

Trade-based crime: the digital solution

Heather Lee, Product Lead, Trade Compliance, Accuity tells FX-MM how the digitisation and automation of compliance checks in trade finance can ensure firms involved remain compliant and reduce trade-based crime.



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What has been the driving force behind global regulators push to combat trade-based money laundering (TBML)

The Financial Action Task Force's 2006 report, entitled 'Trade Based Money Laundering' was the first to report the problem of criminal organisations using trade transactions to legitimise the origin of their funds. Since then, the FCA published its own thematic review in 2013, followed by MAS in 2015 and the Hong Kong Association of Banks in 2016. In order to protect their reputation as financial and trading hubs, these regulators had identified a number of AML/CFT risks within trade. Firstly, as money service businesses have been subject to stronger law and regulatory action, criminal organisations have increasingly sought to use trade-based money laundering tactics to launder proceeds of crime. But, when the regulators assessed the compliance processes of trade finance departments, they found that banks had effective controls for sanctions checking, but were less mature when it came to identifying money laundering techniques and dual-use goods which can be used for terrorist purposes.

How can organisations involved in trade finance mitigate those risks and reduce-trade based crime?

Governance is key; having clear policies and procedures to be followed by trade operations and compliance staff, as well as periodic reviews to ensure they remain up-to-date with changing regulations, is a good starting point. Education and training for staff will help them identify the common typologies of trade-based crime, such as under/over invoicing, fraudulent documents and KYC. Some of the newer, more complex areas of risk highlighted by the regulator, such as identifying dual-use goods, has caused a lot of uncertainty, and we have often heard from trade ops that they are "not chemists or engineers". I think that that the regulator doesn't expect them to be, but does expect that they use technology and data to help them make decisions rather than using their experience. Technology, in addition to enhancing the decision making process, also offers a vehicle to document those decisions, making them ready for audit purposes.

Is trade finance compliance solely the responsibility of financial institutions?

Whilst financial institutions have certainly come under the regulator's spotlight when it comes to trade compliance, the whole supply chain partakes in mitigating risk, from the exporter, to insurer, freight forwarder and financial institutions. We have seen US authorities fine banks such as BNP Paribas for trading with sanctioned countries such as Sudan, Iran and Cuba, and penalties handed out to companies that violate sanctions. Recently, National Oilwell Varco was fined \$25m for wilfully ignoring the Bank Secrecy Act (BSA) by sending goods to a country in Europe for re-exportation to a US sanctioned country.

What part can the digitisation of trade finance help play in reducing trade-based crime?

Digitisation has been happening slowly across the trade finance landscape, but in recent months' there has been momentum behind this, with digital document providers, smart contracts, blockchain and the internet all making trade magazine headlines. Speed and cost-effectiveness are key drivers for looking to digital versions of trade, but the opportunity to identify fraud and other trade-based risks are apparent too. In part, because through the digitisation and automation of compliance checks, some of the subjective nature of compliance can be replaced with a consistent and repeatable process.

It is also possible to see that if more information was shared, via blockchain for instance, that instances of fraud may be prevented. Let's take the Qingdao fraud case, for example, where allegedly fake warehouse receipts were used to borrow multiple times against a single instance of metal, costing the banks involved over US\$1bn. If a central platform, such as blockchain, had been used to validate the uniqueness of the receipts, then potentially this could have been prevented.

Are there any additional compliance benefits from the digitisation of trade finance?

A lot of the benefit that our customers see in the digitisation of trade is that it can help to automate some of the compliance checks that need to be conducted, streamlining operations and allowing staff to spend their time on value-added activities. With trade margins being squeezed, efficiency is all important to our clients.

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