



Republic of the Philippines
ANTI-MONEY LAUNDERING COUNCIL

TOWARDS DEEPENING REGULATORY COMPLIANCE

An Assessment of the Development of Anti-Money Laundering Reporting
Compliance of the Pawnshop and Money Service Business Industry



Photo by Niels Steeman on Unsplash

STRATEGIC ANALYSIS REPORT
November 2018

TABLE OF CONTENTS

Executive Summary.....	3
Introduction	4
Scope and Methodology	8
Data Analysis.....	10
Cases/Typologies.....	19
Conclusion	21

TABLE OF FIGURES

Table 1. Pawnshop and MSB Network.....	5
Table 2. Industry Groups Covered by the Study	8
Table 3. CTR Submissions below Reporting Threshold	8
Table 4. Transaction Reports by Type.....	10
Chart 1. Comparison of Number of CTR & STR Submissions and Reporting Institutions	10
Chart 2. Average Number of CTRs and STRs per Reporting Institution	10
Chart 3. Number of CTRs & STRs and Classification by Activity of Reporting CPs (in %).....	12
Chart 4. Number of Reporting CPs and Classification by Submission Activity (in %).....	13
Chart 5. Breakdown of CTR Submissions by Turnaround Time (in %)	13
Table 5. STR Volume by Transaction Type (by Upload Year)	14
Table 6. STR Value by Transaction Type (in PHP million; by Upload Year)	15
Chart 6. Historical Submission of STRs (Volume and PHP Value by Upload Month).....	16
Table 7. Classification of Suspicious Transaction Indicators for STRs Profiled by AMLC	16
Table 8. Related Predicate Crimes of STRs Profiled by AMLC (Volume by Upload Year)	17
Table 9. Related Predicate Crimes of STRs Profiled by AMLC (Total Value in PHP million by Upload Year)	18
Table 10. STRs for Selected Predicate Crimes Filed by Pawnshops and MSBs Relative to All CPs (Share to Total).....	18

EXECUTIVE SUMMARY

The parallel market within which the pawnshop and money service business (MSB) industry operate has undergone significant changes in recent years. Its involvement in the Bangladesh Bank Heist¹ has resulted in a rethinking of the significance of the industry's anti-money laundering (AML) compliance, culminating in the enhancement of the industry's regulatory framework via Bangko Sentral ng Pilipinas (BSP) Circular Nos. 938 and 942.

In view of AML-related developments in both the regulatory and operational environments of the pawnshop and MSB industry, this study aims to assess how the industry's compliance with AML reporting standards has evolved through the years. This study performs a descriptive analysis on Covered Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) submitted from January 2013 to August 2018 by BSP-accredited pawnshops and MSBs operating in the parallel market (i.e.: not affiliated with the formal banking sector).

While the average number of CTRs filed per institution has steadily increased since 2013, STR submissions have been more erratic until 2016. However, submissions of both CTRs and STRs have dramatically risen in the aftermath of the Bangladesh Bank Heist in early 2016 and even more so after the issuance of BSP Circular Nos. 938 and 942 in December 2016 and January 2017, respectively. The number of reporting institutions has also increased since 2016. Further, improvements were noted in the timeliness of CTR submissions. A majority of the bases for suspicion were also noted to emanate from the institutions' own monitoring of their customers rather than reactive reporting to news articles or requests for information (which occur after the fact). Data analysis provided substantial basis to confirm broadening AML awareness, reporting, and compliance within the industry.

Notwithstanding persisting challenges especially in the conduct of due diligence, the use of the pawnshop and MSB industry as a conduit for money laundering (ML) and terrorism financing (TF) may be curbed and/or detected through initiatives such as: (1) deepening of partnerships through Public-Private Partnership Programs (PPPP); (2) capitalization on emerging regulatory technology solutions; (3) establishment of industry associations; (4) encouragement of sector consolidation to lessen industry fragmentation; and (5) conduct of further capacity enhancements. Lastly, should the BSP Charter be amended, the inclusion of the industry among financial agents under BSP's supervisory authority would afford regulators with a more holistic view of the industry and its operating environment, which may be crucial in safeguarding against unscrupulous business practices that may taint the integrity of the financial system.

¹ The case involved the hacking of Bangladesh Bank's accounts with the Federal Reserve Bank of New York. A total of USD81 million was wired to four (4) fictitious accounts maintained in a local Philippine bank through the connivance of a branch manager.

INTRODUCTION

Alternative financial service access points are crucial in the promotion of financial inclusion, especially for the 552 cities and municipalities in the Philippines that remain unbanked (i.e., without any banking presence) as of March 2018.² To this end, pawnshops and MSBs, whose networks cover areas not reached by the banking sector, play a pivotal role in empowering the poor to access and engage in the formal financial system.

Presidential Decree No. 114 dated 29 January 1973 regulates the establishment and operation of pawnshops in the Philippines. The pawnshop business is defined by the BSP as “the business of lending money on personal property that is physically delivered to the control and possession of the pawnshop operator as loan collateral” (BSP Circular No. 938). On the other hand, MSBs collectively pertain to “non-bank entities engaged in remittance, money changing, and/or foreign exchange dealing” (BSP Circular No. 942). Remittance refers to the domestic or international transfer or facilitation of the movement of funds, while money changing/foreign exchange dealing refers to the purchase or sale of a currency in exchange for another currency³. In particular, under BSP Circular No. 942, MSBs may conduct operations as any or both of the following:

- (1) Remittance and Transfer Company (RTC), which is an entity providing Money or Value Transfer Service (MVTs), defined as financial service involving the acceptance of monetary instruments or other stores of value and the payment of a corresponding sum to a beneficiary. RTCs are further classified into Remittance Agents (RA) or entities directly contracted to engage in the remittance business and/or providing a network to perform remittance business; Remittance Platform Providers (RPPs) or entities providing platform/information technology (IT) infrastructure and settlement accounts to fund remittance transactions executed within its network; and Electronic Money Issuers (EMIs) or entities providing money transfer or remittance services using electronic stored money value system and similar digital financial services.
- (2) Money Changer (MC)/Foreign Exchange Dealer (FXD), which is an entity engaging in money changing/foreign exchange dealing business.

It may be noted that pawnshops may also perform MSB functions if duly authorized by the BSP.

The combined network of pawnshops and MSBs has reached 16,853 offices as of September 2018, with 11,563 of these engaged in the pawnshop business and 14,906 engaged in MSB functions (Table 1). In addition, there were 1,677 Remittance Sub-Agents (RSAs) accredited by RTCs to perform part of their remittance business and 25,702 cash agents tapped by non-bank affiliated EMIs as of September 2018⁴.

² Preliminary figures for 1Q 2018. Source: www.bsp.gov.ph/downloads/Publications/2018/FIDashboard_1Q2018.pdf accessed on 24 October 2018

³ Source: BSP Circular No. 942.

⁴ Source: Data were obtained from the BSP website and via request from BSP units Integrated Supervision Department I and Core IT Specialist Group.

Table 1. Pawnshop and MSB Network

Non-Bank Financial Institution	Head Office	Branch	Total
A. Standalone Pawnshop	746	1201	1,947
B. Pawnshop with MSB	174	9,442	9,616
Pawnshop with RTC	44	1875	1,919
Pawnshop with FXD/MC	39	91	130
Pawnshop with RTC/FXD/MC	91	7476	7,567
C. Standalone MSB	716	4,574	5,290
RTC	78	2203	2,281
FXD/MC	479	259	738
RTC/FXD/MC	159	2112	2,271
TOTAL PAWNSHOP NETWORK (A + B)	920	10,643	11,563
TOTAL MSB NETWORK (B + C)	890	14,016	14,906

Source: BSP

While pawnshops and MSBs contribute to the promotion of financial inclusion and expansion of the formal financial system, the cash-intensive nature of their business and transactional (as opposed to long-term) relationship with clients have been exploited by criminals aiming to launder funds from their illicit activities⁵. The industry's role in the Bangladesh Bank Heist in 2016 resulted in a rethinking of the significance of ensuring the industry's AML compliance, not only from the side of the regulators, but also and more importantly, from the perspective of the entities themselves⁶.

