Losing The War On Money (Laundering)

We've all encountered the increasing red tape required to not only initiate new investment, but also to make top ups or even to redeem existing investments. The bureaucratic processes all fall under the broad banner of financial crime compliance (FCC). According to a recent Forrester report, financial institutions spent an estimated $206 billion on FCC over the past year. Other reports, however, estimate the cost to be closer to a staggering $300 billion annually. The true direct and indirect cost remains elusive.

Over the past two decades, there has been a significant rise in compliance requirements, but also a massive escalation of financial crimes. Consequently, it's just not that obvious that the legislation is having the desired effect. At the same time, there seems to be no real incentive for the authorities to conduct accurate cost-benefit analyses.

The overarching crimes that this legislation is purporting to combat are **money laundering and the financing of terrorism**. While the concept of hindering criminals in the financial leg of their illegal activities is sound in theory, the practice of designating the financial industry as policeman, instead of empowering the relevant government agencies, raises concerns and has **adverse unintended consequences**.

Under the guise of targeting terrorism financing, everyone participating in financial markets is presumed guilty until proven innocent. Know Your Client (KYC) and Anti Money Laundering (AML) processes have become increasingly onerous and have been accurately described as "*speed bumps for the guilty that are becoming more like roadblocks for the innocent."*

Politically there are just **too many vested interests** – from the global intergovernmental policy body of the FATF (Financial Action Task Force), to country government agencies such as the FCA (Financial Conduct Authority) in the UK, to the FINCEN (Financial Crimes Enforcement Network) as part of the US department of Treasury, to bodies such as OFAC (Office of Foreign Assets Control) in the US and the EBA (European Banking Authority).

At the same time these regulations have and will continue to fuel a massive industry of legal and compliance consulting to the financial and banking industry. One other unintended, adverse consequence is that the increased regulatory and friction cost associated with taking on and maintaining clients, locks out large parts of the global population from banking and financial services.

However, for the foreseeable future, this complex regulatory world that we live in is unlikely to change. Financial institutions have no choice but to allocate more and more resources to regulatory compliance as government's expand their requirements. Businesses servicing this "need" will flourish, and investors will unfortunately bear the cost. As advisors in this environment, our commitment remains steadfast: staying informed, pro-actively managing risks, seeking opportunities, and maintaining a strong ethical foundation in all dealings.

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