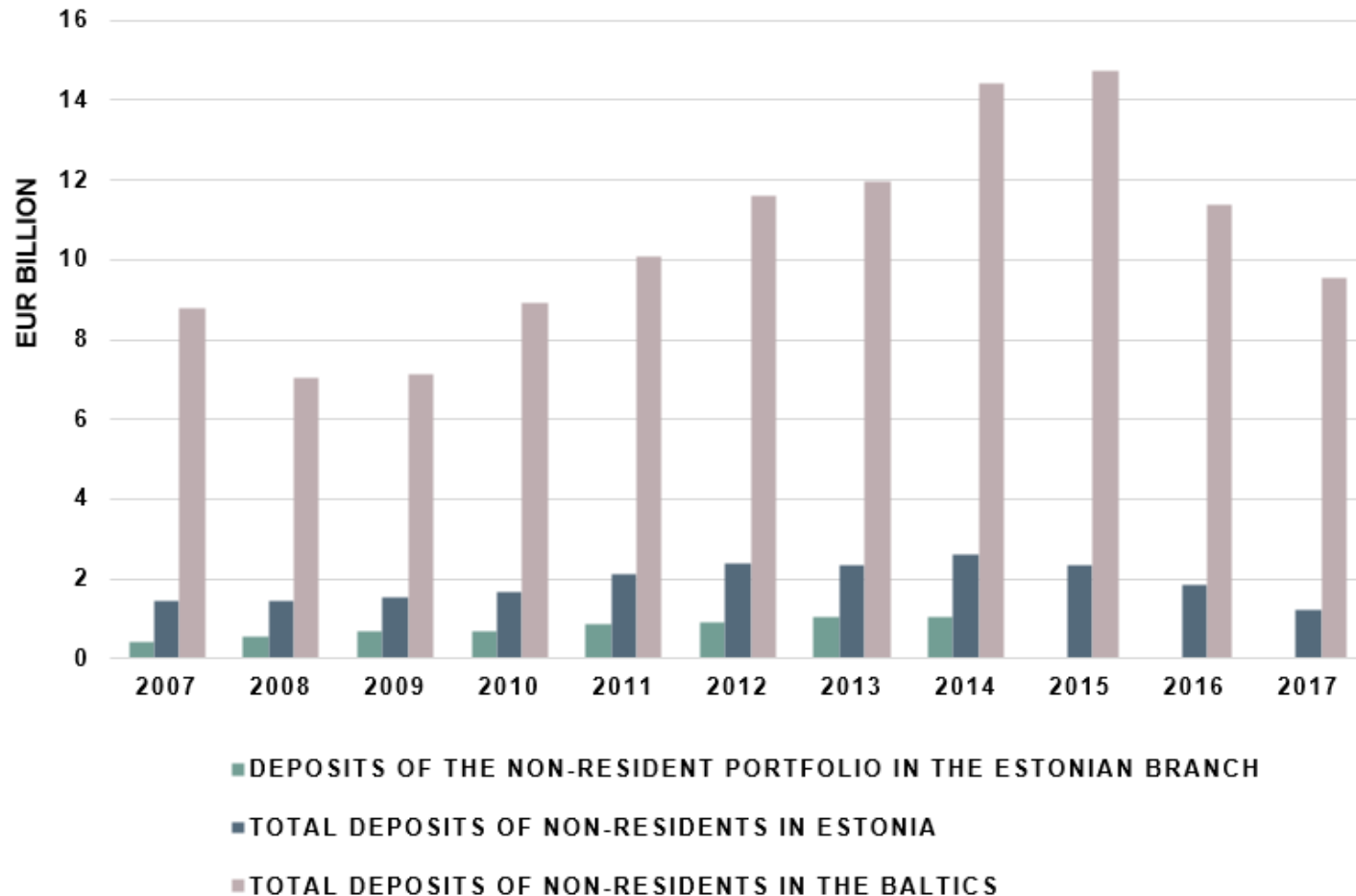
Translation from original text in Danish. In case of discrepancies, the Danish version prevails.

The global situation is also ours



Russia is a risk factor

Danske Bank closed down non-resident customers in 2014-15, but...



... there are still many non-resident customers in the Baltics

What is money laundering? The Danish Money Laundering Act's definition

- 1) To unlawfully receive or obtain for oneself or others a share in economic proceeds or funds obtained by means of a criminal offence
- 2) To unlawfully conceal, hold, transport, assist in the disposal of, or otherwise subsequently to act to secure the economic proceeds or funds obtained by means of a criminal offence
- 3) Attempt or participate in such actions.

The definition also covers acts by the person who committed the criminal offence from which the proceeds or funds are derived.



