



Asia-Pacific  
Economic Cooperation

**Indonesia's Report on**  
**THE APEC SEMINAR**  
**ON SECURING REMITTANCE**  
**AND CROSS BORDER PAYMENT**  
**FROM TERRORIST USE**

Sahid Jaya Hotel, Jakarta  
22 - 23 October 2008, INDONESIA

**APEC Counter Terrorism Task Force**  
**December 2008**

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By:

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## **INDONESIA'S REPORT ON THE APEC SEMINAR ON SECURING REMITTANCE AND CROSS BORDER PAYMENT FROM TERRORIST USE**

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### **INTRODUCTION**

Since 2001, APEC Leaders and Ministers have consistently called for stronger collective measures among APEC economies to counter terrorism financing as an integral part of APEC's broader human security agenda. In 2002, Leaders endorsed an Action Plan on countering terrorism financing which calls for further collaboration in the provision of technical assistance to economies that require assistance in developing and implementing necessary policies, laws, regulations and institutions in this area. Building on this undertaking, Ministers agreed at the 2005 APEC Ministerial Meeting that APEC needed to continue to build capacities and that appropriate capacity building activities and best practices should be identified and made available to developing economies for the implementation of security measures by developing economies.

APEC has 3 pillars of cooperation which are: Trade & Business Investment Liberation, Business Facilitation, and Economic & Technical Cooperation. The last pillar is intended to assist economies by establishing capacity building for institution thru its personnel in APEC region. One of the sustaining instruments for the economic growth is the presence of money or value transfer system. Within the period of last couple of years, the utilization of money or value transfer method using this way has increased significantly where the World Bank estimated that the increasing volume was from US\$ 132 Billion in 2002 into US\$ 268 Billion in 2006. Thus, there is no doubt that money transfer business such as formal money remittance, alternative remittance system/ARS, and wire transfer have important roles in enhancing economic sector of many economies and the livelihood of millions of people around the globe.

However, during its development the ARS service can be abused or misused by some people for money laundering activity or financing terrorism, considering ARS is undetected by financial system. Terrorist organizations can use those money transfer facilities in conducting their illegal activity.

This two-day seminar focused on several critical issues regarding the effective implementation of key international anti-money laundering (AML) and combating the financing of terrorism (CFT) standards, in particular FATF's Special Recommendation VI on Alternative Remittance System and Special Recommendation VII on Wire Transfers. One goal of the Seminar was to ensure that APEC economies understand the challenges and obstacles faced in the implementation of these standards with the view to strengthening their legal, regulatory and operational frameworks. The Seminar looked at the role that can be performed by law enforcement and regulatory authorities to prevent the illicit use of funds transfers through the formal and informal financial sectors. The Seminar also assisted participants from APEC economies to understand the magnitude of the problems surrounding alternatives remittances system and use of wire transfer as well as to encourage regional cooperation.

Indonesia as a member of Asia-Pacific Economic Cooperation had been entrusted to be the host of the APEC Seminar on Securing Remittance and Cross Border Payment from Terrorist Use in Jakarta. The nomination of Indonesia as host was decided on the Forum of Counter Terrorism Task Force (CTTF) Meeting of APEC in Adelaide, Australia on 20 – 21 April 2007, which was Australia, Thailand, and United States of America were the co-sponsoring APEC Economies in this regards, and the decision was on the Forum of SOM I APEC in Lima, Peru on 2 – 3 March 2008. As a host, Indonesia appointed PPATK/INTRAC [Indonesian Financial Intelligence Unit] as the focal point for accomplishing the event.

### **OBJECTIVES OF SEMINAR**

The Seminar was organized by Indonesian Financial Transaction Reports and Analysis Centre [INTRAC] in collaboration with the APEC Secretariat. The objectives of the capacity building seminar were in following:





- To increase the awareness from APEC Economies upon the significance of implementing SR VI regarding Alternative Money Remittance and SR VII regarding Wire Transfer;
- To develop an effective guideline of ARS implementation for APEC Economies;
- To promote regional cooperation in enhancing protection of alternative money remittance channels;
- To provide forum for regulatory bodies and law enforcement agencies for sharing their experiences in implementing SR VI and SR VII;
- To explore opportunities and develop strategies for regional cooperation so as to enhance transparent remittance channels;
- To assess potential risks of terrorist financing misuse of alternative remittance systems, wire transfers, and other means of cross border payments for PPATK/INTRAC and domestic agencies in particular, and for the entire of APEC Economies in general.

## **PARTICIPATION**

6 (six) speakers were vary from APEC Economies and international organizations, such as World Bank and Developing 8 Economies/CEMFIOWS, shared their knowledge and experiences as well as best practices in the importance of securing remittance and cross border payment from terrorist use with 15 APEC Economies delegates and 80 participants from government and private sectors, both international and domestic agencies/organizations.

## **SEMINAR PROGRAMME**

The seminar was held over 4 (four) sessions divided into two days as follows:

**Session I** - Establishing International Measurements on Securing Money and Value Services & Wire Transfer (MVS & WT) From Terrorist Use.

**Session II** - Money and Value Services & Wire Transfer : Practical Issues on Domestic Regulatory/ Supervisory and Real Sector.

**Session III** - Vulnerability and Risk of Terrorist Used on MVS & WT: Practical Issues on FIU and Law Enforcement.

**Session IV** - Developing International Cooperation in Enhancing Remittance Channels Protection.

## **OUTCOMES**

Based on presentations and issues arising from discussion, it was observed that there are several problems in implementing SR VI and VII, in order to prevent terrorism financing, stakeholders face many challenges, namely:

- a. Difficulty of implementing registration/licensing regime towards Money Value Transfer;
- b. Weak or no supervision or identification of MVTs as well as Lack of monitoring mechanism on ensuring the implementation of FATF Recommendations;
- c. Low implementation of KYC in MVTs business prior to regulatory regime;
- d. The need to further strengthen cooperation between FIUs, regulators and law enforcements;
- e. Lack and insufficient of comprehensive law, regulation or other enforcement related to SR VI and VII;
- f. There is insufficient or no system for monitoring remittance services.

As a result, the seminar put forth the following recommendations:

### **General recommendation:**

- a. As the level of compliance with SR VI and VII varies among economies in APEC, further works are needed at international level (involving donors and providers) to improve compliance. For Economies that have implemented SR VI and VII well and in appropriate manner should assist Economies that still struggle with the implementation;
- b. Strengthening international cooperation between APEC, the Egmont Group, APG and other related regional and international fora;
- c. Encourage MOU between FIUs to allow the exchange of information in relation to money laundering and terrorist financing by using a template MOU of Egmont as main a reference.

**Specific recommendation:**

- Political support is needed at the national and international levels to improve compliance;
- Develop and maintain policy Regulatory Reform, where appropriate, that obligate licensing or registration of remittance service providers and reporting of suspicious transactions as well as uphold a supervisory role that are sufficient to prevent Terrorists Financing;
- Encourage the regulating body to develop and maintain registered remitters list;
- Develop flexible Laws on Remittance and Cross Border Payment to match the ever changing of methods of criminal activities;
- Develop financial indicators, trends, statistics and typologies for financial institutions to detect the activities of informal remittance operation, specifically on the reconciliation of accounts between agents;
- Economies shall consider consultation/coordination mechanism among related agencies as well as the stakeholders before formulating certain regulation;
- Continue to implement SR VI and VII. However the implementation should take into account the political, economic and cultural situation and condition of each economy;
- Continue to make Suspicious Transaction Report (STR) and Cash Transaction Report (CTR) as a tool to disrupt and dismantle terrorist networks;
- Continue to make suitable effective strategies to encourage informal money remittance operator to apply for a license or register to the regulator. The strategies may include advertising, training course, dialogue ethnic group and maintain relation with overseas workers;
- Increase cooperation between Law Enforcements, regulators and FIUs in order to combat money laundering and terrorist financing. International Cooperation and inter agency cooperation is key in the intelligence sharing;
- Reducing remittance cost and making money transfers easier, more efficient, and effective and secured for the user of remittance and wire transfers.

\* \* \*



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# FOREWORD



## MINISTRY OF FOREIGN AFFAIRS REPUBLIC OF INDONESIA

### FOREWORD FOR THE APEC SEMINAR PROCEEDING BOOK

I am pleased and honored to present to you the proceedings of the APEC Seminar on Securing Remittance and Cross Border Payment from Terrorist Use which was held in Jakarta, Indonesia over two days on 22-23 October 2008 that was proposed by Indonesia and co-sponsored by Australia, Thailand and United States.

The Asia-Pacific region is an expanding and promising region for the term of economic growth. One of the sustaining instruments for the economic growth is the presence of money or value transfer system. Within the period of last couple of years, the utilization of money or value transfer method using this way has increased significantly, where the World Bank estimated that the increasing volume was from US\$ 132 Billion in 2002 into US\$ 268 Billion in 2006. Thus, there is no doubt that money transfer business such as formal money remittance, alternative remittance system/ARS, and wire transfer have important roles in enhancing economic sector of many economies and the livelihood of millions of people around the globe.

However, during its development the ARS service can be abused or misused by some people for money laundering activity or financing terrorism, considering ARS is undetected by financial system. Participants from APEC member economies and prominent speakers from Asia Pacific Group on Money Laundering (APG) Secretariat, World Bank (WB), Federal Bureau of Investigation (FBI), Australian Transaction Reports and Analysis Center (AUSTRAC), Center for Micro Finance and Indonesian Overseas Workers Studies (CEMFIOWS), and Bank Indonesia (BI) exchange & share their views as well as experiences on and around the topics of countering terrorist financing, particularly in relation to the implementation of alternative remittance systems and wire transfers.

I sincerely hope that the publication of the proceedings of the APEC Seminar can raise awareness from APEC Economies upon the significance of implementing Financial Action Task Force's Special Recommendation VI and Special Recommendation VII and to promote regional cooperation of alternative money remittance channels.

Jakarta, 19 December 2008

A handwritten signature in black ink, appearing to read 'Primo Alui Joelianto'.

**Amb. Primo Alui Joelianto**

APEC Indonesia SOM Leader

# THE AGENDA OF THE APEC SEMINAR ON SECURING REMITTANCE AND CROSS BORDER PAYMENT FROM TERRORIST USE

Jakarta, 22-23 October 2008

DAY 1, Wednesday, 22 October 2008

Venue: Candi Borobudur Room, 2<sup>nd</sup> floor, Hotel Sahid Jaya

Hours	Programs	Remarks
08:00 – 08:30	Registration Participants and Invitations	
08:30 – 09:00	<b>Opening Ceremony</b> <b>Opening Remarks:</b> H.E. Amb. Sang-Ki Park, Chair, APEC CTTF <b>Welcoming Remarks:</b> H.E. Yunus Husein, Head of Indonesian FIU as Secretary of National Coordination Committee on Preventing and Eradicating of Money Laundering and Terrorism Financing (PPATK/INTRAC)	confirmed
09:00 – 09:15	<b>Photo Session</b>	confirmed indoor area
09:15 – 09:45	Coffee Break	
09:45 – 10:15	<b>Session I</b> <b>Establishing International Measurements on Securing Money and Value Services &amp; Wire Transfer (MVS &amp; WT) From Terrorist Use</b> Moderator: Mr. Djoko Kurnijanto (PPATK/INTRAC) <b>Speaker 1: Financial Action Task Force</b> Theme: <i>Key Issues of International Measurements: FATF Special Recommendation VI and VII</i> <ul style="list-style-type: none"> <li>logical thoughts</li> <li>implementation and challenges</li> </ul>	<i>Objective:</i> To elaborate how the origin of SR VI & SR VII arise in international issue.
10:15 – 10:45	By: Eliot Kennedy (Deputy Secretary of APG Secretariat) <b>Speaker 2: World Bank</b> Theme: <i>MVS &amp; WT: Economic impact, regulation and compliance with international standards</i> <ul style="list-style-type: none"> <li>Report of World Bank Study</li> </ul>	confirmed
	By: Ms. Emiko Todoroki (Financial Sector Specialist, FDFI)	confirmed
10:45 – 12:00	Q&A Session	
12:00 – 13:15	Lunch	
13:15 – 13:45	<b>Session II</b> <b>Money and Value Services &amp; Wire Transfer : Practical Issues on Domestic Regulatory/Supervisory and Real Sector</b> Moderator: Ms. Ratih Damayanti (PPATK/INTRAC) <b>Speaker 3: Central Bank of Indonesia</b> Theme: <i>Establishing Supervisory Control Over MVS &amp; WT</i> <ul style="list-style-type: none"> <li>setting up regulation and guidelines</li> <li>supervisory action</li> <li>obstacles and challenges</li> </ul>	<i>Objective:</i> To dig up and find out the source of obstacles faced within the implementation
13:45 – 14:15	By: Mr. Puji Atmoko (Executive Analyst for Accounting & Payment System Directorate, Bank Indonesia) <b>Speaker 4: Center for Micro Finance and Indonesian Overseas Workers Studies/CEMFIOWS (NGO)</b> Theme: <i>How MVS &amp; WT work in Real Sector?</i> <ul style="list-style-type: none"> <li>Report of CEMFIOWS Study</li> </ul>	confirmed
	By: Dr. Dipo Alam (Chief of CEMFIOWS)	confirmed
14:15 – 15:15	Q&A Session	
15:15 – 15:45	Coffee Break	
15:00 – 17:00	<b>Open Discussion Session (sharing experience from selected economies)</b>	

END OF DAY 1



**DAY 2, Thursday, 23 October 2008**

**Venue: Candi Borobudur Room, 2<sup>nd</sup> floor, Hotel Sahid Jaya**

Hours	Programs	Remarks
08:30 – 09:00	Registration Attendance	
09:00 – 09:30	<p><b>Session III</b>  <b>Vulnerability and Risk of Terrorist Used on MVS &amp; WT: Practical Issues on FIU and Law Enforcement</b>            Moderator :            Mr. Tri Priyo (PPATK/INTRAC)</p> <p><b>Speaker 5: AUSTRAC</b>            Theme: <i>Identifying and assessing terrorists financing on MVS &amp; WT</i></p> <ul style="list-style-type: none"> <li>• guidelines issued for reporting parties</li> <li>• analyzing and collating financial intelligence</li> <li>• practical challenges</li> </ul> By: Mr. Stephen Evans (Compliance Director)	<p><i>Objective:</i>  <i>To share experience in detecting financing terrorism so that all Economies could find the best practice ways in the implementation</i></p>
09:30 – 10:00	<p><b>Speaker 6: Federal Bureau of Investigation, U.S.</b>            Theme: <i>Enforcement issues and the effectiveness of uphold the law on reducing terrorists financing through MVS &amp; WT.</i></p> <ul style="list-style-type: none"> <li>• Investigating</li> <li>• collecting evidence</li> <li>• practical challenges</li> </ul> By: Mr. Sean Wells (Supervisory Special Agent, FBI Terrorism Finance Operation Section)	<p>confirmed</p> <p>confirmed</p>
10:00 – 10:30	Coffee Break	
10:30 – 11:30	Q&A Session	
11:30 – 12:45	Lunch	
12:45 – 13:15	<p><b>Session IV</b>  <b>Developing International Cooperation in Enhancing Remittance Channels Protection</b>            Moderator:            Mr. Ibnu Hadi, Director of Intra-Regional Cooperation for Asia Pacific and Africa, Ministry of Foreign Affairs</p> <p><b>Speaker 7: The Egmont Group</b>            Theme: <i>How to encourage cooperation between Financial Intelligence Unit (FIU) and Financial Services and Among FIUs in securing MWS &amp; WT from terrorist use</i></p> <ul style="list-style-type: none"> <li>• best practices on FIU and Financial Services relationship</li> <li>• cooperation amongst FIUs</li> <li>• Egmont works</li> </ul> By: Mr. Stephen Evans (Compliance Director of AUSTRAC)	<p><i>Objective:</i>  <i>To have common perspective for Economies in International Cooperation in order to enhance Remittance Channels Protection and to set up guidelines of Remittance and Wire Transfer</i></p>
13:15 – 13:45	<p><b>Speaker 8: APG Secretariat</b>            Theme: <i>Developing guidelines for effective response as best practices across APEC Economies</i></p> <ul style="list-style-type: none"> <li>• implementation SR VI &amp; VII amongst APG members</li> <li>• APG works/projects in developing guidelines</li> </ul> By: Eliot Kennedy (Deputy Secretary)	<p>confirmed</p> <p>confirmed</p>
13:45 – 14:45	Q&A Session	
14:45 – 15:15	Coffee Break	
15:15 – 15:45	<b>Conclusion of Seminar Result Session</b>	Rapporteurs Mr. Tri Priyo and Mr. Ibnu Hadi
15:45 – 16:30	Recommendation or Other Related Matters	
16:30 – 17:00	<p><b>Closing Session</b>  <b>Closing Remarks:</b>            Bambang Permantoro, Deputy Head of PPATK/INTRAC</p>	confirmed

**END OF DAY 2**



## OPENING REMARKS

by **H.E. Ambassador Park, Sang-ki**

Chair of APEC Counter-Terrorism Task Force



Your Excellency Yunus Husein, Distinguished Delegates, Ladies and Gentlemen,

Good morning. I would like to begin by expressing my heartfelt thanks to the Government of Indonesia for hosting this important seminar (the APEC Seminar on Securing Remittance and Cross Border Payment from Terrorist Use) here in Jakarta. I deeply appreciate the warm hospitality that has been extended to the participants. My special thanks go also to co-sponsoring APEC economies, Australia, Thailand and the United States for their unsparing support which has been invaluable in making this event possible.

On behalf of the APEC Counter-Terrorism Task Force (CTTF), I would like to extend a warm welcome to all of you and thank you for making time to attend this Seminar. I am very pleased that we have the opportunity to explore in great depth a key aspect of terrorist financing, with the benefit of the knowledge and insights of a range of experts from both public and private sectors.

### **(Importance of the Fight against Terrorist Financing)**

The fight against terrorist financing is an essential part of the international fight against terrorism. The amount of financing of terrorist acts will vary according to the strategies and methods adopted by the terrorists. But they all require funds. In this regard, among various counter-terrorism measures, policies on Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) are effective and indeed critical tools to prevent terrorists from carrying out their plots by denying access to funds.

Yet the challenges we face are immense. In this age of globalization terrorists are transnational in their outlook and operate across global networks. Money laundering and the financing of terrorism are global problems which not only threaten security, but also compromise the stability, transparency, and efficiency of financial systems, thus undermining economic prosperity. In particular, those undergoing the process of development and those with fragile financial systems are much more vulnerable. Since we live in an increasingly interconnected world, money launderers will exploit any gaps in the capabilities to counter terrorist financing between economies

For this reason, to effectively respond to this global challenge, a global solution is required. We must act both individually and collectively to fight against money laundering and terrorist financing and protect the integrity of the financial system.

### **(International Efforts to Curb Terrorist Financing)**


It is in recognition of this reality that several international bodies, most prominently the Financial Action Task Force (FATF), have developed a host of recommendations and best practices to help economies strengthen their anti-money laundering efforts.

Since September 11th, the UN Security Council has adopted a number of resolutions that contain provisions ranging from obligating states to apply enhanced scrutiny of financial transactions to the freezing of assets. The World Bank, IMF, and other major international financial and economic forums are also examining these issues.

### **(APEC's Efforts to Curb Terrorist Financing)**

APEC is no exception in this global endeavor. Since 2001, Leaders and Ministers have consistently called for stronger collective measures among APEC economies to counter the financing of terrorism as an integral part of APEC's broader human security agenda. Since its launch in 2003, the CTTF has been at the heart of the efforts across APEC economies to address this important task.

The CTTF has recognized FATF Recommendations and UN instruments as the appropriate standards for combating money laundering and terrorist financing. It has encouraged member economies to enhance law enforcement and regulatory capabilities by establishing financial intelligence units (FIUs) and foster closer cooperation through the exchange of financial intelligence among FIUs.



Moreover, the CTF has also been proactive in cooperating closely with other relevant international organizations. For example, projects to strengthen anti-money laundering regimes were undertaken in 2005 in Indonesia, Thailand and the Philippines through the ADB's Cooperation Fund for Regional Trade and Financial Security Initiative. Furthermore, various workshops have been held to respond to an identified need among APEC economies, as reflected in the CTF's 2005 Cross Analysis Study and help economies meet UN and Financial Action Task Force (FATF) obligations relating to anti-terrorist financing.

### **(Lessons Learned from International Cooperation Efforts)**

With these efforts so far, we have made much progress and learned many lessons. And we are now moving in the right direction in strengthening efforts to forge a stronger and more effective partnership among domestic and international stakeholders and to provide technical assistance to those economies in need.

But we cannot afford to be complacent. We are aware that there are challenges ahead of us. The history of the fight against money laundering and financing of terrorism has illustrated only too clearly that the bad guys are quick to engage in criminal activities. Money launderers will exploit any weakness in legislative and institutional frameworks, both domestic and international. In this regard, more needs to be done to strengthen the legal and institutional frameworks of our member economies in a harmonized manner to combat terrorist financing.

### **(Efforts to Secure Alternative Remittance System from Terrorists)**

One of the areas that requires more attention in our efforts to fight against financing of terrorism is the money or value transfer systems. The alternative remittance system and wire transfers, despite the positive role they play as key instruments for economic growth, are vulnerable to misuse for money laundering and terrorist financing purposes. In this regard, to effectively respond to this problem, the Financial Action Task Force (FATF) introduced two Special Recommendations (Special Recommendation VI on Alternative Remittance and Special Recommendation VII on Wire Transfers). They were designed to bring all money or value transfer services, whether formal or informal, within the ambit of certain minimum legal and regulatory requirements.

I believe that it is meaningful to take stock of where we are in implementing these Recommendations within the APEC framework. In this sense, I believe that the holding of this Seminar is indeed highly appropriate and timely. The Seminar will contribute to raising awareness of the importance of implementing the Recommendations and further identifying challenges to their full implementation among APEC member economies. I very much hope that we will take full advantage of the opportunity to share best practices and exchange ideas and further come up with constructive inputs and recommendations that will serve to guide us in our future efforts.

### **Distinguished Delegates,**

The threats to international peace and security and to the global financial system continue to evolve. Yet so does our ability to combat these threats. It is through initiatives such as this seminar that we can best develop and apply our enhanced capabilities. I look forward to us continuing to work together as we unite in our efforts for a shared goal. Thank you!

Jakarta, 22 October 2008

**H.E. Ambassador Park, Sang-ki**



## WELCOMING REMARKS



HEAD

INDONESIAN FINANCIAL TRANSACTION REPORTS AND ANALYSIS CENTER

### WELCOMING REMARKS THE HEAD OF INDONESIAN FINANCIAL TRANSACTION REPORTS AND ANALYSIS CENTRE ON THE OPENING CEREMONY OF THE APEC SEMINAR ON SECURING REMITTANCE AND CROSS BORDER PAYMENT FROM TERRORIST USE

**Jakarta, 22 October 2008**

Honorable Ministers and Officials of Ministerial Level from the Cabinet of Indonesia Bersatu,  
His Excellency Mr. Sang-Ki Park, as Chairman of APEC Counter Terrorism Task Force,  
Distinguished Delegates of APEC Economy,  
Honorable Heads of International Organizations or those who represent them,  
Distinguished Guests and Participants of APEC Seminar.

#### ***Assalamu'alaikum Warahmatullahi Wabarakatuh***

I am standing in the podium in my capacity as Secretary of National Coordinating Committee on Preventing and Eradicating of Money Laundering and Financing of Terrorism. This Committee is established by Decree of the President of the Republic of Indonesia Number 1 Year 2004, which is currently chaired by the Coordinating Minister for Politics, Law and Security Affairs.


First of all, I would like to welcome you in Jakarta, the capital city of Indonesia and I hope you enjoyed staying night in one of Jakarta well-known hotel, including having good and warm of our hospitality. I am pleased to see you all here in such strong numbers. Your enthusiastic participation in the activities of this Seminar indicates that we are on the right track in our pursuit of effective solutions to the threats posed to the collective well-being of our economies by money laundering and terrorist financing, particularly in relation of Alternative Remittance System and Wire Transfer.

#### ***Ladies and gentlemen, distinguished delegates and participants,***

On behalf of the Government of Indonesia, I am delighted that Indonesia as a member of Asia-Pacific Economic Cooperation has been entrusted to be the host of Seminar on Securing Remittance Systems and Cross Border Payment from Terrorist Use in Jakarta. The nomination of Indonesia as host was set and decided on the forum of Counter Terrorism Task Force (CTTF) Meeting APEC on April 20-21, 2007 in Adelaide, Australia and also its pronouncement was on forum of Senior Official Meeting I APEC in Lima, Peru on March 2-3, 2008. From Indonesia perspective, the theme we would like to discuss for in this prestigious seminar is in line with the implementation and manifestation of our National Strategy for the Prevention and







Eradication of Money Laundering Crime of 2007 - 2011, where one of the Strategies mentioned "strengthening the arrangement of Alternative Remittance System and Wire Transfer." By looking back a few years ago, in 2001 precisely, APEC Leaders and Ministers have consistently called for stronger collective measures among APEC economies to counter terrorism financing as an integral part of APEC's broader human security agenda. In 2002, Leaders endorsed an Action Plan on countering terrorism financing which calls for further collaboration in the provision of technical assistance to economies that require assistance in developing and implementing necessary policies, laws, regulations and institutions in this area. Building on this undertaking, Ministers agreed at the 2005 APEC Ministerial Meeting that APEC needed to continue to build capacities and that appropriate capacity building activities and best practices should be identified and made available to developing economies for the implementation of security measures by developing economies.

***Ladies and gentlemen, distinguished delegates and participants,***

Based on the schedule set up by the Committee Secretariat, we will start the Seminar by discussing a number of money and value services and wire transfer issues which divided into four sessions. The first session is pertaining to establishing international measurement on securing money and value services & wire transfer from terrorist use; second session is to confer about practical issues on domestic regulatory/supervisory and real sector. Next is trying to elaborate the vulnerability and risk of terrorist used on money and value services & wire transfer, especially in practical issue on FIU and law enforcement. The last session is looking for design to develop international cooperation in enhancing remittance channels protection. A range of another important issues with regard to alternative remittance system and wire transfer in jurisdiction of APEC economy could be shared and discussed deeply in this event and obtain a conclusion of seminar result for each economy best practice in the near future. Last but not least, if appropriate, there will be a discussion of other related matter at the end for each economy wants to contribute.

***Ladies and gentlemen, distinguished delegates and participants,***

In the margin of the demanding activities, we will combine with several opportunities to network, get to know one and another, and strengthen our connections and also be entertained with local menu during the break time of seminar from the host. In addition, if you have time to city travel, Jakarta will attract and offer you with special circumstance that would stay in your memory everlastingly. Jakarta has own its magnetize attractions indeed. As the final words, let me extend my sincere thank you to the APEC Secretariat, Indonesian Ministry of Foreign Affairs and my colleagues, who were listed in the Organizing Committee, for all their hard work and dedicate in organizing this Serninar. And finally, thank you all for your hard work to date. May your enthusiasm and effort shall be translated into outstanding results in our united effort and common struggle against terrorism in Asia Pacific Economic Cooperation.

Have a nice discussion!

Thank you.

***Wassalamu'alaikum Warahmatullahi Wabarakatuh***

Jakarta, 22 October 2008

INDONESIAN FINANCIAL TRANSACTION REPORTS  
AND ANALISYS CENTRE



**YUNUS HUSEIN**

**HEAD**





# SESSION I

*Establishing International Measurements on Securing  
Money and Value Services & Wire Transfer (MVS & WT)  
From Terrorist Use*

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*Speaker 1 Mr. Eliot Kennedy*

*Speaker 2 Ms. Emiko Todoroki*



*Speaker 1 Mr. Eliot Kennedy*



*Speaker 2 Ms. Emiko Todoroki*

## Background to and Implementation of FATF Special Recommendations VI and VII

Presented by:  
**Eliot Kennedy**  
 Deputy Secretary  
 Asia Pasific Group Secretariat

### Overview of presentation

- FATF – Brief overview
- APG – Brief overview
- SRVI – Background, requirements, rationale
- SRVII – Objective, rationale, requirements
- Implementation and challenges

### Financial Action Task Force (FATF)

- Mission:
  - Created in 1989 by Group of Seven
  - Establish international standards to combat money laundering and (since 2001) terrorist financing
  - Assess compliance with those standards
  - Study methods and techniques of money laundering and terrorist financing

### FATF Standards

- FATF Forty Recommendations (1990 – 2003)
- Nine Special Recommendations on TF (issued 2001; amended 2004) – including SRVI and SRVII
- Interpretative Notes
- Best Practices
- Other guidance (including Assessment Methodology)

- Objective: Protection of the world-wide financial system from misuse by organised crime and by terrorist financiers

### FATF-Style Regional Bodies

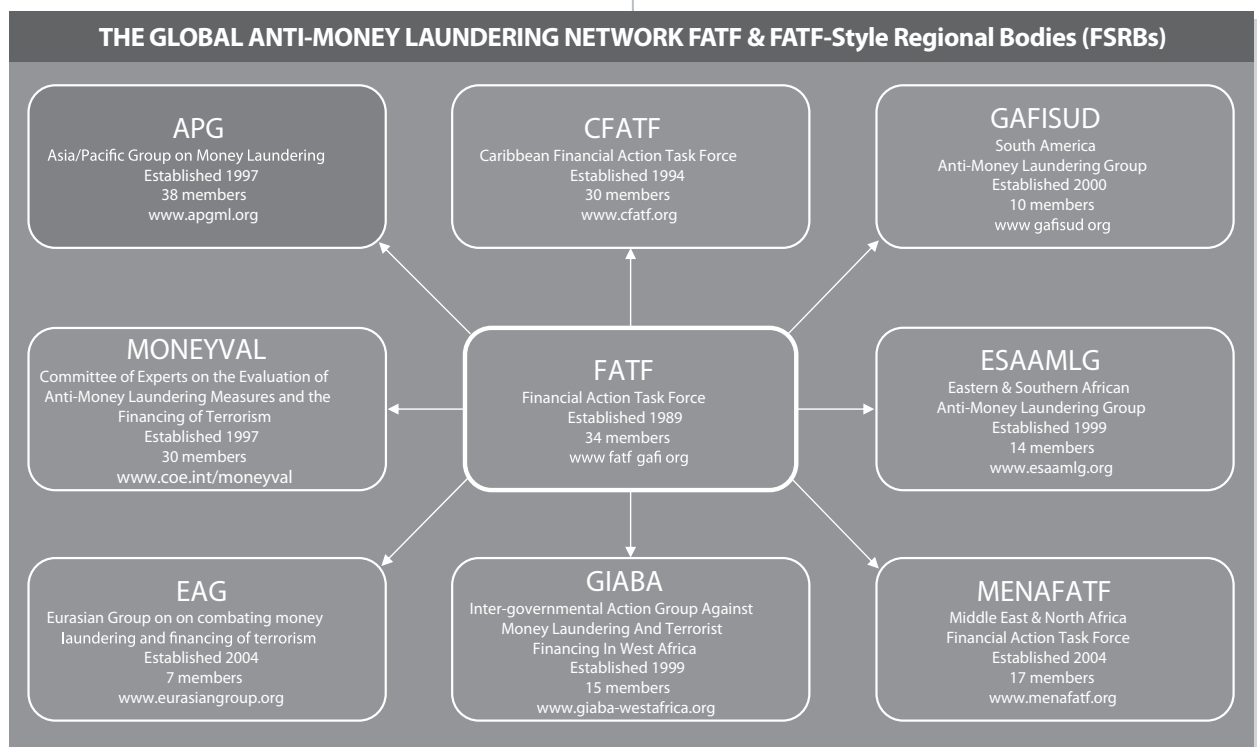
- Not part of the FATF
- Independent, but closely aligned with FATF

### APG's Role. APG is the FSRB for the Asia/Pacific. 5 key roles:

1. Assess compliance by APG member jurisdictions with the global AML/CFT standards through mutual evaluations (MEs).
2. Coordinate technical assistance and training with donor agencies and economies in the Asia/Pacific region.
3. Participate in, and cooperate with, the international anti-money laundering network.
4. Conduct research/analysis into ML and TF trends and methods to better inform APG members of systemic risks and vulnerabilities.
5. Contribute to global policy development with FATF. APG has been as Associate Member of the FATF since June 2006 and previously participated as an observer of the FATF.

