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SECOND QUARTERLY REPORT

JULY – SEPTEMBER 2023

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1. ACRONYMS

ADLAs	-	Authorized Dealers in Foreign Exchange with Limited Authority
AML/CFT/PF	-	Anti-Money Laundering/ Counter Terrorist Financing and Proliferation Financing
AI	-	Accountable Institution as provided in Schedule 1 of FIA
FATF	-	Financial Action Task Force
FIA	-	Financial Intelligence Act, 2012 (Act No. 13 of 2012) as amended
FIC	-	The Financial Intelligence Centre
LEAs	-	Law Enforcement Agencies
RI	-	Reporting Institution as provided in Schedule 3 of the FIA

2.   DEFINITIONS

Money laundering (ML): Generally, refers to the act of disguising the true source of proceeds generated from unlawful activities and presenting such in the financial system as sourced from legitimate activities. However, in terms of the Prevention of Organized Crime Act, 2004, as amended (POCA), the definition of ML is broad enough to include engagement, acquisition and concealment of proceeds of crime whether directly or indirectly;

Proliferation financing (PF) "the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations."[1]

Terrorist financing (TF) includes "acts which are aimed at directly or indirectly providing or collecting funds with the intention that such funds should be used, or with the knowledge that such funds are to be used, in full or in part, to carry out any act of terrorism as defined in the Organization for African Unity (OAU) Convention on the Prevention and Combating of Terrorism of 1999, irrespective of whether or not the funds are actually used for such purpose or to carry out such acts."

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[1] FATF Recommendation 7

3.   INTRODUCTION

This is the second quarterly statistical report of the 2023/24 financial year issued by the Financial Intelligence Centre (FIC). It contains statistics on mandatory reports received from various stakeholders in terms of the Financial Intelligence Act, 2012 (Act No. 13 of 2012) as amended (FIA). The report is meant to communicate relevant statistics on the operation of Namibia's national Anti-Money Laundering, Combatting the Financing of Terrorism and Proliferation (AML/CFT/CPF) framework. Amongst others, the report speaks to the reporting behavior of relevant stakeholders, outcomes of reports forwarded to the FIC, as well as compliance monitoring and supervision activities. Importantly, the report also highlights areas where all stakeholders, including the FIC, could improve in advancing the national framework's overall effectiveness.

3.1 BACKGROUND AND PURPOSE

The FIC is Namibia's Financial Intelligence Unit (FIU) established in terms of the FIA and is empowered to, amongst others, collect, request, receive and analyse suspicious reports relating to ML/TF/PF and further share actionable intelligence obtained from such activities with identified stakeholders as per the FIA. These reports form part of a database that assists in combatting efforts within the domains of local and international Law Enforcement Agencies (LEAs).

As far as compliance monitoring and supervision is concerned, the FIC has a duty to gain reasonable assurance that Accountable and Reporting Institutions as identified in the FIA have controls in place that minimise ML/TF/PF risks. This includes institutional implementation of internal controls that can detect suspicious activities and enable timely reporting of same to the FIC. Compliance supervision of sectors normally commences with such sectors (or institutions) registering with the FIC as per the FIA. A total of 3,289[2] Accountable and Reporting Institutions were registered with the FIC *as of* 30 September 2023.

To gain assurance on the level of FIA compliance and thus effectiveness of ML/TF/PF risk mitigation within the regulated populace, the FIC conducts regular on-site and off-site assessment activities, amongst others. Such assessments are followed by interventions such as guidance in the form of assessment reports and where needed, capacity-building initiatives. If appropriate, enforcement interventions are also made to further enhance compliance. The FIC

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[2] The figure includes both active and non-active accountable and reporting institutions.

communicates compliance expectations in various ways including the issuing of formal Guidance Notes, Directives, Notices and Circulars to enhance compliance behavior and increase awareness.

