

Webinar Host - Ian Gibson (DSPANZ): Okay, well I'd like to welcome everyone today, and commence by acknowledging the traditional owners of the country throughout Australia and recognize their continuing connection to land, waters, and culture. We pay our respects to their elders past, present and emerging. I'd also like to thank our webinar week sponsor SuperChoice for supporting this and the other webinars throughout the week. Let me commence by introducing Vineet. Vineet is Alacer's Executive Director for risk and compliance technology. Vineet brings over 16 years of technology experience in building and running high availability, large scale enterprise systems within the banking and financial domain. As a result-orientated executive, he specializes in the development and implementation of anti-money laundering software suites across the US, Canada, Southeast Asia, and Australia. And before handing over to Vineet, I'd just like to remind the people on the webinar, if you have any questions, please feel free to add them to either Q&A or chat. I'll monitor that during the session, and make sure that we get to ask them towards the end. So, on that note, I'd like to hand it over to Vineet, thanks Vineet.

Guest Speaker - Vineet Mishra (Alacer Group): Hey, thanks Ian, and thank you for this opportunity to talk about this topic. I'm sure I'll be able to answer the questions which are related to this area. But mostly basically as like, we have been in too many webinars and all of us, we know we present some times in PowerPoint content, and then we talk about different stuff. So I just wanted to make sure to everybody, I want to make it as interactive as possible. As much as questions you want to ask at every step, just feel free to ask. I'm not parking at a specific question answer time, so questions are welcome at any point of time. So I will begin just, you know, asking about a quick question here and then maybe walking you through, like okay, how the answers are going to be. So the topics we'll be covering here today is The AML guidance for payroll and money transfer services in Australia, and how this compliance is managed and are the companies aware about this compliance? And If yes, then how are they managing it? If not, then how they should be managing this compliance. So let's get on to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): So, the one interesting part is, and I was doing this research a little bit on the Australian payroll processors to find out whether you come under the AUSTRAC guideline for the AML or not, so as we understand the legal languages are very tricky. So there is nothing very clearly mentioned that you don't come under this scope. But also it's not mentioned anywhere that you come under this scope. So basically it's like it's a hidden thing, and it is always on the compliance side, we are all aware that it's always better for you to read between the lines. So, I found some connections and some definitions, which tells me that yes, definitely the services are under the scope. So, let's move on to the next one and then I will share the stuff.

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Guest Speaker - Vineet Mishra (Alacer Group): So in the United States how this happens is basically the AML is very well managed and is very advanced in the US and in the UK region especially, and then all other local things they follow the countries. So what happens in the US is that the payroll companies are actually considered money services businesses, which are under the full provision of the US financial crime body, so they are governed 100% in there. Now I was looking at the Australian AUSTRAC part and then I found out how they're defining these services, these services are called alternative remittance services. So, that's how a payroll company is actually coming under. So, you act as a remittance provider, but you're not doing the actual money remittance part, you know, it is sort of an alternative way of remitting the money. So, on that, the question comes, are we doing the things which AUSTRAC wants us to do and reporting the proper suspicious matters, reporting the other requirements which are required from the AUSTRAC regulations. So just kind of highlight a few of them here. If you look at the last block, it actually talks about the services which are actually being called under designated services. They should actually take care, and what the services are, and then I will touch base about what are the regulatory requirements which a company should take care of. So as you see here, we're talking about designated services include financial services, current and deposit taking services, cash carrying and payroll services, currency exchange services, loan and remittance services, digital currency, exchange providers, and any Australian Financial Services license holders, arranging for another entity to provide a designated service as defined in 125. So all of these are actually supposed to report to AUSTRAC with their proper reporting format for any suspicious matter. Let's go on to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): What I did, I just know it, it's not very relevant, but just to understand and giving the background of where we come from, I will talk a little about that comparison, how the market is compared between two countries. Let's go on to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): Yeah, so like I just mentioned payroll processors like US money services businesses in the US, and the two main things for them to be under the body which is in the US, it's called the financial plan network. So, the first thing is a geographical link test must be satisfied where the designated service is provided to the customer at or to a permanent establishment of a reporting entity, including any place where it carries on business through an agent in Australia. So even though that's why you will be seeing that a lot of money transfer services are also there like for example, Western Union and Remitly, and they call themselves an online system money transfer service, but where they have someone else on behalf of them transferring the money, maybe a bank or a financial services institution. So they all come under this service. The second one is kind of a residential test, so mainly an entity is a resident of Australia and trying to do some reporting in the foreign country, or an entity which is a service provided through a permanent establishment or