Prior to the Bangladesh Bank Heist, pawnshops and MSBs were governed by BSP Circular Nos. 711 (series of 2011) and 471 (series of 2005), respectively. These required MSBs to register with the BSP and obtain all necessary local business licenses prior to the commencement of their operations. The Memorandum of Agreement between the BSP and the Department of Interior and Local Government (DILG) states that Local Government Units (LGUs) require Pawnshops and MSBs to present Certificate of Registration (COR) from BSP when renewing business permits, otherwise corresponding business permit renewal will not be allowed. Banks were also required to verify the registration of their MSB clients. However, the limited resources at the disposal of the BSP, as well as the lack of formal authority to conduct onsite examinations on MSBs, cast doubts over the effective implementation of such requirements. It was also cumbersome both on the part of the MSBs as well as the regulator itself that registration was required for every new branch, agent, and sub-agent and that the set of documents needed for the registration process did not vary according to the type of permit sought. For instance, the same documents had to be submitted whether an entity was opening a head office or a new branch.

⁵ Pawnshops and MSBs typically process small-value remittances and aim to integrate the unbanked sector into the formal financial system and as such, operate on business models with cash-intensive transactions and transactional customer relationships. These two elements can be taken advantage of by money launderers seeking to obscure their money trail and client identity. This could be affirmed by existing literature on the subject, for instance:

a) <https://kyc360.com/wp-content/uploads/2016/08/Money-Service-Business.pdf>, accessed 14 November 2018.
b) https://www.acams.org/aml-glossary/index-c/particularly_its_description_of_cash-intensive_businesses, accessed 14 November 2018.

⁶ This will be observed from the changes made to the regulatory framework (as can be gleaned from the succeeding paragraphs) and change in the extent of pawnshops and MSBs' AML reporting (as discussed in the Data Analysis section).

Following the Bangladesh Bank Heist, the BSP adopted a more proactive supervisory and regulatory stance, reinforced through the issuance of Circular Nos. 938 and 942 which strengthened the industry's regulatory framework and aims to minimize potential exposure to money laundering/terrorist financing risks. Among the salient features of the Circulars are provisions on: 1) the fit and proper rule for the owners, directors, and/or officers of pawnshops and MSBs; 2) requirement for all owners, directors, and officers to undergo AML training prior to the issuance of a certificate of registration; and 3) capitalization requirements based on business type and projected levels of activity. An industry-wide re-registration process has also been implemented to clean up and streamline the BSP's database and ensure that the adoption of improved AML standards permeates throughout the entire industry. Particular features of the aforementioned Circulars are as follows:

- BSP Circular No. 938 (dated 23 December 2016) enhanced existing regulations on pawnshops to ensure that these entities are properly supervised for their effective compliance with AML and internal control rules and guidelines. Pawnshop operators also became subject to stricter fit and proper rule and standards of corporate governance, as applicable.
- BSP Circular No. 942 (dated 20 January 2017) strengthened and streamlined supervision over MSBs through provisions such as the introduction of the concept of RTCs and a network-based approach to regulation wherein the entity that operates a remittance business shall be held responsible for the operation of its remittance network and accreditation of its RSAs; amendment of the requirements for registration; adoption of a classification of MSBs based on benchmark capital; and requirement for MSBs to notify the BSP regarding commencement of operations, newly-accredited RSAs, change of tie-up partner/s, transfer of location, and closure of business. Also, to ensure that there will still be transaction trails for large cash transactions (in the aftermath of deliveries of large cash during the Bangladesh Bank Heist), MSBs are required to issue checks or direct credit to clients' bank accounts for transactions exceeding P500,000.00.

The network-based approach is a manifestation of best practices, specifically, the principal-agent arrangement. This streamlines the supervisory process so that the BSP and the Anti-Money Laundering Council (AMLC) alike can take a more risk-based approach and standards/changes implemented would more comprehensively cover the industry, since these would spill over from the mother companies (i.e., RTCs) to the RSAs. RTCs may only grow their networks and in turn accredit RSAs if they are found to be sufficiently compliant with AML standards.

The streamlining of documentary requirements addressed the redundancy of documentary submissions and eased the requirements for activities which expose the entity/financial system to smaller risk.

In view of its examination strategy based on risk profiling, the BSP adopted a network-based inspection of pawnshops in 2016. In concentrating on systemically connected networks rather than individual entities, this approach aims to ensure a more cohesive and effective supervision, reduce the cost of inspection, and facilitate a more efficient and effective use of supervisory resources. For MSBs, the main considerations in their selection for AML examination were: (a) number of networks or offices; (b) materiality/volume of transactions; (c) whether they were the subject of complaints or were suspected to be involved in ML predicate offenses and/or used as conduit in ML. In the absence of required reporting, enhanced market intelligence facilitated the identification of MSBs exhibiting the foregoing.⁷

⁷ Source: Information was obtained via request from BSP unit Integrated Supervision Department I.

In 2016, a total of 165 pawnshop networks (covering 330 head offices and 5,577 branches) and 33 MSBs (covering 53 head offices and 848 branches) were subjected to examination/inspection by the BSP. These included the priority examination of MSBs involved in the Bangladesh Bank Heist. In 2017, as the BSP strengthened its off-site supervision of pawnshops and MSBs, examinations were conducted on 45 pawnshop networks (covering 74 head offices and 6,297 branches) and 51 MSBs (covering 156 head offices and 4,334 branches). To enhance industry awareness of and compliance with pertinent laws, rules, and regulations, the BSP also continued to conduct briefings on Pawnshop Regulations and seminars on the Anti-Money Laundering Act (AMLA), as amended.⁸

Likewise, in the aftermath of the Bangladesh Bank Heist, the BSP reminded banks of their responsibility to adopt sound risk management practices in dealing with the MSB industry to ensure that their partnerships with these companies and/or the accounts of these companies will not be used to facilitate the movement of funds relating to ML/TF activities. This directive could be gleaned from the following issuances:

- Memorandum No. M-2016-004 (dated 5 April 2016), which was disseminated before the issuance of the enhanced oversight framework for MSBs as encapsulated in BSP Circular No. 942, reiterated that banks should take extra caution and vigilance in their dealings with the MSB industry and should conduct enhanced due diligence upon onboarding and during transaction monitoring. The bank's Money Laundering and Terrorist Financing Prevention Program (MLPP) should also contain appropriate risk management practices to ensure the effective identification, assessment, monitoring, mitigation, and control of ML and TF risks arising from dealings with MSBs. In particular, banks were reminded to deal only with BSP-registered MSBs; conduct appropriate due diligence for all types of relationships with MSBs (e.g., as remittance partner, tie-up partner, or account holder); perform a thorough risk assessment of MSB customers, considering their business model and operations; deny a business relationship with an MSB should the due diligence process yield an unsatisfactory result; and perform continuing account and transaction monitoring.
- Memorandum No. M-2017-009 (dated 10 March 2017) advised banks on the issuance of BSP Circular No. 942, which includes the revised rules of MSB registration with the BSP. Banks were also reminded to deal only with MSBs duly registered with the BSP. Moreover, for MSB clients, the customer identification process must include securing a copy of the Certificate of Registration issued by the BSP. Finally, banks were required to implement a system that will enable them to understand the normal and reasonable account activity of customers and, consequently, detect unusual or suspicious activity.

On the part of the AMLC, pursuant to BSP Memorandum No. M-2016-004, the Council issued Resolution No. 34, Series of 2016 (approved on 29 April 2016) which specified the revised registration procedure for MSBs. Moreover, the AMLC released its 2016 STR Quality Review and shared the results with the Pawnshops and MSBs during the AMLCS' Quarterly Coordination Meetings with the industry. Individual letters were also sent to inform them of their ratings and for those who fared poorly, to submit Plan of Actions to address poor STR quality submissions. Finally, the AMLC Secretariat closely coordinated with the BSP in monitoring BSP-registered Pawnshops and MSBs that failed to register with the AMLC for reporting purposes. It was noted that once registered with the BSP, some institutions and businesses no longer pursue registration with the AMLC. To address this, the AMLC is studying the feasibility of having a "synchronized" registration with the BSP.