The goal is to avoid funds coming into the financial system

The role banks play in monitoring



Identification



Know your customer



Monitoring



Reacting to suspicion

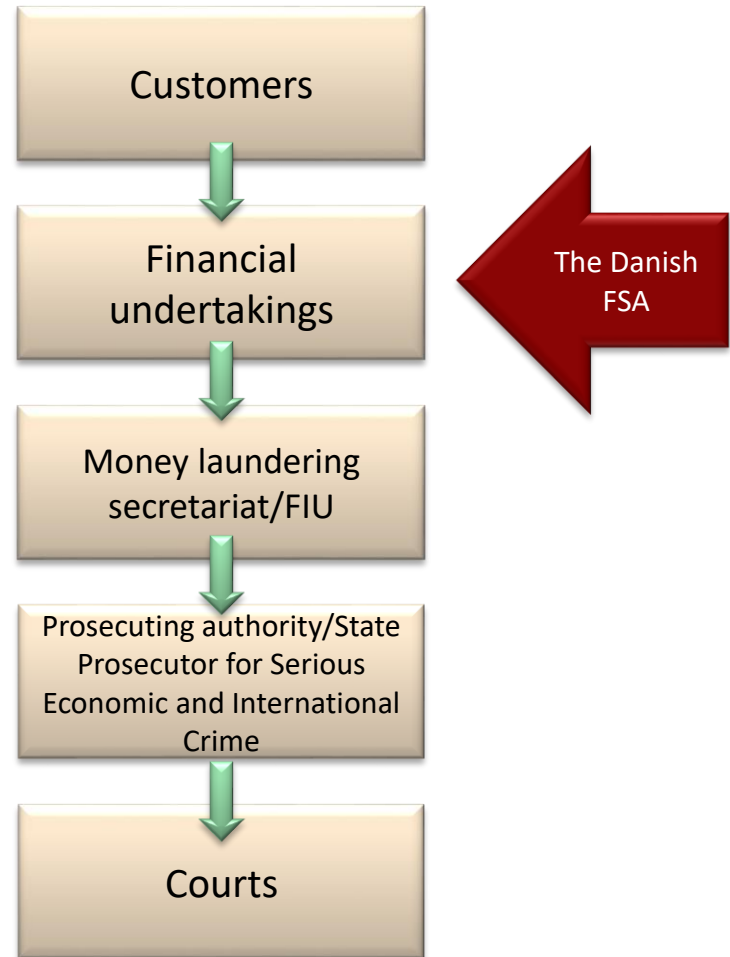


Reporting

Banks are an important part of prevention

Prevention and prosecution take place in a chain

- The undertakings monitor transactions.
- The Financial Intelligence Unit (Hvidvasksekretariatet) receives notifications.
- The police investigate violations of the law.
- The tax authorities investigate cases of tax evasion.
- Authorities in other countries ensure compliance with the AML regulation in their territory.
- The courts ultimately decide whether the rules have been violated.



The Danish FSA supervises an essential link in the chain

The supervisory role in the AML area

Focus on prevention

- Information and guidance
- Risk-based supervision.

Compliance supervision

- Compliance with legislation
- Principle-based rules.

Response to violations

- Proportionate and "deterrent"
- Collaboration with the State Prosecutor for Serious Economic and International Crime.

Many undertakings supervised

The FSA supervises more than 1,400 undertakings within AML.

They include:

- Banks
- Mortgage-credit institutions
- Investment firms
- Pension funds
- Life insurance companies
- Money transfer companies
- Foreign currency exchange companies
- Loan companies
- Leasing companies
- Investment management companies
- UCITS.

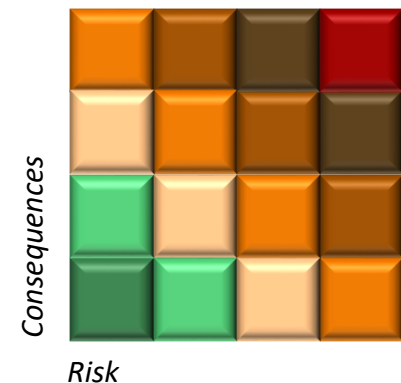
In 2017, daily transactions via the payments infrastructure in Denmark averaged over DKK 500 billion per day.

