

Staying ahead in the game

Arjun Kalra, a Principal in Crowe Horwath Risk Consulting, discusses the anti-money laundering landscape in the UAE and how it compares on a global platform

Describe the AML landscape in the UAE and how it compares to the rest of the world.

Overall, the UAE is comparatively advanced in selecting principles from outside jurisdictions to develop a comprehensive list of rules and regulations applicable to the banking and financial services industries.

One of the most interesting global comparisons I notice is that the United States is universally more focused on anti-money laundering (AML) compliance penalties and enforcement actions than anywhere else in the world, including the UAE. This situation is globally unique: while it's not unusual to see institutions in the US get hit with high dollar fines in failing to comply with law, the number and severity of penalties is unparalleled in other jurisdictions.

From a regulation perspective, however, the UAE witnesses stringent expectations that do not necessarily apply to other jurisdictions, including the US. For instance, the US is only just beginning to roll out rules and regulations regarding beneficial ownership, collecting beneficial ownership information for owners on accounts at a level of 25 per cent ownership. In contrast, the requirements in the UAE are more stringent and thoroughly enforced, where there is already an expectation for collection requirements to decrease to five per cent.

Commonalities can be drawn between the UAE and other global jurisdictions in the components of an AML programme. Regardless of operating jurisdiction, our clients are trying to understand, verify, and monitor their customers while identifying and reporting suspicious activity to authorities. Similarities can be drawn worldwide to the development and implementation of a risk-based approach to manage AML risk.

What kind of financial institutions are most susceptible to these illegal activities?

We've seen criminals attack all kinds of institutions using all kinds of means. Criminal methods continue to evolve with the products developed by financial institutions: the bad guys will constantly adapt their money laundering methods.

With that in mind, one of the major risks involved in the UAE is trade-based

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money laundering and the challenges of managing and monitoring trade finance activities. Financial institutions transacting in and with the UAE are particularly susceptible to these risks. Our clients are faced with the need to implement manual processes to monitor for trade finance activity, which can cause inefficiencies and operationalisation challenges.

Another susceptibility I see in the region is related to terrorist financing. As scrutiny from global organisations outside of the region escalates, expectations surrounding counter-terrorist financing measures and connecting funds to legitimate sources are increasing. Identifying terrorist financing activities causes more challenges than money laundering activities, as terrorist financing can occur in a lower transaction amounts to avoid detection.

provided services, and emphasised compliance culture. Seeing strong culture come from the top-down will help any size institution manage their risk effectively.

There is a fine line between banking secrecy and AML compliance. How would you suggest financial institutions tread this path?

I think that there is a shift in the secrecy of banking. Banking secrecy is increasingly becoming a thing of the past, as it is unsustainable over the long term. Ultimately, there has been a revolution in the global AML regulatory landscape. Significant issues such as the Panama Papers last year helped shed a light on shell and shadow banking practises, creating an urgency to correct such issues. This is achieved not only by management of AML risks, but also by truly keeping

legal landscape needs to be addressed to pave the way for increased global communication and monitoring. This could be further addressed by placing emphasis on a global coalition to really drive the conversation forward.

Looking forward what challenges do you anticipate in preventing money laundering activities in this region?

I anticipate a number of challenges. As the global environment continues to become more and more accessible, regulation will continue to evolve. Institutions must stay at the cutting edge of managing the escalating and emerging risks they face in an increasingly challenging environment.

Additionally, the risk of cybercrime and cybersecurity continues to be a rising threat to our clients. The rise of financial technology presents a continued challenge, where services such as blockchain, bitcoin, and other payment methods make the movement of funds quicker and easier. As accessibility to global payments increases, the money laundering risk in the industry will similarly escalate and require institutions to implement heightened controls.

A further consideration for our clients both now and in the near term is how they leverage technology. We're seeing new technology developed in the AML space to help with compliance. More and more vendors are enhancing solutions and thinking about how artificial intelligence and machine learning can support AML and financial crime compliance. Our clients should take a close look at how they can enhance their technology capabilities to manage AML risks as better products become available.

As technology becomes more complex, you need to get smarter to understand not only the challenges presented to your institution by increased globalisation, but also the opportunities to better manage risk with enhanced solutions. 

 **One of the major risks involved in the UAE is trade-based money laundering and the challenges of managing and monitoring trade finance activities.** 

— Arjun Kalra, Principal, Crowe Horwath Risk Consulting

Does size matter?

I do not think size matters: I think it's more about the controls in place at the institution and the institution's compliance culture.

We've seen some of the largest institutions in the world doing very questionable things and subsequently incurring significant fines. It's easy to think that because smaller institutions have smaller budgets to manage their AML programmes they are more susceptible to AML risk; however, we see time and again that developing a strong institutional compliance culture enables appropriate prioritisation of AML controls, regardless of size.

It's about balancing the institution's resources with their risk appetite,

an eye on the potential of corruption and misappropriation of funds at the highest level of people holding public office.

The problem is that there is no global regulation on such practises. Regulation exists only on a jurisdictional basis, creating pockets of jurisdictions where some practises can occur that cannot elsewhere. The increasing ability to move funds globally has made this even more challenging. I do not know if we will see true global regulations in the near future that would really help these issues.

With that in mind, I think there are a number of things that need to occur, foremost of which is addressing the ease in setting up shell accounts and corporations. Additionally, the global