### APG Members (38)

1. Afghanistan
2. Australia\*
3. Bangladesh
4. Brunei Darussalam
5. Cambodia
6. Canada\*
7. Chinese Taipei
8. Cook Islands
9. Fiji Islands
10. Hong Kong,
11. China\*
12. India
13. Indonesia
14. Japan\*
15. Korea, Rep. of Lao PDR
16. Macau, China
17. Malaysia
18. Maldives





19. Marshall Islands	29. Samoa
20. Mongolia	30. Singapore*
21. Myanmar	31. Solomon Islands
22. Nauru	32. Sri Lanka
23. Nepal	33. Thailand
24. New Zealand*	34. Timor-Leste
25. Niue	35. Tonga
26. Pakistan	36. USA*
27. Palau	37. Vanuatu
28. Philippines	38. Vietnam

## SR VI – Alternative remittance Why act? Reasons for concern

### Money Launderers:

Hawala and other types of remittance systems have been exploited by drug traffickers, people smugglers, illicit arms traffickers and tax evaders.

### Terrorist Financiers:

Terrorist incidents have been financed by funds sent through hawala and other types of remittance systems.

## FATF Standard on Alternative Remittance: SR VI

### SR VI: Alternative Remittance (October 2001)

- Interpretative Note to SR VI (February 2003)
- Best Practices Paper for SR VI (June 2003)
- Methodology for Assessing Compliance (February 2004, updated)

## FATF Standard on Alternative Remittance: SR VI

Each economy should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each economy should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

### Objective of SR VI

Increase the transparency of payment flows by ensuring consistent anti-money laundering (AML) / combatting the financing of terrorism (CFT) measures apply to all forms of money/value transfer (MVT) systems particularly those operating outside of the conventional financial sector.

### MVTs: What are they ?

- Financial services, operating outside the conventional financial sector, where value or funds are moved from one geographic location to another.
  - Accept cash, cheques, other monetary instruments

or other stores of value in one location and pays a corresponding sum in cash or other form to a beneficiary in another location by means of a communication, message, transfer or through a clearing network to which the service belongs.

- Service may be provided by persons (natural or legal) formally through the regulated financial system or informally through entities that operate outside the regulated system.

## SR VI: Interpretative Note: Core elements identified

- MVT services should be licensed or registered
- MVT services should be subject to applicable FATF Recommendations (R. 4-16, 21-25, and SR VII)
- Jurisdictions should establish systems to monitor MVT compliance with FATF standards
- Jurisdictions should be able to impose sanctions on MVT services for non-compliance

## SR VI: Interpretative Note Core elements explained: Registration or Licensing

- MVT services should be registered or licensed.
- What is registration?
  - A requirement on MVT services to register with or declare their existence to a designated authority to legally operate.
- What is licensing?
  - A requirement on MVT services to obtain permission from a designated authority to legally operate.
- Objective of the registration or licensing requirement:
  - Ensure that both the regulatory and competent authorities are aware of the existence of the MVT service (i.e. the authorities have identified the MVT business, the MVT operator and all agents).

## SR VI: Interpretative Note Core elements explained:

### Application of FATF Recommendations

- MVT services should be subject to applicable FATF Recommendations:
  - Customer identification
  - Record keeping
  - Suspicious transaction reporting.
- Objective of this approach:
  - Ensure that all MVT services are subject to certain minimum legal and regulatory requirements in accordance with the FATF Recommendations.

## SR VI: Interpretative Note Core elements explained: Customer Identification

- MVT services should be required to identify their customers.
- Rationale for this approach:
  - Customer identification requirements in the



formal financial sector have had a deterrent effect, causing a shift in money laundering activities to other sectors.

### SR VI: Interpretative NoteCore elements explained: Record keeping

- MVT services should be required to keep records:
  - Customer name;
  - Unique account/reference number that identifies the transaction; and
  - One of the following pieces of information about the customer:
    - Address;
    - Date and place of birth;
    - National identity number; or
    - Customer identification number
- Rationale for this approach:
  - To successfully investigate cases of money laundering and terrorist financing, investigative agencies need to be able to retrace transactions and to identify the people effecting them.

### SR VI: Interpretative NoteCore elements explained: Suspicious transaction reporting

- MVT services should be required to report any suspicious transaction.
- Rationale for this approach:
  - Obligating MVT services to report transactions that they suspect may be related to money laundering/terrorist financing is consistent with the obligations imposed on other financial institutions (i.e. to make a report when they suspect one of these crimes).

### SR VI: Interpretative NoteCore elements explained: Compliance Monitoring

- Economies should be required to monitor MVT services and ensure their compliance with the requirements to:
  - Register or license
  - Maintain a list of agents
  - Comply with the applicable FATF Recommendations
- Rationale for this approach:
  - Regulatory authorities should monitor the MVT sector with a view to preventing and stopping criminal and terrorist groups from exploiting the services of MVT service.

### SR VI: Interpretative NoteCore elements explained: Sanctions

- Economies should be able to sanction MVT services who:
  - Do not register or license
  - Do not comply with the FATF Recommendations.

- Rationale for this approach:
  - In designing an effective system that improves the transparency of MVT systems (in accordance with the FATF Recommendations), economies should have sanctions available for non-compliance.

### SR VI: Best Practices PaperSuggestions for implementation

- Licensing and registration
- Identification and awareness raising
- Application of key AML/CFT standards
  - Customer identification
  - Record keeping requirement
  - Suspicious transaction reporting
- Compliance monitoring
- Sanctions
- (Will discuss the BPP and APG ARS Implementation Package 2003 tomorrow)

### Challenges in Implementing SR VI

- One size does not fit all
- Must still ensure consistency of application:
  - Nationally — ensure level playing field
  - Internationally — avoid becoming “weak link”
- Focus on objective of increased transparency:
  - Ensure records on transactions and customers exist
  - Ensure that these are available to competent authorities
- Important to examine role of other factors:
  - Degree of development of financial sector
  - Differences between economies
  - Potential use of economic incentives to encourage development and use of conventional systems

### SRVII Wire transfers: Why act? Nature of the Problem

- Originator information often incomplete or lacking e.g. “our customer”.
- Originator information often not available to law enforcement / FIU at wire transfer destination.
- Specific examples found after September 11th (related to 9/11 as well as to terrorist operations in other regions of the world).
- Wire transfers extensively used for money laundering.

### FATF Standard on Wire Transfers: SR VII

- SR VII: Wire Transfers (October 2001)
  - Interpretative Note to SR VII (February 2003, revised June 2005 and February 2008)
  - Methodology for Assessing Compliance (February 2004, updated)

## SR VII: Wire transfers

Economies should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Economies should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

### Objective of SR VII

Prevent terrorists and other criminals from having unfettered access to wire transfers for moving their funds and for detecting such misuse when it occurs. Specifically, it aims to ensure that basic information on the originator of wire transfers is immediately available:

- (1) to appropriate law enforcement and/or prosecutorial authorities to assist them in detecting, investigating, prosecuting terrorists or other criminals and tracing the assets of terrorists or other criminals,
- (2) to financial intelligence units for analysing suspicious or unusual activity and disseminating it as necessary, and
- (3) to beneficiary financial institutions to facilitate the identification and reporting of suspicious transactions.

### SR VII as part of overall AML/CFT framework

- SR VII is an important, quite detailed element of a broader AML/CFT system
- Banks and other institutions are already required to have:
  - CDD/KYC measures
  - Record-keeping (identification and transaction information)
  - Monitoring for unusual transactions
  - Reporting suspicious transactions
  - Adequate internal procedures and controls
- SRVII's focus is on passing a small but important component of CDD information through the wire transfer system, as one element of the total regime

### Wire transfers: FATF Definition

"Any transaction carried out on behalf of an originator person (both natural and legal) through a financial institution by electronic means with a view to making an amount of money available to a beneficiary person at another financial institution. The originator and the beneficiary may be the same person."

- Requirement for banks but also for less formal channels of money remittance (cross-over with SRVI)
- Does not apply to institution to institution transfers for own account or normal card transactions purchasing goods/services

### SRVII: Role of ordering, intermediary and beneficiary financial institutions

**Ordering institution** - must ensure that qualifying wire transfers contain complete originator information. The ordering financial institution must also verify this information for accuracy and maintain this information in accordance with the standards set out in the FATF Forty Recommendations (2003).

**Intermediary institution** - must ensure that all originator information that accompanies a wire transfer is retained with the transfer.

**Beneficiary institution** - should have effective risk-based procedures in place to identify wire transfers lacking complete originator information.

### SR VII: Key Points

- Accurate & meaningful originator information must be sent with cross border transfers - name, account number, address (or national identity number, customer identification number, or date and place of birth).
- Economies can set optional threshold up to US\$/€1000.
- If purely domestic, only necessary to send account number with the transfer, if full information can be made available at transfer destination within 3 days.
- Lack of information on incoming transfers should cause enhanced diligence (on cross-border transfers) by beneficiary financial institutions, and with risk-based actions.

### Wire Transfers & Terrorist Financing: Some Observations from FATF/APG

- Law enforcement finds wire transfer information useful for combating terrorism and terrorist financing
  - The Sept 11 attacks – many transfers to the hijackers, information used post-event to reconstruct what happened
  - Madrid – critical information on names and addresses from wire transfers was used by Spanish authorities to track perpetrators
  - ETA & IRA – in the past, wire transfer information has provided useful intelligence

### Wire Transfers & Terrorist Financing: Some Observations from FATF/APG

- TF Transfers often involve small amounts.
- Generally, no conspicuous factor about an individual



transfer may relate it to terrorist financing or to a particular type of criminal activity

- Often additional factor needed (name or destination) to determine whether suspicious.
- Use of false names or nominees and front companies
- Multiple financial institutions
- Use of structuring or 'smurfing', successive transfers from multiple customers
- Use of alternate remittance (to avoid conventional financial institutions)

### **SRVI and SRVII: Implementation challenges**

- Even after 7 years, many economies struggle with effective implementation of SRVI and SRVII
- Lower levels of implementation for SRs generally
- FATF – results vary. Some jurisdictions rated C or LC, but many rated PC or NC
- APG – most members rated PC or NC

### **SRVI and SRVII: Implementation challenges**

- SRVI – common problems
  - Complete absence of requirement for MVTs to register/license
  - Large informal money or value transfer service sector and no/weak supervision or identification of MVTs
  - Inadequate implementation even where requirements exist
- SRVII – common problems
  - No existing/comprehensive law, regulation or other enforceable means regulating wire transfers
- Will discuss implementation/levels of compliance further tomorrow

### **Conclusion**

- SRVI and SRVII important and related parts of an effective AML/CFT system
- Many economies still struggle with effective implementation
- Further work needed at national and international levels (including donors) to improve compliance
- This Workshop an important and welcome initiative in this regard

To obtain more information on the FATF or consult the full texts of FATF standards:  
[www.fatf-gafi.org](http://www.fatf-gafi.org)

For more information on the APG visit our website:

[www.apgml.org](http://www.apgml.org)

or contact the APG Secretariat

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## Money and Value Services and Wire Transfers: Economic Impact, Regulation and Compliance with International Standards

Emiko Todoroki, the World Bank<sup>1</sup>

This essay addresses the important role remittances play in economic development, meeting the household needs in developing economies and suggests to develop a regulatory and supervisory framework that would meet international standards but would also reflect the local conditions. The focus of this essay is given to remittance transfers as they have gained more attention in the recent years, being both an important source of external financing that supports households in developing economies and also as a potential channel that may be misused by criminals. In addition, regulation and supervision of remittance services requires an effort more extensive and enhanced than that of wire transfers, where it is often required to bring service providers to a new regulatory and supervisory framework.

This essay is structured as follows. It first provides an overview of the economic impact of remittances and wire transfers and explains why there are concerns about these transfers. The essay then provides a preliminary analysis of the compliance level of about 90 economies vis-à-vis select Financial Action Task Force Recommendations (FATF 40+9 Recommendations) that are relevant to remittances and wire transfers. The FATF 40+9 Recommendations are the international standards in the fight against money laundering and terrorist financing. Finally, the paper shares lessons learned from regulating and supervising the remittance markets, with a view to contributing to the efforts made by policy makers, regulators, supervisors and other relevant authorities.

### Economic Impact of Remittances and Wire Transfers

Billions of dollars of remittances and wire transfers are sent across borders every day. Wire transfers, offered today as a standard banking service in many economies, facilitate payments domestically and across borders. Over 8,300 banking organizations, securities institutions and corporate customers in more than 208 economies exchange millions of standardized financial messages using the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system for fast and secure transaction. SWIFT has recorded an average daily traffic of more than 15 million messages in the year 2008 so far. While the SWIFT does not record the total value of these transactions, it is considered to be of sizable amount because some transactions, especially the corporate ones, are in millions of dollars in value. Within the retail banking sector, there is a steady growth of the volume of daily transactions arising from services such as telephone and internet banking. Workers' remittances are occasionally sent using these banking services, but the overall volume is considered to be quite small. Most of the workers' remittances are sent via remittance companies or other informal channels.

Migrant workers' remittances have grown rapidly over the past decade. There are concerns that the flow of migrant workers' remittances may decline in this and in the coming year due to the sluggish growth of the developed economies. However, it is unlikely that the flow will decline dramatically on a global scale. Remittances have proven to be resilient to economic and financial shocks, exhibiting a steady growth over the decades, while foreign direct investment (FDI) or portfolio investment flows tended to fluctuate, reflecting the boom and decline of economic and financial markets. In fact, remittances have played a key role as an external source of finance in helping families and communities during the economic downturns, natural disasters or other difficult circumstances. Remittances can be mobilized in a matter of hours and mitigate an impact of such unfortunate events, both at the macroeconomic and the household levels.

It is well documented that the remittances help alleviate poverty and contribute to the well-being of underprivileged families. The Financial Market Integrity of the World Bank has conducted a number of remittances studies that often took the form of bilateral remittance corridor analysis (BRCA). The first such study was initiated at the request of the Asia Pacific Economic Community (APEC). In 2002, the APEC asked the World Bank to study global implications of remittances and the alternative value transfer systems, referred to as alternative remittance system (ARS).

The findings of the BRCA study indicate that an average remittance transaction by migrant workers is usually of a small amount, ranging from less than one hundred dollars to several hundred dollars. Occasionally, there are larger transactions, but those are rather rare. Although small in each transaction value, collectively, the migrant workers' remittances are of sizable amount. More than US\$300 billion of global inward remittances were recorded

<sup>1</sup>The author is a Financial Sector Specialist in the Finance and Private Sector Development Vice Presidency of the World Bank. The responsibility for the errors and views in this paper are the author's. The author thanks Mrs. Latifah Merican Cheong, Program Director, Financial Market Integrity, the Finance and Private Sector Development Vice Presidency (FPDFI) of the World Bank for her guidance. The author also thanks Mr. Isaku Endo, Research Analyst (FPDFI) for useful discussions on remittance issues and Mr. Bjarne Toender Hansen, Junior Professional Officer (FPDFI) who provided the compliance data. The views expressed in this essay do not necessarily reflect official views of the World Bank or its Board of Directors.

in 2007. And this is only counting formal transfers. Informal transfers are still prevalent in some economies or between some corridors. If informal transfers are to be accounted in the picture, the total size is likely to be much larger. Some research studies, including some of the BRCA studies, estimate that the volume of informal transfers is as large or larger as that of the formal transfers.

## Why There Are Concerns About Remittances and Wire Transfers?

Remittances and wire transfers are susceptible to money laundering and terrorist financing abuse, just like many other financial products and services are. However, remittances and wire transfers have specific features that are believed to be highly attractive and useful to criminals. For example, clients of remittance service providers are often walk-in customers whose customer due diligence may be difficult to perform. These customers may not possess a valid or reliable identification. It is difficult to develop client profile of walk-in customers. In terms of transactional features, money can be sent instantly across borders in large sums. Electronic payment systems provide an enhanced ability to trace transactions through electronic records, but the increased rapidity and volume of transfers, along with the lack of consistent approach in recording and maintaining key information on such transactions and of transmitting necessary information with the transactions, make it difficult to trace those transactions.

In addition, remittance service businesses were previously not sufficiently regulated, while the wire transfers were often conducted without sufficient information on the transactions, which made it difficult for law enforcement authorities to trace the money. Efforts have been made to address these concerns in many economies. For example, following the introduction of FATF Special Recommendation VII, many economies introduced a requirement that meaningful and accurate originator information should be accompanied when sending a wire transfer. In the remittance service businesses, authorities made effort to bring the sector under the supervision and monitoring of competent authorities as required by the FATF Special Recommendation VI. However, still many gaps remain in the regulatory framework as well as in its enforcement. Despite the requirement to register with or obtain a license from a designated authority, informal operators can be still easily found in some economies. Despite the requirement to develop and implement internal AML/CFT control measures, compliance with the regulatory requirements is still weak. As far as enforcement is concerned, poor knowledge by the authorities in many economies of the industry had the effect of making it more difficult to successfully enforce the regulation.

## FATF Recommendations and Compliance with the Recommendations

While not limited to, the following four recommendations<sup>2</sup> are of particular relevance to remittance and wire transfers:

- Special Recommendation VI: Alternative remittance systems
- Special Recommendation VII: Wire transfers
- Recommendation 5: Customer due diligence
- Special Recommendation IX: Cash couriers.

The Special Recommendation VI is the main recommendation relating to the non-bank remittance services. There are three main elements in the recommendation:

- a. Jurisdictions should require licensing or registration of persons (natural or legal) that provide money/value transfer services, including through informal systems;
- b. Jurisdictions should ensure that money/value transmission services, including informal systems are subject to applicable FATF Forty Recommendations (2003) (in particular, Recommendations 4-11, 13-15 and 21-23) and the Eight Special Recommendations (in particular SR VII); and
- c. Jurisdictions should be able to impose sanctions on money/value transfer services, including informal systems, that operate without a license or registration and that fail to comply with relevant FATF Recommendations.

The Special Recommendation VII relates to wire transfers both cross-border and domestic transfers between financial institutions. Because remittances are wire transfer or funds transfer, this recommendation is also of the direct relevance to remittance transfers. Main elements of the recommendation concerning the cross-border wire transfers are:

- a. Cross-border wire transfers should be accompanied by accurate and meaningful originator information. However, economies may adopt a de minimus threshold (no higher than USD or EUR 1,000).
- b. Information accompanying qualifying cross-border wire transfers must always contain the following:
  - the name of the originator;



- where an account exists, the number of that account, or in the absence of an account, a unique reference number; and
- the address of the originator, or a national identity number, customer identification number, or date and place of birth.

The Recommendation 5 relates to customer due diligence. This recommendation is quite extensive in scope and is one of the most challenging recommendations to implement. The main elements of the recommendation that are relevant to non-bank remittance transfers are identification and verification of the identity of customers by using reliable independent source documents, data or information; identification of the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner; and obtaining information on the purpose and intended nature of the business relationship. It is also important to undertake ongoing due diligence on the business relationship and ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of the funds.

The Special Recommendation IX relates to cross-border cash couriers, namely physical cross-border transportation of currency and bearer negotiable instruments. Economies need to institute either a declaration or a disclosure system. A declaration system requires travelers to declare cross-border transportation of currency or bearer negotiable instruments exceeding the value of a pre-set threshold to designated competent authorities. However, this threshold should not be higher than EUR/USD15,000. A disclosure system requires disclosure by travelers upon request by the designated competent authorities. Economies do not need to use the same type of system for incoming and outgoing cross-border transportation of currency or bearer negotiable instruments.

### To see these FATF recommendations, please see Appendix A

Analysis of the compliance level of jurisdictions against international AML/CFT standards, namely FATF Recommendations indicate that developing economies face enormous challenge in implementing those recommendations. Table 1 below shows the number of economies that fall under each compliance rating (compliant, largely compliant, partially compliant, and non-compliant) with those four recommendations, based on a sample of about 92 economies that consist of both developed and developing economies.

Table 1. Compliance Rating of Selected Recommendations Among Economies Assessed Against 2004 Methodology for the FATF Recommendations

	Compliant	Largely compliant	Partially compliant	Non compliant	Not applicable*	Total
SR VI	9	21	31	30	1	92
SR VII	5	13	29	45	0	92
R 5	0	9	54	28	0	91
SR IX	4	12	34	34	8	92

\*"Not applicable" refers to the number of economies where the particular recommendation was not applicable.

Table 2 presents the data from Table 1 as a rounded percentage. Table 2 also shows the overall compliance level with the FATF 40+9 Recommendations. Compared to the overall compliance level, the compliance level of those four recommendations is much poorer; clearly indicating that implementation of those four recommendations is more challenging. On average, 15% of the 92 economies were rated compliant with 40+9, while only 5% were compliant for SRVI, 0% for R5, 10% for SRVII, and 4% for SRIX.

Table 2. Rating of Compliance with Selected Recommendations (in percentage) Among Economies Assessed Under 2004 Methodology for the FATF Recommendations

	Compliant	Largely compliant	Partially compliant	Non compliant*	Not applicable
Overall compliance for the FATF 40+9	15%	26%	35%	23%	2%
SR VI	5%	14%	32%	49%	0%
SR VII	10%	23%	34%	33%	1%
R 5	0%	10%	59%	31%	0%
SR IX	4%	13%	37%	37%	9%

\*"Not applicable" refers to the number of economies where the particular recommendation was not applicable.

<sup>2</sup> A full set of the FATF recommendations consists of 40 Recommendations as a complete set of counter-measures of anti-money laundering (AML), and 9 Special Recommendations on counting the financing of terrorism.



When divided into developed and developing economies, about 50% of developing economies are non-compliant with those four recommendations. Among the developed economies, two thirds of those recommendations are partially compliant with or non-compliant, meaning that even though those developed economies showed better results than the developing economies, they did not do much better than being only partially compliant. Analyzed from a regional perspective, African economies showed the poorest compliance level, followed by Asia and Pacific regions. The Middle East and North Africa region and the North and South America region rated higher than those previous regions. The Western Europe, followed by the Eastern Europe, exhibited the highest compliance level when compared to the other regions.

Analysis of the common problems identified in the assessment reports for those four recommendations indicate that developing economies tend to either completely lack the necessary measures or have some measures in place but face significant challenges in the implementation thereof. Often, supervision and monitoring of covered institutions is not adequate and authorities lack skills and resources in undertaking the tasks delegated to them. For the developed economies, the challenges were in the detail of implementation, while at times, the report indicated lack of specific measures in the requirements.

## Lessons Learned from Regulating the Remittance Market

When regulating the remittance market, it is important to understand the market characteristics such as structure, players, users (customers), transaction and product features. Even within a single economy, characteristics of remittance market may differ substantially depending on corridors, namely where the money is going and where it is coming from. In addition, it is important to understand the incentives of remittance service providers as well as those of users (customers) because an incentive-compatible framework works much more effectively and efficiently than an incentive-incompatible framework.

Well-regulated market tends to be characterized by a high formality of transactions. Transactions in under-regulated markets typically have little formalities. A well-regulated market does not mean that the stringent regulation is always better. The regulation should be effective and proportionate to risks.

The high formality of transaction can be achieved by encouraging customers to use the remittance service providers that are regulated. But this does not arise just from a regulation. It is also a question of incentives: whether remittance senders and recipients prefer to use those regulated remittance service providers. Customers are motivated to select the remittance channels based on their speed, convenience, availability, security, trust, cost and cultural familiarity, as well as other factors. Thus, although it could be more expensive to send money using a remittance company than a post office, a sender may prefer to pay the higher fee in order to see that the money is sent instantly to a family member and avoid waiting for one or two days. In addition, customers may not always have a choice to resort to regulated service providers simply because the service by a regulated service provider is not available. In that case, migrant workers may ask friends to take money home, or even ask bus or taxi drivers to carry money home across borders for them.


Important lessons can be drawn from the experiences in regulating the remittance market around the world. While jurisdictions should design a regulatory framework that meets the FATF recommendations, they should also make sure that the regulatory framework reflects the local conditions. Ill-designed regulation can be counter-productive. Implementation of the FATF Recommendations does not mean a one-size fits all approach. The FATF Recommendations do provide flexibility while ensuring minimum standards. Thus, economies should take an advantage of this flexibility accorded to them. To stress, it is important that regulations be flexible, effective, and proportionate to the risk and vulnerability of the remittance services offered in the jurisdictions.

## Consultation with the Industry

In designing the regulation, consultation with the remittance service provider is important and should be taken seriously. This will help authorities design a regulatory framework that is feasible and implementable in the domestic environment. It will also provide a stronger buy-in by the industry as they feel that their views have been considered and are taken into account during the regulatory process. Such buy-in will prove to be also important in the later stage. The industry tends to exhibit a better compliance level when it was well consulted.

## Registration or Licensing Regime

The FATF Special Recommendation VI requires jurisdictions to institute either a registration or a licensing regime for remittance service providers. A registration regime usually has a lower barrier since service providers need to report the requested information only at registration. On the other hand, a licensing regime provides authorities to filter service providers and issue license only to those who are fit and found to be proper. Thus the registration regime may better encourage service providers to come forward and register with a competent authority due to



its simpler process. For the authority, the cost of operating the licensing regime will likely be higher than operation the registration regime.

It is also important to consider who should be subject to registration or licensing. Should it only be the principal money transfer companies, or should it also be their agents, or should it be only the principals, provided that they are responsible for their agents? This is an important question to address in designing the registration or licensing regime.

It is interesting to note that many developing economies tend to opt for a licensing regime, while registration regimes are seen more often in the developed economies. This may be explained by the fact that remittances are more important as source of external funding to the developing economies than to the developed economies. Remittances support families in developing economies through, for example, meeting family's daily needs, paying for children's educations, paying for special events such as weddings and funerals, and paying house rents and mortgages. Thus, authorities in developing economies have a stronger interest in protecting the remittance market and ensuring that the remittance channels are not used by criminals. This interest often goes beyond the AML/CFT requirements. Authorities in developing economies are interested in understanding the size of remittance inflows into the economy to collect macroeconomic data to accurately reflect in the balance of payments data. They are also interested in protecting the customers by making the market and the transaction flows transparent (consumer protection). In addition, they are interested in ensuring that service providers are fit and proper and, in some economies, have adequate capital to run business.

In rolling out a registration or a licensing regime, it is important to adequately reach out to the service providers. Regulators who made these efforts tended to see better compliance levels by the regulated entities and individuals.

## **Supervision and Monitoring of the Remittance Service Providers**

With regards to supervision and monitoring of the remittance service providers, a competent authority should be designated. The level of supervision and monitoring should not differ whether the jurisdiction has a registration or a licensing regime. Regardless of the particular regime, there should be adequate supervision and monitoring of the industry.

In this regard, it is critical to identify a suitable agency for undertaking the required tasks. Which agency is best placed to register or issue a license to the service providers? Which agency is best placed to supervise and monitor the service providers? Should one agency be responsible for both registration/licensing and supervision/monitoring? Or should separate agencies designated for respective tasks? These are critical questions because the agency would need to have adequate resources and skills to undertake those tasks. In this regard, the model differs around the world. Developing economies tended to designate a supervision department in the central bank or other supervisory agency as the supervisory authority for the remittance service providers, while developed economies designate a financial intelligence unit or other government agencies, such as a tax authority or customs, if not a financial supervisory authority.

## **Customer Due Diligence Requirement**

The issue of customer due diligence requirement, especially the type of identification documents that service providers should require from clients, is a challenging one. Identification policies that do not meet local conditions will not be effective. For example, when most customers who use the remittance service providers do not have a valid national identification document for whatever reason, an alternative identification document should be required. It is also important to consider whether there is a need to address an identification issue when students (minorities) receive money from parents, or when a economy has a sizable illegal immigrant population who send money home. A requirement that is too stringent may push both service providers and customers underground.

