G20/IMF/FATF Special Joint Session:
Financial Innovation and AML/CFT - opportunities and challenges
2 April 2019, 9:00-10:45
IMF HQ2-01A-820, Washington DC

***Summary***

The session started with opening remarks by Rhoda Weeks-Brown, General Counsel and Director of the IMF Legal Department.

The panel discussion began after the presentation by Marshall Billingslea, President of the FATF, about the recent and ongoing work of the FATF as the global standard setting body in AML/CFT. In relation with financial innovation, the FATF has been working on virtual assets for some time: it issued guidance in 2015, and following a request by the G20, agreed on the revision to the FATF Recommendation in October 2018. The FATF is in the process of developing the Interpretive Note to the revised Recommendation and a new Guidance. The FATF is also working on RegTech/SupTech and digital ID, as it continues to monitor new trends and typologies of ML/TF activities exploiting new technology.

The panel discussion was moderated by Atsushi Mimura, Deputy Vice Minister of Finance for International Affairs, Ministry of Finance, Japan (G20 Presidency). Panelists included representatives from Italy (Antonio Adinolfi), the IMF (Nadim Kyriakos-Saad), the FATF Secretariat (David Lewis) and the Institute of International Finance (Brad Carr). They discussed potential opportunities and challenges for AML/CFT associated with financial innovation.

On the opportunities front, panelists pointed out various advantages that advanced financial technologies might bring for AML/CFT purposes to both the public authorities and the private industry.

- In Italy, the government has developed central computerized network of public database that covers both identity information and data on income documents. This was originally launched for ID theft prevention and will shortly be available to law enforcement authorities for ML/TF prevention in general. Since it was started in Feb. 2015, it performs 10 million verifications per year, secures over 60 billion Euros financial operations and allows 10% improvement in fraud prevention effectiveness.
- From the viewpoint of the private sector, new technologies such as machine learning and artificial intelligence could significantly improve the effectiveness of transaction screening/monitoring and risk profiling.

Participants also mentioned issues that needed to be addressed in order to realize the potential benefits of innovations. For example,

- *IT system*: Legacy IT infrastructure and frequent lack of data compatibility among different IT systems pose difficulties for many financial institutions to share their data across their IT systems.
- *Resource constraints*: Both public authorities and private sector entities are facing shortage of talented IT human resources ("war for talent").
- *Cost and liability*: Lack of clarity about allocation of liability when problems happen for example, in a data sharing platform or a common database is recognized as a barrier to development of industry-wide databases. In the same vein, the cost issue (i.e., who should assume the cost of developing and maintaining common databases, according to which criteria) is also difficult to solve. Public authorities may need to think of ways to incentivize financial institutions to share their customer/transaction data, e.g., by allowing access to public authorities' databases.
- *Cyber-security*: Financial innovation products and services should meet cyber-security conditions.
- *Privacy and other legal issues*: Public authorities need to address legal issues such as those related to data privacy, if they are to share and use information for prevention and criminal investigation purposes.

On the challenges front, panelists mentioned to innovative financial networking services that could also be used for illicit financial flows. For instance, the development of digital ID would enhance financial inclusion in various economies, but this could be easily exploited by stealing or scamming individual ID. Similarly, while advancement of retail cross-border payment services such as through mobile phones (mobile banking) encourages financial inclusion by enlarging ways to send small amounts of money with more speed, much less charges and across borders, such financial innovation could also increase the risk for ML/TF.

Drawing from countries' responses to the Bali Fintech Agenda questionnaire, the IMF highlighted that countries' AML/CFT regulatory approach to financial innovation, including with respect to virtual assets, is currently very uneven, and that the weakest links in global financial network would be easy targets by criminals and terrorists. The IMF plays an important role in advising its members in the implementation of the AML/CFT standard, including as it concerns financial innovation and in providing capacity development to those countries with limited capacities that might face significant risks to be misused for ML/TF purposes.

Looking ahead to future tasks, further analysis should be conducted on new types of

ML/TF methods arising from financial innovation. As the global standard setting body for AML/CFT, the FATF should continue to monitor the risks to provide any possible policy responses “ahead of the curve”:

- First, the FATF could review opportunities for further work to identify potential AML/CFT risks arising from the use of new technologies.
- Second, on the basis of this, the FATF could consider appropriate policy responses to mitigate the risks identified, and to exploit the opportunities presented, including for more effective implementation of AML/CFT preventive measures.