

**Keynote Address by the Governor at the BIMSTEC Meeting  
Held in Colombo on March 16, 2016**

Mr Sumith Nakandala, Secretary General, BIMSTEC, Major General, Attachai Doungamporn, Distinguished Delegates, Ladies and Gentlemen,

I am extremely privileged to be invited by you here today to address you on the occasion of this BIMSTEC Meeting in Colombo which revolves around the topic of combating illegal transfers of money around the world.

This is a very important task. We in this country in Sri Lanka are acutely aware of how de-stabilizing some of these illegal fund flows can be. We faced an internal conflict in our country for almost 30 years which was funded essentially by several foreign sources who were seeking to de-stabilize this country and it is only in 2009 that we were able to conclude and finally eradicate the menace of terrorism and today this country is trying to now grapple with the challenges of the historic peace and order and resume normal life style.

So you are in a country which has seen the scourge of the terrorist activity, terrorist financing. We have around the room several specialists who have deep experience on countering these types of issues.

But, in the meantime we have another development globally which was due to the global financial crisis in 2008, which in its wake also brought several new elements into the work that we do. Quite apart from terrorist financing itself there is now an issue of tax evasion which several countries in the world are acutely aware of. Since 2008 crisis, what has actually happened is that the governments have been piling on lot of debt and they are finding it difficult to service that debt. And as a consequence, tax authorities in several countries from the United States, all the way to small countries like Sri Lanka and the Maldives are basically finding that they have to raise more taxes, to pay their debts. Consequently, we have in addition to work that we have already done on money laundering and terrorist financing, we have several stipulations that are being brought forward by governments to ensure that money which moves around the world are tax compliant. This I think is a big challenge for all of us, because it means that, in the banking system in which we Central Bankers are directly involved, the large part of our supervisory activity focus on ensuring that banks when opening accounts or administer accounts of their customers and their clients also tax compliant not just in their own domestic jurisdiction but also in other jurisdictions around the world. So if you found that the cross border regulations of tax compliance has become significant issues for all of us and all

countries are endeavoring to help each other to ensure that people pay proper taxes before when they basically engage in any sort of economic or financial activity. So this I think, is a significant challenge to all of us.

I also wish to mention about different aspects of money laundering, we have seen, when glaringly in the last few days and weeks our colleagues from Bangladesh were faced by a very elementary scam that it was I think done in a very sophisticated manner. The scammers chose to make transfers from Bangladesh bank on a Friday, when Bangladesh is on holiday and the New York is open and they were able to impersonate the digital signatures of the relevant officials in the Bangladesh Bank and the New York Federal Reserve Officials were completely taken up by this. And the figures vary but it looks like close to million dollars was at stake in this whole operation and I don't want to mention the countries but there are several countries in the Asian region from where some of these miscreants are alleged to have been involved in this entire scandal and I am sad to say that my dear colleague Governor, Atiur Rahman has announced his resignation last night as a consequence of this scandal affecting the Bangladesh Central Bank. This is a wakeup call for all of us, bankers.

I know that all of you in the room are not bankers. We have veteran bureaucrats, from the armed force, police services as well as legal fraternity, civil service, but banking is really at the core of lot of these financial prestiges, because at the end of the day, the Central Banks are the regulators and arbiters of those pillars to our system. This put particular responsibility on us in Central Banks to improve our surveillance systems and of course engage in all of you from the other arms of the government to ensure that our countries and our financial systems are not affected. But this type of activity happening which regrettably with the digitization and the spread of computerization across all sort of activity in business world means that we have to change the way we do things.

You may have heard of the concept of bit coins. This is a huge challenge to Central Bankers worldwide. What it means basically is that money no longer needs to be physically issued as cash it is now electronic, and if a group of people get together and decide to transact among themselves using an artificial currency like bit coins there is nobody to stop them doing that. There are no laws to stop them doing that. That could mean that it will give them an anonymity. Why do they do this? They do this because they want to be anonymous. They do not want people to know who they are. They do not want people to know whether they have paid their taxes. They do not want people to know whether they are using money for illegal activity. That is the challenge that is faced by us.