The BRCA studies find that in all the corridors that have been studied to date, an average transaction of migrant workers' remittances is only about a few hundred US dollars, or its equivalent in other currencies. Thus, one way to alleviate that problem is to set a threshold of USD or EUR1,000 (or an equivalent in foreign currencies) for the CDD requirement. In practice, many developing economies have set threshold lower than USD or EUR1,000, or even no de minimus threshold.

## **Clear and Simple Requirements and Guidance**

Above all, requirements should be clear and simple, whether it is about application documents and process, background checks, compliance programs, or other requirements. Also, the authorities should provide clear guidance to the industry as far as compliance requirements go, explaining the relevant laws and regulations.



## Conclusion

An increased flow of funds through formal channels adds to the safety and integrity of the remittance flows and tends to minimize the potential risks of money laundering and terrorist financing. The use of formal channels increases competition, which tends to lower the cost of remittances.

Effective regulation and supervision of the remittance service providers is of utmost importance. Remittance channels should not be exposed to abuse by criminals, and therefore effective counter-measures are required. Designing counter-measures requires careful consideration. Ill-designed AML/CFT measures will be counter-productive and could result in the market going or staying underground. They could also adversely affect the access of the poor to the financial services. Accordingly, it should be the interest and the goal of the policy makers, regulators and supervisors to understand their markets better and design incentive-compatible frameworks which encourage customers to use the formal channels.

## Appendix A: Select FATF Recommendations

Special Recommendation VI

### VI. Alternative remittance

Each jurisdiction should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each jurisdiction should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

Recommendation 5

### Recommendation 5

Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names.

Financial institutions should undertake customer due diligence measures, including identifying and verifying the identity of their customers, when:

- establishing business relations;
- carrying out occasional transactions: (i) above the applicable designated threshold; or (ii) that are wire transfers in the circumstances covered by the Interpretative Note to Special Recommendation VII;
- there is a suspicion of money laundering or terrorist financing; or
- the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data.

The customer due diligence (CDD) measures to be taken are as follows:

- a) Identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information.
- b) Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner such that the financial institution is satisfied that it knows who the beneficial owner is. For legal persons and arrangements this should include financial institutions taking reasonable measures to understand the ownership and control structure of the customer.
- c) Obtaining information on the purpose and intended nature of the business relationship.
- d) Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

Financial institutions should apply each of the CDD measures under (a) to (d) above, but may determine the extent of such measures on a risk sensitive basis depending on the type of customer, business relationship or transaction. The measures that are taken should be consistent with any guidelines issued by competent authorities. For higher risk categories, financial institutions should perform enhanced due diligence. In certain circumstances, where there are low risks, jurisdictions may decide that financial institutions can apply reduced or simplified measures.

Financial institutions should verify the identity of the customer and beneficial owner before or during the course of establishing a business relationship or conducting transactions for occasional customers. jurisdictions may permit financial institutions to complete the verification as soon as reasonably practicable following the establishment of the relationship, where the money laundering risks are effectively managed and where this is essential not to interrupt the normal conduct of business.

Where the financial institution is unable to comply with paragraphs (a) to (c) above, it should not open the account, commence business relations or perform the transaction; or should terminate the business relationship; and should consider making a suspicious transactions report in relation to the customer.

These requirements should apply to all new customers, though financial institutions should also apply this Recommendation to existing customers on the basis of materiality and risk, and should conduct due diligence on such existing relationships at appropriate times.

#### Special Recommendation VII

### **VII. Wire transfers**

Jurisdictions should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Jurisdictions should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

#### Special Recommendation IX

### **IX. Cash couriers**

Jurisdictions should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including a declaration system or other disclosure obligation.

Jurisdictions should ensure that their competent authorities have the legal authority to stop or restrain currency or bearer negotiable instruments that are suspected to be related to terrorist financing or money laundering, or that are falsely declared or disclosed.

Jurisdictions should ensure that effective, proportionate and dissuasive sanctions are available to deal with persons who make false declaration(s) or disclosure(s). In cases where the currency or bearer negotiable instruments are related to terrorist financing or money laundering, economies should also adopt measures, including legislative ones consistent with Recommendation 3 and Special Recommendation III, which would enable the confiscation of such currency or instruments.

# Money and Value Services and Wire Transfer: Economic Impact, Regulation and Compliance With International Standards

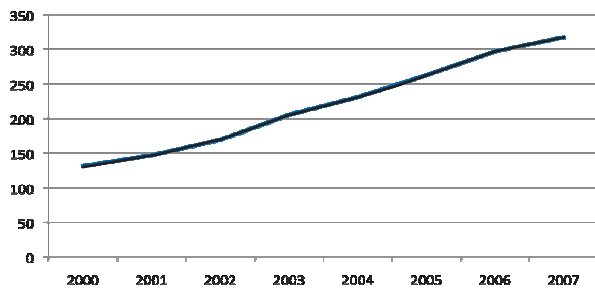
Presented by:

**Emiko Todoroki**

Financial Sector Specialist

Financial Market Integrity - World Bank

The Amount of Remittances is Vast and growing  
Global Inward remittance flow in US\$ Billions



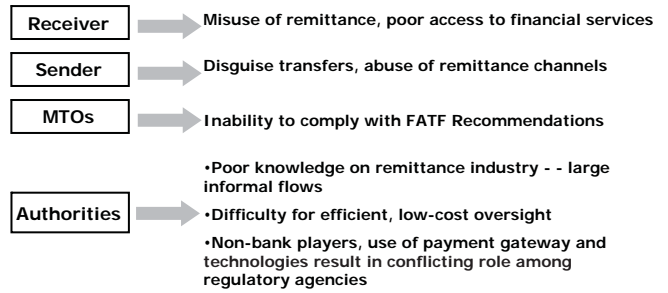
Remittance Corridors vary in formality, size and marked features

Corridor	Degree of Formality	Volume (US\$)	Average remittance (US\$)	Main mechanisms
Canada-Jamaica	High	136 mn	CAD 195 (median)	Electronic Transfers
Canada-Haiti	Medium-High	65-80 mn	CAD 200 (median)	Electronic Transfers Informal channels
US - Mexico	High	16.6 bn	\$367	Electronic transfers (90%)
Canada - Vietnam	Low	N/A	Temp. workers: \$200-350 <i>Viet Kieu</i> : \$1,000	Electronic transfers Informal channels
US - Guatemala	High	3.0 bn	\$280-350	Electronic transfers Money Orders
UK - Nigeria	Low	500 mn	\$350-400	Cash courier
Germany - Serbia	Medium	2.4 bn	\$380	Cash courier (60%) Electronic transfers (40%)
Qatar - Nepal	High	N/A	\$ 250-300	Electronic Transfers
Italy - Albania	Low	310 mn	N.A.	Physical transportation of cash (60%)

Remittance Corridors vary in formality, size and marked features

Corridor	Degree of Formality	Volume (Euro)	Media value remittance (Euro)	Main mechanisms
Germany - Turkey	High	879 mn	315	Electronic transfers (95%)
Spain - Morocco	Low	392 mn	N/A	- Informal channels
France - Tunisia	Medium	558 mn	250-500	Electronic transfers Informal channels
France - Algeria	Low	282 mn	N/A	Informal channels
Italy - Egypt	Medium	137 mn	N/A	Cash courier (60%) Electronic transfers (50%)
Germany - Lebanon	Low / Medium	16 mn	N/A	Electronic Transfers - Informal channels
Germany - Jordan	Low	3 mn	N/A	informal channels (100 - 200%)

Why the concern with remittances?

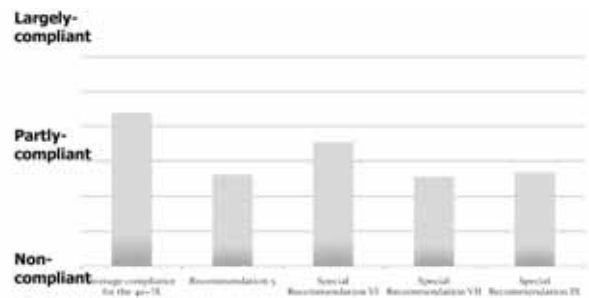


4 FATF recommendations are of particular importance concerning remittance

- R. 5: Customer due diligence
- SR. VI AML requirements for money/value transfer services
- SR. VII Wire transfer rules
- SR. IX Cash couriers

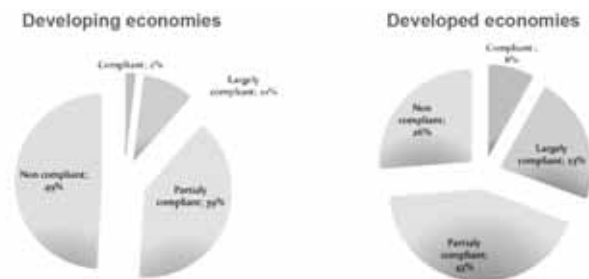
Compliance of these recommendations are lower than average ( sample of about 90 economies)

Compliant level the FATF recommendations



Level of compliance : developing v.s. developed economies

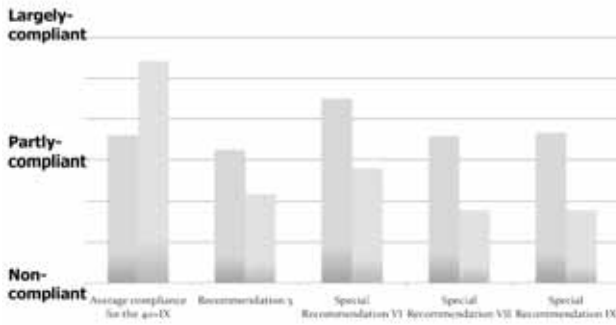
Compliance level of the four Recommendation strongly linked to remittance



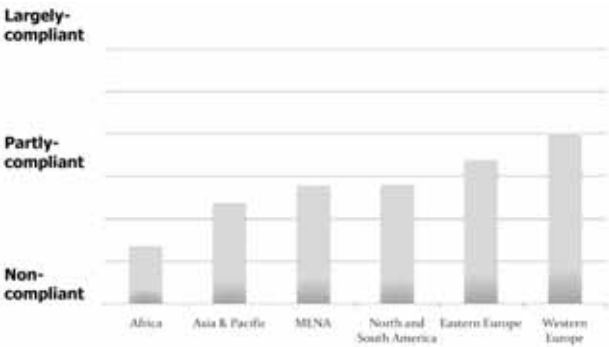
- About 50 % of developing economies are non-compliant
- Still under 1/3 of the recommendations are compliant or largely compliant in developed economies



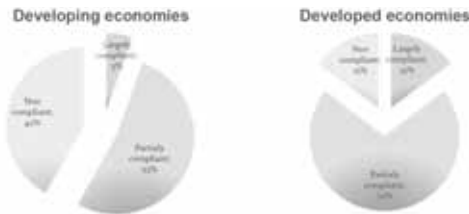
## Developed v.s. Developing economies



## Varying levels of compliance among Regions on these 4 Recs



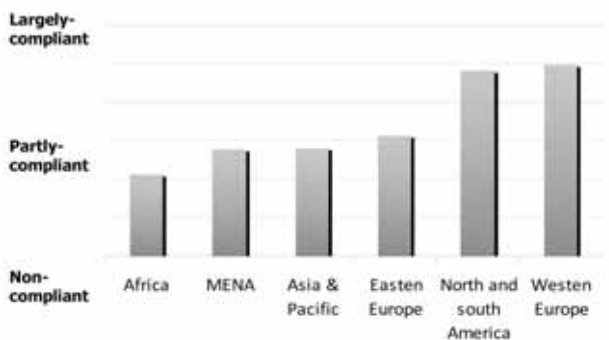
## R 5 : Customer due diligence



Common problems with R. 5 among developed and developing economies :

Developing economies	Developed economies
<ul style="list-style-type: none"> <li>No requirement of verification/or source of verification inadequate</li> <li>No CCD regulation in the non bank financial sector</li> </ul>	<ul style="list-style-type: none"> <li>Lack of requirements of ongoing CCD</li> <li>Less effective implementation of R. 5 among the money Service Businesses than banks</li> <li>Customer identification for occasional transactions limited</li> </ul>

## Varying levels of compliance with SR VI among Regions



## SR VI: AML requirements for money/value transfer services and SR VII : Wire transfer rules

Common problems with SR. VI & VII among developed and developing economies :

	Developing economies	Developed economies
SR. VI	<ul style="list-style-type: none"> <li>Absence of registration/licensing/ of all natural and legal persons providing money or value transfer services</li> <li>Presence informal money or value transfer services Supervision suffer from weaknesses</li> </ul>	<ul style="list-style-type: none"> <li>There is insufficient or no system for monitoring remittance services and ensuring they comply with the FATF Recommendations</li> <li>The scope of inspection policies and procedures and practice are not sufficient.</li> </ul>
SR. VII	<ul style="list-style-type: none"> <li>No existing/comprehensive law, regulation or other enforcement means regulating wire transfers</li> </ul>	<ul style="list-style-type: none"> <li>Inadequate implantation of requirements regarding obtaining and maintaining information with wire transfers.</li> <li>Absence of requirements to ensure that complete originator can be identified</li> </ul>

## Lowest compliance with SR IX; Cross border declaration & disclosure

Common problems with SR C IX among developed and developing economies :

Developing economies	Developed economies
<ul style="list-style-type: none"> <li>No/insufficient authority to stop or restrain currency or bearer negotiable instruments where there is suspicion of TF</li> </ul>	<ul style="list-style-type: none"> <li>The legal framework requiring the declaration of cross border transportation of cash or negotiable instruments is only applicable to travelers to some countries</li> <li>Country systems are very recent so its effectiveness and implementation across all agencies cannot yet be fully assessed</li> </ul>

## Remittance Framework to Meet International Standards

Issues to be addressed

- Regulations that are flexible, effective and proportionate to risks/vulnerability
- Regulations that are simple to implement, effective, has buy-in of all stakeholders
- Regulatory oversight on MTOs with regards to AML/ CFT requirements
- Identification (CDD, KYC) policies that do not meet the local conditions, thus flexible (and innovative) customer identification
- Record-keeping, reporting requirements
- Regulatory oversight on MTOs for consumer protection, promote access to financial services and leverage on remittance to increase incomes.
- Financial systems infrastructure that supports remittance flows
- Consumer education

Remittance and regulation policies are evolving → dynamic changes, such as mobile banking



## Some Lessons on Regulatory Approach

- Implications and tensions
  - **Registration** - raises few barriers and may encourage participation; requires resources for monitoring
  - **Licensing** - filters providers and may discourage participation; protects integrity and soundness
- Possible to alleviate tensions by conducting risk-based analysis on the potential for misuse of remittance systems
- Remittance providers should be consulted before regulations and requirements are introduced
- Requirements to be clear and simple
  - for application process, background checks, on- and off-site monitoring, and compliance programs
  - annual renewal to facilitate close contacts
- To be proportionate, prudential requirements seem unnecessary

Thank You

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# SESSION II

*Money and Value Services & Wire Transfer : Practical Issues  
on Domestic Regulatory/Supervisory and Real Sector*

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*Speaker 1 Mr. Puji Atmoko*

*Speaker 2 Mr. Dipo Alam*



*Speaker 1 Mr. Puji Atmoko*



*Speaker 2 Mr. Dipo Alam*





## Establishing Supervisory Control over Money Remittances

*Puji Atmoko*, Executive Analyst, Bank Indonesia,

The event of 11 September 2001 had triggered international communities to demand authorities in developing economies to formulate clearer and stricter regulations on money remittances, especially on ones conducted by non-bank remittance service provider (RSPs). This demands, among others, come from BIS and World Bank (through their general principles for international remittance services) and FATF (through their special recommendations). On top of that, Indonesia also received suggestions/recommendations to ratify convention on suppression of terrorist bombings and to have remittance regulation that complies with anti money laundering principles.

Money remittance basically is a funds transfer activity. In this regard, Bank Indonesia as the authority of payment system in Indonesia has concern on several aspects, namely system reliability, prudential, payment system (licensing and reporting requirement, and oversight), and consumer protection. The urgency to enact regulation on money remittance also comes from the fact that Indonesia was yet to have a specific regulation on that issue (where in the other hand, there were numerous RSPs already conducting their business), the needs of Bank Indonesia to have a more accurate data in balance of payment, and as a measure to anticipate the enactment of Funds Transfer Act.

With the above considerations/backgrounds and after conducting survey on remittance activities, Bank Indonesia issued regulations on money remittances at the end of 2006. Under these regulations, remittance activities may be conducted by banks and non-bank entities. Furthermore, using FATF recommendations and benchmarking result from other economies as references, money remittance may be conducted by individuals, as the regulations aim to capture all parties involved. To make it more effective (and attractive to existing RSPs), from 2007-2008 Bank Indonesia employs registration mechanism in recording RSPs' data, whereas from 2009 onwards, Bank Indonesia will use licensing mechanism. The difference between the two mechanism lies in the requirements, licensing shall be more stringent. This approach was taken as an effort to maximize the shifting process from informal to formal RSPs, as recommended by FATF. Another step taken to achieve similar goal was the utilization of all Bank Indonesia's regional offices in the registration process. This will enable RSPs from any part of Indonesia to register their activity easily. Once Bank Indonesia acquires data of RSPs, Bank Indonesia may start to educate and oversee parties involved in remittance activities more effectively. Apart from taking rules as regulator and overseer, Bank Indonesia also act as facilitator/catalyst, especially in enabling RSPs to communicate and share news/information using existing RSPs association.

With the commencement of licensing phase from 1 January 2009, it is expected that Bank Indonesia will be able to conduct oversight more effectively. RSPs will be required to file reports to Bank Indonesia and they may incur penalties/fines should the fail to submit such reports. In term of requirements, as mentioned above, licensing will impose relatively stricter requirements compared to registration. At the same time, licensing phase will inflict more detailed requirements related to Know Your Customer and Anti Money Laundering principles, and more reports.

Once the Funds Transfer Act is enacted, the legal basis of RSPs will become stronger because the Act will require all parties acting as RSPs to be licensed by Bank Indonesia, and failure to meet this requirement may cause such party to be criminally-sentenced. The enactment of Funds Transfer Act may improve oversight on money remittances, as such activities have become public domain.

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<sup>1</sup> By Puji Atmoko, Executive Analyst, Bank Indonesia, APEC Seminar on Securing Remittance and Cross Border Payment from Terrorist Use, Sahid Jaya Hotel, 22-23 October 2008

# Establishing Supervisory Control Over Money and Value Services and Wire Transfer

Presented by:

**Puji Atmoko**

Executive Analyst

Directorate of Accounting and Payment System  
Bank Indonesia

## Agenda

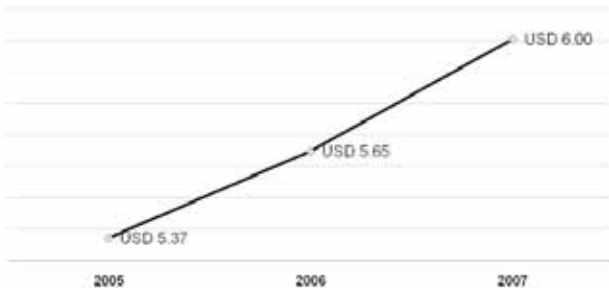
- Setting Up Regulation and Guidelines
- Supervisory Actions
- Obstacles and Challenges

## Setting Up Regulation and Guidelines

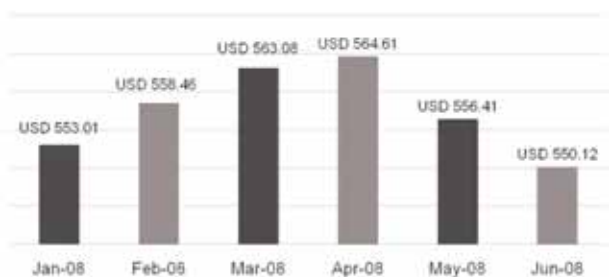
Why remittances should be regulated?

- The integration of international economy with the global financial market has simplify the cross border money transfer.
- The cross border transfer of money used by economical subject in the world, including the migrant worker, known as remittance.
- The indicator: the flow of transactions of cross border remittances from year to year has been increased, both in volume and amount of transactions.

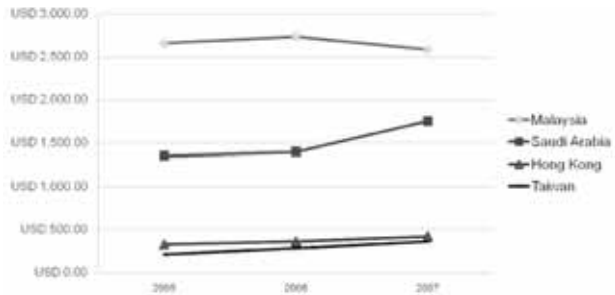
## Indonesia Inflow Worker's Remittances (in Billion USD)



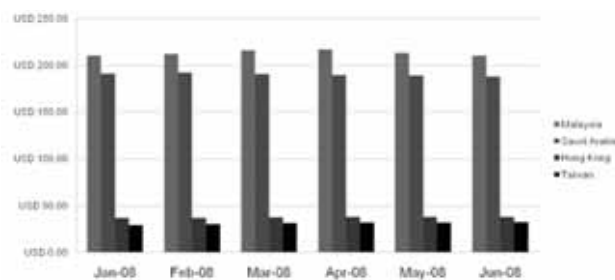
## Indonesia Inflow Worker's Remittances (in Billion USD)



## Indonesia Inflow Worker's Remittances (in Billion USD)



## Indonesia Inflow Worker's Remittances (in Billion USD)



## Why Bank Indonesia has to regulate?

- Article 8 and Article 15 Bank Indonesia Act.
- Anticipating the enactment of Fund Transfer Act.
- Potential value of money remittance and accuracy of money remittance's data in the authority.
- Shifting from informal to formal money remitters (compliance of 40's FATF Recommendations and Special Recommendations VI).
- Mapping of money remitters existence and money remittance's activities.
- Complying 5 general principles for international remittance services (BIS and World Bank).

## Roles of Bank Indonesia

- Regulator
- Catalyst/Facilitator
- Overseer

## What are the coverage of Money Remittance Regulation?

Payment System Aspect

A. Money remitters

- Individual;
- Legal Entity (including Bank); and
- Business Entity.

B. Registration and License

Registration → effective until 31 December 2008 (transition period)

License → as of 1 January 2009

2. Prudential Regulation Aspect

A. Risk Management



- Separation between transferred money and private asset
- Guarantee that beneficiary will obtain the money in specified time
- Implementation of AML

#### B. Money Remitters' Obligation

- To record transactions;
- To submit periodical, incidental and suspicious transactions reports;
- To implement anti monopoly principles

#### 3. Consumer's Protection Aspect

- Clear Information to Customers
- Transparency in conducting activities

Oversight of remitters by Bank Indonesia is focussed in 3 (three) main activities, which are:

- Monitoring
- Assesment
- Inducing change

### Obstacles and Challenges

- Disseminating BI's regulation.
- Coordination among different authorities.
- Requiring that Money Transfer Operator (i.e. Western Union, MoneyGram, etc) can only cooperate with registered (formal) remitters.
- Involving more rural banks.
- Persuading players to register their business
- To speed up the process of enacting the Fund Transfer Act, thus remittance activity has a stronger legal basis and it is possible to impose sanction to unregistered/illegal players.
- Developing remittances association.
- Ensuring the safety of remittance business by placing fund as a guarantee.

**Thank you**

Puji Atmoko:  
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## The Importance of Securing Our Migrant Workers' Remittances

by

**DR. Dipo Alam**, Secretary General of D-8 Organization for Economic Cooperation, Istanbul, Turkey  
and Founder of Center for Microfinance and Indonesian Overseas Workers Studies (CEMFIOWS), Jakarta,  
Indonesia

### I. Background

Ahmed Vaizu, who lives in the western Swedish city of Gothenburg, was unable to complete a bank transaction because he has an Islamic name. Vaizu went online to transfer money from his bank account in order to purchase \$300 in spare parts from Germany. When Vaizu wrote his name on the Internet form, Skandia Bank gave a rejection alert. When he called his bank to inquire about the rejection, he was told there are blocks on names that sound Muslim and that Ahmed is on the blocked names list, so his international transaction was automatically blocked. Speaking to the Svenska Dagbladet daily, Vaizu said, "I thought this sort of thing would only happen in economies that were afraid of terror, not my Swedish bank." Vaizu was able to complete his transaction after he removed the name Ahmed from the online form. After the incident, Vaizu contacted the economy's ethnic discrimination ombudsman. "I have spent half my life in Sweden. I work as an electrician. I live like a normal Swede. I have never felt this discriminated against," he said. Lina H ok, Skandia Bank's information chief, said: "The bank just follows the EU validation list. We have to follow the same rules as other banks." H ok expressed satisfaction with Vaizu's decision to report the bank to the ombudsman. "We will be able to understand our limits better. It will be good for the ombudsman to give us concrete directives," she added.

Now, the question is, if this is the case with migrant workers' remittances, how many thousands of Ahmeds, if not millions, from developing economies face the same unfortunate and discriminative treatment when working overseas?

### II. The Challenges: Are MWs' remittances vulnerable to misuse for financing terrorism?

Part of the suspicion towards MWs' remittances comes from the fact that an "estimated" 50 percent of the world's remittance flows move through the IVTS. A significant portion of MWs in many nations are undocumented, so they have little or no access to the formal banking sector. As a result they can only use informal remitters to send their money because these do not require identification documents and both the remitters and the receivers are unregistered. This system has the potential to be misused for money laundering or financing terrorism.

However, some reports show that terrorism is not financed only through the IVTS, but also through the FVTS. For example, the estimated costs of the Sept. 11 attack on the World Trade Center and the Pentagon was about \$300,000-500,000, the US Embassy bombing in Kenya about \$50,000, the Bali night club bombing \$50,000, the JW Marriott hotel bombing in Jakarta \$30,000 and the Istanbul truck bombings \$ 40,000. Terrorists used the FVTS to send the money which financed these operations. An example of terrorism funded using the IVTS is the Madrid train bombing, which cost about \$10,000.

The amount and the situation of financing terrorism become more complex if we consider, for example, suicide bombers in Iraq, Afghanistan and Pakistan. The costs are believed to be much less, and the attacks may even be "without cost" since many of us do not really understand the motivation behind terrorism and suicide bombing.

In addition, knowledge about the IVTS and the extent to which it is misused for illegal purposes -- including money laundering and financing terrorism -- is still limited. Therefore, cooperation among international organizations, governments, companies and NGOs is urgently needed in order to adequately protect MWs' remittances from the possibility of being used to fund terrorism as well as in encouraging companies and governments to apply "exaggerated suspicious regulations" discriminatively.

The responsibility to secure MWs' remittances falls not only on the economies supplying MWs, but also on the economies hosting MWs, particularly economies that have received the "windfall" of high oil prices lately, such as the Gulf Cooperation Economies (GCC). The economies with the highest density of migrants as a percentage of the population around the world are Qatar (78 percent), the United Arab Emirates (71 percent), Kuwait (62 percent), Bahrain (41 percent), Saudi Arabia (26 percent) and Oman (24 percent).

Banks and money transfer companies, such as Western Union, MoneyGram, Well Fargo, etc., should also play their role by enacting corporate social responsibility programs which secure MWs' remittances by reducing the cost of sending, improving the transfer system and providing credit, as well as engaging in capacity building and educating MWs and their families so that they will be encouraged to shift sending their remittances via the FVTS instead of the IVTS.



### III. Why MWs prefer the informal value transfer system?

The World Bank reported that last year, 2007, remittances sent by migrant workers (MWs) to developing economies were \$251 billion, out of world total of \$337 billion in remittances. MWs' remittances increased 11 percent over last year and 118 percent compared to five years ago in 2002. Indonesia received \$6 billion in formal registered remittances, Pakistan \$6.1 billion, Bangladesh \$ 6.4 billion, Egypt \$5 billion, Nigeria \$3.3 billion, Malaysia \$1.7 billion, Iran \$1.1 billion and Turkey \$1.1 billion. These are economies many of whose MWs have names like Ahmed or other Muslim-sounding names. Some studies estimate that remittances sent using the informal value transfer system (IVTS) may be equal to or at least 50 percent of total registered remittances.

Furthermore, the essential question that will be addressed is why do MWs from many developing economies still prefer to send their remittances through the IVTS instead of through the Formal Value Transfer System (FVTS), such as banks and money transfer companies? To answer this question, first of all, we should pay attention to difference between formal and informal remittances. Following Niko Passas 2005, there are several points for our analysis (see table 1 below).

**Table 1. Formal Remitters Vs. Informal Remitters**

Differences	Formal Remitters	Informal Remitters
Price Charged	10-20%	0-1,5%
Area of service	Service to main cities	Service to remote areas
Record-keeping	Receipt to sender	No receipt to sender
Receipts	Detailed records kept	Minimal/no records
Reporting duties	CTR, SAR, etc filed	No reporting to authority
Method of collection and delivery	Collection and delivery at agency premises	At home pick up and delivery service
Speed	Transfer in days/weeks	Transfer in hours
Specialization v. Mixed business	Orders sent to area serviced	Order sent via UK, UAE, or Mumbai
ID of recipient	Agency specialized in money services	IVTS mixed with other business
Method of communicating instructions for delivery	Recipient present ID	Recipient cities code
Method of advertising	Instructions by wire	Instructions by fax, telephone, e-mail
Settlement process	Conventional adverts	Word of mouth or ethnic press

From this table, we can see that informal remittance give more advantages than formal remittance, such as more effective in time, more cheaper in price charged and not too bureaucratic. Here some points from this table:

- The IVTS is cost effective. IVTS brokers take a small commission and usually offer exchange rates that are more advantageous than official rates because they have low overhead.
- The IVTS is relatively "safe," especially in receiver economies where political insecurity exists and those which have limited banking and money transfer resources in their villages.
- The IVTS is efficient. The service offers quick deliveries, almost in real time. The deliveries are made same day, and in certain cases "door-to-door service" is available.
- The IVTS is considered reliable. It is based on trust, and there are no reported instances of customers being cheated. A breach of trust would keep customers away.
- The IVTS is flexible and is not bureaucratic. Legal and illegal (undocumented) MWs are not required to fill out application forms, as required by formal banking procedures. It is anonymous, there are no records, there is no need for adequate identification and it doesn't leave a paper trail.
- IVTS operators apply not only Know Your Customer (KYC) policies, but are also culturally friendly, making this system particularly convenient and easy to use. For example, IVTS brokers with the last name "Al-Banjari" in Saudi Arabia or those who have a Banjar ethnic background are convenient for Indonesian MWs coming from the Banjar areas of Kalimantan. The same is true of "Al-Falimbang" for those from Palembang in South Sumatra.