subsidiary of foreign country as well, that also gets covered. So technically speaking, here for the Australian market, as well, the processor companies, they are basically under the AUSTRAC guidelines. I also tried to reach out with the network and help from Ian and he connected me to some other folks. I talked to them and then got to know that most of the large payroll processing are all registered with AUSTRAC. Registration with AUSTRAC means that you are trying to comply with all of the regulations and making the proper reporting and all the compliance as instructed by the AUSTRAC. So let's go to the next one. So any questions until now

Webinar Host - Ian Gibson (DSPANZ): None at the moment Vineet, if any comes up I will draw your attention.

Guest Speaker - Vineet Mishra (Alacer Group): Okay. All right. So for the payroll processing companies reporting entities in scope of AML/CTF Act, such an entity must enroll with AUSTRAC, that is the first thing is you should enroll with AUSTRAC, and then maintain an AML/CTF compliance program. So there's a compliance program and its guidelines are mentioned there. It is not very complex to maintain a compliance program, mainly what it talks about, like your customers, which your onboarding should be having proper due diligence, and anything which has a suspicious reporting exceeding Australian dollar 10,000 should be informed to AUSTRAC in different manners. Now, there are multiple ways to conduct this due diligence and multiple ways to find out this suspicious matter reporting. How it works is I will just touch base on the next few slides on that.

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Guest Speaker - Vineet Mishra (Alacer Group): So we talked a little bit about the basic laws, and this is where all the regulations will be connected. Let's go on to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): So now this is a little bit of a legal side of it. And so AML programs must comply with AML/CTF rules, instruction 2007. Number one, and what these rules basically talk about, like I just read, like an overview like, like a proper due diligence. And mainly, anything which is suspicious mattering more than Australian dollar 10,000 should be reported. And that's what it basically talks about. But apart from that, basically, if you say how you do it, and how you're managing this in your program, there are three main categories to look after. A standard program for individual entities, a joint program for entities in the designated business selected to operate under a joint AML/CTF program or a special program that applies to an individual entity operating as a PPS because it is holding an Australian Financial Services license. So these three different categories, which should maintain an AML/CTF program. Let's go on to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): So why do we need to understand AML issues surrounding PPS. So this is just a few things, some of the information from around the world. You know, the World Bank has designated payroll processing systems as the new 'remittance corridor' for money laundering and terrorist financing. I'm not sure if all of you have heard about this thing. All the money, which all these governments have been giving, government in UK government in Australia, government in US have been giving to businesses to support their businesses, that has happened a lot of fraud in those area. A lot of shell companies, which actually have no existence, have applied for that money and received that money. So now what is happening, the government is strengthening their rules and trying to patch all of those fraudulent transactions, which has happened. And one of the biggest things from all of those activities has been that, like every company, so if you're so what was the basic requirement from the government to give you the money? They wanted to see what your expenses are, right? And one of the major expenses, your employee salaries, and where do you provide the proof from your employee salaries, most of those fraudulent activities had payroll companies into their own documentation. This is where they put all the documentation up in the front, and provided that, okay, we've got 100 employees, we have got 200 employees, because it's all software, right? You can maintain the data, you can insert the data, you can forge the data, you can have 200 people or you can have 300 people, you can put the number up, create the historical records, and after that, print everything up and send it to the government that shows and it looks legit. That's how these regulations are being strengthened. I think this one is good, it talks about a little bit more actual, what are the laws and reference and exact references which are referring to the AUSTRAC and then in regards to the payroll processing companies. Let's go on to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): So these are some, in our language, nuts and bolts for AUSTRAC regulations of PPS. So AUSTRAC requires registration as a provider of designated remittance service so it's a PoDRS. I think if some of the audience would know about the payroll services companies and their compliances, you might be aware about this. If not, you can simply read out this information is available on the AUSTRAC website. And after the webinar, I can also supply the links where you can find out this information where the regulations are, and you can read them and make yourself registered. One thing should be pointed out, I will not talk about a lot in detail, but there are more than 8000 registered PoDRS and estimates say there are more than 15,000 maybe operating. So there are more than 50% under the shadow now, and they are all being hunted. So if you're not registered -registration doesn't mean that you actually have to do something- I mean, you have to build a compliance program, which is an easy way to put it up in your documentation. But registration is a good way to inform the AUSTRAC that yeah, you're keeping track of it. Let's go to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): So these are some more legalities, I will say, under the AML laws, which if you were looking forward to getting some legal advice. This part can help you, you can ask them the question on this, section 74 is one of the most popular ones in that one. And also the transaction report Act, which is the 1988 FTR Act, has been very strengthening. And then AUSTRAC works on this every year, that act, and they include and exclude things in it as well. I would not go into this detail, I would better like to, I think get some more realistic things to your door so that you get some more information. Let's go to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): So yeah, this is one of the things which AUSTRAC asked you like, okay, what are their regulatory reporting requirements. So the regulatory reporting requirements, one which is very common and known to everybody is the threshold transaction reporting. Any customer doing any transaction with physical currency, which is more than 10,000 Australian dollars, even though someone is paying \$10,000 in cash to an employee, as a payroll, that has to be reported. Because it's a cash money being paid, it has to be reported, if you do not report that money, and this money has to be reported by the employer, and by the employee, both sides. With the employee what happens when he takes that money to the bank, more than \$10,000 and says, this is my payroll, the bank will ask the questions and will adjust it accordingly. But the employer has to clarify that they paid \$10,000 and this has to be notified to AUSTRAC.