Supervision cannot and should not be at transaction level

Risk-based supervision

The Danish FSA must focus on the undertakings:

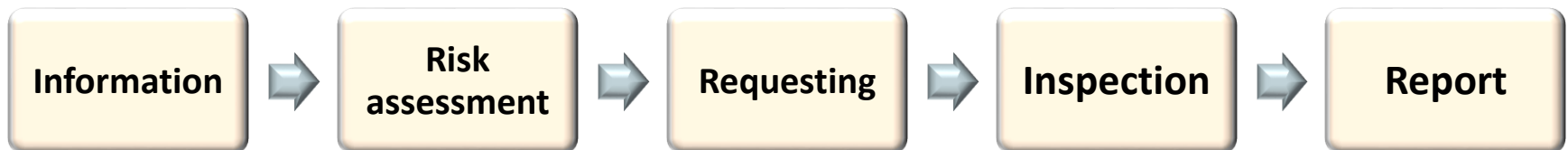
- where the risk of non-compliance with the rules is high
- where the inherent risk of them being misused for money laundering is high
- where there are relatively many customers, and where failure to comply with the rules can therefore have greater consequences than in other undertakings.



The Danish FSA must ensure that resources are allocated according to risk

How do we supervise?

- On-site supervision is at the heart of the Danish FSA's work.
- On-site supervision involves:
 - Requesting and inspecting material in advance
 - Interviewing the undertaking's officials
 - As a rule, sampling 30-150 customers
 - Reporting back to the undertaking
 - Releasing an inspection report to the public.
- The Danish FSA is dependent on the information we receive from other authorities and the information we can obtain from undertakings.



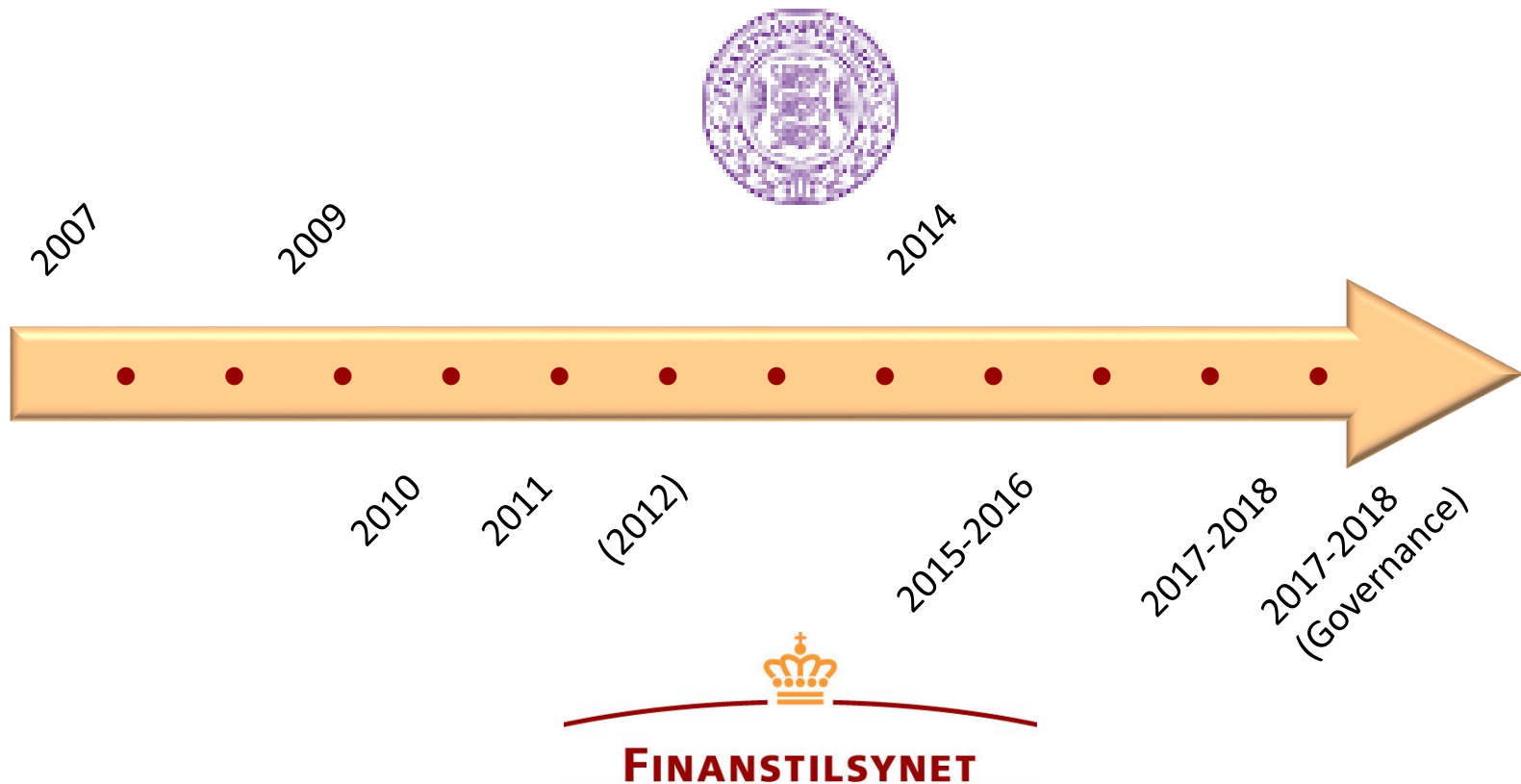
Supervision is highly dependent on information received