In view of the significant developments shaping the regulatory and operational environment of the pawnshop and MSB industry in recent years, this study aims to assess how the industry's compliance

⁸ Source: Information was obtained via request from BSP unit Integrated Supervision Department I.

with AML reporting standards has evolved through the years. For this purpose, the CTRs and STRs submitted by relevant entities will be used.

SCOPE AND METHODOLOGY

This study performs a descriptive analysis on CTRs and STRs submitted from January 2013 to August 2018 by BSP-accredited Pawnshops and MSBs operating in the parallel market, i.e.: not affiliated with the formal banking sector. These are institutions belonging to any of the following industries, as determined by the BSP upon completion of their registration:

Table 2. Industry Groups Covered by the Study

Industry Name	Industry Code/s
Pawnshops	27 and 031
FX Dealers	40
Money Changers	41
Remittance Agents	42 and 55
FX Dealers & Money Changers	43
FX Dealers & Remittance Agents	44
Money Changers & Remittance Agents	45
FX Dealers, Money Changers & Remittance Agents	46
Electronic Money Issuers	53
Money Service Businesses	060

While Authorized Agent Bank Forex Corporations used to be lodged under the FX Dealers (FXDs) industry group and were fully transitioned to their own industry group only in 2016, these companies were excluded from the dataset as they are subsidiaries of universal and commercial banks (UKBs) and thus are covered by the formal banking sector. Electronic Money Issuers (EMIs) affiliated with banks were likewise excluded from the dataset.

CTR submissions below the reporting threshold were also invalidated and omitted from the analysis. For monetary instruments (which comprise the underlying of transactions conducted by pawnshops and MSBs), CTRs are defined as transactions exceeding PHP500,000. The number of below-threshold CTR submissions submitted during the time frame of the study is presented in the table that follows.

Table 3. CTR Submissions below Reporting Threshold

	No. of CTRs below Threshold (i.e., PHP500,000 and less)	Total CTR Submissions	As % of Total CTR Submissions
2013	8,726	15,971	54.6%
2014	8,081	16,376	49.3%
2015	3,969	17,648	22.5%
2016	5,281	62,270	8.5%
2017	60	119,119	0.1%
Jan-Aug 2018	0	117,959	0.0%
Grand Total	26,117	349,343	7.5%

The latest CTR submission which did not meet the reporting threshold was filed in January 2017. Errors have since then been avoided due to the improvement of submission quality arising from the stricter implementation of reportorial requirements/guidelines. Institutions are no longer allowed to submit

CTRs which do not meet the reporting threshold. This new policy will minimize possible errors in terms of declared transaction amounts and type of submission (i.e., CTR or STR), as well as eliminate non-value adding data from the AMLC database.

To facilitate analysis and for comparability, transaction and submission/upload dates were converted to transaction and submission/upload years and the Philippine Peso (PHP) was used as the reference currency across the entire dataset. Data on the transactions' PHP amounts are based on the transaction reports submitted by the Covered Persons (CPs).

For consistency, CPs which are subsidiaries of the same parent company and/or operate under the same business name were grouped and tagged under 1 umbrella institution. As they belong to the same institution, these companies were assumed to adopt the same reporting system and standards. In consolidating related entities, analysts intend to address issues with regard to the analysis of the CPs' respective submission behaviors that may arise from inconsistencies in the CPs' degrees of reporting granularity, given that institutions have had the discretion to aggregate reports at the level of the parent company, by geographical region, or on a per-branch basis, among others. As such, the number of institutions referred to in the analysis proper does not capture the entirety of the industry's reach. The combined network of pawnshops and MSBs has reached 16,853 offices as of September 2018, excluding 1,677 RSAs accredited by Remittance and Transfer Companies (RTCs) and 25,702 cash agents tapped by non-bank affiliated EMIs.

For reports on foreign currency transactions, CPs are mandated to indicate the amount transacted in both foreign currency and its equivalent PHP conversion. In the study, submitted reports were taken as is and the amounts indicated for foreign currency transactions were not subjected to off-market exchange rate checking. However, a spot check was conducted on a foreign currency transaction report observed to significantly affect the results of the analyses. The outlier identified – the transaction's reported PHP amount – was found to be erroneous and was thus omitted from all calculations⁹. As this appeared to be the only incorrect piece of information in the report, all other fields were kept as is. Consequently, the transaction would still be counted as part of the submissions, although its PHP amount has been left blank.

All other transaction reports were included in the analysis, unless otherwise stated.

⁹ The judgment on the accuracy of the report hinged on the following observations: (1) The transaction under consideration was reported to amount to PHP5.7 billion, which is radically different from all other transactions of the individual involved as these were all smaller than PHP10,000; (2) The transaction under consideration follows the same pattern as the individual's other transactions in all other fields (e.g., transaction date, type, and counterparty); and (3) The equivalent foreign currency amount of the transaction was reported to be EUR30, which is likely the correct amount as it is consistent in size and profile with the individual's other transactions.

DATA ANALYSIS

Table 4. Transaction Reports by Type

Upload Year	CTR		STR		Total	
	Volume	Value*	Volume	Value*	Volume	Value*
2013	7,245	55,936.7	1,658	134.9	8,903	56,071.6
2014	8,295	66,679.1	4,549	1,303.7	12,844	67,982.8
2015	13,679	91,056.0	3,072	2,268.5	16,751	93,324.5
2016	56,989	450,023.9	4,491	6,238.7	61,480	456,262.5
2017	119,059	2,034,991.8	35,682	1,232.8	154,741	2,036,224.7
Jan-Aug 2017	71,299	1,592,695.8	18,892	535.0	90,191	1,593,230.7
Jan-Aug 2018	117,959	2,588,008.2	38,230	2,348.6	156,189	2,590,356.7
Total**	323,226	5,286,695.7	87,682	13,527.2	410,908	5,300,222.9

*Values are in PHP million

**Total pertains to reports submitted from January 2013 to August 2018.

Chart 1. Comparison of Number of CTR & STR Submissions and Reporting Institutions

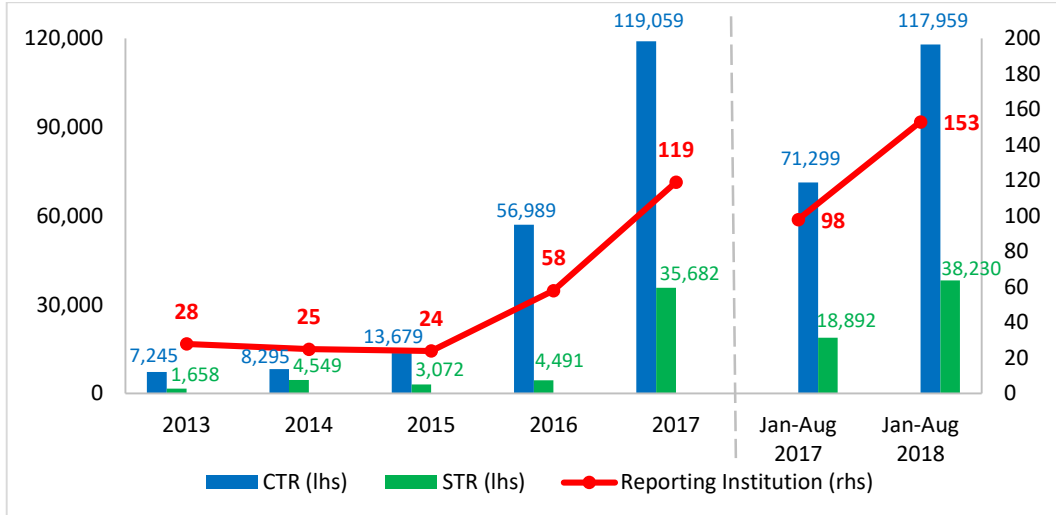
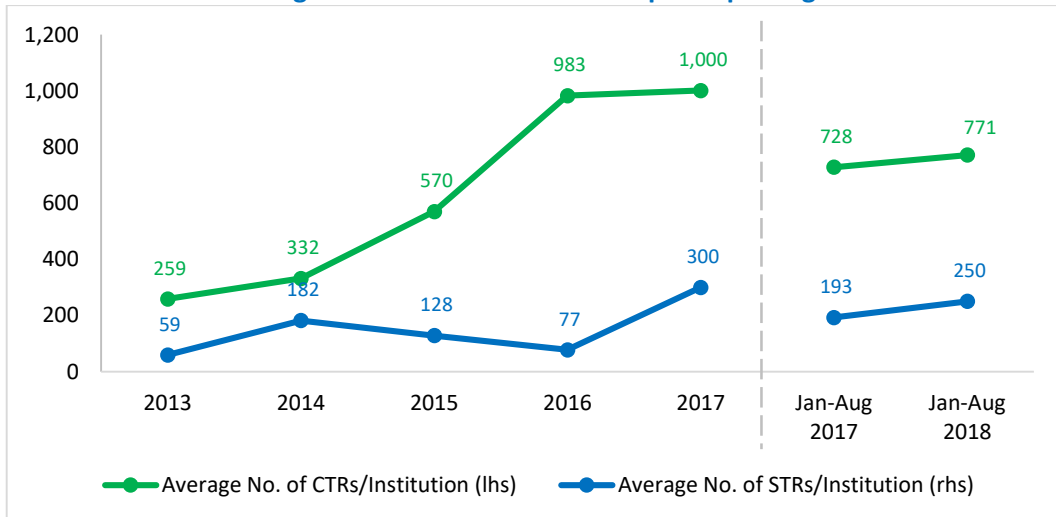