Apart from that AUSTRAC also looks for some other things, which is like any suspicious matter reports. That's what they basically call an activity reporting, it's a transaction you find. I will just take a little bit of time here. So AML and fraud are two things but they go together, so fraud is something, like you have to report it immediately. It's a little different, but with the AML always, you know, the post reporting, so if something has happened to you, you can still go back and report with the AUSTRAC. So that's basically the difference between the AML and the fraud reporting. Like as you see here, it says the suspicious matter report here gives you 24 hours in relation to terrorist financing in three business days if the suspicion is related to money laundering or any other criminal matter other than terrorist financing. Let's go to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): So these are some elements that are subject to regulation within the PPS framework. So it says section 10 of the AML/CTF Act creates ambiguity regarding whether to bring payroll processing under designated remittance arrangement, and this is a framework in which individuals make money available under the remittance arrangement. So there may be arrangements where the payroll processing entities may be instructed to remit the money instead of depositing into deposit taking institutions. Section 10's broad definition covers various trade and money based remittance activities. So that tells us that this activity has to be reported through the AUSTRAC. So, this is what I was

saying, if you read all that part and go through all this system, you will find out that indirectly, they are putting payroll services providers under the guidance of the AUSTRAC. And similar thing, it talks about Section 37 on the customer due diligence. So the arrangement of the transactions and the due diligence, how good is your due diligence on your customers, but payroll companies deal as a middle where they have to do the due diligence on both sides at the employee level and also at the employer side. So let's go to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): Yeah, so need for effective AML program implementation. Let's see how we can implement a quick and easy AML program.

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Guest Speaker - Vineet Mishra (Alacer Group): So AUSTRAC registration requirements are two types but they are simple as well for the companies which are dealing in a simple financial business. This is one of the very important parts, the FATF does not consider Australia to have an ironclad AML/CTF detection program, they think the Australians AML/CTF detection program is not very strong. So they always rate high rank internally on the programs. A lot of confusion between payroll processor and other alternate remittance existence, calling entities to engage in detailed due diligence and adopting robust platforms. So because of the confusion part, it's better to be safe, right? We all say that. And we should go and get a quick and easy AML program, put it in your organization, and just get done with this. Let's go to the next.