3.2 APPLICATION

This quarterly report is directed to all Accountable and Reporting Institutions and other FIC stakeholders. Much of the information presented herein is sourced from quantitative data in the FIC's domain. The report has been sanitized to minimize the disclosure of sensitive and restricted material.

4.   FINANCIAL INTELLIGENCE CENTRE: STATISTICS

4.1 OPERATIONAL ANALYSIS

The regulated populace is responsible for filing reports such as Suspicious Transaction Reports (STRs), Suspicious Activity Reports (SARs), Cash Transaction Reports (CTRs) and Cross Border Movement of Cash Reports (CBMCRs) with the FIC. Charts 1 and 2 below show the volumes of various report types received from different sectors in the reporting period:

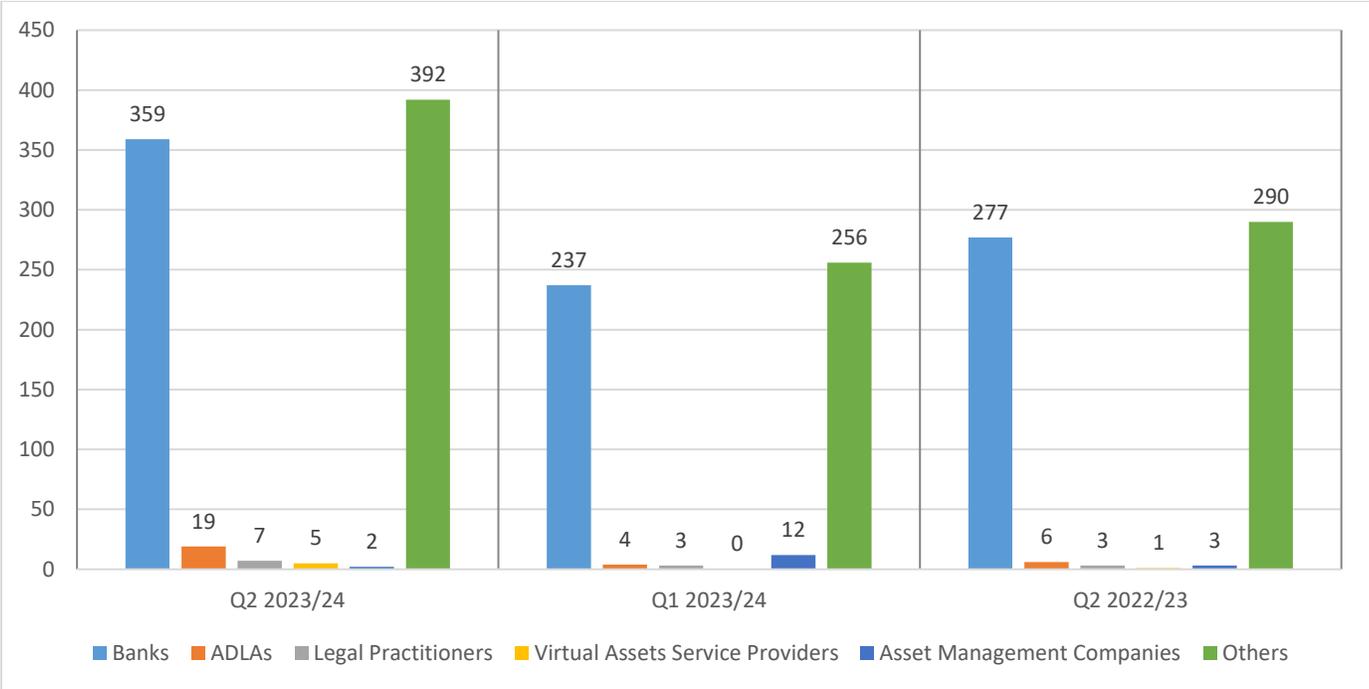## Chart 1: STRs received according to Agency Business Types (Sectors)

Chart 1 presents a summary of STRs filed by AIs and RIs during the period under review. The number of STRs increased to 397 STRs when compared to 275 STRs received during the previous quarter. The banking sector continued to file the highest volume of STRs in both periods, followed by Authorized Dealers with Limited Authority (ADLAs). Even though various potential predicate offences have been reported to the FIC, tax-related offence featured as the leading predicate offence from all sectors.

