



qatar

FINANCIAL CENTRE  
REGULATORY AUTHORITY

# Financial Crime: A Middle East Perspective

6 December 2006

Phillip Thorpe – Chairman and CEO  
Qatar Financial Centre Regulatory Authority

# The Middle East: a diverse region



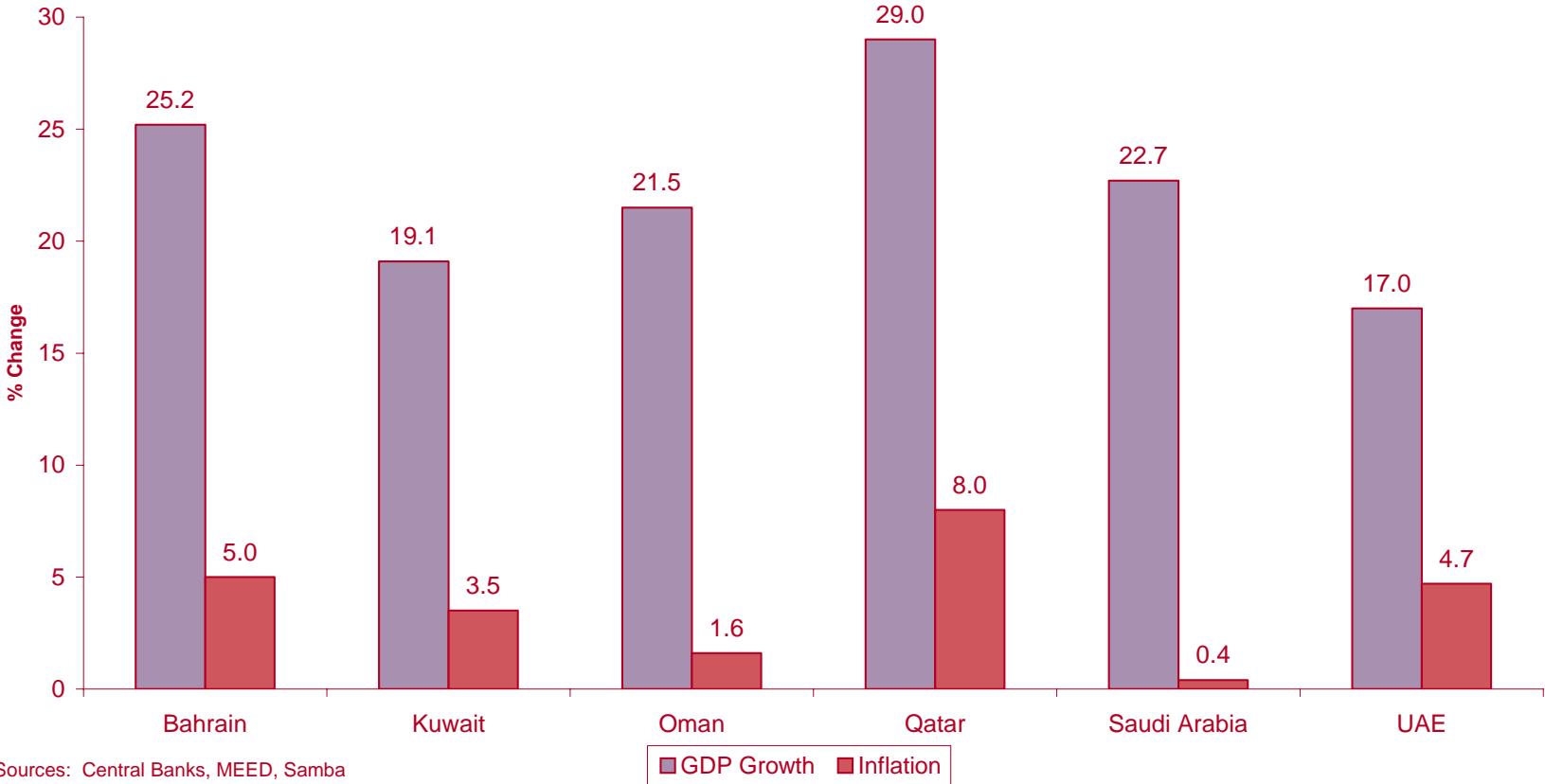
# Economic environment

## Recent trends

- US\$2 trillion capital accumulated to date in Middle East
- offshore investment of capital
- re-investment of regionally generated capital
- huge inflows of project finance capital
- repatriation of offshore investment capital
- private equity investment
- US\$ 750 billion liquid assets