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Guest Speaker - Vineet Mishra (Alacer Group): So these are a few things I actually wanted to tell you about, what happened in the recent few years. So this was the Commonwealth Bank in Australia was fined \$700 million by AUSTRAC and Westpac was fined 1.3 billion fine, which they actually accepted. But you might have seen the recent news where Westpac came forward and accepted that, but the Commonwealth is still fighting on the fine. And all this money was being moved through many different international transactions, which came in, and a lot of this money was also moved through the shell company. And the shell companies moved through the payroll processing systems, and then they moved it to the fake employees. So all these were linked, and that's how the links are being created. And the links are being prepared for the new regulations on the payroll processing companies. I have a few more interesting facts I'll show you. Let's go to their next.

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Guest Speaker - Vineet Mishra (Alacer Group): Monitoring, how do you do the monitoring, basically, which I'm saying, putting an easy program for you? Let's go next. Yes.

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Guest Speaker - Vineet Mishra (Alacer Group): So from the due diligence perspective, you have to make sure that you have got proper verifications in place. Any employee or employer you're signing up with, you're doing proper ID verification, address verifications, date of birth verifications, that TFNs are verified, and businesses ABNs are verified, the documents are verified, and just maintain these verification documents. A lot of payroll companies do this, but you have to maintain proper reporting of these verifications, keep them in the data records. So that if you're registered with AUSTRAC, and you're being asked for this documentation, you can present it easily. And I'm sure verifications you all will be doing already. One thing I'm not sure if you're doing or not is the Sanction Score, which is very important, especially for the entities and also for the individuals for you to have, what are their Sanctions Score? The entity which you're dealing with the business you're doing with are the employees which are getting paid in your portal. Are they somehow related to any sanctions, names or name database? So sanctions have a global level of name database, and so there are a lot of databases available or sanctions databases available where you can connect and find out a way to look up for an employee name or company name. Then a quick research on Adverse Media that if the businesses which you're dealing with or the individuals you're dealing with, does not involve in any of the illegal activities regarding maybe it's a cannabis or it is any criminal activities, or anything else, it's not about being called guilty, it's also about being in process of in the legal process of that. And then looking into the national criminal database status check if someone got any prints in any national database. And on top of that, creating a business specific risk based questionnaire, you can pick up 10-20 questions which you could ask while somebody is being onboard in your system, or your onboarding them with it anyway, so that is how it could be related to your business where you could figure out whether this entity is a legit or not a legit entity. Let's go to the next one.

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Guest Speaker - Vineet Mishra (Alacer Group): Now, the transaction monitoring, this is a little tricky area and a lot of volume goes in here, and that's actually the money movement, actual money movement that is where it happens. So what I have done here, I've kind of you know, tried to give you some information about how this happens. Okay, so, transactions that seem to involve unnecessary complexities and transactions involving the use of front men and shell companies, how do we detect them? The transactions are so structured, that amount is just below the regulatory threshold for due diligence identity checks. So anywhere they would like to launder or try to do any fraudulent activities or try to avoid the regulatory thresholds. They try to avoid same day withdrawals, they try to avoid transactions in smaller amounts. But for payroll companies, it is more straightforward, because you get pay periods, you get paychecks and that's it. That's it, not more than that. So I have two more things on that. Can you just go into the next one?

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Guest Speaker - Vineet Mishra (Alacer Group): Yeah, so this is something like a sample transaction monitoring scenario would look like for a payroll operating company. So like, employers with multiple employees with the same data, but this is a very big sign of having you know, they're having fake employees. Employers with a significant number of employees without a tax file number one of the other alerting information there that tells you that there is something fishy there. Employers with a significant number of employees with frequent address change. Employers with a significant number of employees with frequent change in pay periods. Employers with a significant number of employees with frequent change in pay periods. Employers with a significant number of employees with paycheck pattern change. Employee related off hours activity, they're using payroll systems in off hours 1am 2am 3am. Employee related ratio password changes, they are changing passwords multiple back and forth. Frequently changing bank details, employees are changing the bank details very frequently. So that's kind of a sample scenario where you think like you can, these are like just a few of them, which I've listed some. So like this scenario, there could be like 30, 40, 50, related to the type of businesses which are happening and they can be set up and all the transactions can be monitored. So that's one activity which is actually more and it requires a permanent monitoring so that all the transactions and payment processing which is happening in your system, is not actually violating any of the laws under the AML CTF rules. Let's go next.

