

2020 Foresight: The Impact of Anti-Money Laundering Regulations on Wealth Management

About WealthInsight

The WealthInsight Intelligence Center Database is an unparalleled resource, and the leading resource of its kind. Compiled and curated by a team of expert research specialists, the database comprises dossiers on over 60,000 HNWI's from around the world.

The Intelligence Center also includes tracking of wealth and liquidity events as they happen and detailed profiles of major private banks, wealth managers and family offices in each market.

With the Database as the foundation for our research and analysis, we are able to obtain an unsurpassed level of granularity, insight and authority on the HNWI and wealth management universe in each of the countries and regions we cover.

Contact:**Ouliana Vlasova***Head of Content, WealthInsight*Ouliana.Vlasova@wealthinsight.com

+44 (0)20 7406 6711

TABLE OF CONTENTS

1	What is this report about?	6
2	Executive Summary	7
3	Money Laundering Global Market Dynamics	8
3.1	Global Snapshot	8
3.2	Regional Overview	9
3.3	Key Drivers	13
3.4	AML End Markets	15
4	Key Operational and Technological Trends and Challenges	18
4.1	Operational Trends	18
4.2	Technology Trends	21
4.3	Challenges	22
5	Key Regulatory Trends and Impact Assessment	24
5.1	Developed Economies	24
5.1.1	FATF recommendations of February 2012	25
5.1.2	The EC released a proposal for its Fourth Money Laundering Directive	26
5.1.3	FATCA enacted in the US in 2010	26
5.1.4	Anti-money laundering legislation in the UK, October 2012	30
5.1.5	Proceeds of Crime (Money Laundering) and Terrorist Financing Act in Canada, May 2013	32
5.1.6	Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, Cap 615 in Hong Kong, April 2012	32
5.1.7	Monetary Authority of Singapore (Anti-Terrorism Measures) Regulations, 2002	34
5.2	Developments in Emerging Economies	35
5.2.1	Brazil	35
5.2.2	Russia	35
5.2.3	India	36
5.2.4	China	37
5.3	Regulatory Challenges	38
6	Global Compliance Spending Trends	39
6.1	Operational Expenditure	40
6.2	IT Expenditure	41
6.3	Software Expenditure	42
6.4	Market Dynamics by Type of Firms	43
7	Best Practices in AML Compliance	44
7.1	Key Recommendations	44
7.1.1	AML/CFT policies and coordination	46
7.1.2	Money laundering and confiscation	47
7.1.3	Terrorist financing and financing of proliferation	47
7.1.4	Preventive measures	48
7.1.5	Transparency and beneficial ownership of legal persons and arrangements	50
7.1.6	Powers and responsibilities of competent authorities and other institutional measures	51
7.1.7	International cooperation	52

7.2 Case Examples..... 53

7.2.1 Wegelin & Co.’s non-adherence to AML regulations..... 53

7.2.2 Adoption of software by Capital Bank to counter money laundering..... 55

7.2.3 Bank Central Asia (BCA) selects NICE Actimize to improve its AML processes 57

7.2.4 Central Bank penalized three Indian banks for violating KYC regime..... 59

7.2.5 US authorities charged HSBC with violating CDD requirements 61

8 About WealthInsight..... 63

Sample Page

LIST OF TABLES

Table 1: List of Banks Which Were Imposed Money Laundering Sanctions, 2012–2013.....	13
Table 2: Key Destinations for Offshore Wealth, 2011	14
Table 3: FATF's Member Countries and Organizations, as of June 2013.....	25
Table 4: FATCA Regulations and Impacts	27
Table 5: AML Regulations Enacted or Amended in the US, 1970–2004.....	28
Table 6: Evolution of AML Regulations in the UK, 1993–2012	31
Table 7: Provisions Under Proceeds of Crime (Money Laundering) and Terrorist Financing Act.....	32
Table 8: Documentation Under KYC Process	36
Table 9: Global AML Compliance Spending (US\$ Million), 2008–2017	39
Table 10: Global AML Compliance Operations Spending (US\$ Million), 2008–2017	40
Table 11: Global AML Compliance IT Expenditure (US\$ Million), 2008–2017	41
Table 12: Global AML Compliance Software Spending (US\$ Million), 2008–2017	42
Table 13: Leading AML Vendors and Type of Solutions Offered	43
Table 14: FATF Recommendations, 2012.....	45
Table 15: AML/CFT Policies and Coordination.....	46
Table 16: Money Laundering and Confiscation	47
Table 17: Terrorist Financing and Financing of Proliferation	47
Table 18: Preventive Measures	48
Table 19: Transparency And Beneficial Ownership Of Legal Persons and Arrangements.....	50
Table 20: Powers And Responsibilities of Competent Authorities and Other Institutional Measures.....	51
Table 21: International Cooperation	52