#### IV. The Importance of Migrant Workers' Remittances for Developing Economies

From many studies, they found that there are several points why migrant workers' remittances are important for developing economies:

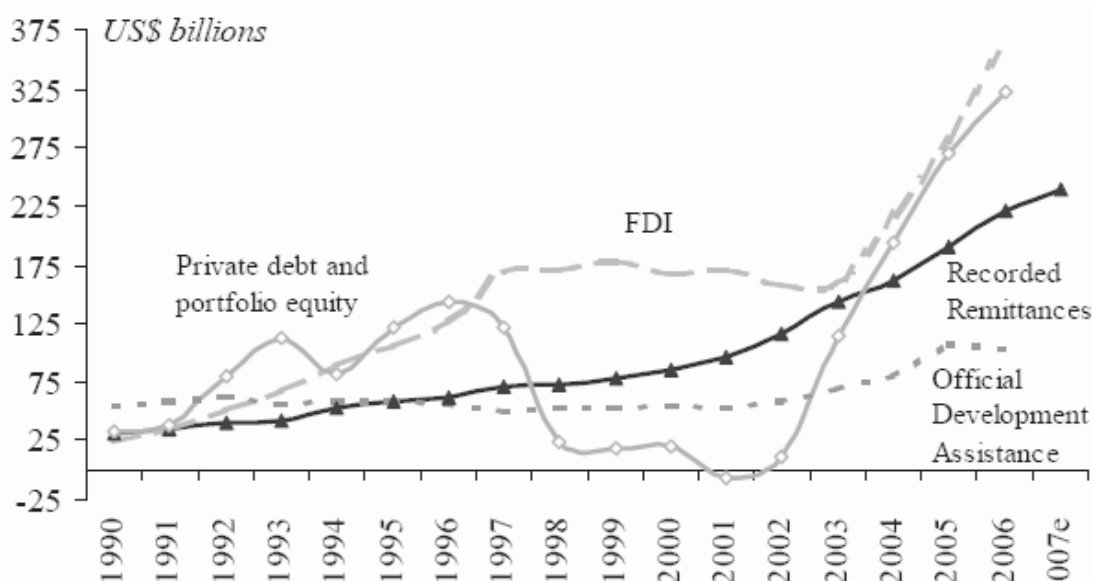
- Macroeconomic effects;
- Evidence from a few household surveys shows that remittances reduce poverty;
- Remittances also finance education and health expenditures,
- Ease credit constraints on small businesses;
- The Transmission of Technology and Knowledge;
- Provide employment based on labor market in the world (e.g. high demand in GCC economies);
- Profitable business for banks and money transfer companies.

The World Bank reported that remittance flows (inflow and outflow) to developing economies between 2002 and 2007 have significant movement, up to 118%. This movement is the biggest one from the other (see Table 2 below)

**Table 2. Remittance Flows to developing Economies.**

Remittance Flows to developing Economies, 2002-2007 (\$ billion)								
<b>INFLOWS</b>	2002	2003	2004	2005	2006	2007	Change 2006-2007	Change 2002-2007
<b>Developing Economies</b>	116	143	163	194	226	251	11%	118%
<b>East Asia &amp; Pacific</b>	29	35	39	47	53	59	11%	100%
<b>Europe &amp; Central Asia</b>	14	16	23	32	39	47	22%	246%
<b>Latin America &amp; Caribbean</b>	28	35	42	48	57	61	6%	117%
<b>Middle East &amp; North Africa</b>	15	20	23	24	27	29	8%	89%
<b>South Asia</b>	24	30	29	33	40	44	11%	82%
<b>Sub Sahara Africa</b>	6	6	8	10	11	12	7%	132%
<b>Low-Income Economies</b>	15	17	20	24	29	33	15%	118%
<b>Middle-Income Economies</b>	100	127	143	169	197	218	11%	118%
<b>Lower MICs</b>	71	89	95	110	127	140	10%	99%
<b>Upper MICs</b>	30	38	48	60	70	78	11%	162%
<b>High Income OECD</b>	53	61	67	68	72	81	12%	54%
<b>High Income non-OECD</b>	1	2	3	4	4	5	7%	304%
<b>World</b>	170	206	234	266	303	337	11%	99%
<b>OUTFLOWS</b>	2002	2003	2004	2005	2006	2007	Change 2006-2007	Change 2002-2007
<b>All developing Economies</b>	19	22	30	34	42	52	23%	177%
<b>High Income OECD</b>	89	101	115	126	141	159	13%	78%
<b>High Income non-OECD</b>	24	23	22	24	27	28	2%	17%
<b>World</b>	131	147	167	184	210	238	13%	81%

Another fact that why migrant workers' remittances important for developing economies is their role to play capital investment for macroeconomic growth. The World Bank stated that from 1990 to 2007, trend of remittances is always goes up, even though quite slowly movement from the beginning years. Private debt and portfolio equity, Foreign Domestic Investment (FDI), and Official Development Assistance have fluctuations in their movement during this period (see Figure 1 below).

**Figure 1. Remittances and capital flows to developing economies**

Sources: *Global Economic Prospects 2006: Economic Implications of Remittances and Migration* (World Bank), *World Development Indicators 2007*, and *Global Development Finance 2007*.

For APEC and D-8 Organization, the remittances grow up every year since 2002. The most significant movement of remittances flow (inward) for APEC members came from Philippines, that stated have 13% share of GDP in 2006 and followed by Vietnam, 7.9% share of GDP in the same year (see 3 below).

**Table 3. APEC Remittances Statistics.**

APEC Remittances Statistics , Top Five ( 2002 – 2007e, US \$ billion)								
No. Member Economies	Remittances Flows	2002	2003	2004	2005	2006	2007	Notes
1. China	Inward	13,012	17,815	19,014	20,337	23,319*	25,703*	0.9 % of GDP in 2006
	Outward	1,223	1,645	2,067	2,602	3,025**	..	** 0.1% of GDP in 2006
2. Mexico	Inward	11,029	14,911	18,143	21,917	24,732*	25,000*	2.9% of GDP in 2006
	Outward	..	..	..	..	..	..	
3. Philippines	Inward	9,735	10,243	11,471	13,566	15,250*	17,000*	13.0% of GDP in 2006
	Outward	58	18	17	15	20**	..	** 0.02% of GDP in 2006
4. Indonesia	Inward	1,259	1,489	1,866	5,419	5,722*	6,000*	* 1.6% of GDP in 2006
	Outward	..	..	913	1,178	1,359**	..	** 0.4% of GDP in 2006
5. Vietnam	Inward	2,714	2,700	3,200	4,000	4,800	5,000	* 7.9% of GDP in 2006
	Outward	..	..	..	..	..	..	

On the other side, the most significant movement for remittances (inward) came from Bangladesh which is stated 8.8% share of GDP in 2006 and then followed by Egypt, 5.5 share of GDP in the same year (see table 4 below).

Table 4. D-8 Remittances Statistics.

D – 8 Remittances Statistics ( 2002 – 2007e, US \$ billion)							
No. Member Economies	Remittances Flows	2002	2003	2004	2005	2006	2007e Notes
1. Bangladesh	Inward	2,858	3,192	3,584	4,314	5,428*	6,400 * 8.8% of GDP in 2006
	Outward	6	7	8	6	3**	.. ** 0.005% of GDP in 2006
2. Egypt	Inward	2,893	2,961	3,341	5,017	5,330*	5,865 * 5% of GDP in 2006
	Outward	14	79	13	57	135**	.. ** 0.1% of GDP in 2006
3. Indonesia	Inward	1,259	1,489	1,866	5,419	5,722*	6,000 * 1.6% of GDP in 2006
	Outward	..	..	913	1,178	1,359**	.. ** 0.4% of GDP in 2006
4. Iran	Inward	851	1,178	1,032	1,032	1,032*	1,115 * 0.5% of GDP in 2006
	Outward	..	..	..	..	..	..
5. Malaysia	Inward	959	987	1,128	1,281	1,535*	1,700 * 1.0% of GDP in 2006
	Outward	3,826	3,464	4,991	5,679	5,560**	.. **3.7% of GDP in 2006
6. Nigeria	Inward	1,209	1,063	2,273	3,329	3,329*	3,329 *2.9% of GDP in 2006
	Outward	1	12	21	18	18**	.. **0.02% of GDP in 2006
7. Pakistan	Inward	3,554	3,964	3,945	4,280	5,121*	6,100 * 4.0% of GDP in 2006
	Outward	2	5	10	3	2**	.. ** 0.002% of GDP in 2006
8. Turkey	Inward	1,936	729	804	851	1,111*	1,200 * 0.3% of GDP in 2006
	Outward	..	..	..	96	107**	.. ** 0.03% of GDP in 2006

As we can see from all these statistics, we may briefly make conclusion that role of remittances to macroeconomic growth is significant. This role reflects on how remittances are uses and what benefit form remittances to migrant worker and their families. Some points have addressed below (see table 5).

Table 5. The Benefit and the Use of Remittances.

The Benefit Of Remittances	The Use of Remittances
The contribution of remittances relatively more important where there are no or only very limited public transfers	Daily needs and expenses – typically labeled as consumption or as improving the standard of living
Remittance receiving households tend to be better off (e.g. have higher average incomes and asset bases) than households that do not receive remittances	Medical/health care expenses or education – grouped together with the above when seen as improving the standard of living
Transfers tend to flow from relatively richer to relatively poorer households	Consumer durable (stereos, televisions, washing machines, etc.)
Receiving households in less developed regions will spend a higher proportion on daily expenses or consumption than households in more developed regions	Improving or building housing, of buying land or livestock
the growing income equality migrant remittances, such as price increases for land	Investment in social-cultural life (birth, wedding, death)
Remittances also finance lending.	Saving
Remittances can encourage micro and small business investment	Loan repayments (often loans to pay for cost of migrations)
Improved standard of living and educational opportunities for the receiving household	Income or employment generating activities



In addition, remittance is also a profitable business for banking and money transfer companies. For examples:

- The Government of Bangladesh has announced the creation of a “challenge fund” that will provide grants to banks and money transfer companies to finance the cost of implementing innovative initiatives for improving the delivery of remittances and other financial services to rural and underserved parts of the economy.
- Mustafa Sultan Exchange Co., one of the leading exchange houses in Oman, announced a new partnership with BRAC Bank Limited to provide remittance services to Bangladesh.
- The Philippines’ Central Bank (BSP) expects that Filipino banks’ share of remittances transferred will reach 11 percent this year.
- In the second quarter of 2008, Western Union’s revenue increased by 12 percent year-on-year, totaling \$1.35 billion. International transfers experienced a 19 percent growth in revenue and constituted 68 percent of the company’s total revenue.
- In the first quarter of 2008, Euronet Worldwide reported a revenue of \$247.1 million, largely the result of its 2007 acquisition of MTO RIA Envia. In the first quarter, RIA processed 3.8 million transfers, a 10 percent year-on-year increase, generating \$52.3 million in revenue (18 percent year-on-year increase) for the company. This reflected a growth of 60 percent in transactions not originating in the United States and a 9 percent decline in transfers to Mexico. Expanding its network, Euronet signed new contracts in 16 economies to acquire 400 money transfer distribution locations.
- In the first quarter of 2008, MoneyGram experienced a 30 percent year-on-year growth in transactions; transfers originating in the United States grew by 22 percent. Furthermore, transfers originating internationally or outside of North America grew 30 percent and those going to Mexico grew 4 percent. The latter transfers constituted 8 percent of total transactions in the first quarter. MoneyGram added 152,000 locations and extended its agreements with Wal-Mart and ACE Cash Express. It also finalized the implementation of three new services in the United States.

Furthermore, some banks and money transfer companies could apply securitization for its benefits, such as:

- Less expensive, more broadly available credit. The existence of a liquid secondary market for home mortgages increase the availability of capital to new home loans
- More options for investors. There are diversification of assets and loans that provide different types of risks.
- Flexibility for the originator. Without securitization, a bank making home loan usually would hold that loan on its books, recognizing revenue as payments are made over time.

## **V. How We Need To Shift the Migrant Workers’ Remittances from IVTS to FVTS (from non-registered to registered remittances)?**

One essential question to be addressed in here is how to shift remittances flow from informal to formal transfers. First, the cost of sending the remittances should be reduced significantly. According to Dilip Ratha (World Bank), there are several recommendations to reduce the cost of remittances:

1. Recognize remittance as a self-standing industry different from banking and thus broaden of players in most corridors.
2. Harmonize regulations governing remittances for all remittance providers like, for all senders and receivers within a economy.
3. Improve remittance channels and Bureaucracy.
4. Improve customer awareness.
5. Know Your Customer (KYC).
6. Manage Time and Cost of Delivery.

Furthermore, D-8 is also having planned to reduce cost of remittance by:

1. Know Your Customer (KYC) and cultural friendly by FVTS.
2. Involve more governments ( both supplying and hosting economies) social responsibility and corporate social responsibility (CSR) program to improve migrant workers’ remittance system from IVTS to FVTS and/or properly regulated IVTS.
3. Provide capacity building and training for migrant workers’ knowledge on financial system.
4. Provide micro/small credits for the migrant workers and their families (remittance recipient) that matched with their sending remittance.

## **VI. Our Responsibility to Secure Migrant Workers’ Remittances from Money Laundering (ML) & Terrorist Financing (FT)**

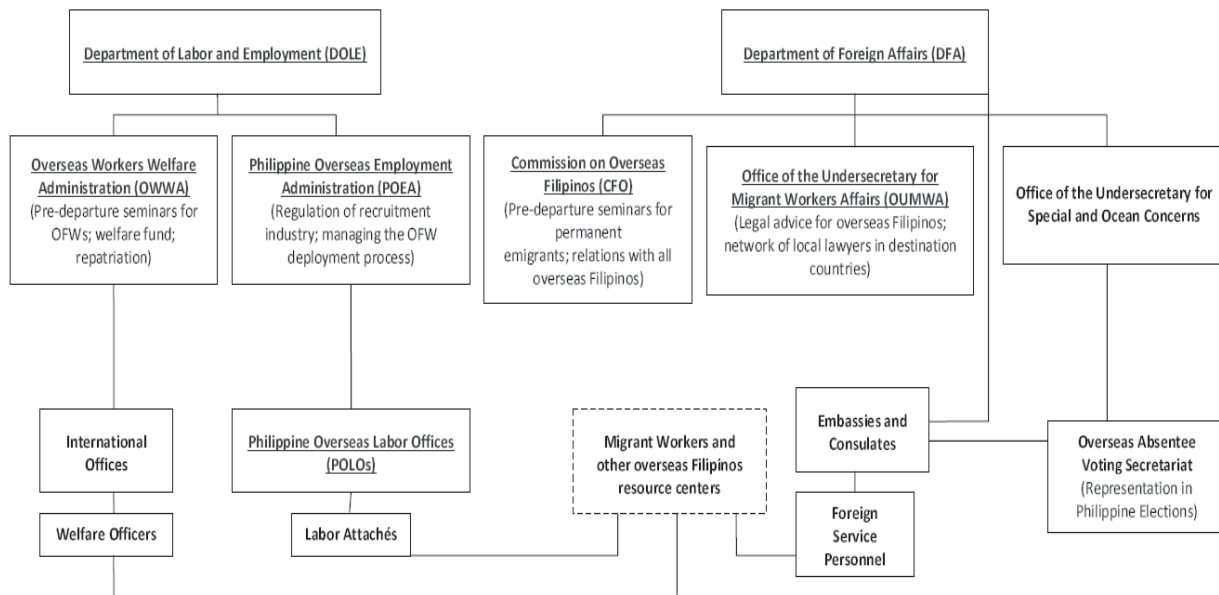
Generally, there is always market failure in economy. No matter how perfect the market system is. This market failure maybe comes from asymmetric information, role of government or private sectors, etc. Whenever and wherever the private sectors, including NGOs, under-invest to protect the business and the importance of remittances from the possibility of misuse (ML/FT), then the governments and international organizations should invest for the improvement of remittances systems and their policy, program project instruments.



There are two analyses to encourage our responsibility to Secure Migrant Workers' Remittances:

1. Responsibility of Migrant Workers' Supplying Economies: Learning from Philippines' Experience.
  - a. Recording private recruitment agencies in their respective economies
  - b. Hold pre-departure seminars to brief migrating temporary workers
  - c. Protect migrant workers abroad through a migrant welfare fund, managed by the economy of origin government
  - d. Develop a recording mechanism to identify emigrants
  - e. Promote competition in the remittances industry

**Figure 2. Philippine Government Institutions Managing Migration**



Sources: Department of Labor and Employment, Department of Foreign Affairs, Philippine Overseas Employment Administration, and Overseas Workers Welfare Administration.  
 Note: Bangko Sentral ng Pilipinas (Central Bank) that regulates the remittances industry and the Overseas Absentee Voting Secretariat connected to the Commission on Elections (COMELEC) which monitors Philippine elections are not shown here.

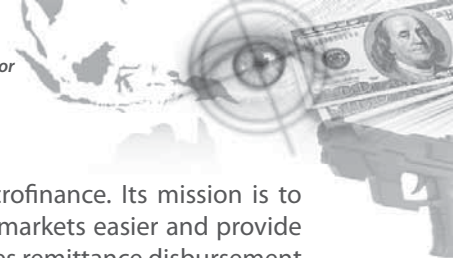
## 2. Responsibility of Migrant Workers' Hosting Economies.

- a. Gulf Cooperation Economies (GCC) are experiencing an economic boom due to high commodity prices, which is resulting increasing demand for migrant labor. The GCC economies have among the highest number of migrants as a share of population in the world: 78% in Qatar; 71% in the U.A.E, 62% in Kuwait, 41% in Bahrain, 26% in Saudi Arabia, and 24% in Oman.
- b. Remittances from these migrants are helping mitigate the impact of high food and oil prices on the poor in many developing economies.
- c. APEC, D-8, and other international organizations need to cooperate more with MWs hosting economies to harmonize migrant workers' remittance business and regulations.

In addition, Banks and Money Transfer Companies' CSR Programs by training and capacity Building can also secure our MWs remittances. Some cases in Latin America have successful to secure their MWs, such as:

- i. Caja Municipal Cusco, Peru – Bank on wheels (Cajabus). Caja Municipal (CMAC) Cusco decided to reach to its clients with a "Cajabus". The bus follows a regular path and services the clients on a regular basis, for example once a week, always on the same day (at the occasion of small markets and trade fairs). The project is also an effort of financial literacy. The Cajabus staff raise the awareness of the people to the safety and convenience of having a bank account and to the importance of savings and credit allocation. In addition, the staff on board can check the client's expectations and questions regarding banking operations.
- ii. Banco Estado, Chile – Reaching fishermen in remote Chilean islands. In 2006, Banco Estado Filial Microempresa (Banco Estado's microfinance subsidiary) achieved a milestone: for the first time, after sailing for more than 3 hours, the staff from the Cabulco branch was able to reach one of most southern areas in Chile in the Queullin Island. It was then able to offer financial services such as microcredits, savings and insurances to unbanked fishermen. Since then, Banco Estado is also providing microcredits to the fishermen union in order to support the production of "choritos", a native kind of fish.





### iii. Caja Municipal Sullana, Peru - Maximizing remittances impact.

- Caja Municipal (CMAC) Sullana is a municipal savings bank specialized in microfinance. Its mission is to promote economic development in its region, make access to formal financial markets easier and provide integrated and competitive financial services to its clients. CMAC Sullana provides remittance disbursement services to its clients and sees remittances as a door to banking the population and to leverage its impact on local development. In cooperation with money transfer agencies located in sending economies, it offers innovative ways in which remittances can be fully exploited for the clients benefit.
- After agreement with the client, a planned quantity of the received remittances is automatically deposited in the client's bank account, which allows the client to save money in its economy of origin for future expenses. The interest rate on the bank account is interesting, as well as the incentive to keep the bank account open on the long run.
- The bank has also planned an initiative to help people to buy a house. The regular amount sent, not only constitutes a guarantee for the mortgage loan but a part of it can be automatically transferred to pay the mortgage.
- Remittances can also be used as a form of guarantee for a microenterprise credit if the recipient family would like to develop a small business.

## VII. D-8 Plan: The Way to Optimize and Secure Migrant Workers' Remittances by Providing Credits Related to Food Security Programs

According to FAO, 2008, the world has been facing oil, food, and financial crisis. The impacts to developing economies surely affect food security that may postpone the 2015 UN Millennium Development Goals (the MDGs) to reduce poverty by the end of 2015 up to 20%. Food prices have soared. Just over the last 12 months the FAO food price index rose, on average, by 52 percent. Prices for some commodities, notably for maize continued to rise during the first half of 2008. Until mid-June 2008, maize prices rose by more than 70%, approaching a record level of nearly US\$8/bushel. Likewise, prices for soybeans and soybean oil were at or near record levels by mid 2008.

The global food import bill has surged to 820 billion dollars in 2007, the highest level in history. Costs are projected to rise by another 26% in 2008 and could reach the all-time-high level of 1035 billion dollars in 2008. The most economically vulnerable economies are set to bear the highest burden in the cost of importing food, with total expenditures by Least-Developed Economies (LDCs) and Low-Income Food-Deficit economies (LIFDCs) anticipated to climb by 37 - 40 percent from 2007, after rising by 30 percent and 37 percent, respectively, already last year. The sustained rise in imported food expenditures for both vulnerable economy groups constitutes a particularly worrying development, since, on current expectations, their annual food import basket could cost four times as much as it did in 2000.

No doubt, high food prices do not have to be bad news for all, and farmers normally stand to benefit. But this time only very few farmers managed to benefit from higher prices. Most of them have been squeezed by soaring costs. Again, the fact speak for themselves: Prices for fertilizer, seeds and animal feed have risen by 98, 72 and 60 percent, respectively since 2006. For some inputs these price rises even accelerated in 2008. On average, the FAO input price index doubled in the first four months of 2008, compared to the same period in 2007; US dollar prices of some fertilizers more than tripled.

In the next fifty years it could become much harder to feed the world if relevant actions are not taken immediately. Population will grow from 6.5 billion today to 8.3 billion in 2030 and nearly 9.2 billion in 2050. All of that growth will be concentrated in developing economies. Global food production will therefore need to increase by more than 50% by 2030, and nearly double by 2050.

The World Bank also stated in 2008 that investment on food security programs would be spread over five principle areas addressing long-term needs:

1. Area of investment would be to improve agricultural productivity and enhance livelihoods and food security in poor rural communities by increasing the quantity and improving the quality of locally available food. It also provides a foundation for equitable economic growth.
2. Investment pillar would go to develop and conserve natural resources.
3. Expand rural infrastructure and to broaden market access.
4. Capacity building, knowledge generation and dissemination in particular for small-scale farmers and provide appropriate micro and small scale credits.
5. Continuing need to ensure access to food for the most needy. They include various options, including targeted direct feeding programs

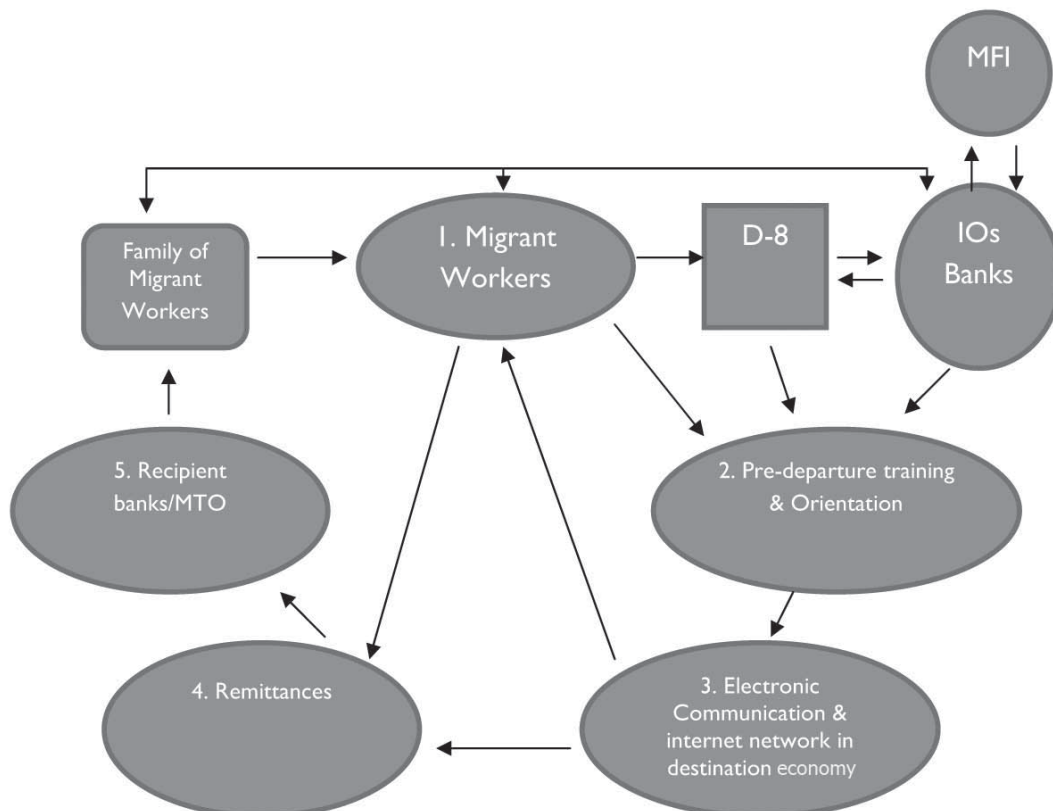
Furthermore, as an economic organization, D-8 has identified some potential cooperation to combat the rising food prices threat, as discussed among D-8 head of states in the 6th Summit, in Kuala Lumpur, Malaysia, July 2008 which includes:

1. To develop some fertilizer and pesticide plants in D-8 economies, and apply Preferential Trade Agreement for exporting and importing the products to ease D-8 farmers to produce more food products and the supply;
2. To develop cooperation on animal feed factory within D-8 economies; and apply Preferential Trade Agreement for exporting and importing the products;
3. To establish a Seeds Bank in D-8 Economies for enough seeds stock whenever are needed for increasing more food products within the economies, as well as a ready stock whenever needed by farmers because of natural disasters, and other unfortunate situation;
4. To establish D-8 Food Fund for helping the needy on the food within D-8 economies caused by current unfortunate situation in food crisis time;
5. To set up an R&D and technological cooperation in the areas of agricultural development, especially to increase the productivity both in inland-farming and agro-based industry;
6. To cooperate for diversifying agricultural products supply, including fishery; animal husbandry; and organic products;
7. To establish capacity building, including education and training program;
8. To establish a public-private partnership, by involving more private sectors participation in the programs.

In addition, the D-8 Organization will launch an innovative program to work with migrant workers (MWs) from member economies to better prepare them for productively working in their destination economies; safely and inexpensively send income to their home economies through formal financial channels; and support local investments and entrepreneurs in sending communities through micro and small credit programs in activities promoting food security. The overall program will have the following components (see also figure 2):

1. Training and orientation for MWs before departure covering basic preparation for working overseas, skill and language preparation, orientation on rights and responsibilities, and preparation to participate in an internet based network or other communications (e.g. cellular phone).
2. Linking them to a network (physical and internet) in their destination economy that will help educate them and protect their rights, provide access to social and essential services and encourage them to inexpensively and safely send back remittances to their communities.
3. Recipient banks or other financial institutions in home economies will receive remittances and be prepared to use these as “collateral” for productive loans, thereby encouraging the use of formal remittance channels and encouraging the productive use of remittances.
4. The program will arrange investment, SME advisory services and or business development services, and training for potential borrowers under the scheme, providing advice at a scale appropriate to the investment level.

**Figure 2. D-8 Innovative Program Flows of Migrant Workers’ Remittances**





From this plan, there are several outcomes that will be achieved, as follows:

- MWs will be more productive and better prepared to work on arrival
- They will know and be able to exercise their rights and have access to essential services
- They will be able to safely and inexpensively send remittances
- Remittances will be channeled through formal rather than informal systems increasing the transparency and ability of authorities to track and monitor remittances
- Remittances will be more likely to be used for productive investments rather than consumption spending
- Economic development in the sending areas/communities of workers will be promoted
- Employment opportunities and income will be increased in sending areas, both for youth and other economically active cohorts

Furthermore, in addition for Food Security Program, In the Summit of FAO in Rome, 5-6 June, 2008, that attended by 181 nations and more than 40 Heads of States and Governments, international organizations, and banks pledged as follows:

- African Development Bank: US\$1 billion
- France: US\$1.5 billion (over five years)
- Japan: US\$150 million
- IFAD: US\$200 million
- Islamic Development Bank: US\$ 1.5 billion (over 5 years)
- Kuwait: US\$100 million
- Netherlands: US\$75 million
- New Zealand: US\$7.5 million
- Spain: US\$773 million (over 4 years)
- UN Central Emergency Response Fund US\$100 million
- United Kingdom: US\$590 million
- USA: US\$5 billion (2008/2009)
- Venezuela: US\$100 million
- World Bank: US\$1.2 billion

This new financing announced during the summit, in addition to the US\$6.06 billion mobilized earlier in the year, amounts to a global commitment to food security and agriculture of US\$18.36 billion.