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Guest Speaker - Vineet Mishra (Alacer Group): So what we did, we recently did a proof of concept for an Australian superannuation firm. We performed the POC and we selected four different scenarios and every scenario successfully generated, when I say successful generated violation alerts. So the violation alerts provided an insight that approx 5 to 10% employers were violating the scenarios. Violation alerts provided an insight that approx 3 to 6% of employees per employer were violating the scenarios. Now, if you see the scenarios, which we put in the number of alerts we got in, these numbers are real and because of, you know, all our NDA purpose, and everything can't disclose what scenarios those were. But only four scenarios, and I was talking to you already before, like seven, eight of the scenarios were there, these four scenarios generated these many number of alerts. And these were genuine alerts found out so these were genuine violations happening round, either fraud, or an AML violation happened. So yeah, things are happening. And like I said, it doesn't take so much to prepare an AML program and put it into place and find the right provider who can set up all the scenarios and run them monthly. This is like a post transaction basis, every month, all of your transactions, your payroll transactions can be scanned, and if something has been found, can be reported to the AUSTRAC. Let's go next.

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Guest Speaker - Vineet Mishra (Alacer Group): Oh, okay. So that is one of our software from Alecer. Alecer has its own fincrime suite management, it provides fraud and AML Compliance management. If anybody would be interested, I think Ian will, or the, the people here will redirect you. And I think that's it. If anyone has any questions.

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Guest Speaker - Vineet Mishra (Alacer Group): And yeah, this is a list of our clients we are working with in the US. Now we also work with Commonwealth Bank in the US, not here.

Webinar Host - Ian Gibson (DSPANZ): Right, thanks for that Vineet, I am just curious with the proof of concept that you mentioned can those results compare to sort of overseas or what you would have been expecting.

Guest Speaker - Vineet Mishra (Alacer Group): Oh, those results were like really we would say at par with the market in US like I said 3 to 5% so in US if you look at the transaction monitoring scenarios, and like in Australia it's called Suspicious Matter Reporting SMR, in US it's called SAR Suspicious Activity Reporting. So generally the suspicious activity reporting for a financial institution is between 3 to 5% and that's what I presented, the violations which we found out were between 3 to 5% and one was between 5 to 10% which would be the employer side which is like more towards the business entity side. So I still think that the first priority should be to look for the employers genuinity which is I think the most important because this is where a shell company comes into picture. And they tried to get the money and like I said, a lot of fraud has happened you know worldwide with the government giving away this money during the COVID support. A lot of companies have had that.

Webinar Host - Ian Gibson (DSPANZ): Okay, look you probably in a good position given the breadth of your experience to sort of compare and contrast, how does Australia compare from the incidence of AML to say other countries like is Australia more or less about the comparable with other developed environments?

Guest Speaker - Vineet Mishra (Alacer Group): No, I think Australia is picking up especially after the event that happened in 2019 when the all top banks were sanctioned and then all power banks were fined by the regulatory body and the regulatory bodies are very actively in Australia now working on it. And you will be just to you know, a regulatory body has set up a new compliance team, which is now looking after all the payments made during the COVID situation, and they're going to scan every single payment made to every individual and they're going to scan every single payment made to every business so it is coming. It is coming back. It may take a year but it will come back. They already set a team and the team started on that part.

Webinar Host - Ian Gibson (DSPANZ): I was gonna ask and again, you're probably in a good position to make a comment. Do you think the incidence of AML and reporting, do you think that is increasing/decreasing? Has it really taken off during the COVID period? Or, you know, is it growing or shrinking I suppose is really the question.