Chart 2. Average Number of CTRs and STRs per Reporting Institution



While the average number of CTRs filed per institution has steadily increased since 2013, STR submissions have been more erratic until 2016. However, submissions of both CTRs and STRs have dramatically risen in the aftermath of the Bangladesh Bank Heist in early 2016 and even more so after the issuance of BSP Circular Nos. 938 and 942 in December 2016 and January 2017 which created an enhanced regulatory framework for pawnshops and MSBs.

Reasons behind particular year-on-year changes are as follows:

- In 2014, exponential growth was noted in both the volume and value of STRs, driven by increased report submissions by some Remittance Agents (RAs), which proactively forwarded specific transactions that were observed to have no underlying obligation, purpose, or economic justification to the attention of the AMLC. For one of these institutions, from filing no STR on such suspicious circumstance in 2013, STR submissions on the same reached almost 900 in 2014. This was made possible through the institution's tapping into synergies from its partnership with Western Union, which provided valuable inputs into the nature of the transactions it was handling and in turn led to the refinement of its AML monitoring and reporting system.
- In 2015, CTRs were noted to increase in volume by 65% as high-value deposit transactions made through EMIs more than doubled, likely due to rapid market growth. Almost all transacting parties were companies, with several noted to be banks, bills payment companies, and other BSP-supervised financial institutions such as FXDs and RAs. This development may indicate increased interconnectedness within the financial system, which may aid in strengthening the monitoring and surveillance of financial activity. The increased usage of electronic channels for collection, disbursement, and remittance would also help enhance supervising agencies' visibility over the parallel market.
- In 2016, the repercussions of the Bangladesh Bank Heist pervaded the entire industry as CTR submissions more than quadrupled and STR volume grew by almost 50%. Growth in CTR volume was broad-based and not attributable to specific institutions (only 3 institutions had contributions to growth which were greater than 10%). A majority of these institutions did not file any reports in 2015, as evidenced in Chart 1 which shows that the number of reporting entities increased from 24 in 2015 to 58 in 2016. Likewise, a majority of the institutions that submitted STRs in 2016 did not file any STRs in the previous year. For one institution, STR submissions rose to more than 1,500 filings in 2016 from less than 300 in 2015. The AMLC's full implementation of the use of a standard report format also started in 2016. Aimed to further improve the quality of CTRs and STRs submitted to the AMLC, the new policy not only amended the prescribed format for submitting transaction reports, it also mandated CPs to abide by a detailed set of guidelines on the mandatory information that must be supplied for each type of transaction. These developments point to increased compliance and more rigorous implementation of AML standards.
- In 2017, CTR submissions increased year-on-year by 109% in terms of volume and 352% in terms of value. On the other hand, STRs increased by 695% in terms of volume but decreased by 80% in terms of value. The increase in reporting resulted from the BSP's issuance of Circular No. 942, which enhanced the regulatory framework for pawnshops and MSBs to ensure that even non-banks are properly supervised for effective compliance with AML and internal control rules and guidelines¹⁰.

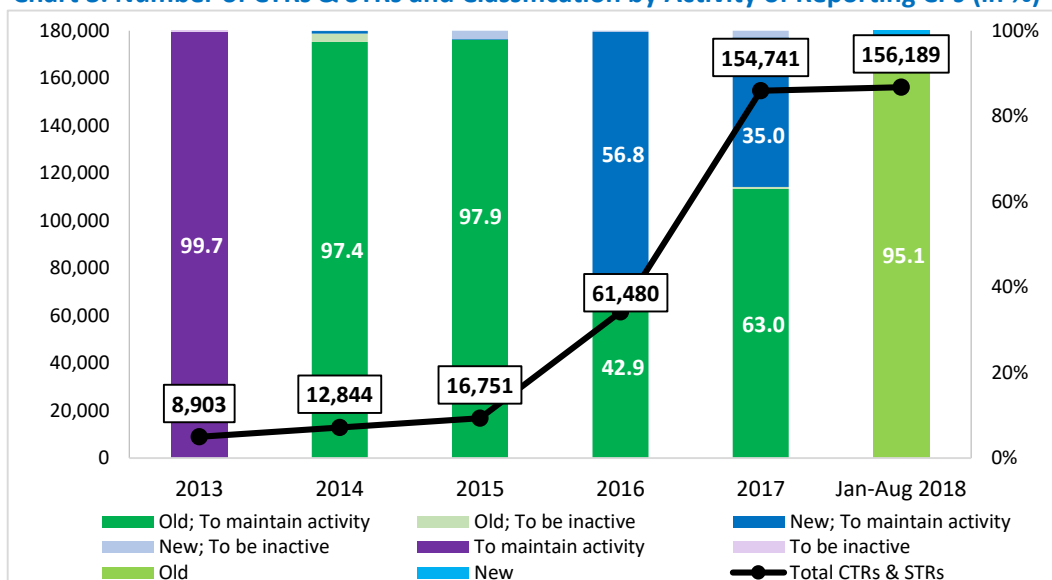
¹⁰ <http://www.bsp.gov.ph/publications/speeches.asp?id=589> accessed 9 October 2018.

For CTRs, volume growth was broad-based and not attributable to specific institutions, with only 1 institution having a contribution to growth greater than 10%. This institution (which accounted for 19.4% of growth or 12,052 additional reports) filed more than 3,500 reports retroactively as it strengthened its compliance department and invested in an automated AML monitoring system.

For STRs, the growth in reporting was caused by the addition of virtual currency exchanges (VCEs) following the BSP’s issuance of Circular No. 944, which established a formal regulatory framework for VCEs. It may be noted that several cash-out transactions in these VCE platforms are redeemed via remittance channels, so VCEs may be paving the way for increased linkages and cooperation in the protection of the integrity of the financial system.

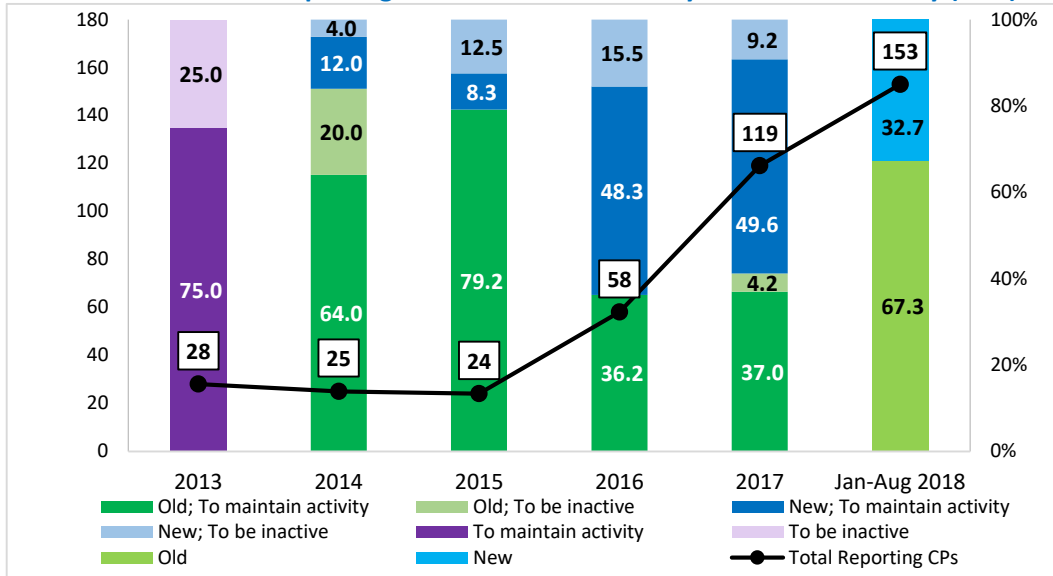
- The trend in increased reporting appears to continue well into 2018. Comparing year-on-year levels, an improvement was noted across all metrics (volume and value of CTRs and STRs) in the first 8 months of the year compared to the same period a year ago.