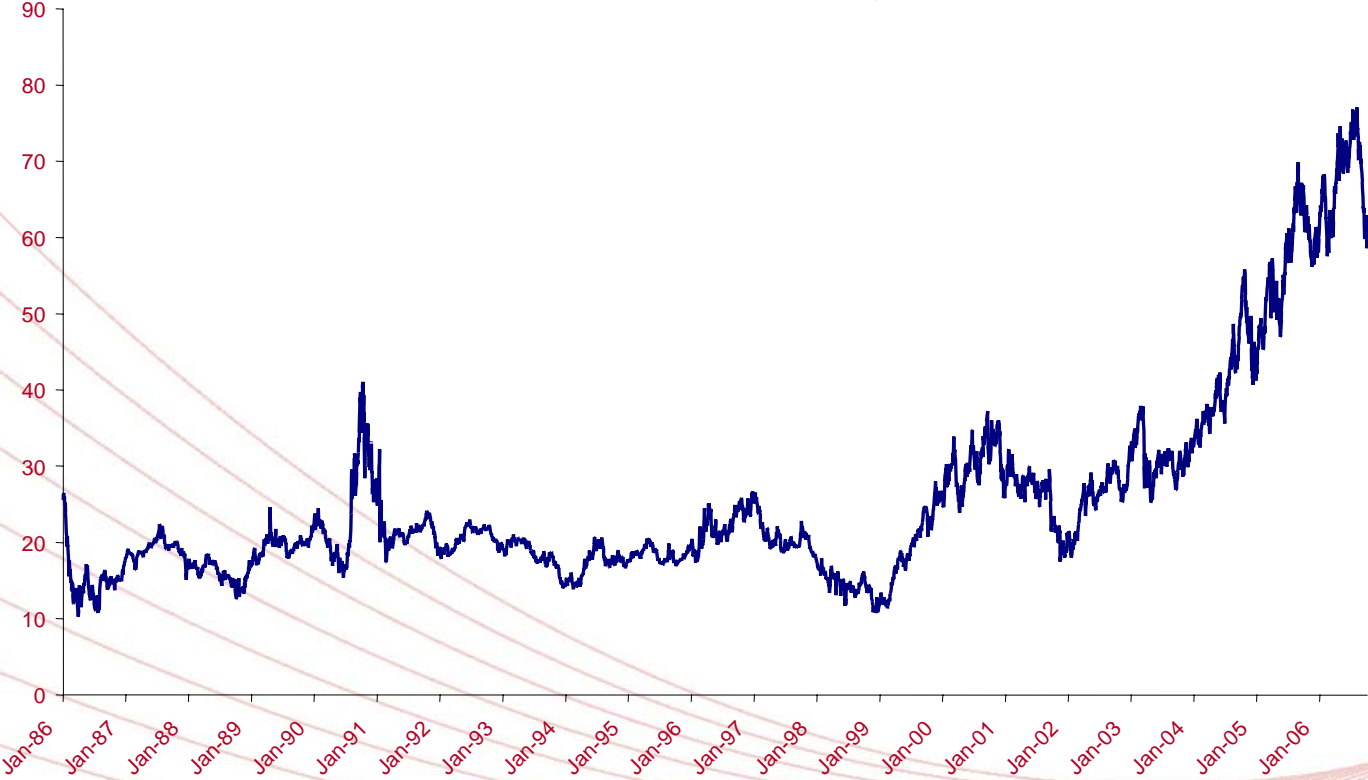
# GCC growth

### GCC Nominal GDP Growth and Inflation (2005)



# Oil prices, 1986-2006

**Premise: 2007 will be the year that defines \$50 as the new long-term floor on oil prices**



# Capital flows

If remaining proven oil reserves sell for \$50/barrel, then:

