

**INTERAMERICAN DEVELOPMENT BANK**

**CONFERENCE:  
TRANSPARENCY AND DEVELOPMENT IN  
LATIN AMERICA AND THE CARIBBEAN**

**ROLE OF BANK SUPERVISORS IN THE PREVENTION OF  
MONEY LAUNDERING IN THE CARIBBEAN**

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**May 2000**

- \* This paper was prepared for the Conference on Transparency and Development in Latin America and the Caribbean, organized by the Legal Department in conjunction with the State and Civil Society Division of the Sustainable Development Department. The views expressed in this document are those of the author and do not necessarily reflect the official position of the Inter-American Development Bank or any of its member countries.

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## **INTRODUCTION**

In October 1997, all Central American nations became signatories to the Central American Treaty for the Prevention and Repression of Money and Asset Laundering Related to Illicit Activities Connected with Drug Trafficking and Related Crimes. Since then, all of our nations have enacted or are in the process of enacting comprehensive legislation designed to prevent and combat money-laundering activities. To understand the importance of enacting money-laundering laws for the banking supervisors is necessary to characterize the financial systems of the region.

Banking systems in the region have similar characteristics: the main similarity is that banking systems are by far the most important financial intermediaries in our respective countries. The meager developments of capital markets in the region make banking systems the predominant vehicle, for savings and credit in our economies.

Another very significant similarity is the importance of cash as a means of transacting in our economies relative to that of developed nations where checks and electronic means are the norm.

Finally, analogous to the Caribbean Region, all nations are in the process of developing stronger supervisory institutions and modern regulations oriented toward, compliance with Basle standards. For instance, in the case of El Salvador, two major pieces of legislation came into effect in 1999. One of them is was a new banking law; the other was a law against money and asset laundering.

The new Banking Law, approved in September 1999, is designed to move our banking system closer to compliance with Basle Supervisory and Capital Requirement and gives the regulators broader powers for supervision. It also creates an “FDIC type”, deposit insurance scheme. In addition, and of particular importance, the new law mandates consolidated supervision. To this matter, it formally establishes the figure of a financial conglomerate and gives regulators the possibility of declaring a “de facto” financial conglomerate when the entities choose not to incorporate certain affiliates into their formal conglomerate in spite that evidence suggests they must.

This latter element gives to the regulatory agency a more comprehensive access to information, which ultimately translate into a better ability to crosscheck data and transaction flows amongst related financial companies.

While banking systems in the region share similar characteristics, some important differences exist. The most important difference is the existence of an offshore banking industry originating in Guatemala, Costa Rica and Nicaragua, and the much lesser role it plays in El Salvador and Honduras.

Another difference is only indirectly related to the banking system, and it is associated to one important characteristic of the Salvadoran economy: the significance of remittances from

Salvadorans living abroad, especially in the United States. These remittances have averaged between US\$1.0 and US\$1.3 billion over the last several years. These funds are not only crucial to our balance of payments, but impact the daily living of many Salvadorans. They also impact our banking system, since approximately 50% of these remittances are channeled through the banking system, being the rest of them channeled through money – transfer stores, foreign exchange houses, courier services and others.

There is no doubt that the above similarities and differences will have an effect on approach chosen to prevent and repress money laundering.

## **MONEY-LAUNDERING LEGISLATION**

The Law Against Money and Assets Laundering came into effect in June of 1999. Although the complexities of monitoring and suppressing money laundering are many, our new law has tried to be as comprehensive as feasible.

The law covers many financial and non-financial entities. From banks to hotels, from insurance companies to travel agencies and real estate brokers. While the intent to include all of these diverse entities is laudable, the ability of the authorities to enforce compliance will be taxed to its neighbors; in other words, the main focus of attention will be financial intermediaries. In fact, the inclusion of such a diverse range of companies among those subject to regulation, is designed to give the competent authority broad investigative power.

Furthermore, the law creates the Unidad de Investigación Financiera (UIF), a financial crime investigative unit within the attorney general's office. The UIF is entrusted with a wide range of tasks, all of them related to the investigation and punishment of money laundering activities. It's also in charge of coordinating inter-agency task forces designed to assist in their investigation.

The main tool imposed by the law is the reporting of any suspicions financial activity and sets a maximum (US\$57,142 or ¢500,000.00) monthly cash transaction limit, which when surpassed has to be reported to the UIF, by banking and non-banking institutions. It also imposes clear "Know your client" standards to financial institutions and prompt reporting requirements.

In addition, prison terms and monetary penalties are defined for those involved in money laundering activities and for those, including supervising authorities, that do not comply with reporting requirements.

## **IMPLEMENTATION**

While our new law is considered adequate and sufficiently broad for its purposes, its implementation is proving to be slower than anticipated.

The main stumbling block is the substantial costs and time involved in setting up the UIF. There is a need for substantial investments in infrastructure and technology. The UIF needs support in the development of secondary regulations. Besides infrastructure and technology, it is also

essential specialized training for UIF members and for banking and bank supervisory personnel. This is not only expensive, but requires time to fully develop.

To that concern, the bank supervisory agency is allocating resources to train its personnel on this matter and it will create a unit dedicated to detect suspicious activities and reporting them. That unit will work closely to that created within the Attorney General's Office.

Finally, I would like to emphasize our country commitment to reduce money-laundering activities. The coming year will be critical in developing the framework – legal and technical – that needs to be put in place to achieve this goal.