Chart 3. Number of CTRs & STRs and Classification by Activity of Reporting CPs (in %)¹¹



¹¹ Note: Reporting institutions were classified according to 2 submission activity metrics: submission of any type of transaction report in the previous year (“Old”; opposite is “New”) and submission of any type of transaction report in the succeeding year (“To maintain activity”; opposite is “To be inactive”). Given that the timeframe of the dataset is from 2013 to August 2018, it cannot be determined whether a specific reporting institution has submitted reports in 2012 nor can it be ascertained whether an institution that submitted reports in 2018 will continue to do so in the next year. Thus, only 1 metric was applied to reporting institutions in 2013 and 2018 as applicable.

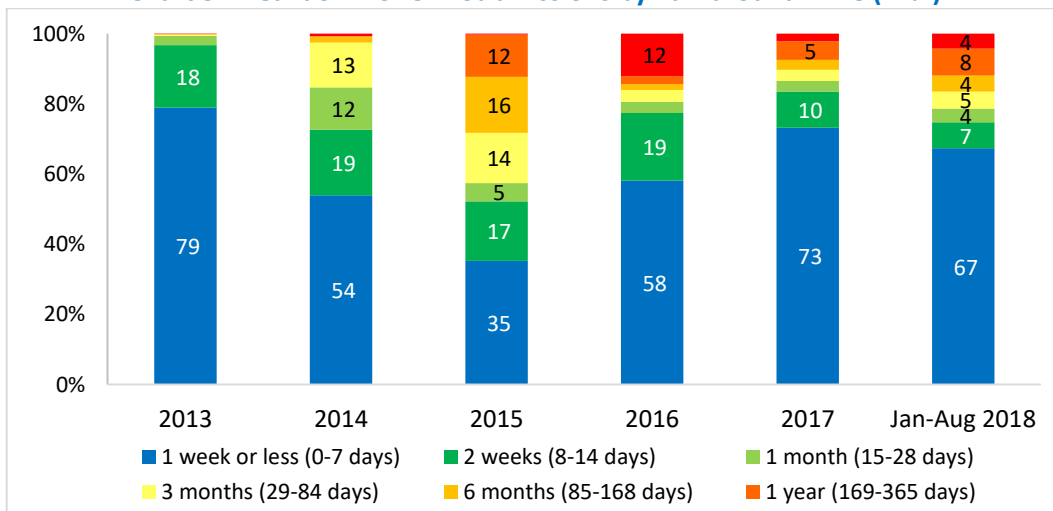
Chart 4. Number of Reporting CPs and Classification by Submission Activity (in %)¹²



It can be gleaned from Chart 3 that almost all transaction reports are submitted by reporting institutions that will continue to do so in the next year. The large proportion of transaction reports submitted by new entrants since 2016 and 2017 may also indicate a deepening regulatory awareness and compliance environment which enables and/or compels new industry participants to quickly get up to speed with standards.

While institutions with more numerous report submissions are assigned larger weights in Chart 3, the submission activities of the individual reporting institutions, regardless of number of submitted reports, may be found in Chart 4. It may be observed that starting 2016, a sizable proportion of the reporting institutions are those that are “new” to reporting, either because these institutions are newly established or have already operated before but only began to submit reports later. This trend may also demonstrate the broadening reach of AML compliance.

Chart 5. Breakdown of CTR Submissions by Turnaround Time (in %)



Notes:

- Turnaround Time was computed by subtracting the Transaction Date from the Upload Date.
- To reduce clutter, labels were omitted for some figures that represented less than 5% of total.

¹² Please see previous footnote for explanation on the methodology and metrics used in the graph.

Retroactive reporting started to comprise a larger volume of transactions in 2015, following AMLC's consideration for deferred reporting of "no or low risk" covered transactions – consistent with its risk-based approach to regulation and supervision. Moreover, improvements may be noted in the CPs' timeliness in terms of meeting the submission period of 5 working days after the transaction date. Comprehensive reporting and timely submissions may be indicative of regulators' more thorough conduct of examination and oversight over these entities.

Table 5. STR Volume by Transaction Type (by Upload Year)

	2013	2014	2015	2016	2017	2018	Total	
Outward Remittance	955	1,462	2,044	1,102	13,805	16,279	35,647	40.7%
<i>Domestic</i>	944	1,394	923	1,005	13,165	14,656	32,087	36.6%
<i>International</i>	11	68	1,121	97	640	1,621	3,558	4.1%
<i>Domestic (Returned)</i>						2	2	0.002%
Inward Remittance	568	2,915	828	3,150	8,775	7,648	23,884	27.2%
<i>International</i>	376	1,550	786	2,685	8,029	6,585	20,011	22.8%
<i>Domestic</i>	186	1,365	42	465	746	1,063	3,867	4.4%
<i>Untagged</i>	6						6	0.01%
Deposits	70	2			7,158	10,179	17,409	19.9%
STR Transactions	5	170	39	197	5,463	1,293	7,167	8.2%
Withdrawals (ATM)					12	1,549	1,561	1.8%
Foreign Currency Transactions			161	26	451	776	1,414	1.6%
<i>Purchase</i>			-	19	339	388	746	0.9%
<i>Sale</i>			161	7	112	388	668	0.8%
Electronic Cash Card Transactions	1				10	362	373	0.4%
Pawn Transactions	56			16		144	216	0.2%
<i>Loan Release</i>				16		127	143	0.2%
<i>Loan Availment</i>	56						56	0.1%
<i>Redemption of Pawned Items</i>						10	10	0.01%
<i>Foreclosure</i>						6	6	0.01%
<i>Purchase of Precious Stones/Metals</i>						1	1	0.001%
Salaries					6		6	0.0%
Transfers	3				2		5	0.0%
Total	1,658	4,549	3,072	4,491	35,682	38,230	87,682	100.0%

Table 6. STR Value by Transaction Type (in PHP million; by Upload Year)

	2013	2014	2015	2016	2017	2018	Total	
Inward Remittance	85.7	1,158.0	65.9	6,089.5	223.7	260.5	7,883.3	58.3%
<i>International</i>	80.0	1,118.9	65.3	123.4	201.7	215.6	1,805.0	13.3%
<i>Domestic</i>	5.5	39.1	0.6	5,966.1	21.9	44.9	6,078.2	44.9%
<i>Untagged</i>	0.2						0.2	0.002%
Foreign Currency Transactions			2,109.8	10.4	304.7	414.0	2,838.8	21.0%
<i>Sale</i>			2,109.8	1.1	64.9	196.9	2,372.7	17.5%
<i>Purchase</i>				9.2	239.8	217.1	466.2	3.4%
STR Transactions	1.2	43.9	43.7	46.9	78.1	929.0	1,142.8	8.4%
Outward Remittance	45.1	101.8	49.1	91.7	312.4	402.2	1,002.3	7.4%
<i>Domestic</i>	43.3	64.0	15.0	77.8	248.8	282.0	730.9	5.4%
<i>International</i>	1.8	37.8	34.0	13.9	63.6	120.2	271.4	2.0%
<i>Domestic (Returned)</i>						0.03	0.03	0.0002%
Deposits	1.2	0.02			313.8	322.6	637.5	4.7%
Electronic Cash Card Transactions	0.01				0.001	10.7	10.7	0.1%
Withdrawals (ATM)					0.04	7.6	7.6	0.1%
Pawn Transactions	1.8			0.2		2.0	4.0	0.03%
<i>Loan Release</i>				0.2		1.9	2.1	0.02%
<i>Loan Availment</i>	1.8						1.8	0.01%
<i>Redemption of Pawned Items</i>						0.1	0.1	0.0004%
<i>Foreclosure</i>						0.02	0.02	0.0002%
<i>Purchase of Precious Stones/Metals</i>						0.05	0.05	0.0004%
Salaries					0.03		0.03	0.0002%
Transfers	0.003				0.01		0.01	0.0001%
Total	134.9	1,303.7	2,268.5	6,238.7	1,232.8	2,348.6	13,527.2	100.0%