Joint statement from the Estonian FSA and the Danish FSA

Statment of 28 May 2018, main points

- According to EU banking directives, as a general rule, the prudential supervising activity for cross-border operating banks lies with the FSA of the home country.
- According to AMLD, AML measures are supervised by the competent authorities of the host country.
- Where the bank operates establishments in another MS, the competent authority of the home MS is responsible for supervising the obliged entity's application of group-wide AML/CFT policies and procedures.
- The competent authority of the home MS should cooperate closely with the competent authority of the host MS and should inform the latter of any issues that could affect their assessment of the establishment's compliance with the host AML/CFT rules.
- Finantsinspektsioon and the Danish FSA are both committed to perform their respective supervisory duties and to collaborate and share information.

AML inspections at Danske Bank: Estonia and Denmark



There have been frequent AML inspections at the bank

Decision on Danske Bank's management and control in the Estonian branch

Decision of 3 May 2018

- Major deficiencies in all three lines of defence
- Investigations into transactions and customer accounts launched too late
- Non-resident customers shut down too late
- Insufficient governance with regard to clarifying and tackling the problems in a satisfactory manner
- Lack of or inadequate orientation of the Danish FSA.

The range of reactions open to the Danish FSA

1. Immediate improvement: Used for less serious violations that should be corrected immediately – the undertaking agrees.
2. Reprimand: The violation has already ceased. Not used with reporting the violation to the police.
3. Order: Violation, to be rectified immediately. Can be used with reporting the violation to the police.
4. Reporting to the police: Not a decision, but a transfer to another administrative authority.
5. Dismissal of management member: Directed against the actions of a given person.
6. Withdrawal of licence: Extremely wide-ranging.

The Danish FSA's decision must be published

The Danish FSA cannot impose fines in the AML area

The latest examples of firm reactions

- **2015: The Danish FSA reports J.A.K. Slagelse to the State Prosecutor for Serious Economic and International Crime for a number of violations of the money laundering legislation.**
 - Andelskassen was referred to Finansiell Stabilitet to be wound up when it was found to be failing.
- **2016: The Danish FSA reports Nordea to the State Prosecutor for Serious Economic and International Crime for several violations of the Money Laundering Act.**
 - The case is still pending with the State Prosecutor for Serious Economic and International Crime.
- **2016: The Danish FSA reports Danske Bank to the State Prosecutor for Serious Economic and International Crime for violations of the Money Laundering Act regarding handling of correspondent banks.**
 - The case ended with Danske Bank being fined DKK 12.5 million.
- **2018: The Danish FSA reported Københavns Andelskasse to the State Prosecutor for Serious Economic and International Crime for several violations of the Money Laundering Act.**
 - The case is still pending with the State Prosecutor for Serious Economic and International Crime.
 - Andelskassen was subsequently referred to Finansiell Stabilitet to be wound up, as it was expectedly in distress.
- **2018: The Danish FSA only authorises 15 of the currency exchangers who have applied for permission.**

Danish FSA initiatives since 2016

- AML is an important element of the Danish FSA's 2020 Strategy from 2016
- Application for grant in the summer of 2016. Granted in the summer of 2017
- Establishment of new AML division with 15 employees in June 2017:
 - Number of inspections massively increased
 - 39 applications from currency exchange companies processed
 - A new 145-page guide in cooperation with the industry issued
 - Activity in HvidvaskForum (AML forum) increased
 - Participation in presentations at a number of seminars with the industry
 - Cooperation with other authorities
 - Increased participation in international forums – FATF, EU, FSB
 - FATF's evaluation of Denmark upgraded.



Ambition to have Europe's toughest AML legislation

So what can we conclude?

- Russia is a risk factor.
 - Danske Bank shut down non-resident customers in 2015, but there are still many non-resident customers in the Baltics.
 - Banks are an important part of prevention.
 - The Danish FSA supervises an essential link in the chain.
 - Supervision cannot and should not be at transaction level.
 - Risk-based supervision must ensure that resources are allocated according to risk.
 - Supervision is highly dependent on information received.
 - AML supervision is a host country task.
 - There have been frequent AML inspections at Danske Bank.
 - The May 3 decision concerned governance.
 - Denmark aims to have Europe's toughest AML legislation.
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