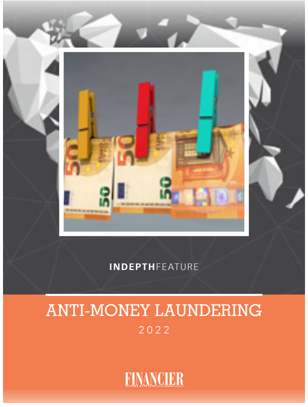

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ANTI-MONEY LAUNDERING

Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in anti-money laundering

GERMANY

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Respondents

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Kristof Wabl brings over 15 years of experience advising multinational organisations in the prevention, detection and investigation of white-collar crime. Prior to his work with StoneTurn, he was the head of Forensic for PwC in Austria and specialised in advising regulatory agencies and financial institutions on anti-money laundering (AML) and sanctions matters. He began his career with the Federal Ministry of Justice in Austria and is an expert in compliance, forensic investigations and financial crime. In addition to his work with StoneTurn, he leads the task force focused on Whistleblowing for the Austrian Chapter of Transparency International.

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Julia Arbery has more than 15 years of experience in ethics and compliance. She assists multinational organisations with the development and implementation of effective compliance programmes across global operations, ensuring regional divisions meet global corporate compliance and ethics standards. She specialises in the establishment of whistleblower frameworks and investigative protocols that comply with global regulations. She holds an Advanced Certificate in Anti-Money Laundering from the ICA (in connection with the University of Manchester). In 2019, she co-founded the German Chapter of the Women's White Collar Defense Association (WWCDA), working to promote diversity and advancement for women in white-collar defence.

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Q. To what extent is financial crime growing in frequency and complexity, and how has cryptocurrency played a role in this growth? What is Germany's stance on enforcement around cryptocurrency overall as a way of addressing financial crime? How would you summarise recent trends in Germany?

A. According to the 2020 annual report of Germany's Financial Intelligence Unit, reporting of financial crime has been increasing significantly with the annual total number of suspicious transaction reports (STRs) received in Germany increasing 12-fold in the last 10 years. We are also seeing an interesting trend in the rise of cryptocurrency exchanges and digital challenger banks. These non-traditional financial institutions (FIs) with lower fees and no physical branches are providing convenience and affordability which is attracting more users. Cryptocurrency exchanges and challenger banks face a variety of issues in properly vetting customers during the remote onboarding process, right through to ongoing remote due diligence. Coupled with relative inexperience in addressing financial crime issues, it has made it easier for criminals to perpetrate fraud by abusing the fast, digital services they provide. With a heavy reliance on technology rather than staff, it can also make it easier for malicious customers to slip through the cracks, making challenger banks a prime target for exploitive money launderers. Nevertheless, these alternative banks are required to protect themselves against financial crime just like traditional FIs, resulting in challenger banks being the focus of increased AML scrutiny.

Q. Could you outline some of the key legal and regulatory developments in Germany affecting anti-money laundering (AML)? To what extent are companies operating under heightened scrutiny, and reacting accordingly?

A. The coronavirus (COVID-19) pandemic may have slowed the global economy and emptied the physical offices of government regulators, but it does not appear to have slowed down anti-money laundering (AML) enforcement. Regulators have been busy enforcing AML laws with penalties and consent agreements throughout the pandemic. Regulators are also coming under scrutiny for perceived

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supervisory failures. In 2021, the German Financial Supervisory Authority (BaFin) acknowledged that it had failed to effectively supervise AML efforts regarding Wirecard, for example.

Q. How would you describe AML monitoring and enforcement activity in Germany? What problems may arise for multinational companies as a result of the extraterritorial reach of certain laws, and greater collaboration between national agencies?

A. Public pressure on FIs has increased due to societal action, data leakages and increased regulation. To strengthen the detection of suspicious transactions and to close loopholes, the European Commission most recently presented a package of legislation, including the proposal for a new central EU AML Authority (AMLA) to coordinate national authorities to ensure that the private sector applies rules consistently. The proposed new AML regulation limits cash payments to €10,000 and includes rules regarding customer due diligence and beneficial ownership. The sixth AML Directive will also update crypto asset provisions and

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rules on national supervisors and financial intelligence units (FIUs). Nevertheless, FIs do not have to wait for a ratified regulatory change, they can already significantly improve the efficiency and effectiveness of their AML compliance programmes. In-house practitioners should identify and reduce low-value activities, focus on automating processes and implement advanced analytics. Also, they should focus on the development of their investigative capabilities. Early adopters will save money and be better positioned to influence reforms by redefining the meaning of effective AML.

Q. What steps should companies take to ensure adequate processes, programmes and policies are in place to support AML?

A. Ongoing developments in technology will continue to be driving factors in AML policies and the enforcement agenda. Due to its ability to be used for fast, often anonymous international transactions, cryptocurrency has become a modern means to transact proceeds of crime. Reputable crypto exchanges need to be AML compliant and follow strict regulatory requirements for the verification of identity and sources of funds. To help safeguard organisations, AML compliance teams should be properly up to date on developments in the FinTech space and communicate emerging risks to management. Client risk profiles may need to change because of active use of novel FinTech offerings. Additionally, RegTech offerings should be regularly revisited to see whether improvements can be adopted for current AML programmes.

Q. In what ways can companies utilise technology to help manage risks arising from AML?

A. Numerous FIs still use manual approaches for AML compliance. However, investments in artificial intelligence (AI) and digital tools can significantly enhance the reach of compliance efforts and the quality of insights. Available solutions produce potential leads but also insights to help compliance professionals assess and prioritise information in the broader context. Automated processes have been recommended by regulatory authorities for some time, as part of enhanced due diligence procedures. These do not often

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require continuous monitoring, but practitioners have been expressing concern over the effectiveness of the monitoring process.

Q. What advice would you offer to organisations on integrating technology into their processes to enhance the efficiency of their AML capabilities and allow them to detect unusual behaviour and identify red flags?

A. To put efficiency and effectiveness at the centre of AML units, FIs must enable compliance professionals to focus on investigating cases. Practitioners should focus on technical upskilling as too much time is spent on different applications and manual data entries to create formal paper trails around cases. The answer lies in making sense of the data, to free human practitioners to produce better results in the highest-risk cases. Technology-assisted investigations can improve results significantly, providing a complete picture of parties and transactions involved, drawn from various sources.

Q. Do you expect the risks posed by money laundering to increase in the months and years ahead? Do companies need to continually improve their systems in order to deal with current and emerging threats?

A. Despite the clear warnings offered by recent regulatory actions, compliance officers may still hesitate to highlight AML inadequacies, particularly if bank revenue declines and costs spiral in the wake of the global pandemic. It is important to remember that AML laws and regulations are still in place and are not going away. Regardless of the appetite for additional investment, compliance officers are well-served by taking prompt and effective remedial action when issues are discovered. After all, a problem delayed eventually leads to bigger and more expensive problems down the line.❑

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