

FATF President's address to the 13th Council of Ministers of ESAAMLG

Swakopmund, 6 September 2013

Ms. President of the ESAAMLG Council of Ministers,

Honourable Ministers,

Distinguished delegates and colleagues,

It is my great pleasure to be with you today in Namibia, at the occasion of the 13th Council of Ministers of ESAAMLG members. I would like to thank you all for this invitation, and congratulate our Namibian hosts for their great hospitality.

As some of you might know, prior to taking the FATF Presidency in July of this year, I was the Chairman of Moneyval, which is the FATF-style regional body covering member countries of the Council of Europe. I am therefore fully convinced of the crucial role which FSRBs play to support the implementation of the FATF Recommendations throughout the world, and of the challenges they meet. ESAAMLG has been instrumental in the last years to steer the AML/CFT process in the region. I would like to encourage you all to pursue your cooperation within ESAAMLG, and contribute to the strong global AML/CFT network which we need to achieve our common objective of fighting illicit finance.

The revised FATF Standards and the new round of mutual evaluations

Following the adoption of the revised set of AML/CFT Standards in 2012, there have been key developments at FATF level. I would like to highlight a few of them, which I think are of major importance for ESAAMLG and its members.

Importance of national risk assessments

Countries are now busy with the implementation of the new FATF requirements. Risk is the central element of the revised framework. Countries will have to know and understand the nature and level of the ML/TF risks they face. This will enable them to determine how properly to manage and mitigate these risks, and adjust and adapt their AML/CFT regimes accordingly.

Most countries from the FATF network are now working on mapping and assessing their national risks as a matter of priority. I know that this is a challenging exercise, both for FATF and for FSRB members. I am pleased to hear that some of the ESAAMLG members have launched the process –Namibia and Malawi for example-, and that you already had an exchange of experiences during your last meeting in Tanzania. I do welcome these initiatives, and I hope that the recently published FATF Guidance on National Risk Assessments will be a useful, additional tool.

The development of national risk assessments is an essential first step for the successful implementation of the revised Recommendations. I invite all ESAAMLG countries to commit, at the highest level, to conduct such risk mappings. This will benefit countries who can apply and use resources more efficiently by focusing on higher risk areas, and design better targeted AML/CFT measures and more flexible frameworks, which can be adapted as risks evolve.

Focus on effectiveness

With the introduction of the revised Standards, a new round of mutual evaluations will be launched soon. All countries in the global network will be assessed for compliance. For ESAAMLG, this will be the 2nd round of evaluations.

Previous assessments focused on technical compliance with FATF Standards. Does a national AML/CFT regime meet all the requirements of the Recommendations? This was essential to give a solid foundation to AML/CFT regimes. In February this year, FATF adopted a new Methodology to conduct these evaluations. The new Methodology still includes the assessment of technical compliance, but it goes a step further and focuses as well on effectiveness. Does the AML/CFT framework in place produce the expected results?

Effectiveness will make assessments more challenging because judgments will need to be made on how various components of the AML/CFT regime interact, and if things are not working, then why not. It will be absolutely critical to have properly trained and adequately experienced assessors to make sound judgments. As you know, FATF is actively working on a programme of training, and will involve ESAAMLG Secretariat and assessors in due time.

Let me add that assessments will also now focus more explicitly on the areas of higher risk. The reports will provide a basis upon which countries can address the issues that are most critical for them.

Learning lessons from the previous round

The preparation of the new cycle of mutual evaluations should be the occasion to learn lessons from the previous round, build on what has worked well and review what has not fully delivered. FATF has conducted this exercise and I am pleased to hear that ESAAMLG has also initiated some work in this field.

There are two important areas on which I would like to call your attention. One is the quality and consistency of MERs. We believe that processes should be in place to ensure that all reports are factually correct, that the interpretation of the Recommendations is homogeneous and accurate, and that assessments are objective and fair. It would especially be useful in an ESAAMLG context, given that other assessment bodies, such as the World Bank, are also involved in conducting evaluations. Another important element to look at is the post-mutual evaluation monitoring process, which is an integral part of the mutual evaluation exercise. In particular, it is crucial that the peer pressure and review mechanisms extend to post-evaluation stages, following clear and transparent rules to which all members commit.

So again, I invite you to think about those issues in particular, and more generally about how your first round has worked, with the overall objective to strengthen ESAAMLG mutual evaluations.

ICRG process

It would be remiss of me not to mention that a number of ESAAMLG countries are placed in the FATF International Co-Operation Review Group process, the ICRG¹. This is due to their insufficient compliance with the FATF Standards, and the consequent ML and TF risk they pose to the global financial system.

We have noticed some substantial progress in a number of those “ICRG” countries recently, and I would like to encourage you to continue your efforts. I hope that this will shortly lead to the removal of some ESAAMLG members from the ICRG lists. Let me underline that those “ICRG” countries and the ESAAMLG region as a whole would greatly benefit from actions taken to improve the current status. I am convinced that the FATF peer approach has to play a central role in this kind of situation, and help overcome the challenges. I am confident that this high-level meeting will give you the opportunity to have an open discussion on the required next steps.

Financial inclusion

I would like to add a few words on financial inclusion. I know that for ESAAMLG countries, integrating the unbanked part of the population into the formal financial sector is a major challenge. FATF is convinced that financial inclusion and AML/CFT pursue mutually supportive and complementary objectives: the application of measures which enable more citizens to use formal financial services will increase the reach and the effectiveness of AML/CFT regimes. Her Majesty Queen Máxima of the Netherlands, in her capacity as United Nations’ Secretary General Special Advocate for Inclusive Finance for Development, visited the June 2013 FATF Plenary and commended FATF’s commitment to support financial inclusion efforts.

I am confident that the reinforcement of the risk-based approach (RBA) in the revised Recommendations will positively contribute to the enlargement of access to formal financial services. The development of risk-sensitive and proportionate AML/CFT frameworks will be a key step for countries that wish to build a more inclusive formal financial system, and give access to appropriate financial services to the most vulnerable and unserved groups. In addition, the measurement of effectiveness of AML/CFT national systems will take into account a number of contextual factors which may affect how well the systems reach their objectives. The level of financial exclusion in a country will be one of the contextual aspects which could be considered. It could therefore be an important element of assessors’ recommendations about how effectiveness can be improved.

FATF revised Financial Inclusion Guidance and the New Payment Products and Services Guidance, adopted in June 2013, provide clarity and guidance on the FATF Recommendations that are relevant when promoting financial inclusion, and give details on the flexibility that the Recommendations offer. I understand that ESAAMLG has also launched some work on the financial inclusion topic. I would encourage you to share your experience and to work in close coordination with FATF, to ensure that we come up with consistent, and if possible, joint recommendations for further progress.

¹ Angola, Ethiopia, Kenya, Namibia, Tanzania, Zimbabwe – Uganda has also just been referred to ICRG

Conclusion

Before closing, let me already congratulate you for the organization of the Public-Private Sector Dialogue upcoming event, and thank the UK Presidency of the G8, and the US, for this initiative. It is critical for us to actively engage with financial institutions and other private businesses which are in the frontline in detecting ML and FT.

The FATF and the Russian Presidency look forward to working with ESAAMLG in furthering our common objectives. I once again thank you for the opportunity to be here today. I wish you a fruitful meeting and thank you for your kind attention.