This source of fund can be one of potential source to cooperate with D-8 on Micro credits for Migrant Workers' and their Families in Food Security Program. Cooperating Potential Sources including on Financial Support and Non-Financial Support/Advice. The next step is implementation structure, which can be drawn as follows:

IOs + Local Partner Organizations + Government Agencies/Ministries + Financial Institutions + BDS Sources  
 àRecipients/Participants (Need to include pre-departure training + destination country network)

## VIII. Conclusion

- Making money transfers from migrant workers work more efficient and effective on Banking and Microfinance Institutions.
- Reducing remittance costs with recognizing remittance as a self-standing industry different from banking and thus broadens of players in most corridors.
- Secure all the remittance flows from terrorist use with Know Your Customer (KYC) and culturally friendly system shift from IVTS to FVTS and/or properly regulate IVTS to avoid misuse of migrant workers' remittances.
- Role of Government Social Responsibility (GSR) and Corporate Social Responsibility (CSR) in credits and training for migrant workers and their families
- Migrant Workers' Remittances match with credits into Investment Promoting Food Security both in micro and small scale.

*Istanbul, October 15, 2008*

# Securing Migrant Workers' Remittances

Presented by:

**Dipo Alam**

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## I. Why Are We Here ?

To Secure Our Migrant Workers' Remittances From Terrorist Use; and Unnecessary Exaggerated Suspicious Regulations

## Is This A Solution?

If this a case in migrant workers' remittances, how many thousands of Ahmeds working overseas would have same unfortunate treatment?

Muslim denied service by Swedish bank – Milli Gazete Ahmed Vaizu, who lives in the western Swedish city of Gothenburg, was unable to complete a bank transaction because he had an Islamic name. Vaizu went online to transfer money from his bank account in order to purchase spare parts from Germany. When Vaizu was filling out his name on the Internet form, Skandia bank gave a rejection alert. When he called his bank to inquire about the rejection, he was told, there were blocks on names that sounded Muslim and Ahmet belonged to the blocked names list, so his international transaction was automatically blocked. Speaking to SVD newspaper, Vaizu said, "I thought this sort of thing would only happen in economies that were afraid of terror, not my Swedish bank." Vaizu was able to complete his transaction after he removed the name Ahmed from the online form. After the incident, Vaizu applied to the economy's ethnic discrimination ombudsman. "I have spent half my life in Sweden. I work as an electrician. I live like a normal Swede. I have never felt this discriminated against," he said. Skandia Banker's information chief, Lina Hök, said, "The bank just follows the EU validation list. We have to follow the same rules as other banks." Hök expressed satisfaction with Vaizu's decision to report the bank to the ombudsman. "We will be able to understand our limits better. It will be good for the ombudsman to give us concrete directives."

(Source: Milli Gazete, Turkish Press Scanner, Thursday, August 28, 2008)

## Worldwide Cost of Terrorism Attacks and Financial Transfer System

Terrorist Attacks	Operational Cost (est.)	Financial Transfer System
Metro train bombing, 11 March 2004	\$ 10,000	IVTS
Istanbul truck bomb attacks, 15 and 20 November 2003	\$ 40,000	FTVS
Jakarta JW Marriott Hotel bombing, 5 August 2003	\$ 30,000	FTVS
Bali nightclub bombing, 12 October 2002	\$ 50,000	FTVS

Bali nightclub bombing, 12 October 2002	\$ 50,000	FTVS
World Trade Center/Pentagon, 11 September 2001	\$ 303,672-\$ 500,000	FTVS
US Embassy bombings in Kenya and Tanzania, 7 August 1998	\$ 50,000	FTVS
Suicide bombers in Iraq and Pakistan	\$ Much-much cheaper	Various

The Challenges are How We Secure our Migrant Workers'

Remittances From Misuse for Terrorism and Avoid Exaggerated

Suspicious Regulations

- Part of the suspicion towards remittances comes from the fact an "estimated" 50% of the world's remittance flows move through the informal or via Informal Value Transfer System (IVTS);\*
- A significant portion of MWS/immigrants in any nations are undocumented they have little or no access to the formal banking sector. As a result they can only use informal remitters to send their money because these do not require identification documents;
- There is still limited knowledge on informal funds systems and the extent to which they are misused for illegal purposes, including for money laundering and terrorist financing
- Therefore, international cooperation, including international organizations (such as APEC and D-8), governments, companies, and NGOs, is extremely needed to find appropriate protection of MWS' Remittances from the possibility of terrorism use as well as from exaggerated suspicious regulations.

Source: Informal Value Transfer Systems, Terrorism, and Money Laundering. Nikos Passas. Northeastern University November 2003.

## Formal Remitters Vs. Informal Remitters

(Source: Niikos Passas, 2005 and additional of some sources)

Differences	Formal Remitters	Informal Remitters
Price Charged	10-20%	0-1.5%
Area of service	Service to main cities	Service to cities and remote areas
Record-keeping	Receipt to sender	No receipt to sender
Receipts	Detailed records kept	Minimal/no records
Reporting duties	CTR, SAR, etc filed	No reporting to authority
Method of collection and delivery	Collection and delivery at agency premises	At home pick up and door-to-door delivery service
Speed	Transfer in days/weeks	Transfer in hours
Marketing and maintaining customer	Passive and not apply so much KYC	Active, apply KYC + Cultural Friendly
ID of recipient	Agency specialized in money services	IVTS mixed with other business services
Method of communicating instructions for delivery	Recipient present ID	Recipient cities code
Method of advertising	Instructions by wire	Instructions by fax, telephone, e-mail
Settlement process	Conventional advetta	Word of mouth or ethnic press

Why Migrant Workers Prefer IVTS

instead of FVTS?

- IVTS is cost effective. IVTS brokers take a small commission and usually practice more advantageous



exchange rates than official rates. IVTS, and operators have low overhead;

- IVTS is “safe”, especially for the receiver remittances economies where political insecurity exist, as well as have limited banks/money transfers companies’ outlets in the villages;
- IVTS is efficient, the service offers quick deliveries: “almost real time”; same day, and in certain case “door-to-door service”;
- IVTS is considered reliable. It is based on trust and there are no reported instances of costumers being cheated. A breach of trust would keep the customers away;
- IVTS is flexible and not bureaucratic. Legal or illegal (undocumented) MWs are not bothered by formally to fill the application forms -- anonymous, no records, no need adequate identification, doesn’t leave a paper trail-- as required by formal banking procedures;; and
- IVTS apply not only KYC but also culturally friendly, make this system is particularly convenient and easy to use (e.g. IVTS brokers with ethnic background or kinship of “Al-Banjari” in Saudi Arabia is convenient for Indonesian MWs come from Banjar areas of Kalimantan; or “Al-Falimbang” for ethnic from Palembang of South Sumatra)
- From several studies, there are several methods by which terrorists may move money or transfer value:
  - Formal financial sector
  - Involving of the physical movement of money ( e.g. The use of cash courier )
  - International trade system (trade sector)
  - Use of Alternative Remittances Systems (ARS).

This ARS can be breakdown into three areas:

1. ARS operations in which the provider is fully involved in the ML/TF activity;
    - Typology 1 : Cuckoo Smurfing
    - Typology 2 : Anomalous Use of Bank Accounts
    - Typology 3 : Book keeping practice
    - Typology 4 : Over-invoicing Exports
    - Typology 5 : ARS Operation Used as a Cover for Drugs Money Laundering
    - Typology 6 : Regulatory Investigation Detects and Disrupts Terrorist Activity
    - Typology 7: Multiple Bank Accounts Opened to Facilitate Cash Deposits
    - Typology 8 : ARS Operators Involved in Trade-Based Money Laundering
  2. ARS operations in which the provider has some knowledge of the ML/TF or other criminal activities carried out by the customer;
    - Typology 9 : Multi-Trader Intercommunity Found (MTIC)
  3. ARS operations in which the provider has no knowledge of the ML/TF or other criminal activities carried out by the customer.
    - Typology 10 : ARS Used to Pay Costs of Drug Trafficking
- Use of Charities and Non-Profit Organizations

## II. The Importance of Migrant Workers’ Remittances for Developing Economies

The Importance of Remittances

- The Importance of Remittances:
- Macroeconomic effects;
- Evidence from a few household surveys shows that remittances reduce poverty;
- Remittances also finance education and health expenditures,
- Ease credit constraints on small businesses;
- The Transmission of Technology and Knowledge;
- Provide employment based on labor market in the world (e.g.high demand in GCC economies)
- Profitable business for banks and money transfer companies.

### Why Migrant Workers’ Remittances are Important for Developing Economies?

Remittance Flows to Developing Countries, 2002-2007 (\$ billion)								
INFLOWS	2002	2003	2004	2005	2006	2007	Change 2004-2007	Change 2002-2007
Developing Economies	149	147	162	179	229	271	112	122
East Asia & Pacific	29	32	39	47	53	59	20	30
Europe & Central Asia	14	16	22	31	38	47	15	33
Latin America & Caribbean	26	32	42	48	57	67	20	41
Middle East & North Africa	12	20	22	24	27	29	6	17
South Asia	29	35	39	52	65	84	25	55
Sub-Saharan Africa	6	6	6	10	11	12	7	12
Low-income Countries	15	17	20	24	29	33	13	18
Upper-income Countries	100	127	142	155	197	238	83	138
Lower PICS	71	89	95	110	127	146	35	75
Upper PICS	29	38	47	45	70	92	47	63
High Income OECD	53	61	67	68	72	81	28	28
High Income non-OECD	1	3	5	4	4	5	4	4
World	179	204	234	246	303	337	115	158
OUTFLOWS	2002	2003	2004	2005	2006	2007	Change 2004-2007	Change 2002-2007
All Developing Economies	14	22	29	24	42	52	23	38
High Income OECD	89	101	115	126	140	159	33	70
High Income non-OECD	34	32	32	31	37	38	6	4
World	117	147	167	164	219	249	82	132

Figure 1. Remittances and capital flows to developing economies



Sources: Global Economic Prospects 2006: Economic Implications of Remittances and Migration (World Bank); World Development Indicators 2007, and Global Development Finance 2007

Note:

During the Asian Crisis, from mid 1997 and its recovery up to 2001, the figure shows that the graphic of remittance tends to climb up no matters how bad the crisis.

- Remittance flows to developing economies were \$251 billion in 2007, up 11 percent from 2006, and have more than doubled since 2002.
- Mexico and the Philippines (members of APEC), which are among the top four remittance recipients in the developing world, reported remittance inflows for 2007 as \$25 billion and \$17.2 billion respectively.
- Recent trends in remittances to Mexico, as one of APEC member economies, and other major recipient economies:

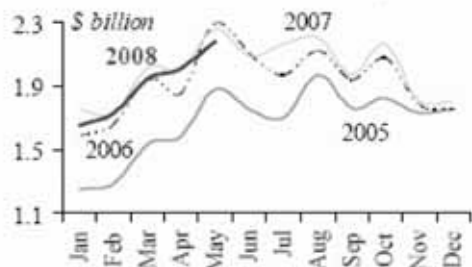


No.	Member Economies	Remittances Flows	2002	2003	2004	2005	2006	2007	Notes
1.	China	Inward	18,013	17,843	18,814	20,337	21,319	23,701	** 8.1% of GDP in 2006
		Outward	1,323	1,441	2,267	3,402	3,027**	---	** 0.1% of GDP in 2006
2.	Mexico	Inward	11,829	14,811	18,143	21,917	24,732*	23,880	* 3.9% of GDP in 2006
		Outward	---	---	---	---	---	---	---
3.	Philippines	Inward	9,731	10,243	11,471	13,346	14,329*	15,300	* 13.9% of GDP in 2006
		Outward	38	18	17	15	20**	---	** 0.02% of GDP in 2006
4.	Indonesia	Inward	1,229	1,489	1,866	2,419	2,722*	4,390	* 1.6% of GDP in 2006
		Outward	---	---	615	1,178	1,339**	---	** 0.4% of GDP in 2006
5.	Vietnam	Inward	2,714	2,760	3,300	4,500	4,800	5,300	* 7.9% of GDP in 2006
		Outward	---	---	---	---	---	---	---

No.	Member Economies	Remittances Flows	2002	2003	2004	2005	2006	2007e	Notes
1.	Bangladesh	Inward	8,818	8,193	8,384	9,114	9,438*	9,400	** 8.8% of GDP in 2006
		Outward	8	7	8	6	7**	---	** 0.003% of GDP in 2006
2.	Egypt	Inward	3,891	3,761	3,361	3,817	3,797*	3,865	** 2% of GDP in 2006
		Outward	14	78	11	27	18**	---	** 0.1% of GDP in 2006
3.	Indonesia	Inward	1,239	1,489	1,866	2,419	2,722*	4,390	* 1.6% of GDP in 2006
		Outward	---	---	615	1,178	1,339**	---	** 0.4% of GDP in 2006
4.	Iran	Inward	801	1,178	1,032	1,032	1,022*	1,115	* 0.3% of GDP in 2006
		Outward	---	---	---	---	---	---	---
5.	Philippines	Inward	9,731	10,243	11,471	13,346	14,329*	15,300	* 13.9% of GDP in 2006
		Outward	38	18	17	15	20**	---	** 0.02% of GDP in 2006
6.	Nigeria	Inward	1,209	1,363	1,275	1,329	1,329*	1,329	** 1.9% of GDP in 2006
		Outward	---	---	---	---	---	---	---
7.	Pakistan	Inward	3,324	3,764	3,940	4,280	4,121*	4,700	* 4.0% of GDP in 2006
		Outward	2	3	18	8	7**	---	** 0.002% of GDP in 2006
8.	Turkey	Inward	1,916	229	404	811	1,111*	1,200	* 2.2% of GDP in 2006
		Outward	---	---	---	76	127**	---	** 0.03% of GDP in 2006

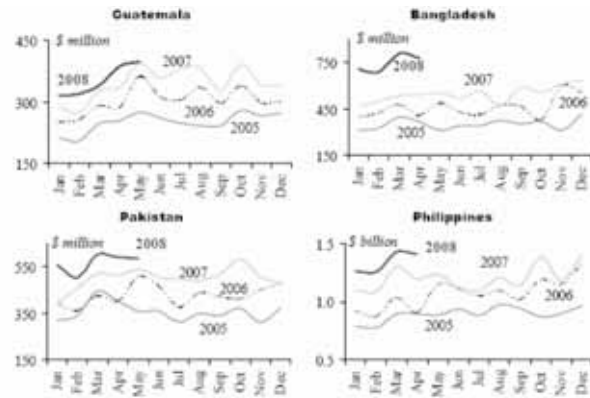
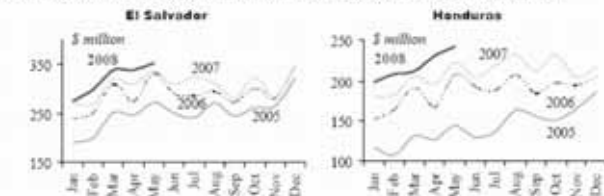
- According to recently published official data, migrant remittances to Mexico declined by 3.4 percent in May (and by 2.6 percent during January-May 2008, compared to the same periods last year. A slowdown in the growth of remittances to Mexico has been a cause for concern as these flows (mostly from the United States) provide a lifeline to a large number of Mexican families.
- Three factors appear to be responsible for this slowdown: (a) high base effect – after more than doubling during 2002-2007, the rate of growth is beginning to slow; (b) tighter enforcement of immigration rules in the United States is likely to have caused a shift in remittance flows to hand carrying and unrecorded channels; and (c) the slowdown in the US economy, especially in the construction sector, has affected the employment and incomes of Mexican migrants in the US.

Chart 1: Remittances received by Mexico



Source: Banxico

Chart 2: Remittances to other Latin American countries and Asian countries



Source: Central banks of the respective countries

## Benefit & Uses of Remittance

The Benefit Of Remittances	The Use of Remittances
The contribution of remittances relatively more important where there are no or only very limited public transfers	Daily needs and expenses – typically labeled as consumption or as improving the standard of living
Remittance receiving households tend to be better off (e.g. have higher average incomes and asset bases) than households that do not receive remittances	Medical/health care expenses or education – grouped together with the above when seen as improving the standard of living
Transfers tend to flow from relatively richer to relatively poorer households	Consumer durable (stereos, televisions, washing machines, etc.)
Receiving households in less developed regions will spend a higher proportion on daily expenses or consumption than households in more developed regions	Improving or building housing, of buying land or livestock
the growing income equality migrant remittances, such as price increases for land	Investment in social-cultural life (birth, wedding, death)
Remittances also finance lending	Saving
Remittances can encourage micro and small business investment	Loan repayments (often loans to pay for cost of migrations)
Improved standard of living and educational opportunities for the receiving household	Income or employment generating activities

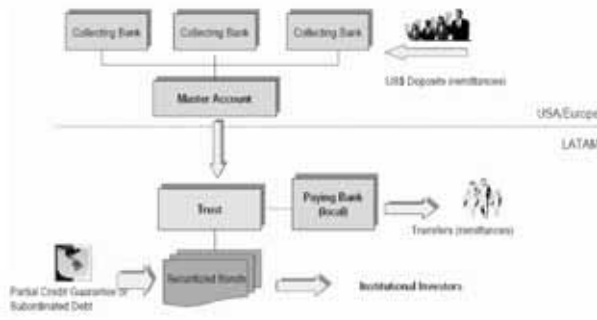
## Remittance is also a Lucrative Business for Banking and Money Transfer Companies

- The Government of Bangladesh has announced the creation of a “challenge fund” that will provide grants to banks and money transfer companies to finance the cost of implementing innovative initiatives for improving the delivery of remittances and other financial services to rural and underserved parts of the economy.
- Mustafa Sultan Exchange Co., one of the leading exchange houses in Oman, announced a new partnership with BRAC Bank Limited to provide remittance services to Bangladesh.
- The Philippines’ Central Bank (BSP) expects that Filipino banks’ share of remittances transferred will reach 11 percent this year.
- In the second quarter of 2008, Western Union’s revenue increased by 12 percent year-on-year, totaling \$1.35 billion. International transfers experienced a 19 percent growth in revenue and constituted 68 percent of the company’s total revenue.
- In the first quarter of 2008, Euronet Worldwide reported a revenue of \$247.1 million, largely the result of its 2007 acquisition of MTO RIA Envia. In the first quarter, RIA processed 3.8 million transfers, a 10 percent year-on-year increase, generating \$52.3 million in revenue (18 percent year-on-year increase) for the company. This reflected a growth

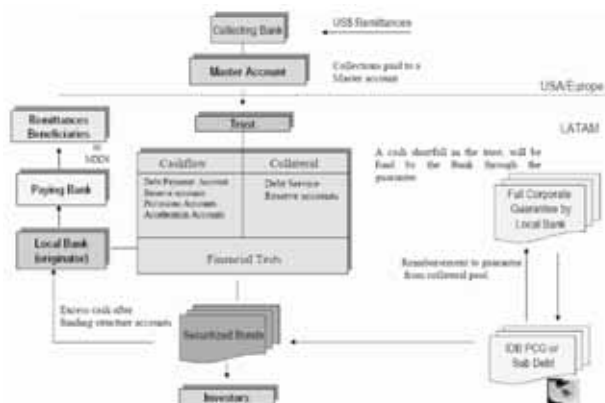
of 60 percent in transactions not originating in the United States and a 9 percent decline in transfers to Mexico. Expanding its network, Euronet signed new contracts in 16 economies to acquire 400 money transfer distribution locations.

- In the first quarter of 2008, MoneyGram experienced a 30 percent year-on-year growth in transactions; transfers originating in the United States grew by 22 percent. Furthermore, transfers originating internationally or outside of North America grew 30 percent and those going to Mexico grew 4 percent. The latter transfers constituted 8 percent of total transactions in the first quarter. MoneyGram added 152,000 locations and extended its agreements with Wal-Mart and ACE Cash Express. It also finalized the implementation of three new services in the United States.
- Some banks and money transfer companies could apply securitization for its benefits, such as:
- Less expensive, more broadly available credit. The existence of a liquid secondary market for home mortgages increase the availability of capital to new home loans
- More options for investors. There are diversification of assets and loans that provide different types of risks.
- Flexibility for the originator. Without securitization, a bank making home loan usually would hold that loan on its books, recognizing revenue as payments are made over time.

**Securitization of Remittances: Transaction Structure (by IADB)**

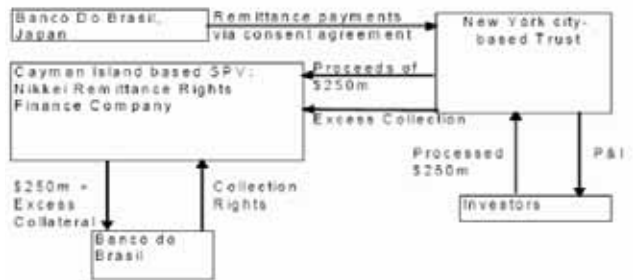


**Securitization of Remittances: Repayment Flows (by IADB)**



**Illustration of Securitization: Banco do Brasil's (BdB) Nikkei Remittance Trust Securitization**

Chart 1: Structure of BdB Remittance Securitization



Source: Standard and Poors (S&P)

**III. If We Suspect Migrant Workers' Remittances Could be Potentially Misused for Terrorism, then, How Could We Shift the Migrant Workers' Remittances from IVTS to FVTS ?**

First, the Sending Cost of the Remittances Should be Reduced Significantly, so it May Competing The IVTS' Low Cost. Learning from

- 1) Indonesia Case;
- 2) Comparing Remittances Cost; and
- 3) Reducing Remittances Cost.

**Transaction Flows in The Malaysia - Indonesia Remittance Corridor**

Economic Indicators for Malaysia and Indonesia		
General	Malaysia	Indonesia
Population (million, 2006)	25.8	223
Population Growth (annual %, 2006)	1.6	1.1
GDP Growth Rate (annual %, 2006)	5.9	5.5
GDP (US\$ billion, 2006)	148.9	364.5
GNI (US\$ billion, 2006)	141.4	315.8
GNI per capita (US\$, 2006)	5,490	1,420
Foreign Direct Investment, net inflows (balance of payment, US\$ billion, 2005)	3.97	5.26
Official Development Assistance and Official Aid (US\$ billion, 2005)	0.03	2.52

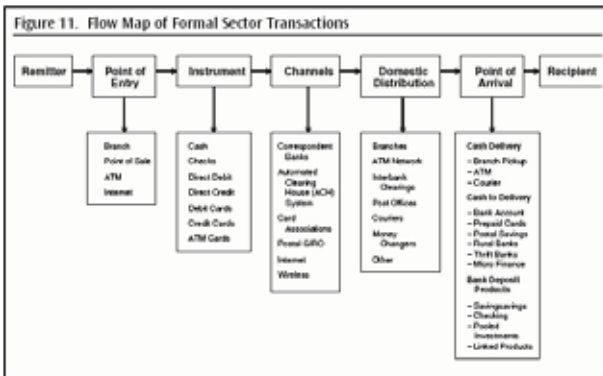
Source: World Development Indicators database, April 2007.

Migration Data*		
Migrants	Amount	Source
Estimated number of Indonesian migrant workers in Malaysia (documented, 2007)	1.3 million	MHAM
Estimated number of Indonesian migrant workers in Malaysia (undocumented, 2007) <sup>†</sup>	700,000	MHAM
Average annual salary range of Indonesian Migrant workers in Malaysia (US\$ <sup>‡</sup> )	960-2,040	MHAM
Range of annual cost of migration on average (US\$)	343-475	
Range of total annual migration and transfer costs (US\$)	370-502	
Migration and remittance transfer costs as percentage of Indonesian migrant workers salary (averaging total cost range and salary range, US\$)	29	
Percent of salary sent back as remittances (on average)	45	BI

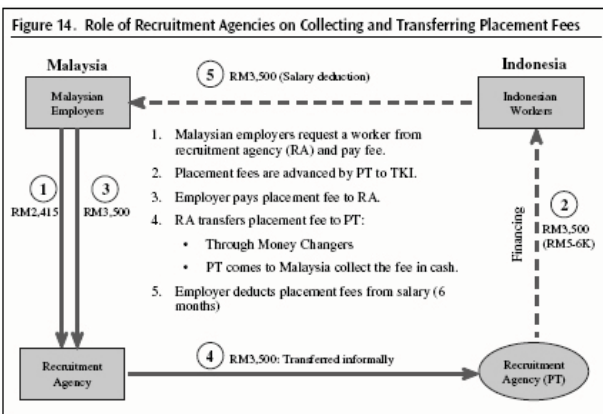
\*The Ministry of Home Affairs, Malaysia (MHAM) assumes that the 700,000 undocumented workers listed in table are nearly all TKI.  
<sup>†</sup>Yearly salary calculated by taking the average monthly salary times 12, average monthly salary information provided by the Ministry of Home Affairs, Malaysia.  
<sup>‡</sup>Note: \*The data for the categories in which the sources has been left blank is calculated by FPDFI and EASSO units, World Bank, for the sole purposes of this report.

Remittances	Amount	Source
Total Remittance inflows to Indonesia from all countries (US\$ billion, 2006)	5.6	BI
Formal Remittance inflows to Indonesia from all countries (US\$ billion, 2005)	1.9	BI
Total Remittance Outflows from Malaysia to all countries (US\$ billion, 2005)	5.7	DSM**
Formal Remittance Outflows from Malaysia to all countries (US\$ billion, 2006)	2.1	BMM
Total Remittance inflows to Indonesia from Malaysia (US\$ billion, 2006)	2.7	BI
Formal Remittance Outflows from Malaysia to Indonesia (US\$ billion, 2006)	0.26	BMM
Formal Remittance Outflows from Malaysia to Indonesia (US\$ billion, 2006)	0.24	BI
Informal remittances as % of total remittance inflows for Indonesia	89	BP*
Informal remittances as % total remittance inflows to Indonesia from Malaysia specifically	90	BP*
Remittance inflows to Indonesia as % of Indonesian GNI (BI figures used, 2006)	1.8	
Remittance inflows to Indonesia as % of Indonesian GDP (BI figures used, 2006)	1.5	
Average remittance amount range (anecdotal surveys, US\$)	115-150	
The Country Providing Indonesia with the largest remittance inflow	Malaysia	BI
The Country Receiving Malaysia's Largest Remittance Outflows	Indonesia	BMM

\*\*Department of Statistics, Malaysia.  
 \*Formal remittance estimates by BI using BI statistics; these statistics have been derived from monthly reporting of Indonesian banks and remittance service providers rather than BI's estimation in balance of payment statistics; the latter procedure would have suggested informal flows to be about 70% (1.9/5.7 times 100).  
 †24/2.732 times 100 = approximately 90 percent of informal flows.  
 ‡Annual average transfer fees are based upon the assumption that workers remit twice a year through bank channels.



Source: World Bank team-conducted interviews with stakeholders.



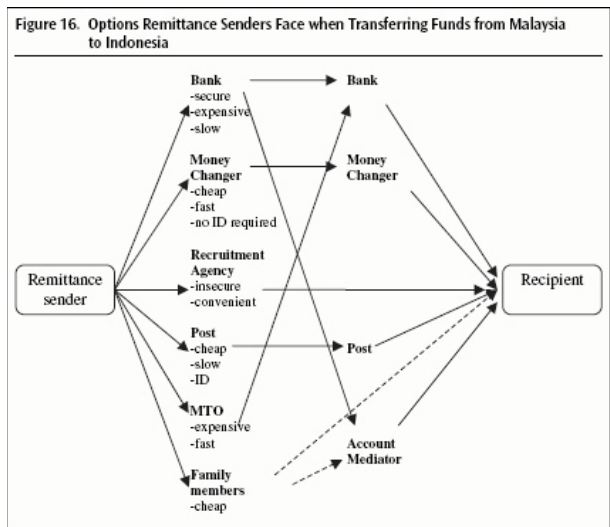
Sources: Ministry of Labor, employment agencies.

	Reporting from Banks and Remittance Service Providers (formal)	Estimates Based on Sampling or Migrant Stock	Percentage Transferred Through Formal Channels
Malaysia Remittances sent to Indonesia	US\$0.26 billion* Source: Bank Negara Malaysia	maximum of US\$3.6 billion† Source: World Bank rough estimate based on migrant stock and Department of Statistics, Malaysia sampling survey	Approx 10% Source: Bank Indonesia
Indonesia Remittances received from Malaysia	US\$0.24 billion Source: Bank Indonesia and remittance service provider reporting	US\$2.66 billion Source: Bank Indonesia figure, estimate based on migrant stock	

\*The US\$0.26 billion figure quoted by BNM in 2006 denotes the total financial flows from Malaysia to Indonesia including the employee remuneration and worker remittance categories displayed in Table 10.  
 †Based on 2005 Malaysian Ministry of Home Affairs data which states that 63 percent of total foreign workers in Malaysia are Indonesian. It is estimated that approximately the same proportion of total balance of payment remittances paid would be going to Indonesia or US\$3.59 billion. However, given that there are significant transfers to industrialized countries (US, UK, Singapore) likely to be of much greater amounts, this figure is likely to be an overestimate.

Incentives	Bank	Postal (money order)	Money Transfer Operator	Money Changer	Informal Channels
Access without ID	no	no	no	yes	yes
Geographic coverage in Malaysia	limited	good	limited	unknown	good
Relative price of fees	variable	inexpensive	expensive	inexpensive	unknown
Speed	moderate-slow	slow	fast	fast	variable
Language barrier	variable	variable	variable	variable	none
Minimal paperwork	no	no	no	yes	yes

Source: Interviews with Indonesian migrant workers and remittance service providers.



Source: World Bank team-conducted interviews with Indonesian migrants and remittance service providers.