LIST OF FIGURES

Figure 1: AML Regulatory Enforcement Levels Across the World	9
Figure 2: AML Regulatory Impact on End Markets	15
Figure 3: AML Regulatory Developments, 2010–2013	19
Figure 4: AML Challenges and Their Importance Among Financial Institutions	22
Figure 5: Emerging Regulatory Trends and Impact Analysis	24
Figure 6: AML Regulations in the US	29
Figure 7: Impact of AML Regulations on Financial Institutions in Hong Kong	33
Figure 8: Global AML Compliance Spending (US\$ Million), 2008–2017	39
Figure 9: Global AML Compliance Operations Spending (US\$ Million), 2008–2017	40
Figure 10: Global AML Compliance IT Expenditure (US\$ Million), 2008–2017	41
Figure 11: Global AML Compliance Software Spending (US\$ Million), 2008–2017	42
Figure 12: Case Study – Wegelin’s Non-Adherence to AML Regulations	53
Figure 13: Case Study – Capital Bank’s Use of the SAS AML Solution	55
Figure 14: Case Study – BCA Deployed AML Solutions From NICE Actimize	57
Figure 15: Case Study – RBI Penalized Axis Bank, HDFC Bank and ICICI Bank	59
Figure 16: Case Study – US Allegations Against HSBC of Violating CDD Requirements	61

Sample Page

1 Executive Summary

Governments and regulatory bodies have taken numerous measures to curb money laundering activities in the last decade. The phenomenon has assumed increased urgency since 2008–2009 when economies across the world, developed nations in particular, were severely impacted by the financial crisis. Following the global economic slowdown, a number of regulations have been enforced; proposals for the Fourth Money Laundering Directive by the European Commission (EC) in 2013, the launch of new FATF money laundering recommendations in 2012, and the Foreign Account Tax Compliance Act (FATCA) in the US are key recent developments in global AML regulation. These initiatives are intended to strengthen the global AML regulatory environment, and increase pressure on financial institutions to comply.

Limited enforcement of AML compliance in emerging economies

While AML compliance in North America and Europe is highly developed, it is yet to reach these standards in a number of emerging economies in the Asia-Pacific, Middle East and Latin America. While many countries in these regions have formulated AML regulations in the past, effective enforcement by local regulators has been the key challenge. However, governments and regulatory bodies in these nations have demonstrated their interest in bringing their AML compliance in line with international standards.

Limited regulatory enforcement and rising money laundering activity have compelled global financial institutions in these economies to take a proactive approach to improve their AML processes, such as know your customer (KYC) and customer due diligence (CDD).

Frequent upgrades to global AML regulations result in increased compliance costs

Regulatory bodies have been introducing increasingly stringent regulations. During 2010–2012 in particular, regulators across key markets implemented numerous AML requirements for financial institutions. These institutions are, therefore, focusing on improving their AML processes to avoid any regulatory shortcomings which could lead to potential financial and reputational risks. To comply with these changes, both financial and non-financial institutions have to invest significantly in IT upgrades and improvements in CDD and KYC processes, resulting in increased AML compliance costs.

Globally, total AML spending grew from US\$3.6 billion in 2008 to US\$5.3 billion in 2012, at a CAGR of 10.18% during the review period. It is expected to grow from US\$5.9 billion in 2013 to US\$8.2 billion in 2017, after registering a CAGR of 8.86% over the forecast period.