If we Central Banks and indeed all arms of the government do not rise up to this challenge and make it a point to learn how to apprehend and you know regulate this type of activity in the electronic domain, we are going to be left behind. And all sorts of illegal activities are going to flourish globally. This is going to be a big challenge for us, of course this digital world is not entirely negative. There are positive aspects to the digitization of financial flows. So for instance, I have been travelling recently to the Middle East and China and they are trying to connect our domestic electronic payment systems with those of other countries to facilitate the flow of savings of our workers back to Sri Lanka. It may be interesting to know that about 10% of our GDP every year comes back to Sri Lanka in terms of remittances from our Sri Lankan workers all over the world and to that extent we also have to necessarily link up and become part of that global eco system of electronic payment which facilitate the growth of trade and flow of money into our country. But of course the flip side of that is that we then open ourselves to these vulnerabilities that any miscreant can come into the system and start gaming the system and achieving illegal ends. So that is something we have to ever watchful about.

We in the Central Bank of Sri Lanka, have been delegated by the government by His Excellency, Minister of Finance to run the Financial Intelligence Unit which is the core of the efforts to counter terrorist financing, money laundering and all sorts of other illegal sources of finance and we are trying to constantly upgrade our knowledge, our systems and I think it is very essential that we interact with all of you around the room, in order to enhance our knowledge base and also make sure that we can respond rapidly to events as and when they take place.

In the Bangladeshi case, it's unfortunate that things were kept under wraps about a month before it was made public and only made public because of Sri Lankan teller in one of our banks has noticed a spelling mistake in one of those wire transfers and that is how the whole thing came out to the public domain. It is no point trying to hide these things. Rapidness of our responses is absolutely essential if we are going to counter this menace which is really going to grow. There is no question about it in my mind, you are going to have millions of people trying these sorts of scams in increasing frequency and we just have to hear ourselves to handle those types of events as and when they occur in the future. It is interesting the whole eco system that has evolved around these agencies which run FIUs around the world. I am quite fascinated by the fact that we are in effect have a sort of shadow United Nations in the FIU which actually does not have a Headquarters or any physical building or anything to its name. It is just a loose alliance of FIU agencies across boarders, around the world which are collaborating with each other in a very effective manner. And I think this is testament to new way of doing things where we do not have to

fall back on all this institutional mechanism, which eventually has become bureaucratic and ineffective.

I was very impressed when I went to my first Asia Pacific Group meeting in New Zealand last year and I found the energy and the vitality that has been applied to by the FIUs to that activity. So we have a mutual assessment last year of Sri Lanka by our partners of the Asia Pacific Group and that has brought about some fascinating insights and also pointed out to us some of the shortcomings in our legal and institutional system, in the way of our government works. And this I think has enriched our view of how potentially we can improve, the way we do things and that would be a real testament to the effectiveness of these sorts of groupings.

So, this meeting, you are having is extremely important, do not underestimate the value of these interactions. Eventually it is the person to person contact between each of you that is going to make the effort to combat all types of illegal financing effective because just being able to raise the phone and call somebody on first name basis is I think much more effective than all the bureaucratic and other systems we can put in place to try and combat illicit financing worldwide.

So I commend you to take this message from us in Sri Lanka that you know the future has huge challenges. The real future is in your hands and you are all probably going to be the most important cons in the entire financial and institutional networking in your respective countries going forward because you are going to be the guardians, gate keepers and the people who are going to prevent our financial systems from being abused by financial fraudsters and other miscreants. So I wish you well in your new deliberations. Do not underestimate importance of what you are doing and I hope that these meetings will be held regularly and you will develop an agenda which will hopefully define your work plan not just for the next year but for several years ahead. And indeed learn from each other which I think is really at the end of the day, the proof of the pudding.

Thank you very much for inviting me here and I wish you all the best of luck.

Thank you.