No.	Economies	Firm Name	Firm Type	Fee	Exchange Rate Margin (%)	Total cost		Exchange rate charged	Inter-bank exchange rate	Transfer speed	Date
						Percent (%)	Currency				
1	Philippines (currency in PHP)	HCBanking (Bank of Cebu)	Bank	30.00	8.00	18.00	78.71	1822.27	1822.27	1 day	May 20, 2008
		Western Union	MTO	11.00	5.25	7.10	41.26	27-0.00	1822.73	Same day	May 20, 2008
		Pay Philex	Post Office	4.00	5.14	3.79	23.95	2775.12	1822.73	Up to 7 days	May 20, 2008
2	Philippines (currency in EUR)	Bank of Cebu	Bank	35.00	15.18	37.70	40.80	12475.62	14669.0	1 day	May 20, 2008
		MoneyGram	MTO	0.00	30.32	34.03	25.46	11999.66	14669.0	Same day	May 20, 2008
		Western Union	MTO	17.00	1.33	13.84	18.60	14999.96	14669.0	Same day	May 20, 2008
3	Singapore (currency in SGD)	Bank Mandiri	Bank	35.00	1.02	18.11	27.80	8352.00	8460.00	Same day	May 20, 2008
		Western Union	MTO	13.00	3.04	6.41	17.63	8329.00	8460.00	15 minutes	May 20, 2008
		MoneyGram	MTO	10.00	0.96	6.34	12.46	8400.00	8460.00	Same day	May 20, 2008

**Remitting from Corridor Countries to Philippines**

No.	Economies	Firm Name	Firm Type	Fee	Exchange Rate Margin (%)	Total cost		Exchange rate charged	Inter-bank exchange rate	Transfer speed	Date
						Percent (%)	Currency				
1	Japan (currency in JPY)	PNB (Philippines National Bank)	Bank	2000.00	5.25	14.77	3101.7	0.39	0.41	Same day/3-5 days	May 20, 2008
		Western Union	MTO	2500.00	2.04	13.95	2929.5	0.40	0.41	Instant	May 20, 2008
		MoneyGram	MTO	1500.00	1.36	8.50	1785.0	0.41	0.41	Instant	May 20, 2008
2	South Arabia (currency in SAR)	Saudi American Bank (SABAB)	Bank	35.00	1.63	6.30	47.25	11.57	11.76	3 days	May 20, 2008
		Western Union	MTO	35.00	0.76	5.43	40.72	11.67	11.76	Instant	May 20, 2008
		Al-Rajhi Bank	Bank	20.00	0.33	3.00	22.50	11.72	11.76	2 days	May 20, 2008
3	United States (currency in USD)	Western Union	MTO	12.00	6.39	12.39	24.78	39.32	42.01	Immediate	May 20, 2008
		Money Gram	MTO	9.99	3.76	8.75	17.50	40.43	42.01	10 minutes	May 20, 2008
		PNB	Bank	7.00	2.40	5.90	11.80	41.00	42.01	<24 hours	May 20, 2008

**Remitting from Spain to Corridor Countries**

No.	Economies	Firm Name	Firm Type	Fee	Exchange Rate Margin (%)	Total cost		Exchange rate charged	Inter-bank exchange rate	Transfer speed	Date
						Percent (%)	Currency				
1	China (Currency in EURO)	Money Exchange Foreign	MTO	15.00	0.53	11.64	15.71	10.78	10.84	1 day	May 12, 2008
		Executive Co. (WU)	MTO	20.00	3.51	18.33	24.75	10.46	10.84	1 day	May 12, 2008
2	Peru (Currency in EURO)	Caja Madrid	Non-bank FI	9.00	5.38	12.05	16.27	1.45	1.54	2 days	May 12, 2008
		Ria	MTO	6.00	1.72	6.17	8.33	1.51	1.54	Same day	May 12, 2008
		Latioemvios	MTO	3.00	1.40	3.62	4.89	1.52	1.54	1 day	May 12, 2008
3	Philippines (Currency in EURO)	Money Gram	MTO	15.00	4.87	15.99	21.59	62.79	66.00	Instant	May 12, 2008
		PNB Global Filipino Remittance Spain	MTO	7.00	1.37	6.55	8.84	65.10	66.00	Instant	May 12, 2008
		Ria	MTO	6.00	0.22	4.66	6.29	65.86	66.00	1 day	May 12, 2008

**3. Recommendations to Reduce Cost of Remittance**

- Some general recommendations to reduce the cost of remittances:
  1. Recognize remittance as a self-standing industry different from banking and thus broaden of players in most corridors.
  2. Harmonize regulations governing remittances for all remittance providers like, for all senders and receivers within a economy.
  3. Improve remittance channels and Bureaucracy
  4. Improve customer awareness
  5. Know Your Customer (KYC)
  6. Manage Time and Cost of Delivery (Dilip Ratha, the World Bank)

D-8 Has a Plan to Reduce Cost of Remittance; Shift from IVTS to FVTS; Involving GSR and CSR Programs; Capacity Building and Credits Program; by Establishing D-8 Working Group on Migrant Workers and Microfinance

- Encourage and Involve more governments ( both MWs supplying and hosting economies) social responsibility and corporate social responsibility (CSR) programs; to implement some projects for

- improving migrant workers’ remittance system; from IVTS to FVTS; and/or properly regulated IVTS;
- Provide capacity building and training for migrant workers’ knowledge on financial system, and provide micro/small credits for the migrant workers and their families;
- Apply Know Your Customer (KYC) and cultural friendly by FVTS; and
- Technological Development related to Value Transfer System

**IV. Our Responsibility to Secure Migrant Workers’ Remittances from Terrorist Financing**

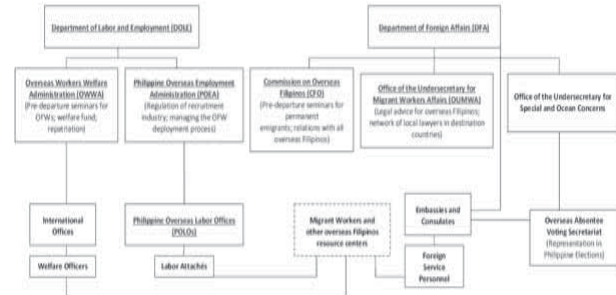
**Market Failure of Remittances Business**

Whenever and wherever the private sectors, including NGOs, under-invest to protect the business and the importance of remittances from the possibility of misuse (ML/FT), then the governments and international organizations should intervene and invest for the improvement of remittances systems and their policies, programs, and projects.

**Responsibility of Migrant Workers’ Supplying Economies : Learning from Philippines’ Experience**

- Recording private recruitment agencies in their respective economies
- Hold pre-departure seminars to brief migrating temporary workers
- Protect migrant workers abroad through a migrant welfare fund, managed by the economy of origin government
- Develop a recording mechanism to identify emigrants
- Promote competition in the remittances industry

Figure 1 Philippine Government Institutions Managing Migration



Sources: Department of Labor and Employment, Department of Foreign Affairs, Philippine Overseas Employment Administration, and Overseas Workers Welfare Administration. Note: Bangko Sentral ng Pilipinas (Central Bank) that regulates the remittances industry and the Overseas Absentee Voting Secretariat connected to the Commission on Elections (COMELEC) which monitors Philippine elections are not shown here.

## Responsibility of Migrant Workers' Hosting Economies

- Gulf Cooperation Economies (GCC) are experiencing an economic boom due to high commodity prices, which is resulting in increasing demand for migrant labor. The GCC economies have among the highest number of migrants as a share of population in the world: 78% in Qatar; 71% in the U.A.E, 62% in Kuwait, 41% in Bahrain, 26% in Saudi Arabia, and 24% in Oman.
- Remittances from these migrants are helping mitigate the impact of high food and oil prices on the poor in many developing economies.
- APEC, D-8, and other international organizations need to cooperate more with MWs hosting economies to harmonize migrant workers' remittance businesses and regulations.

## Banks and Money Transfer Companies' CSR Programs: Training and Capacity Building

- Caja Municipal Cusco, Peru – Bank on wheels (Cajabus). Caja Municipal (CMAC) Cusco decided to reach to its clients with a "Cajabus". The bus follows a regular path and services the clients on a regular basis, for example once a week, always on the same day (at the occasion of small markets and trade fairs). The project is also an effort of financial literacy. The Cajabus staff raise the awareness of the people to the safety and convenience of having a bank account and to the importance of savings and credit allocation. In addition, the staff on board can check the client's expectations and questions regarding banking operations.
- Banco Estado, Chile – Reaching fishermen in remote Chilean islands. In 2006, Banco Estado Filial Microempresa (Banco Estado's microfinance subsidiary) achieved a milestone: for the first time, after sailing for more than 3 hours, the staff from the Cabulco branch was able to reach one of most southern areas in Chile in the Queullin Island. It was then able to offer financial services such as microcredits, savings and insurances to unbanked fishermen. Since then, Banco Estado is also providing microcredits to the fishermen union in order to support the production of "choritos", a native kind of fish.
- Caja Municipal Sullana, Peru - Maximizing remittances impact.
- Caja Municipal (CMAC) Sullana is a municipal savings bank specialized in microfinance. Its mission is to promote economic development in its region, make access to formal financial markets easier and provide integrated and competitive financial services to its clients. CMAC Sullana provides remittance disbursement services to its clients and sees remittances as a door to banking the population and to leverage its impact on local development. In cooperation with money transfer agencies located in sending economies, it offers innovative ways in which remittances can be fully exploited for the clients benefit.

- After agreement with the client, a planned quantity of the received remittances is automatically deposited in the client's bank account, which allows the client to save money in its economy of origin for future expenses. The interest rate on the bank account is interesting, as well as the incentive to keep the bank account open on the long run.
- The bank has also planned an initiative to help people to buy a house. The regular amount sent, not only constitutes a guarantee for the mortgage loan but a part of it can be automatically transferred to pay the mortgage.
- Remittances can also be used as a form of guarantee for a microenterprise credit if the recipient family would like to develop a small business.

## V. D-8 Plan: The Way to Secure and Optimize Migrant Workers' Remittances by Providing Credits Related to Food Security Programs

### Why Credits for Supporting Food Security Programs?

- The world has been facing oil, food, and financial crisis. The impacts to developing economies surely affect food security that may postpone the 2015 UN Millennium Development Goals (the MDGs) to reduce poverty by the end of 2015 up to 20%.
- Food prices have soared. Just over the last 12 months the FAO food price index rose, on average, by 52 percent. Prices for some commodities, notably for maize continued to rise during the first half of 2008. Until mid-June 2008, maize prices rose by more than 70%, approaching a record level of nearly US\$8/bushel. Likewise, prices for soybeans and soybean oil were at or near record levels by mid 2008.
- The global food import bill has surged to 820 billion dollars in 2007, the highest level in history. Costs are projected to rise by another 26% in 2008 and could reach the all-time-high level of 1035 billion dollars in 2008. The most economically vulnerable economies are set to bear the highest burden in the cost of importing food, with total expenditures by Least-Developed Economies (LDCs) and Low-Income Food-Deficit economies (LIFDCs) anticipated to climb by 37 - 40 percent from 2007, after rising by 30 percent and 37 percent, respectively, already last year. The sustained rise in imported food expenditures for both vulnerable economy groups constitutes a particularly worrying development, since, on current expectations, their annual food import basket could cost four times as much as it did in 2000.
- No doubt, high food prices do not have to be bad news for all, and farmers normally stand to benefit. But this time only very few farmers managed to benefit from higher prices. Most of them have been squeezed by soaring costs. Again, the fact speak for themselves: Prices for fertilizer, seeds and animal feed have risen by 98, 72 and 60 percent, respectively since 2006. For some inputs these price rises even



accelerated in 2008. On average, the FAO input price index doubled in the first four months of 2008, compared to the same period in 2007; US dollar prices of some fertilizers more than tripled.

- In the next fifty years it could become much harder to feed the world if relevant actions are not taken immediately. Population will grow from 6.5 billion today to 8.3 billion in 2030 and nearly 9.2 billion in 2050. All of that growth will be concentrated in developing economies. Global food production will therefore need to increase by more than 50% by 2030, and nearly double by 2050.

(Source: FAO, 2008)

- D-8 has identified some potential cooperation to combat the rising food prices threat, as discussed among D-8 head of states in the 6th Summit, in Kuala Lumpur, Malaysia, July 2008 which includes :
  1. To develop some fertilizer and pesticide plants in D-8 economies, and apply Preferential Trade Agreement for exporting and importing the products to ease D-8 farmers to produce more food products and the supply;
  2. To develop cooperation on animal feed factory within D-8 economies; and apply Preferential Trade Agreement for exporting and importing the products;
  3. To establish a Seeds Bank in D-8 Economies for enough seeds stock whenever are needed for increasing more food products within the economies, as well as a ready stock whenever needed by farmers because of natural disasters, and other unfortunate situation;
  4. To establish D-8 Food Fund for helping the needy on the food within D-8 economies caused by current unfortunate situation in food crisis time;
  5. To set up an R&D and technological cooperation in the areas of agricultural development, especially to increase the productivity both in inland-farming and agrobased industry;
  6. To cooperate for diversifying agricultural products supply, including fishery; animal husbandry; and organic products;
  7. To establish capacity building, including education and training program;
  8. To establish a public-private partnership, by involving more private sectors participation in the programs.

- Investment on food security programs would be spread over five principle areas addressing long-term needs:
  1. Area of investment would be to improve agricultural productivity and enhance livelihoods and food security in poor rural communities by increasing the quantity and improving the quality of locally available food. It also provides a foundation for equitable economic growth.
  2. investment pillar would go to develop and conserve natural resources.
  3. expand rural infrastructure and to broaden

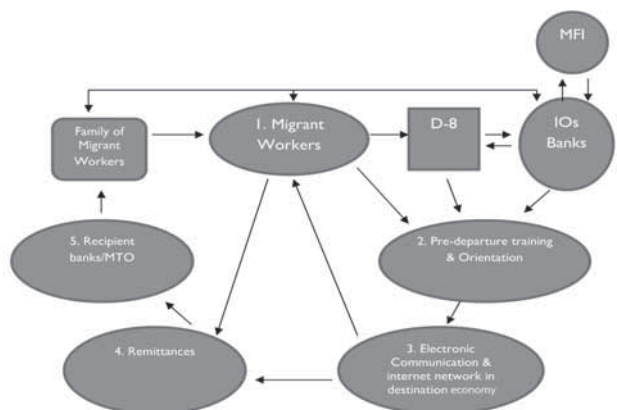
market access.

4. capacity building, knowledge generation and dissemination in particular for small-scale farmers and provide appropriate micro and small scale credits.
5. continuing need to ensure access to food for the most needy. They include various options, including targeted direct feeding programs  
(Source: World Bank, 2008)

### Capacity Building (Training); and Credits for Migrant Workers and their Families

- The D-8 Organization will launch an innovative program to work with migrant workers (MWs) from member economies to better prepare them for productively working in their destination economies; safely and inexpensively send income to their home economies through formal financial channels; and support local investments and entrepreneurs in sending communities through micro and small credit programs in activities promoting food security.
- The overall program will have the following components:
  - Training and orientation for MWs before departure covering basic preparation for working overseas, skill and language preparation, orientation on rights and responsibilities, and preparation to participate in an internet based network or other communications (e.g. cellular phone).
  - Linking them to a network (physical and internet) in their destination economy that will help educate them and protect their rights, provide access to social and essential services and encourage them to inexpensively and safely send back remittances to their communities.
  - Recipient banks or other financial institutions in home economies will receive remittances and be prepared to use these as “collateral” for productive loans, thereby encouraging the use of formal remittance channels and encouraging the productive use of remittances.
  - The program will arrange investment, SME advisory services and or business development services, and training for potential borrowers under the scheme, providing advice at a scale appropriate to the investment level

### D-8 Innovative Program Flows of Migrant



## Workers' Remittances

### Outcomes:

- MWs will be more productive and better prepared to work on arrival
- They will know and be able to exercise their rights and have access to essential services
- They will be able to safely and inexpensively send remittances
- Remittances will be channeled through formal rather than informal systems increasing the transparency and ability of authorities to track and monitor remittances
- Remittances will be more likely to be used for productive investments rather than consumption spending
- Economic development in the sending areas/communities of workers will be promoted
- Employment opportunities and income will be increased in sending areas, both for youth and other economically active cohorts

### Potential Source of Fund to Cooperate with D-8 on Micro credits for Migrant Workers' and their Families in Food Security Program

- In the Summit of FAO in Rome, 5-6 June, 2008, that attended by 181 nations and more than 40 Heads of States and Governments, international organizations, and banks pledged as follows:  
African Development Bank: US\$1 billion  
France: US\$1.5 billion (over five years)  
Japan: US\$150 million  
IFAD: US\$200 million Islamic Development Bank: US\$ 1.5 billion (over 5 years)  
Kuwait: US\$100 million  
Netherlands: US\$75 million  
New Zealand: US\$7.5 million  
Spain: US\$773 million (over 4 years)  
UN Central Emergency Response Fund US\$100 million  
United Kingdom: US\$590 million  
USA: US\$5 billion (2008/2009)  
Venezuela: US\$100 million  
World Bank: US\$1.2 billion
- This new financing announced during the summit, in addition to the US\$6.06 billion mobilized earlier in the year, amounts to a global commitment to food security and agriculture of US\$18.36 billion.

### Cooperating Potential Sources:

- Potential Sources of Financial Support:
- Potential Sources of Non-Financial Support/Advice:

### Implementation Structure:

- Given the number of linked components of the proposed program which would operate in several economies from the pilot phase, a number of public and private sector and regional organizations would have to be involved in implementation.

- While an international NGO could plan, mobilize and coordinate implementation of the program, a set of NGOs with complementary expertise, banking and MFI organizations, government ministries and agencies and private sector firms would also have to be enlisted in the program.
- IOs/Consultants + Local Partner Organizations + Government Agencies/Ministries + Financial Institutions + BDS Sources → Recipients/Participants (Need to include pre-departure training + destination economy network) Schedule for Project Preparation Develop a rough time schedule for the preparation of a proposal for the project and an action plan that would allocate responsibilities for major actions between the D-8, IOs, Banks and other potential partners.

### Schedule for Project Preparation

Develop a rough time schedule for the preparation of a proposal for the project and an action plan that would allocate responsibilities for major actions between the D-8, IOs, Banks and other potential partners.

### An Example of a Project in Mexico

- Migrant remittances are being used as seed funds for family agricultural investments, playing an important role in local community economic development. Hopefully, these investments, coupled with increased practical knowledge about agro-industry, will help create more job opportunities in these rural, economically depressed areas and lessen the likelihood of male migration.
- The general objective of this project is to promote productive activities of mostly agribusiness-related economic groups established primarily by female workforce in the migration-affected rural areas of Mexico, by addressing the lack of business skills, market and information access, and critical seed capital financing. In particular, the project, led by the Fundación de Productividad en el Campo (FDPC), will focus on selected rural communities in the states of Guerrero, Oaxaca, and Michoacán where such social disintegration phenomenon caused by migration is most noticeable. The Project will leverage migrants' remittances for productive investments, integrating them into the economic development of their hometowns, creating jobs so as to stabilize the community in the long term. This will be achieved by organizing the remittances of migrants into an effective and accessible source of seed capital for agricultural producers. The Project will enhance the business skills required for producing and marketing agricultural products from rural areas especially to the US market, leveraging the readily accessible market information and marketing know-how of migrants in the US. The resources raised and invested by those migrants will stimulate business and employment growth in the difficult regions.

### Basic Information of the Project

- Economy : Mexico
- Sector : Microenterprise
- Type : Multilateral Investment Fund
- Status : Completed Approval Date APR 4, 2007
- Project Completion Date : NOV 8, 2007

### Financial Information

- Total Cost : Historic USD 920,000 IDB Financing
- Financing Type : Non-Reimbursable Technical Cooperation
- Approved Amount - Historic USD 460,000 Cancelled
- Disbursed to Date – Revalued USD 453,717

### Conclusion

- Making money transfers from migrant workers work more efficient, effective and secured on Banking, Money Transfer Companies and Microfinance Institutions.
- Reducing remittance costs with recognizing remittance as a self-standing industry, different from banking and thus broaden of players in most corridors.
- Secure all the remittance flows from terrorist by applying Know Your Customer (KYC) and culturally friendly system and shift from IVTS to FVTS; and/or properly regulate IVTS to avoid misuse of migrant workers' remittances.
- Role of Government Social Responsibility (GSR) and Corporate Social Responsibility (CSR) in credits and training for migrant workers and their families
- Migrant Workers' Remittances linked with credits into Investment Promoting Food Security both in micro and small scale.
- Encourage and involve projects supports/funds from supplying and hosting economies as well as CSR programs of companies; and
- Avoid Exaggerated and Discriminative Regulations to Migrant Workers Remittances.

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Thank you, and let's work together to secure and to optimize our migrant workers' remittances for reducing poverty







# SESSION III

*Vulnerability and Risk of Terrorist Used on MVS & WT:  
Practical Issues on FIU and Law Enforcement*

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*Speaker 1 Mr. Stephen Evans*

*Speaker 2 Mr. Sean Wells*





*Speaker 1 Mr. Stephen Evans*



*Speaker 2 Mr. Sean Wells*



## Identifying and Assessing Terrorist Financing on Money Value Systems and Wire Transfers

Stephen Evans, Director of Compliance AUSTRAC

Today I intend to speak about identifying and assessing terrorist financing on money value systems and wire transfers from the Australian perspective. I will outline AUSTRAC's role, discuss the regulatory environment around Money Value Systems (MVS) & Wire Transfers (WT) and guidelines issued to reporting entities. From the FIU perspective, I will discuss analysing and collating financial intelligence in conjunction with looking at a case study. I will also look at some of the practical challenges which will hopefully generate some discussion during the Q & A session.

First, to those of you who may not be aware, AUSTRAC is Australia's national AML/CTF regulator, and specialist financial intelligence unit. We Assist in detection & deterrence of financial crime by:

- collecting, managing & mining a secure repository of money trail data, and
- promoting sound ML/TF risk management across the regulated industry sectors.

AUSTRAC's role as a regulator is 'new' with the implementation of the AML/CTF Act and is not dissimilar to other financial service regulators.

AUSTRAC's vision is an Australian community that is hostile to money laundering and the financing of terrorism. Its purpose is to protect the integrity of Australia's financial system and contribute to the administration of justice through our expertise in countering money laundering and the financing of terrorism.

The industry supervision role is aimed at deterring future criminality vs. intelligence role aimed at detecting past/present criminality. The supervision reputation has to be earned over time vs. already strong international financial intelligence reputation.

The diversity of AUSTRAC's regulated population has divided our supervisor and compliance area into five groups; Major Banks, Non-majors (eg Credit Unions, Building Societies), Non-Bank Financial Services (eg, wealth creation, superannuation, financial advisors and insurance sectors), Gambling (Casinos, bookmakers, clubs and pubs) and Money Service Business.

MSB's include money value transfer systems, stored value cards remittance services, foreign currency exchange, wire transfers and non-bank electronic payment systems.

A person who provides a designated remittance service within Australia is required to register with AUSTRAC.

MSB's, along with other reporting entities have transaction reporting obligations to report International Fund Transfer Instructions, Threshold Transactions & Suspicious Matters. Currently this is under the Financial Transaction Reports Act (FTRA), however, in December this year, reporting will be captured under the AML/CTF Act. The new Act will capture a broader population of entities who will have transaction and suspicious matter reporting obligations. From the FIUs perspective, the increase in the data collection will facilitate their analytical capabilities in detecting financial crimes.

Critical to our supervisor function is to identify who is captured under the AML/CTF Act and to ensure they are registered, if a remitter or enrolled for other reporting entities.


Once you know who is in your regulatory catchment you are able to risk rate these entities and establish a supervisory case prioritisation. Entities and sectors are rated, High, Medium, Low or Minimal Risk. These risk ratings look at the Net Risk = Inherent Risk - Internal Control.

Inherent Risk = likelihood + materiality of exploitation for ML/TF purposes

Internal Control = risk management quality/compliance performance

Surveillance incorporates a monitoring function to supervise the regulated population, including on-site assessments, desk reviews, annual consultation and liaison with other regulators. This activity is the review the entities internal controls to ensure they are meeting their compliance obligations under the Act and managing their risk. In other words, do they have appropriate systems in place to mitigate and deter money laundering and terrorist financing, have appropriate AML/CTF programs, Customer Identification Procedures and are they reporting financial transactions and suspicious matters.

Rectification incorporates the process of the entity putting in place systems and controls to address the concerns that may have been identified by the supervisor team. Typical a report is issued to the entity detailing the outcome of the assessment. The report will detail mandatory rectification action that needs to be taken, along with recommendations were improvements can be made. Hopefully, this is achieved with mutual cooperation.



Enforcement action is usually a last resort. For those entities who have not voluntarily complied with the rectification action, it may be a case whereby some form of enforcement action is required to ensure compliance is achieved. Additionally, those entities that blatantly breach the Act or provided false or misleading information could face prosecution.

AUSTRAC have significant powers to gather information, along with significant penalties for non-compliance. Breaches of the AML/CTF Act may result in criminal or civil penalties. The maximum penalties for criminal offences include imprisonment for up to 10 years and fines of up to \$1.1 million. A contravention of a civil penalty provision may attract a maximum penalty of up to \$11 million for a corporation and up to \$2.2 million for an individual.

To assist entities meet their compliance obligations under the AML/CTF Act and Rules, AUSTRAC provides a number of resource to help entities comply. This ranges from Guidance Notes, E-learning, HelpDesk and the AUSTRAC website.

Having discussed AUSTRAC's regulatory function the FIU is primarily divided into two core areas. The Operational Intelligence unit undertakes a financial analysis of AUSTRAC's data holdings and produces financial intelligence assessments of suspected money laundering, tax evasion and other serious crime, including the financing of terrorism identified from financial transaction report information. This information is disseminated to our partner agencies such as law enforcement and international authorities.

The Research and Analysis unit conduct detailed research utilising sophisticated intelligence tools to provide internal and external stakeholders with proactive intelligence on money laundering and terrorist financing typologies, trends and vulnerabilities.

To assist AUSTRAC in its financial analysis we use a system know as "TargIT" which enables PROACTIVE identification of illicit activity. This is based on "clauses" or financial profiles associated with known money laundering typologies and/or other illegal activities. The clauses have been established with the assistance of AUSTRAC's law enforcement partners who provide intelligence based on previous operations/investigations.

For example, TargIT assists in identifying hidden networks of individuals using International Fund Transfer Instructions as part of their layering and integration phases of money laundering. IFTI report attributes include details such as; Accounts, Addresses, Beneficiary Customer details, Sending Customer details, Telephone/contact information, Sending Institution details, General Report text and Unknown Persons of Interest's linked through the many to one relationship.

While the financial data obtained from reporting entities is utilised in the analysis phase other sources of information are available for intelligence gathering purposes. Extrinsic information is used for validating AUSTRAC information. This information is commonly referred to as either 'open source' and 'closed source' information.

Open source information is readily available in the public domain. For example, telephone information from the electronic white pages, media articles, etc. Closed source information is restricted and NOT commonly available in the public domain. For example, criminal histories and intelligence held by law enforcement agencies.

This information, in conjunction with the data mining of AUSTRAC's data holdings facilitates in the better quality reports.

Exchange instruments or MOUs allow AUSTRAC to receive and provide financial intelligence to our overseas partners (FIUs and law enforcement agencies). This process assists in establishing a global network of FIUs thus making it more difficult for criminals to move funds across national borders undetected. AUSTRAC currently has agreements in place with 50 overseas FIUs.

I would like to highlight a case that illustrates some of the issues I have been speaking to you about. An Australian Law Enforcement Agency commenced an investigation into alleged fund raising and procurement activities by Australian based persons on behalf of an identified terrorist organisation.

Investigations established that Australian based individuals were sending a number of large international funds transfers to businesses in a third economy. These businesses were believed to be front organisations used to launder funds for the terrorist organisation. The persons were sending multiple wire transfers to South East Asia.

Law enforcement ascertained that the majority of the funds originated from cash raised under the guise of charitable activities. Funds obtained were transferred via direct debit into a central account. Third parties also 'rolled' funds from another account into this central account to be repaid later.

The primary targets utilised wire transfers to international bank accounts and bank transfers to accounts held within Australia. The individuals frequently conducted these transactions via internet banking. The individuals funded their activities via cash cheques and the credit cards which were linked to the central account. Legitimate businesses, such as grocers, restaurants and hospitality venues were also utilised to raise funds. The funds would be disbursed by various techniques such as person to person, bank account deposits, assets purchases (e.g. real



estate) and transfer of funds from a central bank account into individuals accounts for alleged 'expenses' relating to the administration of the charitable organisation.

AUSTRAC information identified numerous structured wire transfers of values just under AUD10,000 each. One individual transferred in excess of AUD300,000 in this manner. A central account was not used for the wire transfers. The wire transfers were organised through several different banks. The majority of the transactions were in the suspect's own names, but third parties were used to create the central bank account. Third parties were also utilised to send wire transfers and conduct purchases using funds withdrawn from the main bank account. Several arrests have been made. Those arrested were charged with being members of a terrorist organisation, providing support or resources to a terrorist organisation and making funds available to a terrorist organisation.

As demonstrated by this case, transactions can be through a combination of accounts and in the guise of a legitimate charity. Collaboration with Law enforcement and the FIU was critical in identifying structured transactions that may not have been identified in isolation.

### **Challenges:**

Knowing who is in your regulated population and providing Money Value Services and Wire Transfers.

Supervision of your regulated population.

Transaction reporting.

FIU can only analysis transaction reports provided to AUSTRAC.

Keeping pace with technology advances.

Balance between over regulation and driving MVS and WT underground.