Apart from tax-related offence, the banking sector indicated that fraud, corruption, capital flight, bribes, kidnapping, scams, and illegal deposit taking amongst others as significant potential predicate offences in the country. It is also worth mentioning that amongst other reasons for suspicions, the most common provided by the banks are "various individuals who are using their personal accounts for business purposes to avoid tax" or "individuals making multiple cash deposits into their personal accounts while the sources of funds are unknown".

Chart 2: SARs received by Agency Business Types (sectors)
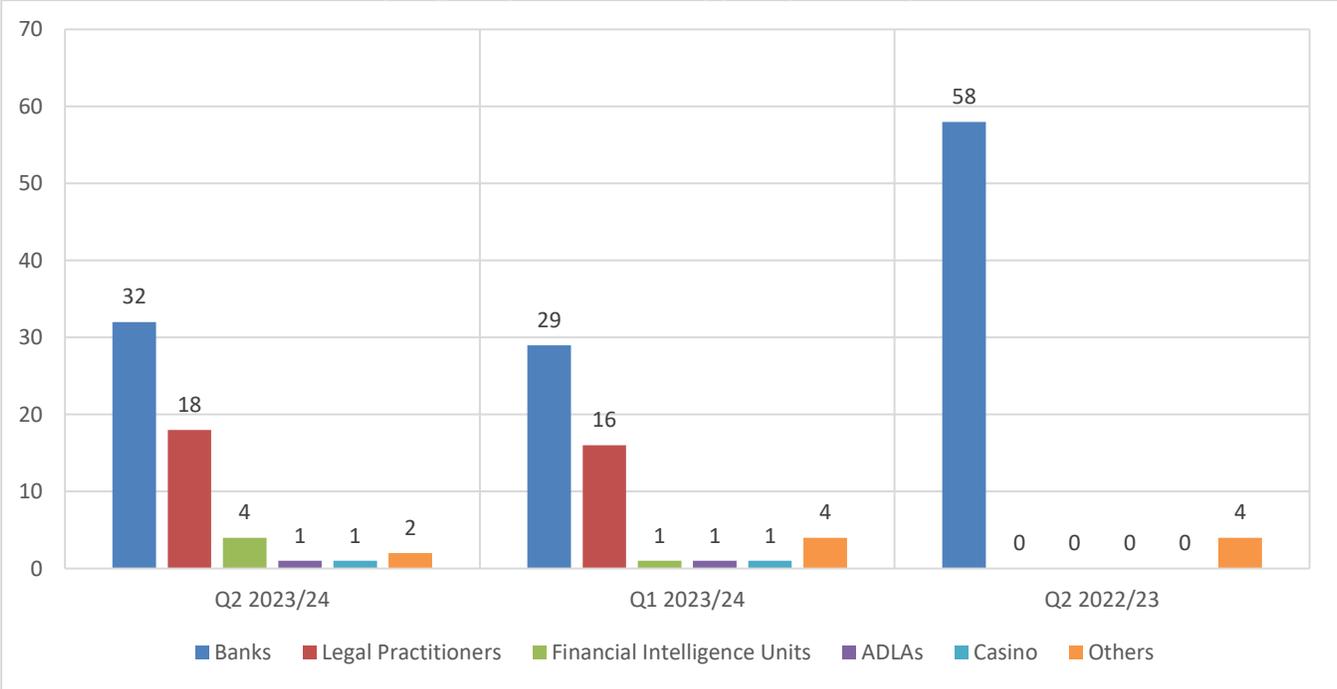

Chart 2 above presents a comparison of the volume of SARs received during the second quarter of the 2023/24 financial year with the previous quarter and the second quarter of the 2022/23 financial year. In the current quarter, the FIC received 58 SARs from Accountable and Reporting entities. Overall, in the reporting period, the banking sector filed most of the SARs.