- \$13 trillion for Saudi Arabia
- \$24 trillion for GCC
- \$38.5 trillion for OPEC Middle East

# Capital flows

- Current account surpluses 2005-2007:
  - GCC: \$585 billion
  - China: \$521 billion
  - Japan: \$437 billion
- GCC official foreign assets growing by more than \$150 billion/year.
- Petrodollars to purchase \$450 billion in foreign assets in 2006-2007 (IIF)

# Implications of the petrodollar flows

- The GCC becomes one of the world's most important investors
- GCC enjoys exceptional GDP growth
- Inward bias to investment fuels an investment/mega project boom
- Unlike Far East, a GCC surge in imports driven by personal consumption spending

# Utilising the liquidity – financial services implications

- development of a regional financial services sector
- development of capital markets
- GCC - regional financial hub
  - common GCC market 2008
  - customs union, free movement of citizens etc
  - common currency 2010

# What exactly are we up against?

- *“.....as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns -- the ones we don't know we don't know.”*
- known unknowns
  - significant lack of reliable information/data/metrics at both the State and regional level as to the scale, scope and nature of financial crime activity

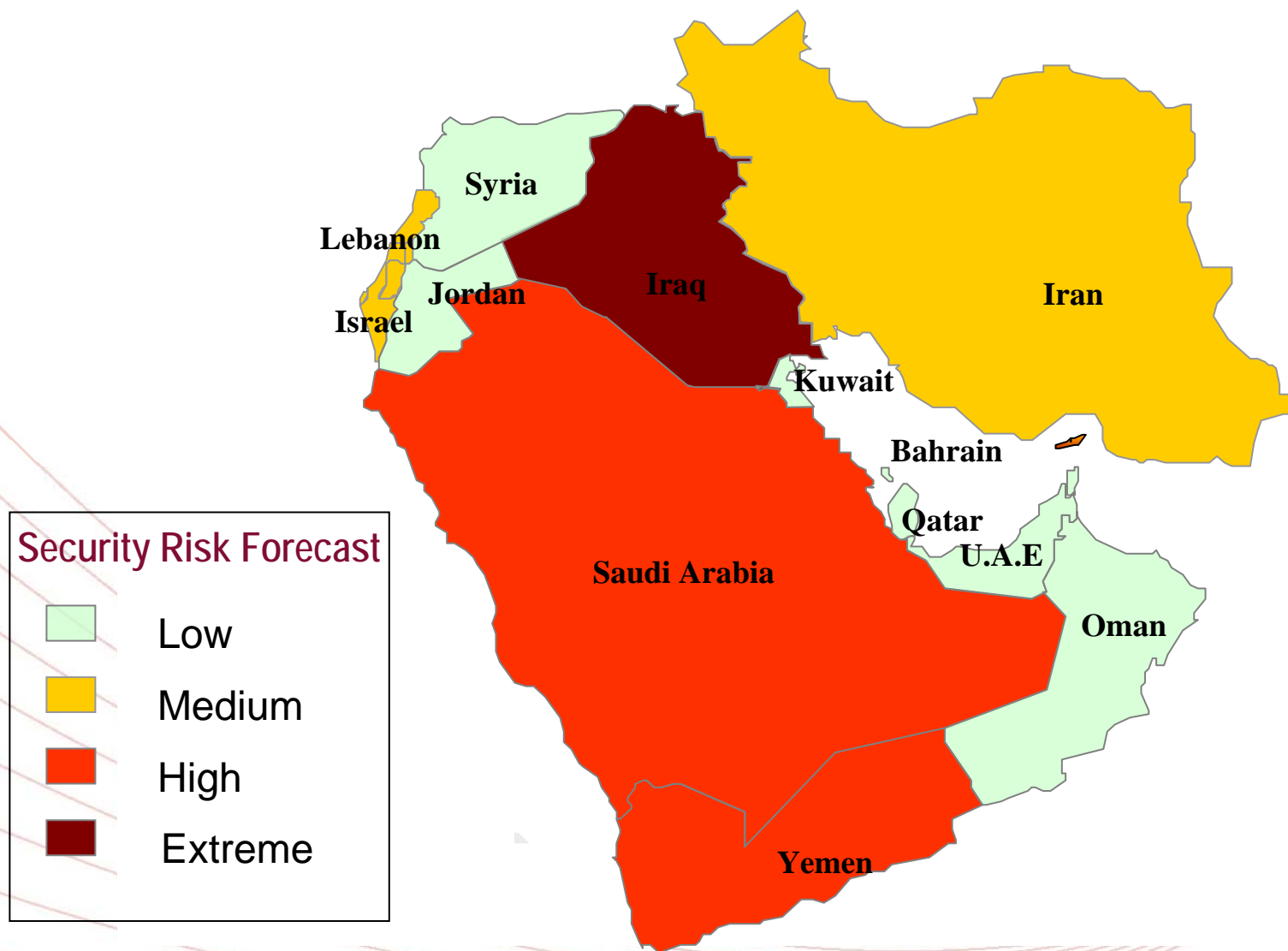
# What exactly are we up against?