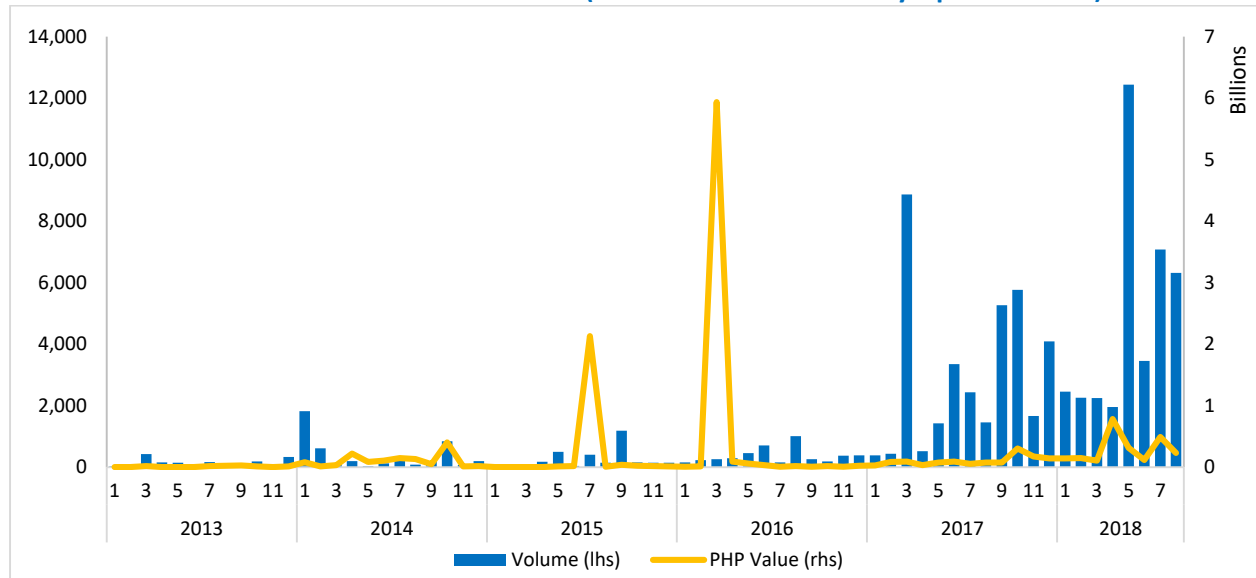
In terms of volume, most suspicious transactions reported by MSBs and pawnshops involve domestic outward remittances and international inward remittances. For STRs filed on domestic outward remittances, 35.6% relate to transactions with no apparent underlying purpose nor justification while 34.2% relate to alleged swindling. For STRs filed on international inward remittances, 36.2% relate to transactions having suspicious circumstances (of which 18.3% relate to clients not properly identified and 17.9% relate to transactions with no apparent underlying purpose nor justification) while 15.1% relate to alleged child pornography.

In terms of value, domestic inward remittances dominate the lot, followed by the sale of foreign currency and international inward remittances. For STRs filed on domestic inward remittances, 97.6% involve violations of the Electronic Commerce Act of 2000, particularly in relation to the Bangladesh Bank Heist. For STRs filed on the sale of foreign currency, 88.8% involve alleged drug trafficking. Lastly, for STRs filed on international inward remittances, similar to its breakdown in terms of volume, 39.1% involve transactions with no apparent underlying purpose nor justification while 13.5% relate to alleged child pornography.

The nature and composition of suspicious transactions identified by reporting institutions is expected given that those involved in illicit activities are inclined to take advantage of the cash-intensive nature of these businesses to stealthily move funds to their different areas of operations and/or to the different persons involved. This is also evident in the top predicate crimes noted (i.e., swindling, drug

trafficking, and child pornography), which involve multiple transfers/payments among individuals located in different geographical regions. Nonetheless, the significant increase in reporting as compared to previous years may be indicative of additional safeguards and monitoring systems put in place by institutions to combat such threats. The above tables also illustrate the emergence of new types of transactions – deposits and ATM withdrawals, which may demonstrate the industry’s evolving technological landscape and point to its future direction.

Chart 6. Historical Submission of STRs (Volume and PHP Value by Upload Month)



The total value of STRs submitted monthly appears steady, except for spikes noted in July 2015 (due to submissions made on a drug-related case) and March 2016 (subsequent to the Bangladesh Bank Heist). Despite the relatively stable trend in the value of STRs thereafter, the volume of STRs was noted to considerably increase – illustrating a more proactive and vigilant MSB and pawnshop industry.

Table 7. Classification of Suspicious Transaction Indicators for STRs Profiled by AMLC

STR Category	Volume		Value	
	Number	Share to Total	Amount (in PHP)	Share to Total
Related to an Unlawful Activity under AMLA, as Amended	26,741	42.1%	9,076,022,652	77.1%
No Underlying Legal/Trade Obligation, Purpose, or Economic Justification	19,481	30.7%	1,509,357,275	12.8%
Amount Involved Not Commensurate with the Client's Capacity	6,266	9.9%	394,914,947	3.4%
Structuring of Transactions to Avoid Reporting	3,987	6.3%	322,275,297	2.7%
Client Not Properly Identified	4,774	7.5%	274,208,491	2.3%
Deviation from Client's Profile/Past Transactions	949	1.5%	176,092,437	1.5%
Transaction Similar, Analogous, or Identical to any of the Suspicious Circumstances under Sec. 3(B-1) of the AMLA, as Amended ¹³	598	0.9%	12,930,379	0.1%
Transaction Not a Suspicious Circumstance under Sec. 3(B-1) of the AMLA, as Amended	755	1.2%	5,964,392	0.1%
Total	63,551	100.0%	11,771,765,870	100.0%

¹³ These are transactions wherein the STR Category supplied is “THE TRANSACTION IS SIMILAR, ANALOGOUS OR IDENTICAL TO ANY OF THE FOREGOING”, which may arise from the reporting of transactions wherein CPs could not determine with certainty the exact suspicious circumstance, or could note the manifestation of more than one suspicious circumstance.

For STR submissions which have already been profiled and vetted by the AMLC, it could be noted that transactions relating to an identified predicate crime comprise 42.1% of the total number of STRs, while the rest are suspicious circumstances observed in the clients' transaction behavior or activity. That majority of the bases for suspicion arise from the institutions' own monitoring of their customers instead of reactive reporting to news articles or requests for information (which occur after the fact) could indicate CPs' efforts to strengthen their client knowledge and to be more proactive in their surveillance of their clients' transactions.