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# Identifying and Assessing Terrorist Financing on Money Value Systems & Wire Transfers

Presented by:

**Stephen Evans**

Director of Compliance AUSTRAC

## Topics for discussion

- About AUSTRAC
- The regulatory environment around Money Value Systems (MVS) & Wire Transfers (WT)
- Guidelines issued to reporting entities
- Analysing and collating financial intelligence
- Case study
- Practical challenges

## About AUSTRAC

- Australia's:
  - national AML/CTF regulator, and
  - specialist financial intelligence unit
- Assists in detection & deterrence of financial crime by:
  - collecting, managing & mining a secure repository of money trail data, and
  - promoting sound ML/TF risk management across the regulated industry sectors



## Money Service Businesses (MSB's)

- MSB's include money value transfer systems and alternative remittance services
- A person who provides a designated remittance service is required to register with AUSTRAC
- MSB's have transaction reporting obligations to report International Fund Transfer Instructions, Threshold Transactions & Suspicious Matters



## Compliance & Enforcement Techniques

- Critical for a Regulator to know who is in their regulated population
- Risk rating & case prioritisation
- Surveillance
  - on-site assessments
  - desk reviews
  - annual consultations
  - liaison with primary regulators
- Rectification
- Enforcement

## AUSTRAC Powers and Penalties for Non-Compliance

- Breaches of the AML/CTF Act may result in criminal or civil penalties
- The maximum penalties for criminal offences include imprisonment for up to 10 years and fines of up to \$1.1 million
- A contravention of a civil penalty provision may attract a maximum penalty of up to \$11 million for a corporation and up to \$2.2 million for an individual

## Guidelines & Resources

- AML/CTF Act
- AML/CTF Rules
- AML/CTF Guidance Notes



- Self Assessment Questionnaire
- Regulatory Guide
- AUSTRAC Help Desk
- E-learning
- AUSTRAC Online

[www.austrac.gov.au](http://www.austrac.gov.au)







### Analysing and collating financial intelligence

- Operational Intelligence
- Undertake analysis and produce financial intelligence assessments of suspected money laundering, tax evasion and other serious crime, including the financing of terrorism identified from financial transaction reports information and disseminate the financial intelligence to national and international authorities.
- Research and Analysis
- Conduct detailed research utilising sophisticated intelligence tools to provide internal and external stakeholders with proactive intelligence on money laundering and terrorist financing typologies, trends and vulnerabilities.

### Analysis of IFTI information

#### AUSTRAC Automated Monitoring System

- TargIT enables PROACTIVE identification of illicit activity that might otherwise remain “hidden” amongst the millions of reports
- TargIT is a rules based system that uses “clauses” (financial profiles) to identify particular types of suspicious financial activity
- These financial profiles are written based on known money laundering typologies and/or other criminal activity linked to such things as narcotics and the financing of terrorism
- Using the Many to 1 typology, the system will flag multiple persons and or accounts linked to suspicious financial activity often associated to ML/TF & serious crime

### Extrinsic Data Sources

Extrinsic information is used for the purposes of validating AUSTRAC information during the analysis phase. This information is commonly referred to as either ‘open source’ and ‘closed source’ information. Open source information is readily available in the public domain. For example, telephone information from the electronic white pages, media articles, etc.....



**Closed source** information is restricted and NOT commonly available in the public domain. For example, criminal histories and intelligence held by law enforcement agencies

### International Exchange

- Exchange instruments allow AUSTRAC to receive and provide financial intelligence to our overseas partners (FIUs and law enforcement agencies)
- This process assists in establishing a global network of FIUs thus making it more difficult for criminals to move funds across national borders undetected.
- AUSTRAC currently has agreements in place with 50 overseas FIUs

### Case Study

- Australian Law Enforcement commenced an investigation into POI identified with links to a terrorist organisation
- Established that multiple wire transfers sent to South East Asia
- Funds had originated under the guise of charitable activities
- AUSTRAC information identified structured wire transfers, including those in the POIs own name
- Third parties were also identified as sending wire transfers
- Several arrests have been made including charges of providing support or resources to a terrorist organisation



### Challenges

- Knowing who is in your regulated population and providing Money Value Services and Wire Transfers
- Supervision of your regulated population
- Transaction reporting
- FIU can only analysis transaction reports provided to AUSTRAC
- Keeping pace with technology advances
- Balance between over regulation and driving MVS and WT underground



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# Federal Bureau of Investigation Terrorist Financing Operations

Presented by:

**Sean Wells**

Supervisory Special Agent - FBI

## Terrorist Financing Operations Section (TFOS)

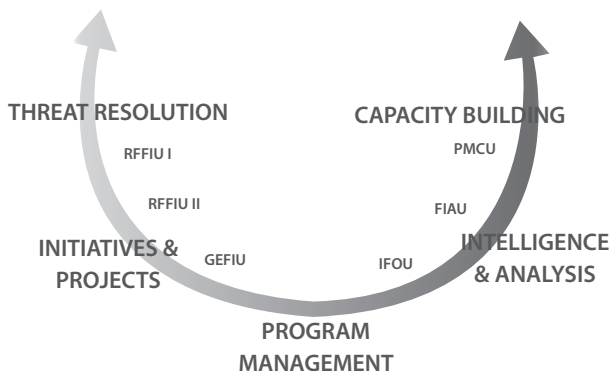
- Formed after 9/11 Attacks
  - Created to meet the need for a more centralized approach to terrorist financing
  - Mission has since evolved into a broader strategy
- Marriage of two key skill sets
  - Counterterrorism
  - Financial Crimes
- Mission: To lead law enforcement and the intelligence community in the U.S. to defeat terrorism through the application of financial investigative techniques and the exploitation of financial intelligence.
- Evolution toward proactive, preventive, predictive capabilities

## Operational and Coordinating Responsibilities

- Operational
  - Initiate financial aspects of terrorism investigations
  - Provide training, guidance, and assistance to field investigators and Legal Attache on financial portion of terrorism cases
- Coordinating
  - Identify, analyze, and exploit financial links between FBI investigations worldwide
  - Foster intra-governmental and private sector liaison relationships to enhance CT efforts

## Strategic Game Plan

TFOS focuses on five priority areas toward the fulfillment of its mission



## TFOS Global Strategic Operations

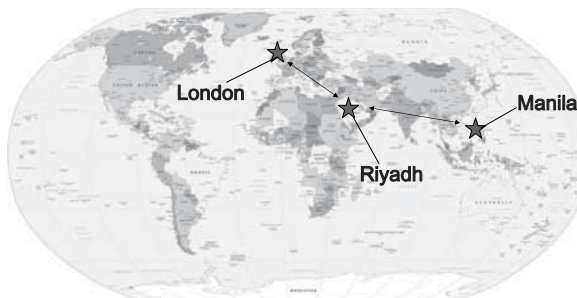
The goal of TFOS global strategic operations is to identify CONUS links through intelligence sharing with OGAs and foreign partners.

- Sensitive Database Checks
- Partner Economy Initiatives
- Reverse Money Laundering Operations
- Cash Courier / Terrorist Financing Interdictions
- Source Deployment Operations
- Military / OGA Intelligence Sharing

## TFOS Global Reach

- USG Global Priorities for Legat/TFOS Coordination
  - Intelligence
  - Key donors, fundraisers, facilitators
  - Charities
  - Cash couriers
  - Support/build capacity for partner economy TF investigations and prosecutions
- Global TFOS Placements

## Current TFOS Strategic Placements



### London, UK

- Working with: London Metropolitan Police, National Terrorist Financial Investigative Unit (NTFIU - lead agency for investigating TF in the UK)
- TDY assignment:
  - Assess NTFIU investigative methods and techniques for guidance to TFOS and field
  - Develop strategic initiatives with UK
  - Facilitate TF leads with NTFIU
- Contact TFOS rep to discuss potential leads for NTFIU, i.e. suspected money movement and travel to or via the UK



### Riyadh, Saudi Arabia

- Working with: Saud Project (FBI) - Joint Terrorist



- Financing Task Force (JTFTF)
- JTFTF – (Inter-agency)
    - Identifies money launderers and terrorist financiers in KSA and U.S.
    - Goal is to also Review, analyze and investigate suspicious financial transaction reports with CONUS connections
    - Shares investigative results to move toward appropriate intelligence or prosecutive resolution
  - Supported through information exchanges and joint analysis by FBI, CIA, Saudi Mabathith, and Saudi FIU
  - Contact TFOS rep for potential assistance from the JTFTF in cases with a nexus to Saudi Arabia

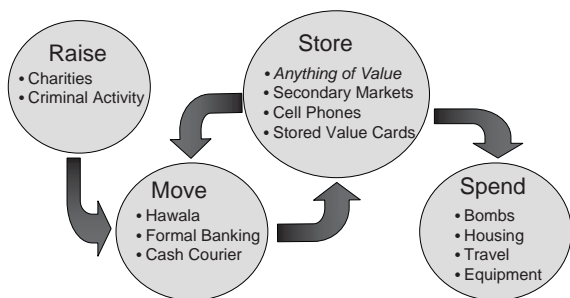


**Manila, Philippines**

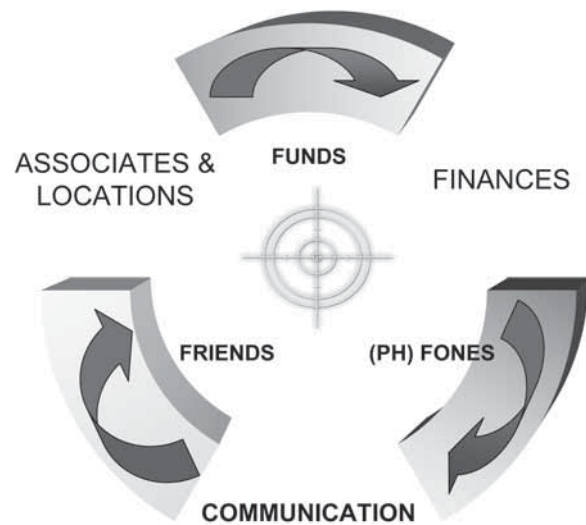
- Embedded with: Anti-Money Laundering Council (AMLC)
- AMLC – both Financial Intelligence Unit (FIU) and criminal investigator for money laundering violations
- TDY assignment:
  - Provide investigative guidance to and enhance coordination & info sharing among various Philippine LE/CT entities on TF investigations
  - Provide greater support to FBI cases with a TF nexus to Philippines
- Contact TFOS rep for potential assistance from AMLC in cases with a nexus to the Philippines



**Terrorist Financing Cycle : Complex Yet Traceable**



**THE THREE “F’s”**

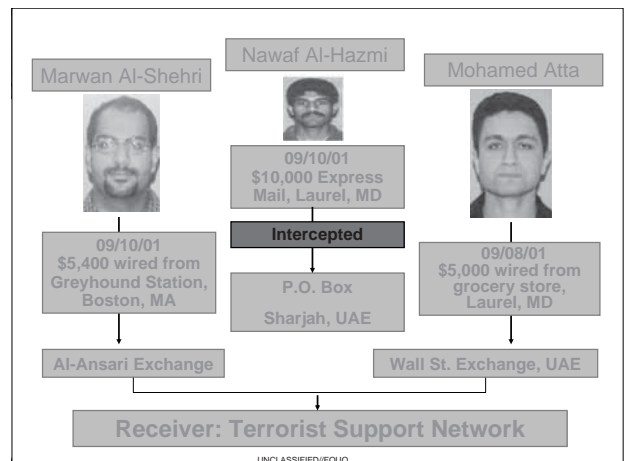


**Five Types of Financial Investigations Relating to Terrorism**

- Financial Autopsy
- Terrorist/Terrorist Cell
- Non-governmental Organizations
- Criminal Activity
- Facilitators of Funding

**Financial Autopsy (9/11 Type Attack)**

- Occurs after an attack
- Usually terrorists committing the attack are dead
- Provides a timeline and leads to associates and/or commanders of attack
- Allows for a more overt investigation including witnesses, neighbors, search warrants, etc.
- Tracing financial activity provides information about:
  - Organizers/Leaders of attack—financial operations entrusted to senior members
  - Historical Tracking Timeline (ATM/Debit and Credit Cards)
  - Associates: aiders/abettors and co-conspirators



### Terrorist/Terrorist Cell

- Focuses on a single operative or cell believed to be in the planning or pre-attack stages of a terrorist attack
- Uses financial information to further identify
  - the subject
  - his/her whereabouts
  - funders of the attack
  - associations
  - recent purchases
- Tracing financial activity provides information about:
  - Organizers/Leaders of attack
  - Historical Tracking Timeline
    - Whereabouts
    - Travel
    - Purchases
  - Network/Associates: aiders/abettors and co-conspirators
  - Evidence Identification
  - Disruption (seizure of funds)
  - Identification of Sleepers

### Non-governmental Organizations (NGOs)

- Identify the source and distribution of funds for a specific NGO
- Determine if these funds are used to support terrorist activity
  - NGOs are removed from actual acts of terrorism by their indirect support of such activities through fundraising or providing cover employment
  - NGOs have become adept at various money launder techniques to disguise origination and/or the end-recipient of the funding
- Tracing such financial activity provides information about:
  - Organizers/Leaders
  - Funders
  - Terrorists
  - Organizations/government involvement
  - Disruptions
  - Identification of phones to be tapped or records to be seized
  - Cover employment for terrorists
  - Purchase of goods for material support

### Criminal Acts

- Terrorist groups often use criminal operations as a way to fund their operations.
- Also "strong arm" criminal groups to provide a portion of their profits to support the terrorists' cause.
- Reasons for Conducting such an investigation
  - Funds terrorism
  - Easy to Disrupt operations
- Types of criminal acts used by terrorists
  - Drug trafficking
  - Smuggling (money, diamonds, gold, other goods)

- Counterfeiting (money and goods)
- Credit card fraud (bust-out schemes)
- Bank robberies
- "Protection"
- Money laundering
- Tax fraud
- Human smuggling/trafficking
- Unlicensed money remitters (Hawalas)

### Material Support to Terrorism: Khalid Awan

- Awan was in prison on federal credit card fraud charges
- TF Investigation - an inmate reported that Awan boasted of his relationship with a Sikh terrorist group, KCF
- Evidence in the case included:
  - Recordings of Awan's telephone calls to Pakistan which included introducing the inmate as a new recruit
  - Statements by Awan admitting he sent hundreds of thousands of dollars to KCF
  - Testimony by two KCF fundraisers that they had delivered money to Awan's residence
  - Financial evidence showing money movement
- Financial evidence obtained through multiple SARs, CTRs, combined with subpoenaed bank/wire records

### Convicted & Sentenced: Khalid Awan

- 3 week trial in December 2006
- Convicted of:
  - 2 counts of Material Support of Terrorism
  - 1 count of Money Laundering for Terrorism
- Sentenced to 14 years in prison

### Facilitators of Funding

- Types
  - Couriers
  - Hawalas
  - Travel Agencies
- Tracing such financial activity provides information about:
  - Identification of Terrorists
  - Identification of Terrorist Funding

### Wire Transfers

- Obtain Chips, FedWire, SWIFT, or other money transfer or message documents
  - Reveals senders, recipients, senders' account number, senders' banking institution, special instructions
- Obtain items used to buy the wires
- Obtain items purchased with the wires received
- Obtain notes, memos or other writings pertaining to the sending or receipt of wire transfer

### Funds Transfer Documentation

- Request / Instruction (At Originator's bank)
- Transfer Document (Located at banks executing transfer)



- Advice of Credit or Debit (Located at banks and copies sent to customers)
- Statement (Located at banks and copies sent to customers)

### “Travel Rule”

- Rules designed to assist law enforcement in detecting, investigating and prosecuting money laundering and other financial crimes by preserving an information trail about persons sending and receiving funds through funds transfer systems.

### Current and Emerging Trends

- Cash is still King –
  - Cash Couriers
  - Hawalas
  - Self funded through local criminal activity
- However, still need to be aware of and monitor
  - Use of formal banking systems
  - Wire Transfers
  - Emergence of e-commerce, digital currency
  - Investment schemes
  - Trade off set schemes
- Mobile Phone and Funds Transfers (M-Payments)
- Potential for abuse:
  - M-payments from a stored value card
  - Telecoms as financial service provider not subject to financial regulators
  - Potential weaknesses in regulations of financial institutions providing service via mobile platforms

### DETECT, DISRUPT and DISMANTLE Identification/Investigation

- FIU and Law Enforcement/Intelligence Community formed as a TFWG is crucial, similar to JTTF.
- Verify identifying information on MVS or WT transaction through BSA reporting (SAR/CTRs), law enforcement/Intel databases, open source/credit bureau databases.
- Utilize various techniques (Human Sources, Consensual Monitoring, Electronic/Physical Surveillance, Mail/Trash Covers, Undercover, Reverse Money Laundering Operations).

### Evidence Collection and Analysis Collection/Analysis of Evidence

- Financial Institutions are key in providing complete records. Partnership with financial industry is key especially in tracking transactions and disruption.
- For trial preparation, obtain certification of authenticity
- Overseas Financial Records – Obtain through Mutual Legal Assistance Treaty (MLAT), Letters Rogatory, Legat/Police Cooperation, or EGMONT.
- Obtain through administrative subpoena, court authorized search warrants or consent.
- Document Exploitation (scanning of financial documents retrieved from police/military operations).

### Additional Places to Obtain Financial Leads

- Airlines
- Shipping Companies (Fed EX, UPS, DHL, Aramex, container ships, etc)
- Wire Houses (Western Union, Casa de Cambios, hawalas)
- Hotels
- Car Rentals
- Utilities
- Casinos
- Insurance Companies
- Purchases—lead to businesses which lead to goods purchased:
  - Computers: search hard drives/e-mail accounts
  - Cellular Phones: phone records, line taps
  - PDAs: address book, day planner, internet access
- Currency Exchanges
- Securities/Commodities Firms

### Analyzing Evidence

- Conduct Analysis of Records (Net Worth, Debit/Deposit, Credit/Use)
- Identify Financial Intelligence (FININT) gaps and provide investigative leads for follow-up. Follow the Money trail and suspicious transactions.
- Utilize derogatory and FININT to establish material support of terrorism charges and to apply for blocking of assets and designation.

### OFAC Designations and Blocking Orders

#### EO 13224--SDGT

- Treasury: OFAC
  - Voted on by PCC
    - FBI is a member
- Effects
  - Freezes Assets
  - “Shut down” Operations
  - Blocks future transactions
- U.S. Action
  - Low Burden: Reasonable Belief
  - International reach limited to U.S. based financial institutions

#### U.N. 1267 Committee

- State Department
  - Submitted to U.N.
    - Security Counsel
- Effects (if enforced)
  - Freezes Assets
  - “Shut down” Operations
  - Blocks future transactions
  - Travel Ban
- Worldwide Action
  - Only if connected only to A.Q. & Taliban
    - Hamas & Hizballah not recognized by U.N. as Terrorist Organizations



## Challenges

- Traditional money movement & storage methods
- Technological regression responding to increased vigilance in formal sector
  - Couriers/Bulk Cash Smuggling
    - Difficult to detect
    - No paper trail
  - Hawala
    - Poor or nonexistent record-keeping
    - Lack of oversight, accountability
    - Anonymity
- Technological advancements to regain anonymity through virtual transactions

## Practical Challenges and Recommendations

- Incomplete originator information on wire transfers.
- Unregulated Informal Value Transfer Systems (IVTS) which include alternative remittance systems such as Hawala.
- Untimely, unreadable and incomplete response from covered institutions on requested financial records.
- Dilemma between intelligence collection vs. law enforcement disruptions (arrests/freezing of assets).
- Better Coordination/Working Relationship between law enforcement and FIUs.

## Conclusion

- Following the money trail requires inter-agency, international and financial industry cooperation.
- This APEC Forum can build a more pro-active and robust regional cooperation to address all aspects of Combating the Financing of Terrorism.

## QUESTIONS?



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# SESSION IV

*Developing International Cooperation in Enhancing  
Remittance Channels Protection*

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*Speaker 1 Mr. Stephen Evans*

*Speaker 2 Mr. Eliot Kennedy*



*Speaker 1 Mr. Stephen Evans*



*Speaker 2 Mr. Eliot Kennedy*



## The Egmont Group International Cooperation

Presented by :

**Stephen Evans**

Director of Compliance - AUSTRAC

### Overview

- Introduction
- The Egmont Group
- Membership
- Principles of information exchange
- Memorandum of Understanding
- Encouraging cooperation

### Introduction

- Money laundering and financing of terrorism are truly transnational. Countering them requires effective international cooperative effort.
- Following the money trail is vital and this strategy has been extremely successful in identifying the finances and financiers of crime and terrorism.
- Developing the cooperation between FIUs and financial service providers of money value services and wire transfers will enhance tracing money trails.

## The Egmont Group

### Origins of the Egmont Group

A group of FIUs met for the first time in June 1995 at the Egmont-Arenberg Palace, Brussels, Belgium.



Provides a forum for FIUs to improve support to their respective national anti-money laundering programs.

### Purpose of the Egmont Group

- Expand and systematize international cooperation in the reciprocal exchange of financial intelligence information
- Foster better communication among FIUs and share expertise
- Identify existing and emerging counterpart agencies
- To offer training to increase the effectiveness of FIUs

- To increase the application of technology

### Benefits of becoming an Egmont Member

- FIUs are the decision makers within the Egmont Group
- FIUs participate in the activities of the working groups and design the ways we operate and cooperate
- FIUs may participate in Egmont Group sponsored training
- Increased cooperation and intelligence sharing with other FIUs

### Benefits of becoming an Egmont Member (cont.)

- Access to information and advice from other FIUs
- Meets FATF Recommendation 26 and other FATF requirements
- Egmont FIUs have access to the Egmont Secure Web (ESW) for exchange of intelligence
- Access to FIU.Net

## Becoming an Egmont member

### Admission requirements

- Meet the 'Egmont Definition'
- Fully operational as an FIU
- Legal basis and willingness to cooperate with counterpart FIUs

### Admission procedure



## Principles of information exchange

### Egmont principles of information exchange

- General framework
- Conditions for the exchange of information
- Use of information
- Confidentiality

### General framework

- International cooperation between FIUs should be encouraged
- FIUs should take steps to seek information that will assist law enforcement or financial supervisory agencies

- FIUs should work to encourage standards and laws that do not inhibit the exchange of information between FIUs
- Information sharing arrangements must recognise and allow for room for case-by-case solutions to specific problems

### Conditions for the exchange of information

- FIUs should be able to exchange information freely with other FIUs on the basis of reciprocity or mutual agreement
- An FIU requesting information should disclose the reason for the request and the purpose for which the information will be used

### Use of information

- Information exchanged between FIUs may be used only for the specific purpose for which the information was sought or provided
- The requesting FIU may not transfer information shared by a disclosing FIU to a third party without the prior consent of the FIU that disclosed the information

### Confidentiality

- All information exchanged by FIUs must be subjected to strict control and safeguards to ensure that the information is used only in an authorized manner
- At a minimum, all exchanged information must be treated as protected by the same confidentiality provisions that apply to similar information from domestic sources obtained by the receiving FIU.

### Limits to exchange information

- Information to be shared between FIUs only
- Authorisation from FIU giving information is required if information is to be used for another purpose
- Limits established by national legislation
- No obligation to exchange information when the matter is under a judicial process

## Memorandums of Understanding

### Definition

- A Memorandum of Understanding (MOU) is an informal agreement between FIUs on a national legislation basis

### Purpose

- The purpose of an MOU is to allow the exchange of information in relation to money laundering and terrorism financing
- An MOU ensures that both parties agree to abide by the Egmont Principles
- Egmont Group has template MOU

## Encouraging Cooperation

- What current relationships does your FIU have with financial service providers of money value services and wire transfers?
- How do you encourage cooperation?
- Best practice.
- FIU -v- Regulator
- Different approaches in different jurisdictions
- Licensing/registration requirements
- Designated competent authority
- Best practice
- Common perspective
- International cooperation
- Guidelines

\* \* \*



## Implementation of SR VI & SR VII by APG Members, Lesson Learned and Developing Guidance

Presented by:

**Eliot Kennedy**  
Deputy Secretary  
APG Secretariat

### Overview of presentation

- General factors influencing implementation of FATF Recommendation in the region
- Process for mutual evaluations and ratings
- SRVI – Compliance levels, factors in ratings, implementation lessons
- SRVII – Compliance levels, factors in ratings, implementation lessons
- Guidance on implementing SRVI and SRVII and future work

### Regional Challenges

- Specific vulnerabilities include:
  - Relatively low institutional capacity
  - Corruption levels across the region
  - Proliferation of profit-driven crime
  - High use of alternative remittance systems
  - Extensive use of cash and high value items
  - Serious terrorist activity and on-going threats
  - Very porous borders

### Key Determinants Affecting Implementation (1)

- Political will & engagement
  - Gaining, maintaining & sustaining political will is the primary determining factor – priorities & resources
  - Affected by levels of awareness, understanding & trust
  - May be a 'hostile' environment – reject external pressure; contrary to political / economic objectives; self-interest
  - Need coordinated, consistent & integrated approaches
- Nature of the economy & level of development
  - Affects political will, domestic priority setting & sequencing
  - Affects reliance on aid & external influences on priority-setting
  - Affects core frameworks, institutional capacity & development

### Key Determinants Affecting Implementation (2)

- Governance & institutional development
  - Nature, capacity and pace of legislative processes

- Frequency of sessions & pressures on program
- Nature of consultative processes
- Nature of legal frameworks
  - Transitional issues – new systems & processes taking time
  - Framework at variance with standards – decree vs law – time issues
- Institutional capability & capacity
  - Knowledge, skills & resource gaps
  - Affects risk, needs & compliance assessments - cautious
  - Affects ability to prepare advice & plan for implementation
  - Affects coordination structures (coverage & competition)

### Key Determinants Affecting Implementation (3)

- Corruption - political & institutional impacts
  - Affects willingness to conduct & accept risk & other assessments
    - requires concentrated & coordinated international effort
  - Impedes effective implementation
    - prioritisation, sequencing & resource allocation
    - may involve direct involvement in facilitating ML & TF
  - Undermines trust in AML/CFT system & institutions
    - impedes effective domestic cooperation
    - impedes international AML/CFT cooperation
  - ability to receive & offer information, cooperation & mutual assistance

### APG mutual evaluations

- Core APG membership requirement to participate in a mutual evaluation
- 21 members evaluated in the 1st Round of APG evaluations (until 2005), 3 using 2004 Assessment Methodology
- 18 of 38 members evaluated so far in second round using the 2004 Methodology
- Includes joint assessments with FATF and adoption of IMF and World Bank assessments

### APG Members evaluated using 2004 Methodology

Afghanistan	Mongolia
Australia*	Myanmar
Bangladesh	Nauru
Brunei Darussalam	Nepal
Cambodia (by IMF)	New Zealand*
Canada*	Niue
Chinese Taipei	Pakistan
Cook Islands	Palau (by IMF)
Fiji Islands (by WB)	Philippines



Hong Kong, China*	Samoa
India	Singapore*
Indonesia	Solomon Islands
Japan*	Sri Lanka
Korea, Republic of	Thailand (by IMF)
Lao PDR	Timor-Leste
Macau, China	Tonga
Malaysia	USA*
Maldives	Vanuatu
Marshall Islands	Vietnam

### The Rating System

- 2004 Methodology sets a high standard.
- Four ratings:
  - "Compliant": threshold very high, to be used only in situations where the Recommendation is fully observed with respect to all essential criteria. (100%)
  - "Largely compliant": minor shortcomings, with large majority of essential criteria met.
  - "Partially compliant": some substantive action taken, with some of the essential criteria met.
  - "Non-compliant": major shortcomings, with a large majority of the essential criteria not met. (not 0%)
- May also mark (very rarely) as "not applicable"

### SRVI: Ratings for APG members (1)

- Compliant (1): Brunei Darussalam
- Largely compliant (4): Chinese Taipei; Macao, China; Singapore; United States
- Partially compliant (9): Australia; Fiji; Hong Kong, China; India; Malaysia; Nepal; Samoa; Thailand; Vanuatu
- Non-compliant (7): Cambodia; Canada; Indonesia; Mongolia; Myanmar; Palau; Sri Lanka

### SRVI: Ratings for APG members (2)

- Of 21 APG members evaluated:
  - 1 Compliant
  - 4 Largely compliant
  - 9 Partially compliant
  - 7 Non-compliant
- Therefore
  - 5/21 evaluated members (24%) C/LC
  - 16 of 21 evaluated members (76%) PC or NC

### SRVI: Ratings for APG members (3)

- FATF comparison
  - 10/21 evaluated members (48%) C/LC
  - 11/21 evaluated members (52%) PC/NC
- Other FSRBs
  - Moneyval: 37% C/LC, 63% PC/NC
  - CFATF: 62% C/LC, 38% PC/NC
  - ESAAMLG, EAG, MENA, GAFISUD: 25% C/LC, 75% PC/NC

### SRVI: Ratings for APG members (4)

- APG members' level of compliance with SRVI not high in absolute or relative terms

SRVI	C/LC
CFATF	62%
FATF	48%
Moneyval	37%
Other FSRBs	25%
APG	24%

### SRVI: Factors in ratings (1)

- Some factors in higher ratings given:
  - Relevant legislation/regulation – MVTs licensed, registered (with regular renewals) or prohibited
  - Where MVTs permitted, efforts made to identify MVTs
  - High ratings on relevant FATF Recommendations (re CDD, STR etc) applying under SRVI to MVTs
  - AML/CFT requirements (eg CDD, STR) extend to MVTs
  - Supervisor of MVTs clearly established and resourced and on-site inspections of MVTs actually occur
  - Guidance issued to MVTs
  - Sanctions for non-compliance with requirements exist and are applied
  - Strong enforcement efforts in relation to unlicensed MVTs (involving regulators and law enforcement)
  - Outreach to MVTs and public

### SRVI: Factors in ratings (2)

- Some factors in lower ratings
  - Deficiencies in general CDD, STR requirements affect rating for SRVI
  - MVTs prohibited by law but lack of effective implementation of the law
  - No or ineffective registration/licensing regime
  - No regulatory/supervisory framework for MVTs and MVTs not subject to AML/CFT controls
  - Large informal sector with no/few efforts to identify and regulate MVTs
  - Lists of agents not available
  - Sanctions non-existent or not/poorly applied
  - No outreach or on-site inspections

### Implementation Lessons: SRVI (1)

- Mutual evaluations, workshops and technical needs assessments show that virtually all APG jurisdictions find implementing SRVI a challenge
- The majority of jurisdictions in the Asia/Pacific region do not have a fully effective system to regulate and oversee ARS
  - there are low levels of compliance across the board
  - there is a lack of comparative models
  - relatively little technical assistance has been provided to directly address SRVI



