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The dirty money problem for Singapore

It's a cat-and-mouse game to sieve out illicit finance and money laundering.

Woo Jun Jie

A recent raid resulted in the arrest of 10 foreign nationals for forgery and money laundering and the seizure of $1 billion in cash and assets, in what is now one of Singapore's biggest money laundering sting operations.

Aside from more conventional assets such as cash, cars, properties and luxury items, 11 documents with information on virtual assets were also seized.

The risks of money laundering are exceptionally high in financial hubs such as Singapore, where the flourishing of our financial services sector is dependent upon the free flow of capital in and out of our borders.

To be clear, all financial hubs are vulnerable to money laundering. A 2021 Basel Anti-Money Laundering (AML) Index released by the Basel Institute on Governance found that global money laundering risks increased across all 110 jurisdictions assessed.

This is compounded by the difficulty of differentiating between clean and dirty money, since financial criminals have a tendency to commingle the two by embedding illicit transactions within legitimate ones.

As Monetary Authority of Singapore (MAS) managing director Ravi Menon stated in a Bloomberg interview: "When a large sum of money comes into any country, you should be worried about it." The sum of money that enters our financial system is indeed large. In 2021, the MAS reported a record $448 billion inflow of new money.

Furthermore, Singapore's business-friendly stance also means that it is not difficult for anyone to set up a company or purchase private property in the country. This ease of doing business is intended to increase Singapore's attractiveness to business and investments, yet it can also be abused by those seeking out loopholes in our financial system.

THE SCOURGE OF MONEY LAUNDERING

Money laundering and terrorism financing are perennial issues that Singapore has sought to address since its emergence as a financial hub.

We have had our share of past setbacks. In 2009, Singapore was placed on the Organisation for Economic Co-operation and Development's (OECD) grey list of tax havens.

It was after signing information exchange agreements with 12 countries – Mexico, Qatar, Norway, Austria, Australia, the Netherlands, Britain, Denmark, New Zealand, Belgium, Bahrain and France – that Singapore was taken off the grey list.

More recently, in 2021, it was revealed that two companies that were mentioned in the leaked documents trove, the Pandora Papers, had been subject to supervisory or enforcement actions by the MAS, including a $1.1 million penalty on Asiaciti Trust for inadequate safeguards against money laundering and terrorism financing.

During the recent anti-money laundering operation, the police found luxury cars, with some models priced in excess of $1 million. Money laundering is a perennial issue that Singapore has sought to address since its emergence as a financial hub, says the writer. ST FILE PHOTO

Some may ask: Why should we be concerned about how or where the money is spent so long as Singapore benefits from such capital flows?

The reality is that money laundering and terrorism financing can severely impact Singapore's reputation as a financial hub. This will in turn drive away investors and financial institutions, many of whom would prefer not to have their capital commingled with illicit funds and transactions.

A 2021 working paper by the International Monetary Fund estimates that capital inflows decline on average by 7.6 per cent of a country's gross domestic product (GDP) when it is grey-listed. That is the equivalent of losing out on $48.9 billion worth of capital inflows, based on Singapore's nominal GDP of $644 billion in 2022.

The financial services sector alone contributes 13 per cent to our nominal GDP and employs more than 170,000 workers. Any potential decline in capital inflows or negative impacts on the financial services sector may see contagion effects and could have dire implications for our broader economy.

MONEY LAUNDERING IN A DIGITAL ECONOMY

Singapore's financial regulations must keep pace with the evolving and increasingly complex nature of money laundering activities. To this end, the MAS has established a comprehensive set of regulations aimed at safeguarding Singapore's financial sector from money laundering and terrorism financing risks.

At the heart of these regulations is the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act which sets out the criminal offences and enforcement actions related to money laundering.

Financial institutions in Singapore have been held to account, with 17 penalised for money laundering and terrorism financing over the past five years.

Still, like any criminal activity, tackling money laundering is unfortunately like a game of "cat and mouse". Each time regulators manage to identify and curtail money laundering, financial criminals will seek out new means of laundering money. This will in turn require regulators to develop new regulations and solutions to plug emergent loopholes.

For example, the recent $1 billion money laundering case uncovered 11 documents related to digital assets. The use of digital assets for money laundering is not new. The growing incidence of cryptocurrencies being used for money laundering has, for example, prompted the United States government to establish new regulations and enhance existing frameworks to provide greater regulatory clarity on the use of cryptocurrencies.

In Singapore, regulations are similarly attempting to catch up. A paper was produced by an Anti-Money Laundering and Countering the Financing of Terrorism Industry Partnership (ACIP) working group that provides a framework for understanding the money laundering and terrorism financing risks arising from the use of digital assets, and best practices to identify, manage and mitigate such risks.

DIVERSE TOOLS AND SHADY INDIVIDUALS

Two other challenges demonstrated in this case show the value of expanding cooperation with law enforcement agencies and financial institutions to tackle this increasingly complex and fluid nature of money laundering.

First, beyond digital assets, property, cash or luxury goods, money laundering can often involve other objects and goods from across the broader economy that may not immediately register as assets but nonetheless possess considerable value. A good example of this would be the Bearbricks figurines seized by the police.

Second, the individuals involved in money laundering are also increasingly diverse. Property agents and "concierges" may be involved in facilitating money-washing through the purchase of property and other major assets.

The Basel AML Index had also found the application of anti-money laundering preventive measures to be weak among lawyers, accountants, property agents and other non-financial businesses.

The MAS' close collaboration with the Singapore Police Force's Commercial Affairs Department in the investigations leading up to the Aug 15 arrests has been cited as a key factor that led to these arrests.

The ACIP is a good example of how financial regulators can work with industry partners to co-create anti-money laundering policies and regulations.

The launch of a digital platform known as the Collaborative Sharing of Money Laundering/Terrorism Financing Information and Cases, or Cosmic, has enabled MAS and major financial institutions to share information with one another on potential financial crimes. This can help regulators to pick up potential red flags that financial institutions may notice in their day-to-day operations and hence tackle potential financial crimes upstream.

More recently, perhaps recognising that the growing number of family offices may become platforms for illicit activities, the MAS has launched a public consultation on a revised framework to strengthen surveillance and defence against money laundering risks in Singapore's single family office sector.

There is little doubt, given the increasingly creative ways in which financial criminals launder their monies, that Singapore will need to take a whole-of-economy perspective to tackling money laundering.

This will require the coordinated efforts of regulators, enforcement agencies, financial institutions and non-financial businesses in flagging potential financial crimes and co-creating potential regulatory solutions.

Greater financial literacy and regulatory oversight of property agents, luxury retailers and purveyors of any other goods or services who may be involved in the laundering of money will also go some way to tackle the problem of dirty money.

That includes retailers of Bearbricks and other high-value toys.

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