While the nature of AML/CFT/CPF is that there is no yardstick for indicating the volume of suspicious reports that should be detected and reported, the FIC is generally concerned about the low reporting behavior of some sectors. It could thus be helpful for AML Compliance Officers to indicate any challenges experienced as far as identifying and filing various reports is concerned. If need be, interventions from the FIC's side can be considered to enhance reporting behavior.

4.2 STRs AND SARs PRIORITIZATION CONSIDERATIONS

When reports (STRs/SARs) are received, they are reviewed to determine the level of prioritization that needs to be accorded to each one of them. The FIC applies a risk-based approach in determining the level of prioritization per report received. It is also important to indicate that the challenge of missing information highlighted above contributes significantly to the prioritization of reports. In summary, factors that collectively inform prioritization levels include, but are not limited to:

a. known ML, TF and/or PF indicators;
b. sanctions and watch lists [e.g. lists of high-risk persons];
c. prior reports on the same subject/entity;
d. geographic risk areas involved;
e. duplicate/erroneous filing (which could result in the STR/SAR being set-aside);
f. risk of funds being placed out of reach of law enforcement.
g. human resource constraints within FIC's Financial Investigations and Analyses Division; and
h. consideration of the monetary, asset and other values or impacts associated with
   such report.

Table 1: STRs filed vs STRs analysed

	Q2 2023/24	Q1 2022/23	Q2 2022/23
Case Files Opened	22	29	81
Low Priority	33	144	231
Set-Aside	0	0	0
Under Cleansing	342	102	8
Grand Total	397	275	320
(%) of SARs escalated to LEAs $= \left(\frac{\text{Case File Opened}}{\text{Grand Total}} \right) \times 100$	**6%**	**11%**	**25%**

In this quarter, the FIC analyzed only 6% of STRs filed, a decrease from the 11% recorded during the previous quarter. Human resource constraints within FIC's Financial Investigations and Analyses Division contributed significantly to the decline of reports analysis. The reports escalated for further analysis led to actionable intelligence being forwarded to relevant Law Enforcement Agencies for further processing, including investigation.

The issue of human resource constraints stated above also plays a significant role in the cleansing of reports filed and leads to the low prioritisation of enormous reports. At the time of reporting, 342 STRs were still under cleansing. It is further worth noting that 33 STRs were accorded a "low priority" status due to various reasons. Below are some notable reasons for low prioritization:

a. lack of ML/TF and/or PF indicators in the reports: It is helpful that upon reporting, such information is availed. More could be done to identify indicators of suspicions;

b. poorly articulated "Reasons for Suspicion" in STRs (closely related to the above matter): usually, when adequate CDD has been undertaken, it is often easier to explain grounds for suspicion. Regardless, attempts should be made to adequately explain why AIs/RIs find transactions or activities suspicious as such helps with FIC analysis of such reports;

c. filing of incomplete STRs: more could be done to ensure completeness of information shared in STRs. It helps with the usefulness of such STRs and could reduce the volume of reports set aside or classified as low priority;

d. STRs reported instead of SARs or AIFs being reported. General enhancement in understanding could emanate from capacity building or training of personnel entrusted with analysis and reporting. A strategic analysis report may be issued to indicate the qualitative and quantitative data around our findings in this regard; and

e. inadequate resources within the FIC.

Table 2: SARs filed vs SARs analysed

	Q2 2023/24	Q1 2022/23	Q2 2022/23
Case Files Opened	4	1	11
Low Priority	14	27	51
Under Cleansing	40	24	0
Grand Total	58	52	62
(%) of SARs escalated to LEAs $= \left(\frac{\text{Case File Opened}}{\text{Grand Total}}\right) \times 100$	7%	2%	18%

In the period under review, only 7% of the SARs filed were escalated for further analysis. Further, 14 SARs were accorded a "low priority" status. The challenges highlighted in Table 1 above equally applied to Table 2.

