



OVERVIEW OF THE GLOBAL FINANCIAL SYSTEM

Douglas Sloan
November 2024



This Photo by Unknown Author is licensed under CC BY-SA

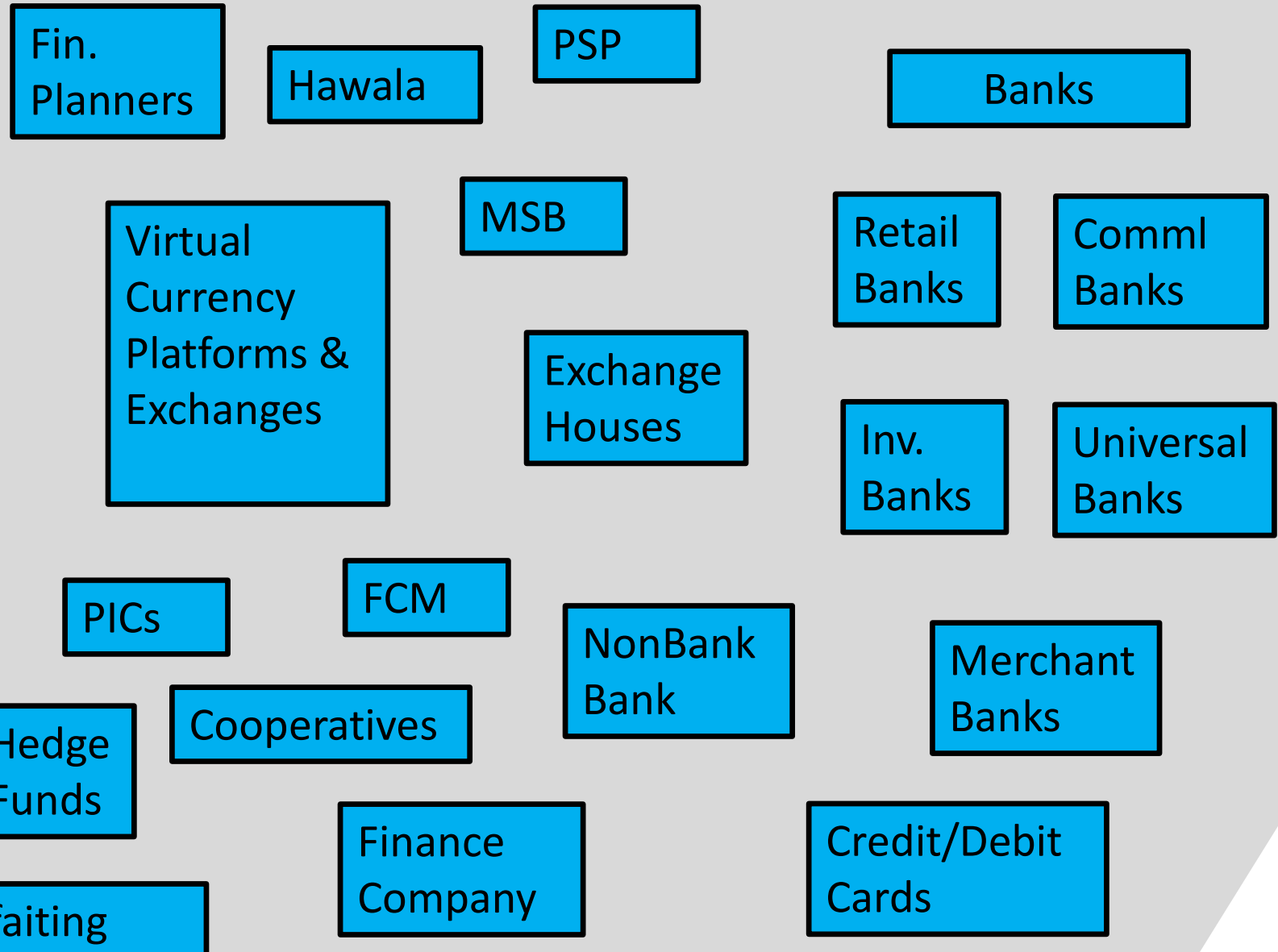


Discussion Topics

- Entities & Regulation of the Financial Services Industry
- General Organization of Financial Institutions
- Banks – The direct or indirect center of it all
- Structural Weaknesses in the Financial Services Industry



