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Combating money laundering is a duty of every banker

Ladies and gentlemen

This week the world's journalistic focus has turned once again to the role of offshore structures in hiding wealth. The breadth and scope of the allegations reflects the fact that the world's financial system is indeed susceptible to misuse, and that there is still work to be done to fight that abuse.

But before I address the issue of increased money laundering risk – also in Switzerland – and our options in dealing with it, I want to discuss developments in headcount and costs at FINMA over the last few years.

FINMA remains a lean authority

By international standards, financial market supervision in Switzerland is lean. FINMA's costs have remained stable over the last three years, and our headcount has been virtually the same since 2012.

FINMA's headcount and budget grew markedly in the first years of its existence and for good reason: FINMA learnt its lessons from the financial crisis of 2007 and 2008, and specifically recruited extra staff for its core supervisory tasks. The crisis clearly demonstrated that FINMA needed additional resources in a number of areas, not least in banking supervision.

FINMA was not alone. After the financial crisis, regulators in all the main financial centres recruited additional staff, many of them in far greater numbers than we did here in Switzerland. In 2014, the Eurozone established a new, centralized system of banking supervision in which the European Central Bank stands alongside the national supervisory authorities, employing some 800 people. The two UK regulatory authorities (PRA and FCA), are seven times larger than we are, with 3,600 employees; Germany's BaFin, is five times larger with 2,500; and even Ireland's authority is more than one and half times the size of FINMA, with 800.

FINMA's operating costs in 2015 fell year-on-year, to CHF 124 million compared with CHF 127 million in 2014. Keeping our staff numbers and costs steady is a deliberate strategy that we are not about to change. In view of the steadily increasing complexity of our tasks and the continuing need to invest in specialists and their expertise, we must stay permanently focused on maximising efficiency and prioritising.

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Money laundering risks rising

I want to turn now to the theme of money laundering. We are currently dealing with a number of money laundering cases. And we are talking here not about small fry, but what looks like blatant and massive corruption.

My conclusion in short is that the risk posed by money laundering is on the increase in Switzerland, and banks need to do more to combat it.

I should say, first of all, that money laundering is a global problem. The leaked database from Panama is just the latest proof of how money flows like water through multiple jurisdictions, sometimes for legitimate purposes, sometimes not.

Far too much money of criminal origin is being laundered through the world's financial system. UN statistics estimate the figure at about 5% of gross domestic product worldwide. So we are talking here about hundreds of billions. Are we doing enough to prevent this money spreading through the financial system? Prosecutors and supervisory authorities need to join forces. In Switzerland, we work closely and well with the Office of the Attorney General based on a new Memorandum of Understanding (MoU).

Money laundering is no victimless crime. It allows criminals to profit from breaking the law. It also facilitates corruption and the abuse of power and privilege. Corruption and tax fraud are the natural enemies of progress, especially in developing countries.

Switzerland is the world's largest centre for cross-border wealth management for private clients, and therefore naturally exposed to a greater risk of money laundering. Switzerland's mechanisms for combating it must be correspondingly effective. Switzerland has a duty to be at the forefront of fighting money laundering.

So where do we stand today? The processes for combating money laundering in Switzerland have improved over recent years. Just last year, Parliament amended the Anti-Money Laundering Act, followed by FINMA with amendments to its Anti-Money Laundering Ordinance. The rules appear largely fit for purpose. But what about the implementation of these rules? And what exactly leads me to believe that money laundering risks are on the increase here?

Many wealth management banks are increasingly accepting money from far-away, previously less familiar markets. Many institutions have grown their volume of assets under management from emerging markets over recent years. In principle, this is not a problem, rather an opportunity. But new markets also harbour new risks – what we are seeing here is a shift away from risks connected with tax law towards money laundering risks. Even if automatic exchange of information would bring a certain risk reduction, we are here dealing with markets for which this is not yet on the table. It is often more difficult to determine the origin of money from developing countries than it is in the more industrialised nations. What comes from criminal sources or is related to corruption?

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Petrobras and 1MDB: prime examples of money laundering risks

Two prominent current cases highlight the risks I am talking about. A number of Swiss banks are involved in both the corruption scandal surrounding Brazil's Petrobras and the suspicious cash flows linked to the Malaysian sovereign fund 1MDB. FINMA has carried out investigations into more than 20 banks in connection with these cases, and has opened seven enforcement proceedings against institutions. There are concrete indications that the measures those banks had in place to combat money laundering were inadequate.

I am not making a general reproach against the entire financial centre: the majority of banks are playing by the rules. In the Petrobras case, three quarters of the banks we investigated were applying the anti-money laundering regulations in a largely appropriate way. One quarter was not – and one quarter is too high.

Let me state this quite clearly: such scandals are not just restricted solely to the Swiss financial centre. We know that suspect funds also passed through banks headquartered in the US, the UK and the Middle East. Transactions were also processed via many other international financial centres. That makes the investigations correspondingly complex, involving prosecutors and supervisory authorities from four continents.

