

Gediminas Šimkus: United fighting the darkness of growing threats

Opening remarks by Mr Gediminas Šimkus, Chairman of the Board of the Bank of Lithuania, at the Annual AML Center Conference 2024 "Beyond the Surface of Illicit Finance: Allied Reponse", Vilnius, 16 May 2024.

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Dear Colleagues, Distinguished Guests, Ladies and Gentlemen,

I'm grateful to the Center of Excellence in Anti-Money Laundering for hosting us during this, the third annual conference. I think this is beginning to develop into a nice tradition. These conferences serve as platforms to take stock of the achievements and challenges ahead, safeguarding us all against the risks of money laundering.

On the frontline of a new reality – that was the topic of last year's conference. Indeed, looking back at the year since we last met here, I notice that events on the AML frontline were plentiful.

Let me begin with a summary of the year – in my eyes, it is as follows:

We are making progress.

That is because we act as one. In other words, domestic, regional, and international cooperation underpins the improvement of our ability not only to deter, but also to act against money laundering practices.

Ladies and Gentlemen,

I would like to draw your attention to three key developments that have occurred since I stood here last year: consistency in FinTech, the path towards crypto maturity, and regional dialogue.

First, on consistency in FinTech. Lithuania is a FinTech Hub: we care about FinTech and, as I emphasised last year, we maintain and foster a FinTech-friendly and open environment. That remains unchanged.

What has changed is the FinTech strategy, which was developed last year. This is the view towards the long-term development of the sector adopted by Lietuvos bankas, the Ministry of Finance, and a wide range of other institutions. Its essence is that leadership comes with responsibility.

More specifically, we have committed ourselves to promoting quality over quantity and ensuring that Lithuania is a safe and reliable jurisdiction. The management of AML risk is a pillar of the FinTech strategy, and improving the cooperation of state institutions in general and the exchange of information in particular is an important remedy against the dangers of money laundering.

Second, the path towards crypto maturity. The view that the sector is governed by the principles of the Wild West was once held widely, but this is about to change with the upcoming MiCA regulation. MiCA will ensure that licensing and the obligation to follow AML standards become defining features of the sector.

In Lithuania, this sector is large. The number of crypto exchanges in the country leaves Lithuania second in the EU, which exposes our financial system to sizable risk. This is not due to the number of exchanges per se, but because of the deficiencies often found in the areas of adequate staffing and competencies, not least when it comes to the application of AML practices. This is not a circumstance for which we have the privilege of waiting for MiCA.

And we are not waiting.

Lietuvos bankas has been working in close partnership with the Ministry of Interior, the Ministry of Finance, and other ministries on measures to further improve the regulation of crypto-asset service providers. One month ago, changes were made to Law on the Prevention of Money Laundering and Terrorist Financing. We, as a country, have taken a step forward by increasing capital requirements for crypto firms and strengthening measures if AML practices are breached.

Third, on regional dialogue. As illicit activities transcend borders, collaboration becomes not just beneficial, but imperative. As the financial systems of the Nordic-Baltic countries are closely interlinked, active cooperation in identifying and managing risks at the regional level becomes paramount. Thus, in 2023, Lithuania, our international partners from the Nordic-Baltic region, and the International Monetary Fund concluded a technical assistance project on Anti-Money Laundering. The outcomes of this project included recommendations on the ongoing monitoring of cross-border flows, with regional information exchange on macro-trends, and better identification of countries with potential money laundering risks to the Nordic-Baltic region.

Besides this project, I am proud to report that the IMF has highlighted Lithuania's progress in the area of money laundering prevention over the last few years. This assessment is not alone: a similar view is held by other bodies, including MONEYVAL.

The international developments of the last year should also not be neglected. In 2024, after 3 years of work, the Council and the European Parliament concluded political negotiations on the Anti-Money Laundering and Anti-Terrorist Financing package. A political agreement on AMLA has also been reached.

Dear Colleagues,

As Benjamin Franklin once said, if you fail to plan, you are planning to fail. This is not our path.

Geopolitical fragmentation and digitalisation constitute two important changes, neither of which leave the AML landscape untouched.

Sanctions and their evasion present a sizable risk going forward. The circumvention of sanctions through the countries in the east is especially important for Lithuania, given our geographical location. In this context, the task of the financial sector is multifaceted. That is, we not only have to make sure that attempts to circumvent sanctions are prevented, but must also be constantly aware of future risks.

Importantly, however, the financial sector is not alone; its participants can count on Lietuvos bankas. We are constantly monitoring the situation, issuing guidelines and recommendations to make sure that the financial sector is properly informed and assisted.

Besides geopolitics, there is also digitalisation.

Since the COVID-19 pandemic, we have witnessed the acceleration of digital developments, to which finance has not been a bystander. A Bank for International Settlements study released late last year found that the ongoing digitalisation of finance provides benefits to the economy, as well as to financial stability. These include greater efficiency in the provision of key banking services, more convenience for customers, financial inclusion, and faster responses to crises.

However, digitalisation is a double-edged sword. Criminals are exploiting digitalisation to commit online fraud at a greater scale and in a broader scope than ever before, as digitalisation enables fraudsters to be more agile. This is backed by the data: digital fraud increased by 37% on average between 2021 and 2022 across various regions around the world, including Europe.

Ladies, and Gentlemen,

I began my speech by saying that this conference is turning into a nice tradition. Repetition is what defines every tradition, including ours. Thus, let me repeat what I said last year, standing in this exact place.

AML risk management does not mean de-risking. Quite the opposite, the focus on the consumer – in terms of the accessibility, quality and safety of financial services – has to remain at the heart of business for each and every financial institution.

And this is the note on which I will end.

Many thanks.