Financial Entities in the Global Financial System





Types of Companies in the Financial Services Industry - Parameters

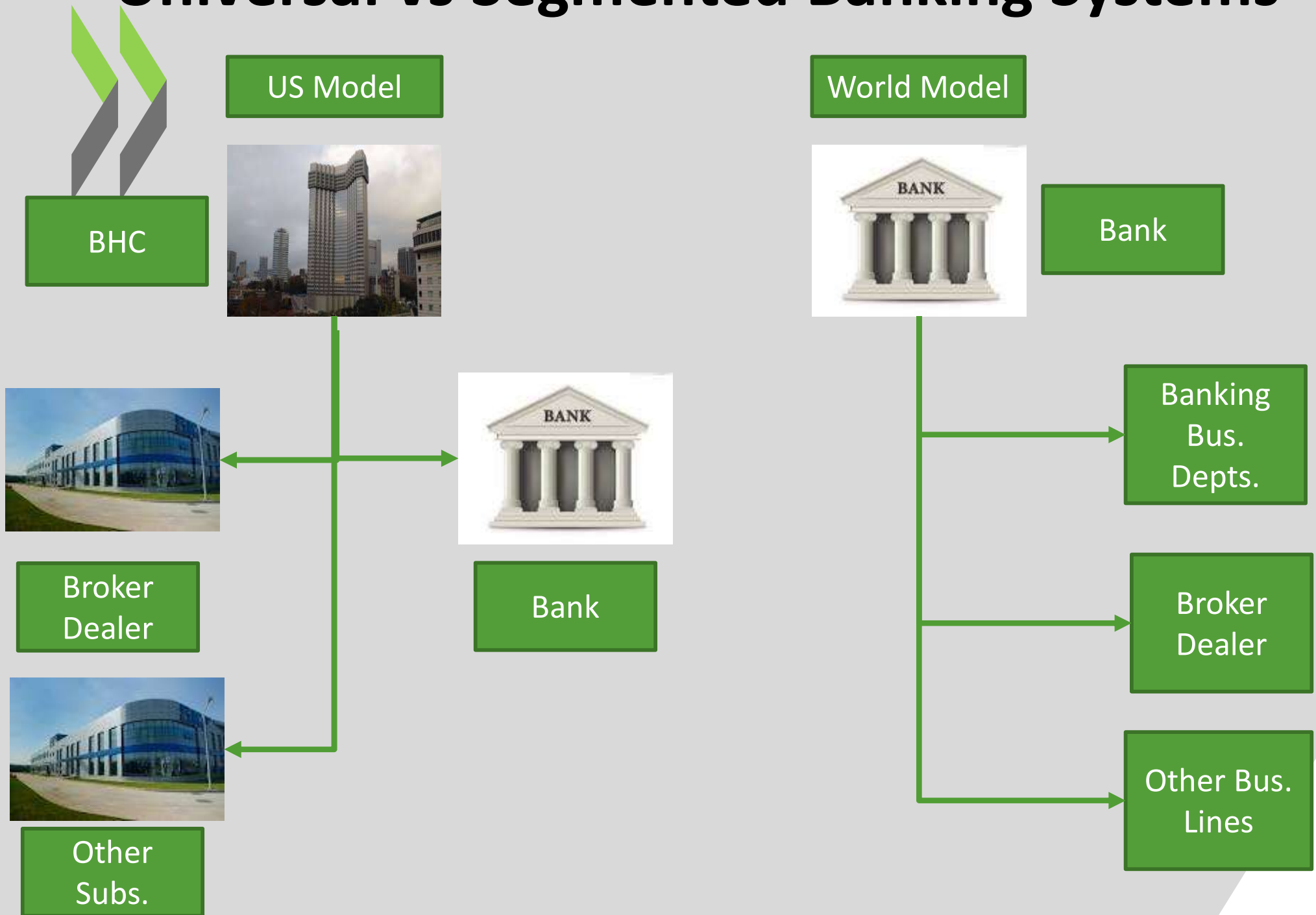
- Purpose of company
- Regulated & Supervised; Regulated & Unsupervised; Unregulated & Unsupervised
- Products and services offered
- Size and scope; customer base; products and services offered and geographic location of company and/or customers can determine if (and to what extent) a financial services company is regulated and/or supervised