Be that as it may: such cases damage the reputation of the Swiss financial centre. If the Swiss banking system is misused for money laundering on a large scale, that puts it in a poor light.

There are three particularly troubling aspects to these cases:

1. These are not events from years ago – the money was still being accepted until quite recently. We are not talking about legacy issues.

2. From what it looks like, we are not dealing here with shades of grey. The evidence points to clear cases of corruption.

3. The extent of the cases and the sums involved are vast. We are talking about cash flows amounting to several billion US dollars, with individual transactions running into hundreds of millions. Those are significant sums of money for developing nations like Malaysia and Brazil, in which the average monthly income is less than USD 1,000.

In these cases, we can already see that some institutions had too big a risk appetite. They took on wealthy clients whose backgrounds were unclear. They carried out transactions for them, even though their motives were unclear. They also charged fees which seem to be excessively high.

How can we tackle this problem? In my view, the answer is not to rework the regulations once again. Rather the existing rules need to be applied systematically and consistently. Responsibility for doing

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that lies with the banking institutions and their staff. There needs to be a greater sensitivity to money laundering risks.

FINMA's role in stepping up the fight against money laundering

What contribution can FINMA make? As an authority, we have not yet achieved enough. We have therefore strengthened our supervision still further and made it more systematic. Our aim here is to exert a more preventive effect. We are now categorising all banks according to their money laundering risk profile. We are applying specifically developed criteria – for instance, the more clients with off-shore structures a bank has, the higher its money laundering risk rating. Currently, 14 banks have a red rating. We are taking action at each of these institutions.

As well as more rigorous supervision, another key tool is enforcement. In 2015, we investigated suspected breaches of the anti-money laundering rules at 29 institutions. Not all of them led to enforcement. But it has resulted in fixing the processes at all the institutions concerned. Where there are serious shortcomings, we initiate enforcement. Over the last few years we have concluded 16 such cases in the banking sector alone. A total of six proceedings also targeted individuals at those institutions.

In recent years, FINMA has expanded its sanctions catalogue for dealing with cases involving money laundering: it has ordered the disgorgement of illegally generated profits, placed a ban of three years on new relationships with politically exposed persons (PEPs), ordered the appointment of new members to a board of directors, and in 2015 for the first time withdrew the licence and liquidated a financial intermediary owing to its involvement in a corruption case. We have imposed industry bans against two senior bank managers. FINMA believes that effective enforcement, as well as targeted supervision, will have a preventive effect, and that the sanctions it issues can be more effective than levying fines.

A rethink of the reporting practice

So the regulations have just been revised, supervision has been stepped up, and enforcement increased. Is that enough? No. First of all banks have to exercise the necessary due diligence when accepting and managing funds: they need to literally "know their customers". There is no way round this if we want to take the fight against money laundering seriously. We also need a critical reassessment of the current reporting system. *When* banks have to report suspected cases of money laundering to the relevant prosecutors is critical. Internationally, there are big differences between reporting systems:

- In the US and Canada, every transaction above a certain level has to be reported which produces a flood of redundant data.
- In countries such as the UK, Hong Kong and Singapore, every material suspicion of money laundering must be systematically reported. This led to more than 350,000 reports in the UK in 2014, with around 30,000 in the other two countries.

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- In Switzerland, the system is more differentiated: here, reporting is only mandatory if there is well-founded suspicion. There is also the option to file a voluntary report. However, experience has demonstrated that banks often say nothing until client relationships have shown themselves to be explicitly problematic: for example, when accusations appear in the media. For this reason, the number of reports is small when compared with international figures: just 1,753 in 2014.

If clients were to understand that there is a strong probability that money from suspicious sources will be reported, they would bring less of it into Switzerland. There should more focus on the voluntary reporting option. According to figures from the Money Laundering Reporting Office (MROS), reports filed on the basis the bank's own suspicion account for only 18% of cases; 28% are in response to a newspaper article. Reports should be driven more from banks themselves and rely less on waiting for media coverage. Information about questionable client relationships or transactions is reportable. In the last few years, banks have made more voluntary reports. This is a beginning. A bolder and more systematic approach to this system would make the fight against money laundering more effective.

In conclusion, we believe that money laundering risks are on the increase, especially where clients from emerging markets are concerned. Those risks demand more rigorous supervision. Supervised institutions, however, must also act responsibly and consistently. In some places, the risk appetite for lucrative, but opaque, client relationships is still too high.

We also need a different culture in the reporting system. Banks must be readier to file a report as soon as they have concrete suspicions and not wait until the media has taken up the scandal. We need a culture in which bank employees feel personally committed to combating money laundering. The aim for everyone in the Swiss financial sector must be to avoid being drawn into any more big money laundering scandals.