- why we don't know
  - no integrated anti financial crime strategy at the State level
  - - no integrated anti financial crime strategy at the regional level
  - - culture of secrecy within financial institutions and governments
  - - lack of information sharing between institutions and between institutions and governments
  - - deficiency in data integrity and data collection
- non reporting of financial crime to government authorities
  - no publication of financial crime typologies or statistics
  - lack of appropriate anti financial crime experience/training at industry and State level

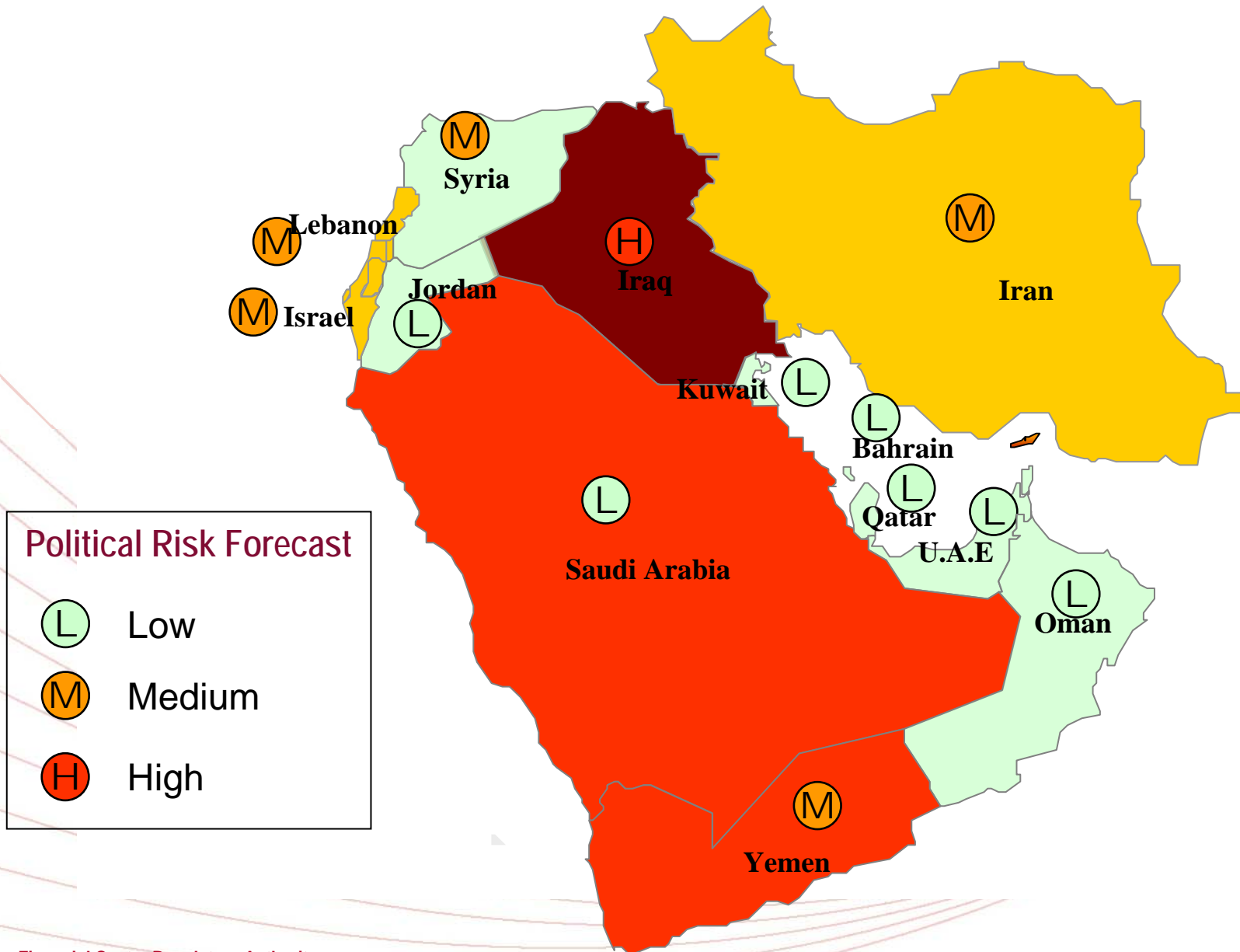
# ‘Known knowns’