Focus on Banks

- Most basic definition of a bank: Any company that takes deposits AND makes loans.
- Nearly all banks are under some form of regulation and supervision. Depending on the jurisdiction depends on the size, scope, and sophistication of supervision. The record of enforcement of AML laws and regulations upon banks varies widely.
- Universal Banks are permitted in most jurisdictions of the world, including the European Union. Permissible financial products and services for banks in the US are limited. However, Bank Holding Companies (BHCs) may own banks as well as other types of financial companies (e.g. broker dealers), thus allowing the BHC organizations to compete in the international financial markets.

Universal vs Segmented Banking Systems





Focus on Banks continued

- The greatest means to investigate, detect, and report money laundering activities remains at banks as banks remain the most common essential link directly or indirectly connecting all financial activities in the world. For this reason, the most stringent AML requirements are imposed upon banks.
- However, the more indirect the connection to banks (e.g. processing transactions for customers' customers; maintaining custodian accounts for hedge funds; etc.) the greater the challenge to connect criminals to their money, gather evidence, and prosecute crimes.



Focus on Banks continued

- Banks often contain a treasure trove of information about suspects and other persons of interest.
- Because of the due diligence information collected on customers and their financial transactions, financial profiles can be developed.
- Often such information is not available at other institutions, government agencies or providers.
- Depending on the scope of the relationship will depend on the available information (scope, breadth and depth).
- Comparing the information collected can also be useful.



Purpose of Bank Regulation

- In general, banks are among the most regulated industries in the world (along with the pharmaceutical industry and the airline industry). This is due to their critical role in maintaining the safety and soundness of the economy, society, and the financial activities of any given country, region or the world.
- Intense regulation is also due to the inherent conflicts of interest of banks. Banks are all about money and maximizing usage, such as return. They are often driven by greed. They are driven by competition of other banks (and other financial institutions). They are driven by profit maximization against overly aggressive risk. They are conflicted by bank optimization vs client optimization. They are conflicted by securing sales of products based on limited capital resources. They are conflicted by revenue generation and the expensive costs to maintain the balance of infrastructure. Individual staff are conflicted by revenue generation and competing against other colleagues. In short, these are environments challenged by greed and fierce competitors.



Internal Structure of Banks

- Banks maintain very strict internal control structures, many of which are dictated by regulation. Furthermore, what banks do (i.e. products and services offered), how they offer these, and with which customers are often relatively highly regulated.
- The internal control structure of bank personnel and their function is most characterized by segregation of duties. This is done to minimize conflicts of interest; focus the scope and purpose of work; and balance the professional judgment of personnel in order to better manage the bank.

Typical (Bank) Organization Chart



Board of Directors

Executive Management

Multiple Dept Heads

Front Offices

Middle Offices

Back & Infrastructural Offices

Sales
Dept

Sales
Dept

Treas &
Trading

Risk
Mgmt

Client
Mgmt

Trans
Processing

Personnel

Legal &
Compliance

Accounting
and
Reporting

Audit

IT Dept



Structural Weaknesses in the Financial Services Industry

- Scope of regulation, supervision and/or enforcement varies
- Systemic transparency issues in securities trading
- Limited regulation of some entities
- Various parties involved with “primary” customer (e.g. in a multi-party transaction/deal or complex ownership chain) may have little or no due diligence, efficient data recording and call up protocols.
- Lack of emphasis by some regulatory agencies of AML compliance
- Privacy regulations of investors
- Privacy regulations of investment activities
- Limitations to global coordination and communication of regulatory compliance



Know This About Financial Crimes

- Take anything of value; especially a financial product or service, and you can launder money.
- Criminals are expert about understanding and abusing the financial system. Depending on their crime, the proceeds of their crime, and the flows of income (and expenses), and the stage of money laundering (placement, layering, integration/investment) they quickly learn:
 - The best financial products and services to support their needs.
 - The means to laundering their proceeds to minimize the risk of detection.



If you are interested in exploring the possibilities for collaboration and strengthening your abilities...

Douglas A. Sloan
President
Catamount Huntsman

DASloan@outlook.com

+1-917-565-7695