2 About WealthInsight

WealthInsight provides detailed data and insightful analysis on the world's HNWI and wealth sector. With decades of experience providing business information, WealthInsight helps organizations to make informed decisions and win new business.

At WealthInsight's core is our proprietary HNWI Database of the world's wealthiest individuals. Around this database we have built a number of valuable research-based products and services that make WealthInsight much more than just a rich contact list.

We work with and provide solutions for:

- Wealth managers
- Private banks
- Family offices
- Technology providers
- Professional services – consultants, accountants, lawyers and real estate professionals
- Fund managers, hedge fund managers, asset managers, venture capitalists
- Non-profit and educational institutions

WealthInsight's corporate headquarters are located in London, with offices in New York, San Francisco, Sydney, Seoul and Hong Kong.

For more information on WealthInsight please visit www.wealthinsight.com

Reports

WealthInsight publishes high-quality research reports focused on the wealth sector. The reports provide comprehensive analysis of countries, regions and special topics.

With the HNWI Database as the foundation for its primary research and analysis, WealthInsight is able to obtain an unsurpassed level of granularity, insight and authority on the HNWI universe in each of the countries and regions covered.

All reports are available as a part of the WealthInsight Intelligence Centre. Reports can also be purchased on a subscription or one-off basis.

Every WealthInsight report is uniquely formulated for the region, country or topic covered. Key features of the reports include:

- Market sizing
- Forecasting
- Benchmarking
- HNWI asset allocation
- Behavioral mapping
- Family offices

Methodology

WealthInsight's teams of in-house analysts devise and collect data over a historical period of five years and develop forecasts for a five-year forecast period. All WealthInsight wealth reports are rigorously sourced and created according to a comprehensive process:

Internal audit

- Review of in-house databases to gather existing data:
 - Historic market databases and reports
 - HNWI Database
 - Wealth management, private bank and family office databases
 - Financial deals and news archives

Secondary research

- Collection of the latest market-specific data from a wide variety of industry sources:
 - Government statistics
 - Industry associations
 - Company filings
 - Broker reports
 - International organizations

Primary research

- Review of the latest wealth management and private banking industry trends
- Surveys using panels compiled from across the wealth sector:
 - Wealth management and private banking professionals
 - Financial services experts
 - HNWIs

Expert opinion

- Collation of opinion taken from WealthInsight interviews of leading industry experts
- Analysis of third-party opinion and forecasts:
 - Broker reports
 - Industry associations
 - Wealth management and private banking media
 - Official government sources
 - Leading academic research and commentary

Data consolidation and verification

- Consolidation of data and opinion to create historical datasets
- Creation of models to benchmark data across sectors, asset classes and geographies

Market forecasts

- Feed of forecast data into market models:
 - Economic indicators
 - Industry-specific drivers
- Analysis of the WealthInsight HNWI Database and wealth sector company databases to identify:
 - Latest wealth trends
 - Key drivers of the wealth management industry

Report writing

- Analysis of market data
- Discussion of company and industry trends and issues
- Integration of survey results
- Annual review of financial deals and wealth management trends
- Standardization of market definitions using recognized industry classifications

Quality control

- Peer review
- Senior-level QC
- Random spot checks on data integrity
- Benchmark checks across databases
- Market data cross-checked for consistency with accumulated data from:
 - Internal databases
 - Company filings

Contributors to this report:

Ouliana Vlasova

Head of Content, WealthInsight

Ouliana.Vlasova@wealthinsight.com

+44 (0)20 7406 6711

Disclaimer

All Rights Reserved.

The facts of this report are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that WealthInsight delivers will be based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such WealthInsight can accept no liability whatever for actions taken based on any information provided herein.

Contact Us

WealthInsight
42 Hatton Garden
London
EC1N 8EE
United Kingdom

- info@wealthinsight.com
- +44 (0)20 7406 6601

We have offices in:
London · New York · San Francisco · Sydney · Seoul · Hong Kong