Australian Government

AUSTRAC

FIGHTING FINANCIAL CRIME TOGETHER

Key findings overview:

Australian Banking Sector Money Laundering and Terrorism Financing Risk Assessments

Australia's banking sector sits at the centre of the financial services industry, providing an extensive range of products and services to retail, corporate, institutional and private banking customers.

AUSTRAC has released four money laundering and terrorism financing (ML/TF) risk assessments to help the banking sector identify, understand and disrupt serious financial crime. These assessments were completed under a program of work funded by the Australian Government and examine the following sectors:

- Australia's four major banks
- other domestic banks (12 operating in Australia)
- foreign subsidiary banks (seven operating in Australia)
- foreign bank branches (48 operating in Australia).

The overall ML/TF rating for foreign subsidiary banks and foreign bank branches is **medium**, and **high** for major banks and other domestic banks operating in Australia. The level of ML/TF risk in each subsector is largely proportional to its size, the types of customers it services, its products and services, and its global reach.

Risk profiles are also impacted by the maturity of individual entities' anti-money laundering/counter-terrorism financing (AML/CTF) programs in place, which are implemented with varying degrees of effectiveness across the sector.

Most suspected ML/TF activity involves retail banking products and services, particularly those that facilitate cash transactions or rapid transfer of funds domestically or internationally. These products and services are exploited at all stages of the money laundering cycle, and are exposed to terrorism financing activity and a range of predicate offences such as drug trafficking, fraud and tax evasion.

OVERVIEW OF AUSTRALIA'S BANKING SECTOR

SUMMARY OF KEY FINDINGS

For a detailed understanding of the ML/TF risks facing each banking subsector, please refer to the individual risk assessment.

The characteristics and activities of individual entities within the relevant subsector vary significantly. Consequently, the ML/TF risks associated with individual businesses also varies. The risk rating criteria used in these assessments is designed to capture an overall rating for the subsector.

MAJOR BANKS

AUSTRAC assesses the overall ML/TF risk associated with Australia's major banks as **high**.

Combined, major banks hold approximately three-quarters of the banking sector's total assets, process the majority of Australia's international transactions, and offer thousands of products and services to a significantly larger and more diverse range of customers than other banking subsectors.

Major banks are widely exposed to predicate offences and money laundering methodologies at all stages of the money laundering cycle. They are also more exposed to suspected terrorism financing than other banking or financial sectors.

Major banks face a high level of inherent ML/TF vulnerability due to their:

- very large customer base
- significant number of high-risk customers
- very high exposure to cash
- extensive product offerings
- substantial exposure to foreign jurisdiction risk.

While there have been significant and systemic deficiencies detected in this subsector in recent years, major banks continue to make significant investments to counter ML/TF risk and engage regularly with AUSTRAC.

OTHER DOMESTIC BANKS

AUSTRAC assesses the overall ML/TF risk associated with other domestic banks as **high**. Other domestic banks are exposed to a range of predicate offences, some sophisticated money laundering methodologies and a moderate level of suspected terrorism financing.

Other domestic banks face a high level of inherent ML/TF vulnerability due to their:

- large customer base
- high exposure to cash
- increasing use of remote service delivery channels
- exposure to foreign jurisdiction risk.

ML/TF vulnerability also stems from displacement of some higher-risk customers from Australia's major banks, including members of serious and organised crime groups and individuals linked to terrorism.

Overall, other domestic banks continue to invest in more advanced risk mitigation systems and controls. However, some smaller domestic banks have less sophisticated and less resourced AML/CTF programs.

FOREIGN SUBSIDIARY BANKS

AUSTRAC assesses the overall ML/TF risk associated with foreign subsidiary banks as **medium**. The key threats facing the subsector are frauds and scams, which can be exacerbated by use of online delivery channels. Overall, the subsector has not experienced the same volume or sophistication of money laundering as Australia's domestic banks.

Foreign subsidiary banks face a high level of inherent ML/TF vulnerability due to their:

- high exposure to cash
- heavy reliance on remote delivery channels
- high exposure to foreign jurisdiction risk.

Foreign subsidiary banks are also exposed to some higher-risk customers that have been exited by major banks.

The subsector implements risk mitigation strategies but some technological capabilities could be improved. In addition, AML/CTF programs are often developed offshore by head office. The effectiveness of the program is therefore influenced by head office's understanding of local risks.

FOREIGN BANK BRANCHES

AUSTRAC assesses the overall ML/TF risk associated with foreign bank branches as **medium**. The extent of criminal exploitation is very low and the subsector faces different threats to other banking subsectors given their limited retail banking footprint and the high number of corporate and institutional customers they service.

The primary threats facing foreign bank branches are frauds and scams committed against their customers, followed by corporate tax evasion.

Overall, foreign bank branches face a medium level of inherent ML/TF vulnerability. The most significant levels stem from:

- a large number of high-risk customers
- exposure to foreign jurisdictions.

Foreign bank branches also face inherent vulnerability from their use of correspondent banking and agent bank arrangements, customers engaged in international trade, and private and investment banking products and services that help disguise the true source and destination of funds.

Like foreign subsidiary banks, some reporting entities could improve technological capabilities in their risk mitigation strategies. AML/CTF programs are also often developed offshore by head office and their effectiveness is largely influenced by understanding of local risks.

SNAPSHOT OF RISK RATINGS

	MAJOR BANKS	OTHER DOMESTIC BANKS	FOREIGN SUBSIDIARY BANKS	FOREIGN BANK BRANCHES
Overall ML/TF risk rating				
Criminal threat environment				
Nature of money laundering				
Extent of money laundering				
Nature of terrorism financing				
Extent of terrorism financing				
Nature of predicate offences				
Extent of predicate offences				
Vulnerabilities				
Size of customer base				
Higher-risk customers				
Use of cash				
Ability to store and move funds				
Level of face-to-face contact				
Complexity of delivery arrangements				
Ability to move funds or value internationally				
Prevalence of higher-risk jurisdictions				
Overall consequences				
Customers				
Individual businesses and the subsector				
Australian financial system and community				
National and international security				