4.3 LOCAL AND INTERNATIONAL COOPERATION

Namibia's financial system is a component of the international financial system. Efforts to protect the local financial system from potential ML/TF/PF abuse are thus in concert with similar efforts at an international level. Domestic and international authorities coordinate their efforts and activities to advance such combatting efforts to protect the integrity and stability of the international financial system. This section presents a record of such international cooperation and coordination with international agencies and authorities for the period under review.

Chart 3: Incoming Requests: Domestic and International
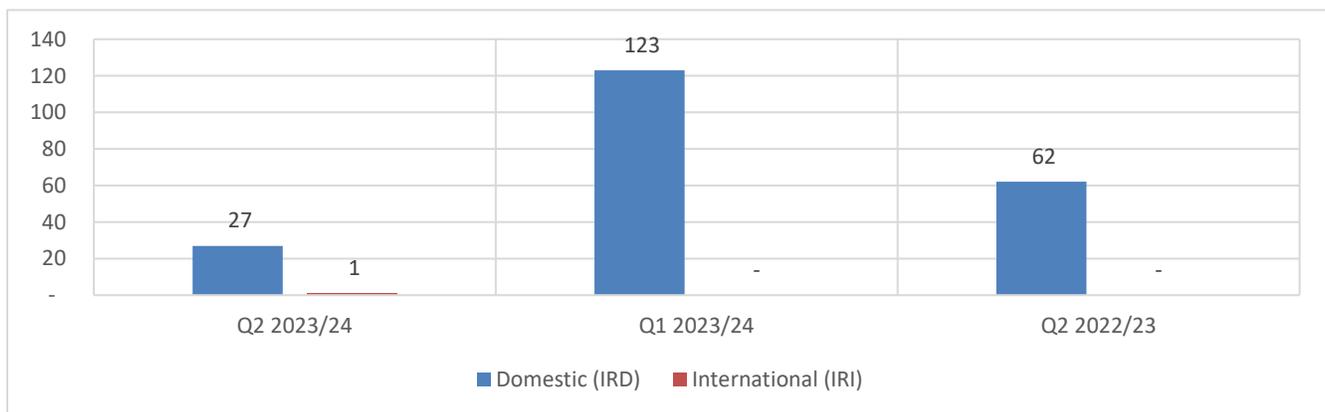
The chart above presents a summary of the number of Incoming Requests for both Domestic (IRD) and International (IRI), as received by the FIC during the specified reporting quarters. The number of requests received totaled 28 IRDs in the period under review.[4] Incoming requests reflect stakeholders searching for information/assistance from the FIC. Such can be from local or international stakeholders.

59% of these reports were received from Namibia Police, followed by Namibia Revenue Agency with 30%. Importantly, not all the reports have been analyzed at this stage, however, in most cases, all IRDs and IRIs have to be escalated for further analysis.