**Implementation Lessons: SRVI (2)**

- A key policy issues - how to regulate the informal sector without sending it underground? And how to bring underground operators into the formal system?
  - Regulatory models need to support efficient and affordable formal remittance systems with wide coverage
  - Building incentives to avoid ARS operators going 'underground' /to identify themselves if currently operating underground
  - There may be a need for assistance in designing and implementing systems to suit local conditions
  - Lack of information on remittance markets and size and scope of remittance corridors
  - There is a need for guidance on how to best assess the risk from ARS (nature, size, scope, vulnerabilities)

**Implementation Lessons: SRVI (3)**

- Particular implementation challenges for those jurisdictions that have outlawed ARS
  - A need to support concentrated enforcement actions which identify ARS operating illegally – awareness raising, identification strategies etc.
  - How to support affordable, legal remittance channels?
  - Implications also for neighbouring economies which have not outlawed ARS
  - Some regional models to follow (eg Pakistan), but such models need further emphasis on enforcement plus incentives to move to formal channels

**Implementation Lessons: SRVI (4)**

- A need for further capacity development for ARS regulators
  - identification, monitoring and supervision, enforcement
  - awareness raising
- Which agencies should license and monitor ARS?
- Obstacles in identifying ARS operators, especially those who operate additional or parallel businesses
- Supervisory capacity constraints for monitoring and auditing ARS operators
- Challenges for due diligence on operators applying for a license (where required)

**Implementation Lessons: SRVI (5)**

- Challenges in law enforcement understanding the use of ARS systems in ML and FT
- Need for coordinated national responses (regulatory and enforcement) to better understand all aspects of ARS and identify criminal use for ML and FT
  - law enforcement task forces to identify criminal use for ML & FT
  - FIU, police, customs, central banks, ministries of finance and trade etc

- need to focus on balancing mechanisms such as trade based ML using special investigative techniques (undercover)
- There is a need to develop law enforcement capacity to investigate cases ML and FT involving ARS

**SRVII: Ratings for APG members (1)**

- Compliant (0)
- Largely compliant (4): Chinese Taipei; Malaysia; Singapore; United States
- Partially compliant (6): Fiji; Hong Kong,China; India; Macao,China; Malaysia; Nepal; Samoa;
- Non-compliant (11): Australia; Brunei Darussalam; Cambodia; Canada; Indonesia; Mongolia; Myanmar; Palau; Sri Lanka; Thailand; Vanuatu

**SRVII: Ratings for APG members (2)**

- Of 21 APG members evaluated:
  - 0 were Compliant
  - 4 Largely compliant
  - 6 Partially compliant
  - 11 Non-compliant
- Therefore
  - 4/21 evaluated members (19%) C/LC
  - 17/21 evaluated members (81%) PC or NC

**SRVII: Ratings for APG members (3)**

- FATF comparison
  - 5/21 evaluated members (24%) C/LC
  - 16/21 evaluated members (76%) PC/NC
- Other FSRBS
  - Moneyval: 25% C/LC, 75% PC/NC
  - CFATF: 12% C/LC, 88% PC/NC
  - ESAAMLG, EAG, MENA, GAFISUD: 12% C/LC, 88% PC/NC

**SRVII: Ratings for APG members (4)**

SRVI	C/LC
Moneyval	25%
FATF	24%
APG	19%
CFATF	12%
Other FSRBs	12%

- APG members' level of compliance with SRVI low in absolute terms, but comparable to others in relative terms

**SRVII: Factors in ratings (1)**

- Some factors in higher ratings
  - Economies have translated SRVII in to law, regulation or other enforceable means (notices, rules etc)
  - Higher risk providers of wire transfers (remitters) also well regulated (cross-over to SRVI)

- Record-keeping requirements apply specifically or generally to wire transfers
- Compliance monitored by supervisors through on-site inspections
- Sanctions for non-compliance with requirements exist and applied as appropriate

### SRVII: Factors in ratings (2)

- Some factors in lower ratings
  - No requirements re wire transfers as per SRVII, eg that originator information be obtained, verified and included in transfer, or for intermediary or beneficiary institutions
  - No obligations requiring risk-based procedures to identify and handle wire transfers not accompanied by complete originator information
  - Where requirements do exist, no effective implementation or monitoring for compliance, or not applied to non-banks
  - Domestic wire transfers not covered

### Implementation Lessons: SRVII (1)

- Similar lessons to SRVI
  - Mutual evaluations show that virtually all APG jurisdictions find implementing SRVII a challenge
  - The majority of jurisdictions in the Asia/Pacific region do not have a fully effective systems in relation to wire transfers
  - Relatively little technical assistance/guidance has been provided to directly address SRVII
  - Jurisdictions need to implement law, regulations or OEM that meet the requirements of SRVII and to effectively implement them

## Guidance and future work

### SR VI: FATF Best Practices Paper (20 June 2003)

- Provides useful examples in relation to:
  - Licensing and registration
  - Identification and awareness raising
  - Application of key AML/CFT standards
    - Customer identification
    - Record keeping requirement
    - Suspicious transaction reporting
  - Compliance monitoring
  - Sanctions

### SR VI: Identification Strategies (from BPP)

- For most jurisdictions, proactive identification of informal MVT services an integral element of establishing and maintaining an effective registration / licensing regime
- Best practices include:
  - Use of media to detect advertising
  - Use of investigative information
  - Relationship between MVT services and cash couriers

- STRs and 'significant' or 'large' cash transaction reports
- Assisting banks to identify MVTs
- Sharing information/intelligence internationally
- BPP contains similar advice re awareness raising campaigns

### APG ARS Implementation Package (July 2003)

- Builds on 4 years of APG work on ARS
- Consistent with SRVI, Interpretative Note and BPP
- Tries to take a realistic approach, recognising capacity constraints in many Asia/Pacific jurisdictions
- Contains advice and examples regarding:
  - Identification of MVTs
  - Regulation of MVTs (licensing and registration)
  - Awareness raising

### Next Steps for APG

- Further Mutual Evaluations
- Update the ARS Implementation Package
- Work with the donor and provider group to consider further technical assistance re SRVI and SRVII
- Feedback from this regional seminar is important to all of the above

For more information on the APG  
visit our website:

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To obtain more information on the FATF or consult  
the full texts of FATF standards:

[www.fatf-gafi.org](http://www.fatf-gafi.org)



# SUMMARY RECORD OF THE APEC SEMINAR ON SECURING REMITTANCE AND CROSS BORDER PAYMENT FROM TERRORIST USE

JAKARTA, 22-23 October 2008

APEC Seminar on Securing Remittance and Cross Border Payment from Terrorist Use was held in Jakarta on 22-23 October 2008. Participants attended from 15 APEC member economies namely from Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong-China, Indonesia, Korea, Malaysia, Mexico, Peru, Chinese Taipei, United States, Thailand and Vietnam. In addition, the seminar was also attended by representatives from organizations such as World Bank, Central Bank of Indonesia (BI), Center for Micro Finance and Indonesian Overseas Workers Studies (CEMFIOWS)/D-8 Economies Organization for Economic Cooperation, Australia Transaction Reports and Analysis Center (AUSTRAC), Federal Bureau of Investigation (FBI), Asia/Pacific Group on Money Laundering (APG-ML) as well as representatives from local government departments/agencies, universities and private sectors (financial service providers).

The main objective of this seminar is to increase awareness among APEC Economies on the significance of implementing FATF Special Recommendations (SR) VI and VII regarding alternative money remittance and wire transfers. Another objective of the seminar is to promote regional cooperation in enhancing protection of alternative money remittance and transfer channels from terrorist use. In addition, the forum hopes to provide a venue where regulatory bodies as well as law enforcement agencies could exchange experience in implementing SR VI and VII. The Seminar also produced a list of Recommendations/Guidelines on possible concrete actions to secure remittance and cross border payments from terrorist use.

## Opening Remarks

In his opening remarks, H.E. Ambassador Sang-Ki Park, the previous Chair of the APEC Counter Terrorism Task Force (CTTF), emphasized the need to explore the aspect of terrorism financing and how it may be combated. Combating money laundering and countering financing terrorism are essential to strengthen security and the stability of the economy. He reiterated that CTTF has taken FATF Recommendations and UN instruments as standards for combating money laundering and terrorist financing. Furthermore, these instruments have persuaded APEC members to enhance regulation and law enforcement by building Financial Intelligence Units (FIUs) and to foster cooperation

through the exchange of financial intelligence among FIUs. Therefore, Ambassador Park encouraged all parties to strengthen their efforts to forge a strong and more effective partnership among domestic and international stakeholders.

This was followed by the welcoming remarks and the official opening of APEC Seminar by Head of Indonesian Financial Transaction Reports and Analysis Center (INTRAC/Indonesian FIU), Dr. Yunus Husein. In his opening remarks, the Head of the INTRAC reminded the participants of the importance of this seminar seeing that formal money remittance, alternative remittance systems (ARS) and wire transfers not only play an important role in the economies but also play a significant role in the livelihoods of millions of people around the world. With this in mind, the head of INTRAC stated due to the nature of the ARS, economies need to be aware of the potential of the misuse of ARS by terrorist. He, therefore, emphasized the need for economies to implement the FATF Special Recommendations VI and VII, which recommend actions of expanding and enhancing national and international policies that are set up to prevent money laundering crime and terrorist financing.

## DAY I

### Session I

#### “Establishing International Measurements on Securing Money and Value Service and Wire Transfer from Terrorist Use”

Eliot Kennedy, Deputy Secretary APG Secretariat, spoke on behalf of the Financial Action Task Force (FATF), explaining that the APG is the ‘FATF-style regional body’ for the Asia Pacific region and an Associate Member of the FATF. He explained the main objectives of the FATF, which are to establish international standards for AML/CFT, to measure its members’ compliance with those standards, and to study the methods and techniques of money laundering and terrorist financing (‘typologies’). Reflecting the fact that FATF and APG typologies work had shown that ARS had been misused by both money launderers and terrorist financiers, SR VI was introduced in October 2001 to increase the transparency of payment flows by ensuring consistent anti-money laundering (AML) / countering the financing of terrorism (CFT) measures apply to all forms of money value transfer (MVT) systems particularly those operating outside of the conventional financial sector. After the 9/11 terrorist attacks, investigations had shown the misuse of both ARS and wire transfers to support terrorist operations. In October 2001, SR VII was introduced to prevent terrorist and other criminals from having unregulated access to wire transfers. The purpose of SR VII is to ensure basic information of the wire transfer originator is immediately available to law enforcement / prosecutorial authorities, in order





to help them detect, investigate, prosecute criminals and terrorists; for financial intelligence units (FIUs) to analyze unusual activities; and for beneficiary financial institutions to assist them in identification and reporting of suspicious transactions. In conclusion, SR VI and SR VII are very important and related elements in order for AML / CFT system to work effectively. Since many economies in the region are still struggling with effective implementation of SRVI and SRVII, Mr. Kennedy believes that further work at national and international levels is urgently needed.

The second presentation of the day was given by the representative from the World Bank, Ms. Emiko Todoroki. The presentation emphasized the economic impact of remittances and shared lessons learned in regulating the remittance sector. The presentation also covered analysis of the compliance level of money value services and wire-transfer measures against international standards. It was pointed out that impact of remittance is significant recording that formal global inward remittance of over US\$ 300 Billion in 2007. If informal unrecorded transactions are to be accounted, the figure will be much higher. Ms. Todoroki shared the World Bank analysis of the compliance level of SR VI nad SR VII along with R5 and SR IX in 90 economies (both developed and developing economies). The findings of the analysis indicated that compliance level of these four recommendations is lower than the average of all the 40+9 recommendations both in developed and developing economies. Between the developed and developing economies, developing economies exhibited lower rating and from the regional perspective, APG members tended to face lower compliance level than other regions except Africa region. In addition, Ms. Todoroki also mentioned the need to establish remittance framework that meet international standards but also reflect the local environment and conditions. The regulatory framework for SRVI should be clear and simple as much as possible, given the players in the market. Lastly, the presenter reminded the forum that when developing a regulatory framework, regulators should consult industry players (in other words, the regulated entities/individuals) and undertake adequate outreach to them. Regulators who made these efforts tended to see better compliance level by the regulated entities/individuals.

## Session II

### **“Money and Value Services and Wire Transfers: Practical Issues on Domestic Regulatory/ Supervisory and Real Sector”**

Puji Atmoko, Senior Analyst on Accounting and System Payment underlined the importance of regulated remittances. Mr. Atmoko clearly started the presentation by introducing the motive behind regulating remittance. The reasons are to achieve integration of the international economy with the global financial market and the cross border transfer of money are used by economical subject world wide, including

the migrant worker, which also known as remittance. Moreover, there is also a tendency that the flow of cross border remittances increases from year to year both in volume as well as in amount of transactions. During the second part of his presentation, he explained the coverage of money remittance regulation, namely: payment system aspect which covers money remitters, registration and license; prudential regulation aspect which includes risk management and money remitters' obligation; and also consumer's protection. The Senior Analyst concluded his presentation by describing the challenges and obstacles faced in establishing supervisory control, these include disseminating the Bank Indonesia's (BI) regulation, lack of coordination among relevant authorities, the need of MTO to only cooperate with registered remitters, involving many rural banks, persuading players to register their business, imposing sanction to illegal players (Fund Transfer Act), developing remittances association, and lastly ensuring the safety of remittance business by placing guaranty.

The last speaker of the first day is Mr. Dipo Alam, founder of Center for Micro Finance and Indonesian Overseas Workers Studies (CEMFIOWS), now as Secretary General of Developing 8 Economies Organizations presented on challenges that migrant workers may face, such as suspicion/discrimination due to the nature of their background, where they are sending the money to and from. During the course of the presentation, Dr. Alam emphasized on the importance of making money transfers migrant workers through formal channels more efficient, easy, effectively and secure. He also stated that the suspicion towards remittances comes from the fact an “estimated” 50% of the world's remittance flows move through Informal Value Transfer System. One of the reasons for this is the fact the significant portions of Migrant Workers/immigrants have little or no access to the formal banking sector, as a result they can only use informal remitters to send their money. Therefore, international cooperation, including international organizations (such as APEC and D-8 Economies), governments, companies, and NGOs, is extremely needed to find appropriate protection of MWs' Remittances from the possibility of terrorism use as well as from exaggerated suspicious regulations. He also encouraged the participation of government and corporations in providing credit and training of migrant workers as an incentive to use formal channels of remittance, such as the D-8 Economies plan of providing credit related to Food Security Program. Lastly, the Head of CEMFIOWS, closed the presentation with saying that even though cooperation to combat terrorism financing, he encourage regulators to avoid regulations that are exaggerated and discriminative towards migrant workers remittance.

### Session III

#### **“Vulnerability and Risk of Terrorist Used on Money Value Services & Wire Transfers: Practical Issues on FIU and Law Enforcement”**

The first presentation on second day was given by Stephen Evans, Director of Compliance AUSTRAC. He began his presentation by introducing the purpose, powers and the objective as well penalties for non-compliance AUSTRAC may impose. He then continued to explain the regulatory environment and the nature of the Money Service Business (MBS's) AUSTRAC uses five compliance and enforcement techniques namely know your stakeholders, risk rating and case prioritization, surveillance, rectification and lastly enforcement. In addition to the traditional method of gathering intelligence thru Operational Intelligence, research and analysis, AUSTRAC also has a Automated Monitoring System “TargIT”, a system that uses “clauses” (financial profiles) to identify particular types of suspicious financial activity that may otherwise be undetected. Mr. Evens also emphasized on the need to cooperate with other FIUs in order to deter criminals to move funds across national borders. Although, Australia has made much advancement in these areas, he concluded that there are still challenges that AUSTRAC face such as knowing and supervising the regulated population, keeping pace with technology advances and keeping a balance between over regulation and driving MVS and WT underground.

The next speaker was Mr. Sean Wells, Supervisory Special Agent, FBI Terrorism Finance Operation Section. He concentrated on explaining that TFOS focuses on five priority areas toward the fulfillment of its mission, i.e. threat resolution, initiative and projects, program management, intelligence analysis, and capacity building. The current TFOS Strategic Placements are located in London, Riyadh and Manila. There are three important elements in the Terrorist Financing activity, namely funds / finances, phones / communication and friends / associates & locations. During the presentation, Mr. Wells described the most well-known types of criminal acts used by terrorists, such as drug trafficking, money/diamond/gold smuggling, counterfeiting, credit card fraud, bank robberies, money laundering, tax fraud, human smuggling/trafficking and unlicensed money remitters. Mr. Wells also underlined the challenges in fighting terrorist financing operations are traditional money movement and storage methods, technological regression responding to increased vigilance in formal sector, such as bulk cash smuggling since it is difficult to detect and no paper trail whatsoever and also hawala because of its poor record-keeping and lack of accountability. Lastly, the challenge is that technological advancements

to regain anonymity through virtual transactions. In short, to follow the money trail requires inter-agency, international and financial industry cooperation. The Special Agent concluded the presentation with two recommendations i.e. to create better coordinating / working relationship between law enforcement and FIUs and through APEC Forum, we shall build a more pro-active and robust regional cooperation to address all aspects of Combating the Financing of Terrorism.

### Session IV

#### **“Developing International Cooperation in Enhancing Remittance Channels Protection”**

Mr. Stephen Evans, Compliance Director of AUSTRAC, in this regards represent as member of the Egmont Group, gave details information on the Egmont Group International Cooperation. He enlightened the participants of the Seminar that the purpose of the Egmont Group are to expand and systematize international cooperation in the reciprocal exchange of financial intelligence information; to foster better communication among FIUs and share expertise; to identify the existing and emerging counterpart agencies; to offer training in order to increase the effectiveness of FIUs and to increase the application of technology. There are many benefits for becoming an Egmont member, such as to increase cooperation and intelligence sharing with other FIUs, to access information and to receive advice from other FIUs and also to get an access to the Egmont Secure Web for exchanging of intelligence. The keyword of joining this membership is for exchanging of information. Although it stated that the member may exchange information freely with other FIUs, the Egmont also encouraged the confidentiality of the information. It means that all information exchange by FIUs member must be subjected to strict control and safeguards to ensure the information is used only in the authorized manner. At the end of his presentation, Mr. Evans highlighted the significance of encouraging cooperation through exchange of information and share best practices experience through international cooperation.

The last presentation of this APEC Seminar was presented by Mr. Eliot Kennedy, Deputy Secretary of APG Secretariat who opened his presentation by stating that there are four key determinants which affect the implementation of all FATF Recommendations, including SRVI and SRVII, in the Asia Pacific region. These elements consist of (i) political will and engagement; (ii) the nature of the economy and level of development; (iii) governance and institutional development, and (iv) the incidence of corruption. Among 21 assessed APG members, the level of compliance with SRVI and SRVII varies. In relation to SRVI, the varying levels of compliance are due to differing levels of legislation and regulations, the existence or otherwise of registration and licensing regimes for ARS, the extent of outreach to the ARS sector etc. He believed by following the



FATF Best Practice Paper on SRVI and the APG's ARS Implementation Package, which include the use of media to detect advertising by ARS, the use of investigative information, the relationship between ARS and cash couriers, identifying ARS by assisting banks and share of information / intelligence internationally, members could improve their levels of compliance with SR VI. In relation to SRVII, the main issue regarding compliance was the existence or otherwise of law/regulation implementing the specific requirements of SRVII. Mr. Kennedy informed the forum that there has to date been limited international cooperation with regard to ARS and WT, which may be due to governments prioritizing domestic implementation of these SRs, however there is great potential for enhanced international cooperation in this area.

### Closing Remarks

The APEC seminar was concluded with closing remarks from Mr. Bambang Permantoro, the Deputy Head of INTRAC. In the remarks, he emphasized that these last two days has been an excellent source of reference in crafting further cooperation in the framework of APEC. He believed that APEC economies have stepped forward in initiating solutions and recommendations

for countering financing of terrorists, especially in the implementation of alternative remittance and wire transfer, which stated clearly in the FATF Special Recommendation VI and VII.

In his closing remarks, Mr. Permantoro mentioned that the challenge ahead is not easy road. Nevertheless, he strongly encouraged the needs to build concerted efforts to promote concrete prevention plan and constantly monitor the impact of misuse of alternative and wire transfer to our economy. This knowledge and experience learnt from this seminar is very important and vital. In conclusion, he ensured all participants of the APEC Seminar will achieve its objective in increasing the awareness from APEC Economies upon the significance of implementing SR VI and VII, particularly in promoting a regional cooperation in enhancing protection of alternative money remittance channels.

At the end of the second day, participants agreed on a list of policy recommendation that may be used by economies to advance their efforts to implement SR VI and VII as well as their effort combat terrorism and its financing.

\* \* \*



## CONCLUSION AND RECOMMENDATIONS OF THE APEC SEMINAR ON SECURING REMITTANCE AND CROSS BORDER PAYMENTS FROM TERRORIST USE

Jakarta, 22-23 October 2008

The two days seminar was held to raise awareness on the importance of implementing the Recommendations and further identifying challenges that economies may face during the implementation. Discussion showed that APEC economies have made considerable progress in the implementation of SR VI and VII, in the effort to combat terrorists' financing. Although significant progress has been made it was pointed out that many economies, whether developing or developed economies, are still struggling with effective implementation. As a result, compliance related to Special Recommendation on Alternative Remittance Systems (ARS) and Wire Transfers (WT) varies from economy to economy, for developed economies the problem relates to implementation of the Special Recommendation where in developing economies the problem lies in developing regulations related to ARS and WT. It was also concluded that there is a need to regulate this sector properly and efficiently. It was also reiterated that further cooperation among Financial Intelligence Units (FIUs), regulatory bodies as well as law enforcements is needed in order to combat terrorism.

Based on presentations and issues arising from discussion, we observed that there are several problems in implementing SR VI and VII, in order to prevent terrorism financing, stakeholders face many challenges, namely:

- a. Difficulty of implementing registration/licensing regime towards Money Value Transfer;
- b. Weak or no supervision or identification of MVTs as well as Lack of monitoring mechanism on ensuring the implementation of FATF Recommendations;
- c. Low implementation of KYC in MVTs business prior to regulatory regime;
- d. The need to further strengthen cooperation between FIUs, regulators and law enforcements;
- e. Lack and insufficient of comprehensive law, regulation or other enforcement related to SR VI and VII;
- f. There is insufficient or no system for monitoring remittance services;

### The Recommendations

As a result, the seminar put forth the following recommendations:

#### General recommendation:

- a. As the level of compliance with SR VI and VII varies

among economies in APEC, further works are needed at international level (involving donors and providers) to improve compliance. For Economies that have implemented SR VI and VII well and in appropriate manner should assist Economies that still struggle with the implementation;

- b. Strengthening international cooperation between APEC, the Egmont group, APG and other related regional and international fora;
- c. Encourage MOU between FIUs to allow the exchange of information in relation to money laundering and terrorist financing by using a template MOU of Egmont as main a reference.

The following are recommendations to all APEC member economies with regard to the implementation of SR VI and VII:

- Political support is needed at the national and international levels to improve compliance;
- Develop and maintain policy Regulatory Reform, where appropriate, that obligate licensing or registration of remittance service providers and reporting of suspicious transactions as well as uphold a supervisory role that are sufficient to prevent Terrorists Financing;
- Encourage the regulating body to develop and maintain registered remitters list;
- Develop flexible Laws on Remittance and Cross Border Payment to match the ever changing of methods of criminal activities;
- Develop financial indicators, trends, statistics and typologies for financial institutions to detect the activities of informal remittance operation, specifically on the reconciliation of accounts between agents;
- Economies shall consider consultation/coordination mechanism among related agencies as well as the stakeholders before formulating certain regulation;
- Continue to implement SR VI and VII. However the implementation should take into account the political, economic and cultural situation and condition of each economy;
- Continue to make Suspicious Transaction Report (STR) and Cash Transaction Report (CTR) as a tool to disrupt and dismantle terrorist networks;
- Continue to make suitable effective strategies to encourage informal money remittance operator to apply for a license or register to the regulator. The strategies may include advertising, training course, dialogue ethnic group and maintain relation with overseas workers;
- Increase cooperation between Law Enforcements, regulators and FIUs in order to combat money laundering and terrorist financing. International Cooperation and inter agency cooperation is key in the intelligence sharing;
- Reducing remittance cost and making money transfers easier, more efficient, and effective and secured for the user of remittance and wire transfers.

\* \* \*





## CLOSING REMARKS



DEPUTY HEAD  
INDONESIAN FINANCIAL TRANSACTION REPORTS AND ANALYSIS CENTER

### CLOSING REMARKS THE DEPUTY HEAD OF INDONESIAN FINANCIAL TRANSACTION REPORTS AND ANALYSIS CENTRE ON THE APEC SEMINAR ON SECURING REMITTANCE AND CROSS BORDER PAYMENTS FROM TERRORIST USE

Jakarta, 23 October 2008

His Excellency Mr. Sang-Ki Park, as Chairman of APEC Counter Terrorism Task Force,  
Distinguished Delegates of APEC Economies,  
Honorable Delegates representing International Organizations, Distinguished Participants of APEC Seminar.

*Assalamu'alaikum Warahmatullahi Wabarakatuh.*

It is my pleasure to be with you this afternoon to deliver short closing remarks for this Seminar. At the outset, allow me first to express my highly appreciation to all of you for the constructive participation in making this APEC Seminar a success. I am indeed heartened with this strong show of support.

The result of our deliberation in the last two days would be, I do believe, an excellent source of reference in crafting further cooperation in the framework of APEC. I am pleased to witness that APEC economies have stepped forward to discuss countering financing of terrorists, in particular in relation to the implementation of alternative remittance and wire transfer, which have been set out in FATF Special Recommendation VI and VII.

Ladies and gentlemen, distinguished delegates and participants,

I am well aware that the road ahead is not easy and we need to build concerted efforts to promote concrete prevention plan and constantly monitor the impact of misuse of alternative and wire transfer to our economy. Some of these issues have also been shared by respecting economies as we move toward the sustainable economic development of all APEC members.

I am confident that this Seminar will achieve its objective to increase the awareness from APEC Economies upon the significance of implementing SR VI and SR VII and to promote a regional cooperation in enhancing protection of alternative money remittance channels. In this context, I encourage all participants to take advantage of the opportunity accorded by this program. I believe that all participants could implement and develop new ideas and approaches obtained at this Seminar in day-to-day works.

To sum up, I believe we all deserve a round of applause for the work that we have dedicated on this meeting. Thank you.

*Wassalamu'alaikum Warahmatullahi Wabarakatuh.*



Jakarta, 23 October 2008  
INDONESIAN FINANCIAL TRANSACTION  
REPORTS AND ANALYSIS CENTER

**BAMBANG PERMANTORO**

DEPUTY HEAD





## THE APEC SEMINAR ON SECURING REMITTANCE AND CROSS BORDER PAYMENT FROM TERRORIST USE

Sahid Jaya Hotel 22 - 23 October 2008  
Jakarta, INDONESIA







## PHOTOS OF ACTIVITIES



*Opening Ceremony*



*Opening Remark by Amb. Sang-ki Park*



*Welcoming Remark by Yunus Husein*



*APEC Seminar Session*



*Press Conference*



*The Organizing Committee*



*Session I*



*Session II*



*Session III*





*Session IV*



*The APEC Economies Delegates and Participants*



*The APEC Economies Delegates and Participants*



## APEC AT THE GLANCE

### About APEC

Asia-Pacific Economic Cooperation, or APEC, is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia Pacific region. APEC, comprising 21 member economies, is home to more than 2.6 billion people and represents approximately 56% of world GDP and 49% of world trade. Leaders of APEC Economies meet annually to discuss a range of issues that are focused on economic growth and prosperity for the region.

APEC's 21 Member Economies are:

Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Republic of the Philippines; The Russian Federation; Singapore; Chinese Taipei; Thailand; United States of America; Viet Nam.

APEC places a strong emphasis on participation by the private sector in its activities. APEC began as an informal dialogue group in 1989, but has since become the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region.

In 1993, an APEC Secretariat was established in Singapore to support the activities of the forum.

### The Work of APEC

Asia-Pacific Economic Cooperation (APEC) works in three broad areas to meet the Bogor Goals of free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies. Known as APEC's 'Three Pillars', APEC focuses on three key areas:

- Trade and Investment Liberalisation
- Business Facilitation
- Economic and Technical Cooperation

The outcomes of these three areas enable APEC Member Economies to strengthen their economies by pooling resources within the region and achieving efficiencies. Tangible benefits are also delivered to consumers in the APEC region through increased training and employment opportunities, greater choices in the marketplace, cheaper goods and services and improved access to international markets.

### APEC CTTF

The APEC Counter-Terrorism Task Force was established in May 2003 to:

- coordinate the implementation of Leaders' Statements and commitments on fighting terrorism and enhancing human security.
- assist members to identify and assess counter-terrorism needs.

- coordinate capacity building and technical assistance programs
- cooperate with relevant international and regional organizations
- facilitate cooperation between APEC fora on counter-terrorism issues.

Recognizing the continuous threat from terrorism to the safety, security, and prosperity of APEC economies and acknowledging the role of the CTTF in enhancing counter-terrorism cooperation, Senior Officials endorsed the extension of the CTTF mandate for the period 2009-2010.

### The APEC Secretariat

The APEC Secretariat is based in Singapore and operates as the core support mechanism for the APEC process. It provides coordination, technical and advisory support as well as information management, communications and public outreach services.

The APEC Secretariat performs a central project management role, assisting APEC Member Economies and APEC for a with overseeing more than 230 APEC-funded projects. APEC's annual budget is also administered by the APEC Secretariat.

### ISO Certification

In 2002, the APEC Secretariat obtained ISO 9001:2000 Quality Management Certification. This recognises the continuous efforts made by the APEC Secretariat to provide improved administrative and support activities. The APEC Secretariat is the first multilateral trade-related secretariat to attain ISO certification.



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