Table 8. Related Predicate Crimes of STRs Profiled by AMLC (Volume by Upload Year)

Predicate Crime	2013	2014	2015	2016	2017	2018	Total	
Investment Fraud and Swindling	456	251	155	1,215	12,388	2,921	17,386	65.0%
Human Trafficking		139		25	2,935	116	3,215	12.0%
Child Pornography		281	227	430	2,045	23	3,006	11.2%
Drug Trafficking		80	159	158	79	314	790	3.0%
Terrorism		3		108	482	125	718	2.7%
Web-related Crimes	19	28		20	504	1	572	2.1%
Environmental Crimes						232	232	0.9%
Qualified Theft	66	43	11	10	16	39	185	0.7%
Child Abuse				18		118	136	0.5%
Violations of Foreign Laws		3	31		25	49	108	0.4%
Hijacking; Destructive Arson; Murder	1			3	83		87	0.3%
Forgery/Counterfeiting				1		72	73	0.3%
Robbery & Extortion	5	27	10	12	13	2	69	0.3%
Frauds & Illegal Exactions				2	54	1	57	0.2%
Illegal Recruitment for Overseas Employment				10	36	1	47	0.2%
Kidnapping for Ransom	9			2	5	1	17	0.1%
Pornography				5	6		11	0.04%
Smuggling	7				1	2	10	0.04%
Fencing				9			9	0.03%
Graft & Corruption				2	5		7	0.03%
Intellectual Property Law Violations					6		6	0.02%
Total	563	855	593	2,030	18,683	4,017	26,741	100.0%

Table 9. Related Predicate Crimes of STRs Profiled by AMLC (Total Value in PHP million by Upload Year)

	2013	2014	2015	2016	2017	2018	Total	
Web-related Crimes	0.6	2.0		5,930.1	25.1	0.01	5,957.8	65.6%
Drug Trafficking		1.9	2,105.7	3.3	79.4	5.9	2,196.2	24.2%
Investment Fraud and Swindling	24.5	93.0	9.7	24.6	146.0	77.3	375.1	4.1%
Child Pornography		229.1	2.1	3.2	10.3	0.3	244.9	2.7%
Robbery & Extortion	0.2	11.8	37.8	21.9	24.8	0.01	96.6	1.1%
Terrorism		0.01		52.9	5.9	1.9	60.7	0.7%
Kidnapping for Ransom	52.7			0.1	0.2	0.02	53.0	0.6%
Qualified Theft	3.2	31.9	2.3	6.5	4.8	0.9	49.6	0.5%
Human Trafficking		0.4		0.1	26.5	1.5	28.5	0.3%
Violations of Foreign Laws		1.0	2.0		0.3	0.4	3.8	0.04%
Environmental Crimes						3.0	3.0	0.03%
Hijacking; Destructive Arson; Murder	0.1			0.02	2.3		2.4	0.03%
Frauds & Illegal Exactions				0.1	1.1	0.5	1.7	0.02%
Smuggling	1.2				0.01	0.1	1.3	0.01%
Child Abuse				0.1		0.4	0.5	0.01%
Illegal Recruitment for Overseas Employment				0.2	0.1	0.004	0.4	0.004%
Forgery/Counterfeiting				0.005		0.3	0.3	0.003%
Graft & Corruption				0.03	0.1		0.1	0.001%
Fencing				0.1			0.1	0.001%
Pornography				0.005	0.04		0.04	0.0004%
Intellectual Property Law Violations					0.03		0.03	0.0003%
Total	82.5	371.0	2,159.7	6,043.1	327.1	92.5	9,076.0	100.0%

Like previous trends observed, vetted STR submissions with identified predicate crimes dramatically increased starting 2016. Filings from the industry also started to cover more predicate crimes as institutions became more vigilant and aware of their exposure to ML and TF risks. While investment fraud and swindling comprised majority of the reports at 65.0% of total, transactions relating to web-related crimes (i.e., violations of the Electronic Commerce Act of 2000) and drug trafficking accounted for the largest aggregate value, at 65.6% and 24.2% respectively. These correspond to the spikes noted in the monthly value of STR submissions in Chart 6 wherein high-value transactions were noted for the Bangladesh Bank Heist in March 2016 and for a drug-related case in July 2015.

Table 10. STRs for Selected Predicate Crimes Filed by Pawnshops and MSBs Relative to All CPs (Share to Total and Volume)

	2013	2014	2015	2016	2017	2018
Terrorism and Terrorism Financing	9.1% (1)	7.3% (3)	0.0% (0)	81.6% (111)	46.5% (565)	50.0% (96)
Frauds and Illegal Exactions and Transactions	N/A*	N/A*	N/A*	50.0% (2)	84.4% (54)	100.0% (1)
Violations of the Migrant Workers and Overseas Filipinos Act of 1995	0.0% (0)	0.0% (0)	0.0% (0)	12.0% (10)	62.1% (36)	100.0% (3)
Violations of the Anti-Trafficking in Persons Act of 2003	0.0% (0)	73.5% (139)	0.0% (0)	43.9% (25)	99.3% (2,935)	74.3% (84)
Violations of the Anti-Child Pornography Act of 2009	N/A*	100.0% (281)	77.7% (227)	97.1% (430)	99.9% (2,045)	60.5% (23)
Swindling	3.3% (456)	0.8% (251)	0.1% (59)	4.1% (1,217)	11.9% (7,791)	0.2% (216)

* Fields marked with N/A signify years wherein no STR was submitted by any CP for the subject predicate crime.

Note: Data was taken from a separate AMLC study covering the period 2013 to June 2018.

In a separate study conducted by the AMLC wherein STR submissions were disaggregated by predicate offense and industry of the reporting institution, improvements were noted in the reporting behavior of the pawnshop and MSB industry even if benchmarked against other sectors. For instance, for STRs related to terrorism and terrorism financing, MSB submissions markedly increased from accounting for only 0.0% to 9.1% of total in 2013 to 2015 to 46.5% to 81.6% of total in 2016 to 2018. Other predicate crimes where MSBs registered significant improvements could be gleaned from Table 10.

CASES/TYOLOGIES

The parallel market within which the pawnshop and MSB industry operate has been involved in a number of high-profile ML cases. Its role in one of the largest bank heists in recent history has resulted in a rethinking of the significance of the industry's AML compliance, not only from the side of the regulators, but also and more importantly, from the perspective of the entities themselves. In particular, the strengthening of the industry's regulatory framework via BSP Circular Nos. 938 and 942 as well as the BSP's exercise of its power to cancel the registrations of entities found in violation of the signed Deed of Undertaking to comply with AML rules and regulations have led to an increased awareness in the industry with regard to the repercussions of failing to raise the level of AML compliance to standards.

- **Government Fund Scam**

Described as the "mother of all scams", this case involves XYZ, a private citizen, who established at least 20 bogus non-government organizations (NGOs) and misused these entities to serve as conduits to illegally siphon government funds for personal enrichment. XYZ collaborated with identified legislators to misappropriate lump-sum discretionary funds received by the latter. Intended to be disbursed for the implementation of development projects, the discretionary funds were instead diverted to ghost projects where XYZ's NGOs were named beneficiaries. Proceeds from the scheme were split among XYZ and the involved government officials – the legislators, their representatives who facilitated the required project documentation, officials of implementing agencies who facilitated the transfer of funds, and in some instances, even local officials.

While most of the financial transactions linked to the scheme and its perpetrator were either conducted in the formal banking sector or, in the case of the involved legislators, paid in cash to obscure the money trail, XYZ also laundered funds using two (2) FXDs to remit more than US\$5.26 million to Country S in favor of two (2) companies owned by her daughter and brother.

The BSP subsequently cancelled the registration of these FXDs due to significant violations of their Deeds of Undertaking, specifically on compliance with Republic Act No. 9160 (the Anti-Money Laundering Act of 2001), as amended, and its Revised Implementing Rules and Regulations as well as the minimum procedures on the sale and purchase of foreign currencies by Money Changers (MCs)/FXDs and the transactional requirements for large value payouts by RAs/MCs/FXD.

The AMLC filed a petition with the Court of Appeals (CA) for the issuance of a freeze order on the bank accounts of XYZ and her associates. The CA granted the petition and issued orders authorizing the AMLC to conduct an examination of all bank accounts subject to the freeze order, including related accounts. Initially, 525 bank accounts were frozen involving Philippine Peso totaling approximately PHP98 million and US Dollars totaling approximately US\$593 thousand. Thereafter, additional 384 accounts in 26 financial institutions were frozen with amounts in various currencies, as follows: PHP135 million, US\$163 thousand, and EUR1.4 thousand. Most of the funds subject to the freeze order were eventually included in the Petitions for Civil Forfeiture filed by the AMLC. The said Petitions led

to the issuance of Asset Preservation Orders covering peso funds and investments totaling more than PHP155 million, US Dollar bank accounts totaling approximately US\$697 thousand, 47 real properties, and 16 motor vehicles. The AMLC has already filed ML cases with the Office of the Ombudsman on four (4) congressmen involved in the scam. The AMLC also furnished the Office of the Ombudsman with pertinent bank documents relative to its investigation of the predicate crime of plunder and violation of the Anti-Graft and Corrupt Practices Act. AMLC investigators were subsequently presented by the Office of the Special Prosecutor as principal witnesses in the plunder and corruption cases filed before the Sandiganbayan (the Philippine Special Anti-Corruption Court) which were prosecuted by the Office of the Ombudsman against 3 senators involved in the scam.