Chart 4: Spontaneous disclosures (SDs)
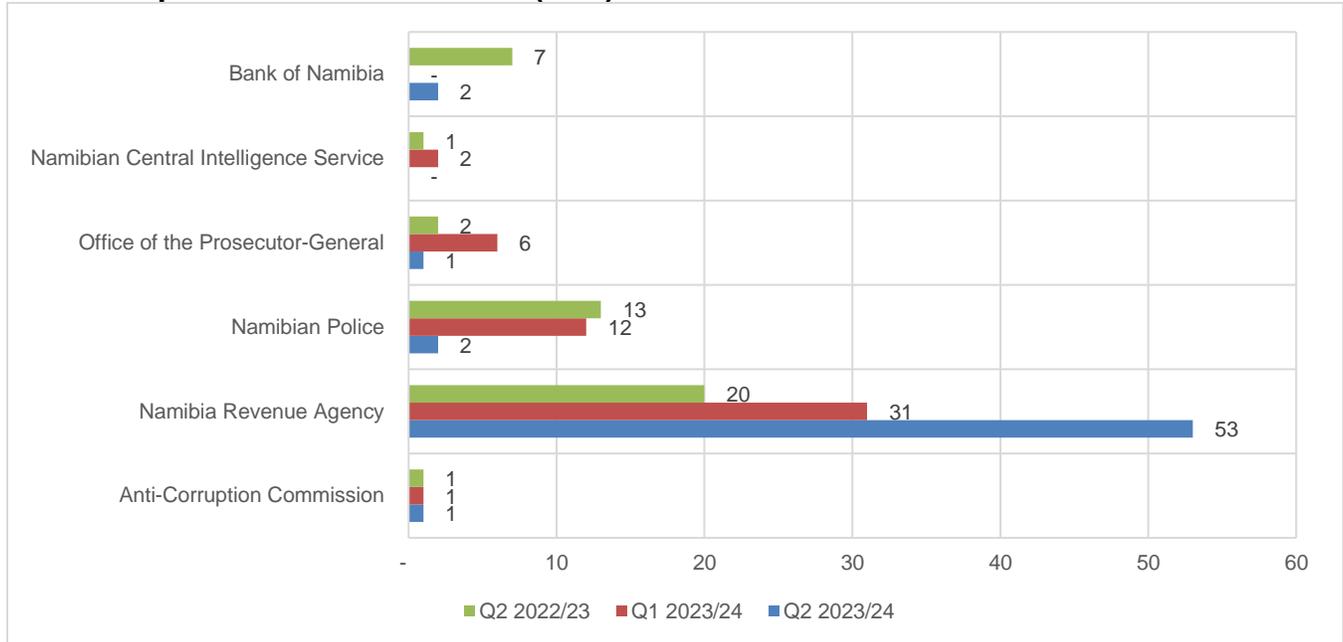
Spontaneous Disclosures are disclosures of intelligence or information made by the FIC to other combatting agencies or authorities. In the reporting period, the FIC disseminated 59 disclosures to LEAs. Further, the chart indicates that Namibia Revenue Agency (NamRA) received the highest number of disclosures in the period under review, followed by the Namibian Police. As indicated, most of the reports (IRDs) have been filed from NamPol and NamRA, equally such institutions have received most SDs from FIC for further analysis and action where necessary.

Significantly, STRs and SARs filed by the reporting institutions under legal persons and arrangements have assisted the FIC and law enforcement agencies (LAEs) in detecting and prosecuting criminals engaged in ML/TF activity.

