

**Address by Dr. Chiranjibi Nepal, Governor, Nepal Rastra Bank for
“Anti-Money Laundering Conference - 4th Annual Summit (Nepal) 2019”**

Kathmandu, February 1, 2019

1. It gives me a great pleasure to deliver my address at the opening ceremony of this conference on Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT). I would like to congratulate the National Banking Institute as well as other concerned International Agencies for organizing such an important program on a topical issue.
2. As is well known, the impact of money laundering and terrorism financing to the financial institutions and financial system has serious implications to the overall financial system, which jeopardizes socio-economic development for the country. At the global level, the IMF estimated the extent of money laundering to be around 2% to 5% of global GDP. A country's rating on compliance with standards set by Financial Action Task Force (FATF) on AML/CFT, is often considered as a key measure of the country's AML/CFT regime. An unfavorable rating would mean that the businesses, including financial institutions, would face greater scrutiny, higher costs of doing business, delays and other time consuming including unnecessary barriers when doing business with overseas counterparts.
3. While Nepal had received satisfactory rating in our last mutual evaluation in 2014 by APG, after the various efforts and reforms in respective sectors since the second mutual evaluation 2010, we have to do a lot for upcoming evaluation in 2020 which will be based on a more holistic methodology where greater focus will be on the effectiveness of our implementation. If we do not attain good rating, the consequences could be high and Nepal will be listed in the FATF Public Statement as a country with significant deficiency in AML/CFT.
4. Bank and Financial Institutions (BFIs), being the most important partner for financial transactions, can play an important role of deterring as well as detecting money laundering and activities related to terrorism financing. Compliance with AML/CFT law and regulations in these financial institutions require high commitments with non-compliances being seriously dealt with. At the international level, we have witnessed that banks have been penalized billions of dollars for failure to comply with AML/CFT directives. In Nepal, Nepal Rastra Bank (NRB), the Central Bank of Nepal, has been taking strong actions upon NRB licensed BFIs that

have failed to comply and implement such directives related to AML/CFT. (For instance, the financial penalty that normally applies for non-compliance ranges from one to fifty million rupees.)

Ladies and Gentlemen,

5. Money laundering can take different forms, and is not limited to tax evasion, cybercrime, identity fraud, phishing, card fraud, skimming, advance fee scams, fund transfer schemes, fake prizes, international lottery fraud, wills and legacies and loan fraud and international transfers etc. The technologies adopted by BFIs are making them increasingly vulnerable to various risks in money laundering. Generally, vulnerability to money laundering is greater when there is inadequate internal control system, poor risk management practices, weak good governance, inadequate board and senior management oversight, inadequate policy, procedure and monitoring the functional activities and breach of contract and trust etc. Although the banking system is stringent in Know Your Customer (KYC), it is not sufficient as expected to identify the beneficial owner and to apply the risk based approach. NRB has observed that money laundering is largely the result of weak internal control and poor risk management and practices of the respective banks. This highlights the need of efficient internal audit, strong internal control system and better risk management practices within the BFIs in addition to compliance to regulation and supervision for prevention, control and detection of financial crime.
6. BFIs must adopt strategic approach and also comply with the KYC regulations based on risk based approach, real time transaction monitoring and transaction analysis for prevention and timely detection of financial crimes. The Board and senior management of BFIs should be proactive in understanding the potential risks and also put in place a crime prevention, control and detection mechanism. They should have a deep understanding of the institution's strengths and weaknesses and be able to move their respective BFI in right direction. The prevention and corrective measures should also be a key concern to minimize the impact of financial loss that impact our economy.

Ladies and Gentlemen,

7. Nepal has established legal and institutional foundation to comply with AML/CFT standards. The whole of the legal and organizational framework of AML/CFT revolves around FATF's 40 recommendations. In that regard,

NRB has been extensively working to strengthen its legal and organizational framework. In this regime BFIs can play a very important role, not just because launderers have been abusing the financial system but also because as victim of such crimes, they are always at various risks such as legal, regulatory, concentration and reputational.

8. In the case of Nepal stakeholders including the NRB and FIU-Nepal, have been proactively working to implement the preventive measures of financial crime, so as to investigate and disseminate the cases of money laundering and terrorist financing (ML/TF) to Law Enforcement Agencies (LEAs). FIU-Nepal received **45,93,5817** TTRs' and **887** STR's in FY 2017/18 and out of the total STRs' that has been received; almost **312** were disseminated to the LEAs. I hope that FIU-Nepal and LEAs will continue to coordinate to further investigate the cases for prosecution and convictions. I understand that FIU-Nepal has already installed the goAML system for strengthening the receiving, reporting and dissemination mechanism of information and reports from commercial banks and is now reporting under the test environment. I am confident banks will soon move to live environment of goAML in reporting of STR and TTR to FIU-Nepal.
9. Hence, leadership of Government of Nepal and joint and coordinate efforts among the regulators, BFIs, LEAs, FIU, civil society and support agencies such as ISP, Telecommunication companies, vendors, etc. including with the public private partnership can play an important role to control the financial crime and help to maintain the financial stability in country.

Ladies and Gentlemen,

10. At last, but not least, I would convey my best wishes that the conference will be successful and reach a concrete conclusion about the implementation of robust mechanism of AML compliance. In addition to this, I believe that, this program will able to help improve your knowledge on the risks associated with of ML/TF. It will also help to further continue discussions on plan of action to help prepare for the upcoming mutual evaluation scheduled in 2020.
11. With this note, let me close my remarks by congratulating and thank you all for your gracious presence and attention.

Thank you.