- financial crime opportunities: everything points to an environment ripe for exploitation
- significant challenges arising from political instability
- inherent difficulties in developing an integrated and effective financial crime strategy
- normal incentives for compliant behavior often absent

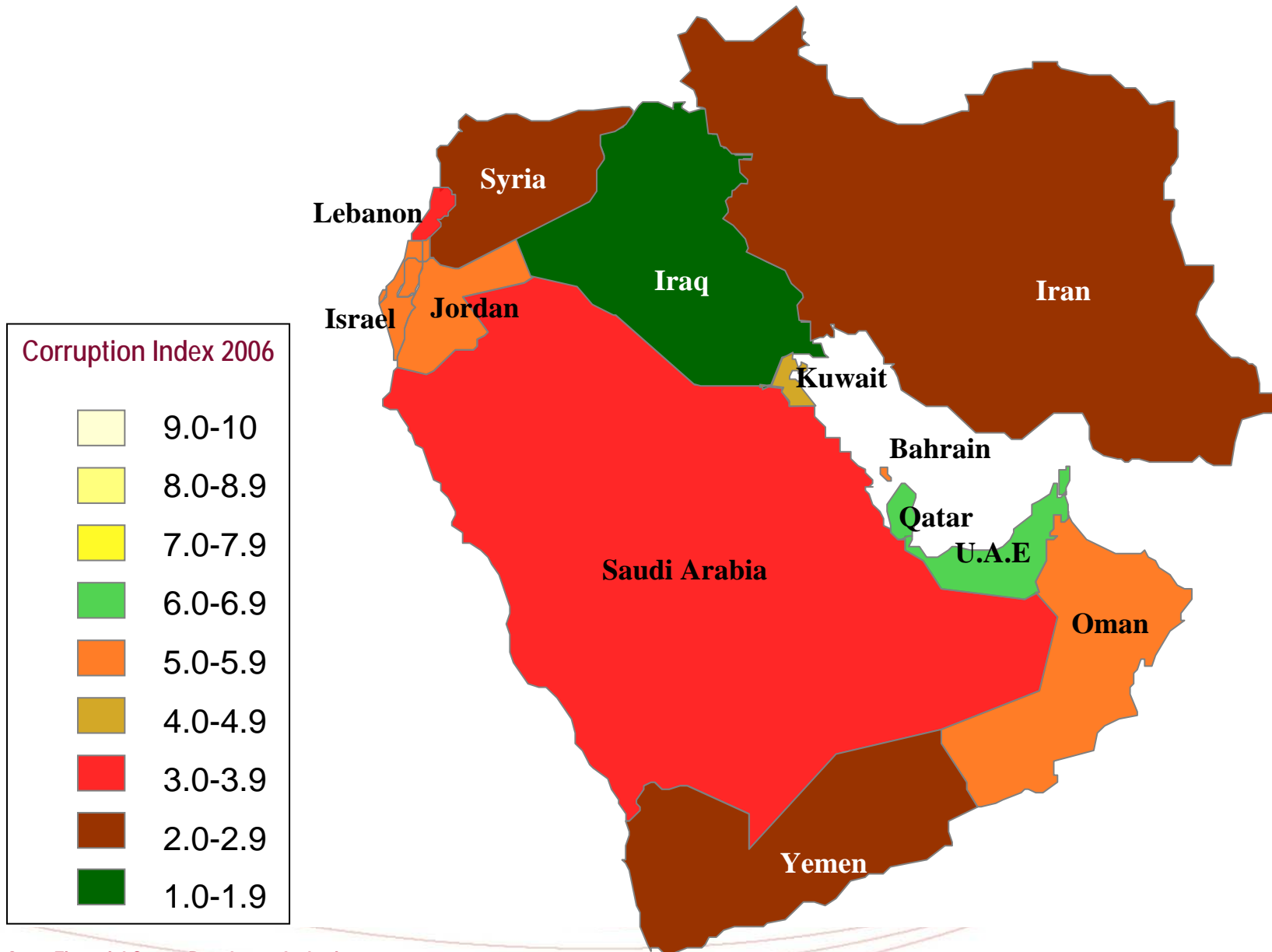
# The Middle East: security risk



# The Middle East: political risk



# The Middle East: Corruption Index



# Corruption perceptions index 2006 (Transparency International)

- GCC ratings
  - United Arab Emirates Country Rank 31 (out of 163) CPI 6.2 (out of 10)
  - Qatar CR 32 CPI 6.0
  - Oman CR 5.4 CPI 5.4
  - Kuwait CR 46 CPI 4.8
  - Saudi Arabia CR 70 CPI 3.3
- Other Middle Eastern neighbours
  - Syria CR 93 CPI 2.9
  - Iran CR 105 CPI 2.7
  - Yemen CR 111 CPI 2.6
  - Iraq CR 160 CPI 1.9

# Implementing an effective Financial Crime strategy – the impediments

- Structural impediments
  - currently no regional approach
  - excessive liquidity
  - cash is king economy/cash couriers/alternative remittance systems
  - widespread concerns about corrupt practices
  - insufficient regulations of financial institutions and capital markets
  - non transparency of capital markets and lack of an equity culture
  - deficiencies in corporate governance
  - lack of standardised financial accounting and reporting requirements

# Implementing an effective Financial Crime strategy – the missing components

- lack of investor protection
- lack of credit/rating agencies
- lack of an effective financial press