Chart 5: Potential Predicate Offences
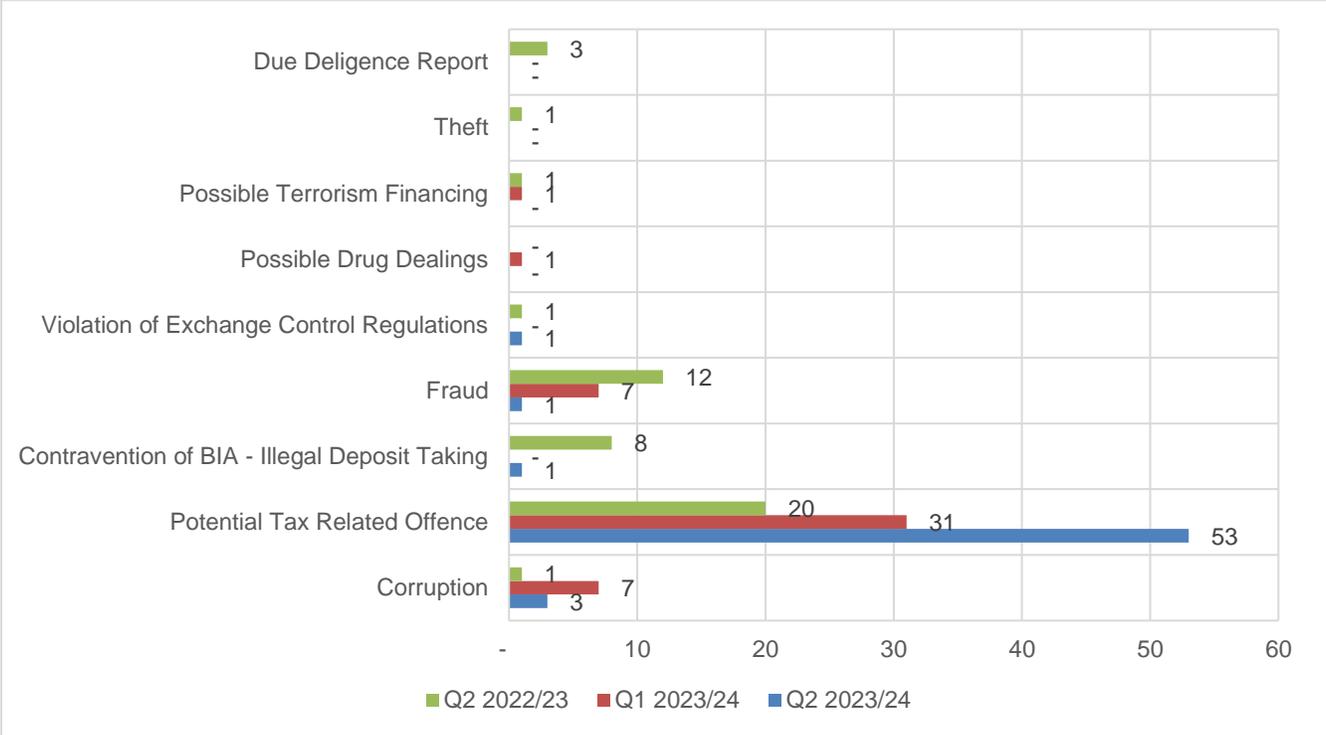
Overall, 59 potential predicate offences were recorded in the period under review (after FIC analysis). Potential tax-related offences featured as the leading predicate offence followed by Corruption. Potential tax-related offences need NAMRA's confirmation to determine certainty as statistics herein are limited to FIC analysis and dissemination.

4.4 COMPLIANCE ASSESSMENTS

Continuous efforts are made to increase FIA supervisory coverage as well as enhance the quality of overall risk management in the regulated populace. The object of such is to enhance ML/TF/PF risk management controls at the institutional level. Only the Namibia Financial Institutions Supervisory Authority (NAMFISA) and the FIC are designated as supervisory bodies in terms of the FIA. All other sectors not supervised by NAMFISA for FIA compliance purposes are directly supervised by the FIC. The FIC conducts on-site and off-site FIA compliance assessments (inspections). These are undertaken to gain assurance on the level of control effectiveness implemented in different sectors to mitigate ML/TF/PF risks. The FIC's Compliance Monitoring and Supervision Division employs a risk-based approach in its supervisory activities. Such an approach informs the nature, frequency and extent of relevant supervisory activities employed in supervision.