Guest Speaker - Vineet Mishra (Alacer Group): It's growing and plus another very good example you brought in really good and the cryptocurrency they hope everybody is listening about that right? And what about a lot of employees are getting paid in cryptocurrencies as

well. The cryptocurrencies and all these transactions are coming into picture, I think it is increasing. And plus during the COVID, the frauds were higher, the US data said the bank frauds, the internet fraud, and the ATM fraud they were higher.

Webinar Host - Ian Gibson (DSPANZ): Now, one of our audiences asked the question, that AUSTRAC has a large list of companies that have been given exemptions to the AML rules, many of them apparently include payroll providers, do you know what's involved in getting an exemption compared to having to implement an AML program?

Guest Speaker - Vineet Mishra (Alacer Group): Ian definitely, I can help with that. So that's actually a little bit of documentation work explaining to them that you are 100 percent software only. And you have no other business to deal with any other activity. And then the responsibility, like doing kind of a very legal and detailed level of documentation where you only act as a software, you're not acting even as a maintenance for the software.

Webinar Host - Ian Gibson (DSPANZ): Okay, would that explain the difference, I noticed you said before, I think there's about 8000 companies registered and but

Guest Speaker - Vineet Mishra (Alacer Group): 15,000, yeah they found out there 15,000 were not doing it. Yeah.

Webinar Host - Ian Gibson (DSPANZ): Do the exemptions, are they taken into account in those figures?

Guest Speaker - Vineet Mishra (Alacer Group): No, those figures say that they have identified 8000, but they know there are 15,000, approximately which they're missing out.

Webinar Host - Ian Gibson (DSPANZ): And then another question we've had from the audience is I'm not sure if you're familiar with the Plutus payrolls scam, but whether you know that helps to bring AML to the forefront?

Guest Speaker - Vineet Mishra (Alacer Group): I'm sorry I am not familiar with that payroll scam, I can look it up, but I think if that scam and connecting something I'd dig up and take that question and answer that later on.

Webinar Host - Ian Gibson (DSPANZ): Not a problem, I'd further take that one as taken on notice. Yeah. One of the questions I had going when I was listening to you go through material, you mentioned there that technically, if you're paying an employee more than \$10,000, then that should trigger a report, a Suspicious Activity Report, I think you mentioned. Yeah, I just wondered whether that would apply to contractors as well.

Guest Speaker - Vineet Mishra (Alacer Group): Yeah that applies to everybody. It's irrelevant what you're paying \$10,000 for. So there are two things under \$10,000. One is you recognize

that this is an activity, which is more than \$10,000, and it's a suspicious activity means you have done your due diligence, and then you are calling it a suspicious activity. Second thing is that you're paying an employee or contractor or anybody \$10,000 in cash. So that's a transaction reporting requirement. So if you pay anybody more than \$10,000 in cash, you're supposed to report that to AUSTRAC.

Webinar Host - Ian Gibson (DSPANZ): Yeah, because I was just thinking there'd be a lot of contractors that would potentially fall into that category.

Guest Speaker - Vineet Mishra (Alacer Group): Yeah, if they're being paid cash. Yeah.

Webinar Host - Ian Gibson (DSPANZ): Now as well, perhaps on that point, we'll draw to a close because I noticed we've just run out of time. I'd like to thank everyone for their attendance today. And we would like to again, thank our Webinar week sponsor SuperChoice for sponsoring this and all the other webinars during the week. Just to remind everyone, that the session has been recorded, and will be made available to attendees on the DSPANZ website over the coming weeks. I know one of the audience when they asked about the slides. Yes, the slides will be made available as well. If you do have any other follow up questions, whether it's Plutus, or anything else, then please send them through to hello@dspanz.org and we'll make sure that they get to Vineet for response. This is our final webinar week session, so I'd like to take this time to thank you, our audience, for joining both today and throughout the week. We look forward to seeing you all again at future DSPANZ events. And thanks a lot Vineet for a really interesting presentation today. Thanks for that.

Guest Speaker - Vineet Mishra (Alacer Group): Thank you Ian and thank you everybody.