- deficiencies in the enforcement of rules and regulations
- lack of appropriate financial crime skill sets

# Positive developments: What is Qatar doing?

- development of the QFC to high international standards
- implementation of measures to combat financial crime
- QFC inter-relationships with Qatar domestic criminal laws on financial crime
- role of Qatar national supervisory bodies
- Qatar – international involvement in the fight against financial crime
- Strong political commitment to reform and enforcement

# Qatar – Financial Sector Analysis Programme

- FSAP visit January 2007
- QFCRA and Qatar Central Bank have responded to the FSAP assessment questionnaire
- Chapter 8 FSAP – Anti Money Laundering and Combating the Financing of Terrorism

# Regional initiatives and developments impacting Financial Crime

- establishment of MENA-FATF
- growth of independent regulatory bodies in the region
- improvements in corporate governance
- increasing transparency in capital markets
- impact of globalisation
- increasing regional democratisation
- extra territoriality of USA legislation
- GCC common market and common currency

# Conclusion

*"I would not say that the future is necessarily less predictable than the past. I think the past was not predictable when it started."*

- Qatar and the QFCRA committed to combating financial crime
- QFCRA will maintain super-equivalent measures to combat financial crime
- still work to be done at State and regional level
- progress is being made in many jurisdictions
- economic, social and political reform cannot be overlooked