- **Cross-Border Cyber Heist**

This case is one of the biggest and most publicized ML cases in recent history due to the amount of money involved and elaborate scheme employed to steal from the coffers of Y Bank and make it disappear into the financial system. Hackers sent electronic cross-border transfers from Y Bank's account in F Bank to fictitious accounts maintained in R Bank in the Philippines. The proceeds were subsequently transferred to another fictitious account in R Bank and ultimately consolidated in the account of BSP-registered remittance company PSC.

Instead of filing an STR, PSC reported the transactions to the AMLC through a letter as it was not yet registered in the AMLC Reporting Portal. PSC claims that it remitted the proceeds through (1) fund transfers to B Resort and Hotels (BRH) for S Casino; (2) fund transfers to E Leisure Corporation (ELC), a registered junket operator owned by KW; and (3) cash deliveries totaling more than US\$30 million to a certain WX at S Casino.

As proof of the alleged cash deliveries, PSC presented to the AMLC mere Acknowledgement Receipts purportedly signed by WX. The authenticity of these ARs was highly questionable as they could not be validated. WX has never surfaced to explain his participation on the matter. Moreover, these alleged deliveries were inconsistent with the admission of KW that he personally collected cash from PSC totaling more than US\$13 million. KW also asserted that PSC is still keeping around US\$17 million of the stolen funds.

The AMLC has filed criminal cases against several personalities involved in the laundering of the money from Y Bank, including Spouses MB and SB (owners of PSC) and AP (Compliance Officer of PSC). PSC failed to comply with customer due diligence, record keeping, and covered and suspicious transaction reporting requirements under the AMLA and in turn was vulnerable to be used as a conduit for ML and TF activities.

Given the role of an MSB in the obfuscation of the money trail, the BSP issued a memorandum reminding banks on sound risk management practices when dealing with FXDs, MCs, and RAs to ensure that their partnerships with these companies and/or the accounts of these companies will not be used to facilitate the movement of funds relating to ML/TF activities.

The BSP likewise cancelled the registration of PSC including two other MSBs controlled by the spouses on the back of significant violations in the rules and regulations governing MSB operations, including deficiencies in its compliance with AML requirements as set out in the AMLA.

In the same year, the BSP issued Circular Nos. 938 and 942 which created an enhanced regulatory framework for pawnshops and MSBs to ensure that these entities are properly supervised in terms of their effective compliance with AML and internal control rules and guidelines. The issuances also mandated an industry-wide re-registration, subjecting pawnshops and MSBS to stricter entry controls and at the same time streamlining registration and supervision due to the adoption of the network

approach, wherein an entity that operates a remittance business shall be held responsible for the operation of its remittance network and accreditation of its RSAs. Pawnshop operators have also become subject to stricter fit and proper rules and standards of corporate governance as applicable.

- **Human Trafficking and Child Pornography**

The AMLC received a referral from the Inter-Agency Council Against Trafficking (IACAT) on 3 Filipino citizens and 8 foreign nationals for alleged involvement in trafficking in persons and child pornography. Respondents were operating a cybersex den in Region VII and recruiting minors to engage in pornographic acts. In 2014, police in country U seized and confiscated computers, tablets, cellphones, cameras, hard drives, and DVDs containing indecent images and videos of Filipino children in the possession of foreign national, Mr. C. The videos show Filipino children being sexually/physically abused by Mr. C and adult Filipino females. Documents also showed several money transfers to 3 Filipino citizens. The money was traced to have originated from country U and country C and transferred to the Philippines through 2 remittance agents and 1 local bank, averaging PHP212 thousand per money transfer. Total detected amount was PHP2.38 million involving various remittances and cash deposits and PHP2.06 million withdrawals. The findings resulted in the AMLC's filing of a freeze order (which was subsequently granted), petition for civil forfeiture, and money laundering case against the respondents.

- **Drug-Related Cases**

Although drug trafficking operations mostly involved the banking sector, there were also cases wherein the involvement of MSBs was noted. For four such cases which have been chosen for discussion in this study, ML investigations were usually triggered by referrals from Philippine law enforcement agencies (LEAs), compounded by informants and/or STRs received by the AMLC. Drug syndicates were observed to send drugs to different regions¹⁴ on consignment basis and then collected the payments through deposits to bank accounts of different individuals and entities. For some cases, dirty money was found to also pass through MSBs, specifically foreign exchange institutions and remittance companies.

In relation to the subject cases, the AMLC successfully froze a total of PHP528.81 million involving 528 accounts held in local banks, money in five foreign exchange institutions and eight remittance companies, and policies in two insurance companies. The AMLC has also filed three civil forfeiture cases and is set to file another for the most recent subject case. Asset preservation orders (APOs) were granted for three of the cases. In terms of money laundering cases, respondents for one case have already been prosecuted, while the filing of such for the remaining three cases have already been recommended.

CONCLUSION

While there have been efforts before to effectively regulate the pawnshop and MSB industry, the Bangladesh Bank Heist has led to strong enforcement actions and the establishment of a more stringent and streamlined regulatory framework, which have resulted in improved and more widespread AML compliance by the industry as entities have developed a deeper understanding of

¹⁴ For the four drug trafficking cases discussed in this study (which were chosen based on MSB involvement), all drug operations covered the National Capital Region (NCR) and the Autonomous Region of Muslim Mindanao (ARMM). Other geographical areas found to be included in the illegal drug trade were Regions II (Cagayan Valley), III (Central Luzon), IV (CALABARZON or MIMAROPA), VI (Western Visayas), VII (Central Visayas), and VIII (Eastern Visayas).

the importance of their role in maintaining the integrity of the financial system and shielding it from ML and TF threats.

Notwithstanding persisting challenges especially in the conduct of due diligence, stemming mainly from the execution of one-time transactions where identification cards may easily be forged, the use of the pawnshop and MSB industry as conduit for ML/TF may be curbed through initiatives such as:

- (1) deepening of partnerships through Public-Private Partnership Program (PPPP) with large-scale financial services companies which include international platform providers (e.g. Western Union and MoneyGram), local network providers (e.g. LBC Express¹⁵, Cebuana Lhuillier, Palawan Pawnshop, and M. Lhuillier), EMIs, and VCEs, which could provide valuable intelligence and alerts with regard to the financial transactions that pass through its platform and clients who avail of its services;
- (2) close coordination with the BSP in monitoring the registration and compliance of pawnshops and MSBs and conduct of a “synchronized” registration process between the BSP and AMLC;
- (3) capitalization on technologies that enable streamlined, real-time monitoring and reporting of suspicious activities;
- (4) establishment of industry associations where entities could exchange best practices in AML monitoring and in their broader operations;
- (5) similar to the banking industry, encouragement of sector consolidation to lessen industry fragmentation and in turn foster effective competition and more sustainable growth; and
- (6) conduct of further educational programs especially for smaller players in the industry which may have limited access to new AML tools and technologies as well as emerging ML/TF typologies.

Lastly, it may be noted that the industry is not explicitly included in the list of financial agents within the ambit of BSP’s supervisory authority, as provided in the current BSP Charter. While this has been addressed in the issuance of the 2016 Revised Implementing Rules and Regulations (RIRR) of the AMLA, as amended, stating that for purposes of the RIRR, FXDs, MCs, and RTCs are CPs under the regulation of the BSP, the direct inclusion of these in the amended BSP Charter would grant BSP the authority to examine these entities’ broader operations (as compared to the current scenario wherein only their compliance with AML regulations are assessed), affording it a more holistic view of the industry and its operating environment. This big-picture view may be crucial in safeguarding the industry against unscrupulous business practices that may taint the integrity of the financial system.

¹⁵ The AMLC has approved the PPPP between AMLC and LBC Express. The corresponding Information-Sharing Protocol Agreement was signed by the parties on 13 November 2018 at the BSP Complex, Manila, Philippines.