Chart 6: Compliance assessments
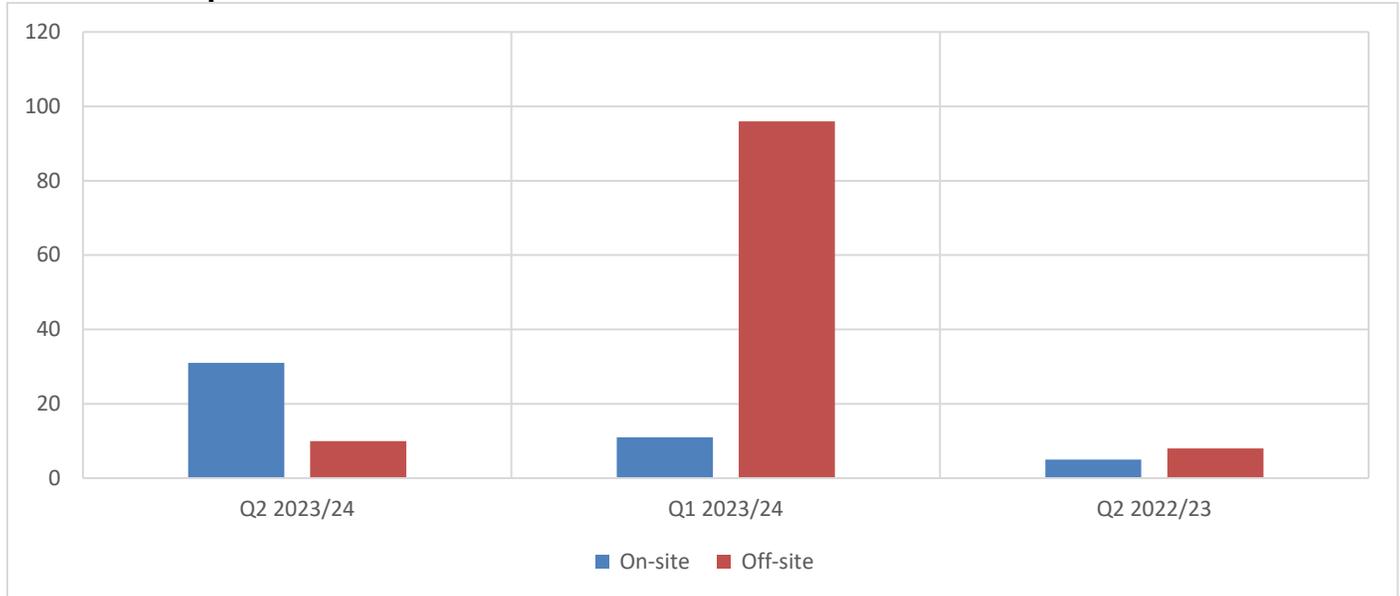
In the second quarter of 2023/24, the FIC conducted 31 and 10 on-site and off-site assessment activities, respectively. It is important that the Compliance Monitoring and Supervision Division takes effective measures to enhance report quality or value-adding STRs/SARs which can lead to effective investigations, prosecutions, asset forfeitures and asset/tax recoveries.

Table 3: Compliance assessment coverage of AIs and RIs since inception to 30 September 2023

Sectors	Registered Institutions	FIC Risk rating	No of FIC institutions assessed	Percentage coverage
Accountants and Auditors	221	Low	8	4%
Authorised Dealers with Limited Authorities	4	Medium	4	100%
Auctioneers	21	Low	17	81%
Banks	10	High	10	100%
Casinos	4	Medium	4	100%
Customs Clearing and Forwarding Agents	242	High	8	3%
Dealers in Precious Metals and Stones	19	Low	17	89%
Legal Practitioners	285	Medium	172	60%
Lending Institutions	10	Medium	9	90%
Money and Value Transfer Service Providers	4	Low	4	100%
Motor Vehicle Dealers	117	High	74	63%
Non-Profit Organizations	69	High	0	0%
Real Estate Agencies	1299	Medium	153	12%
Trust and Company Service Providers	204	Low	16	8%
	2,509		**496**	

September 2023, the FIC had a total of 2,509 active entities registered as Accountable and Reporting Institutions. It is worth noting that the above table only covered the AI's and RI's supervised by the FIC. Institutions under the supervision of NAMFISA are excluded from the table. Accordingly, Banks and Non-Profit Organizations are considered high-risk sectors for potential money laundering and terrorism financing activities.

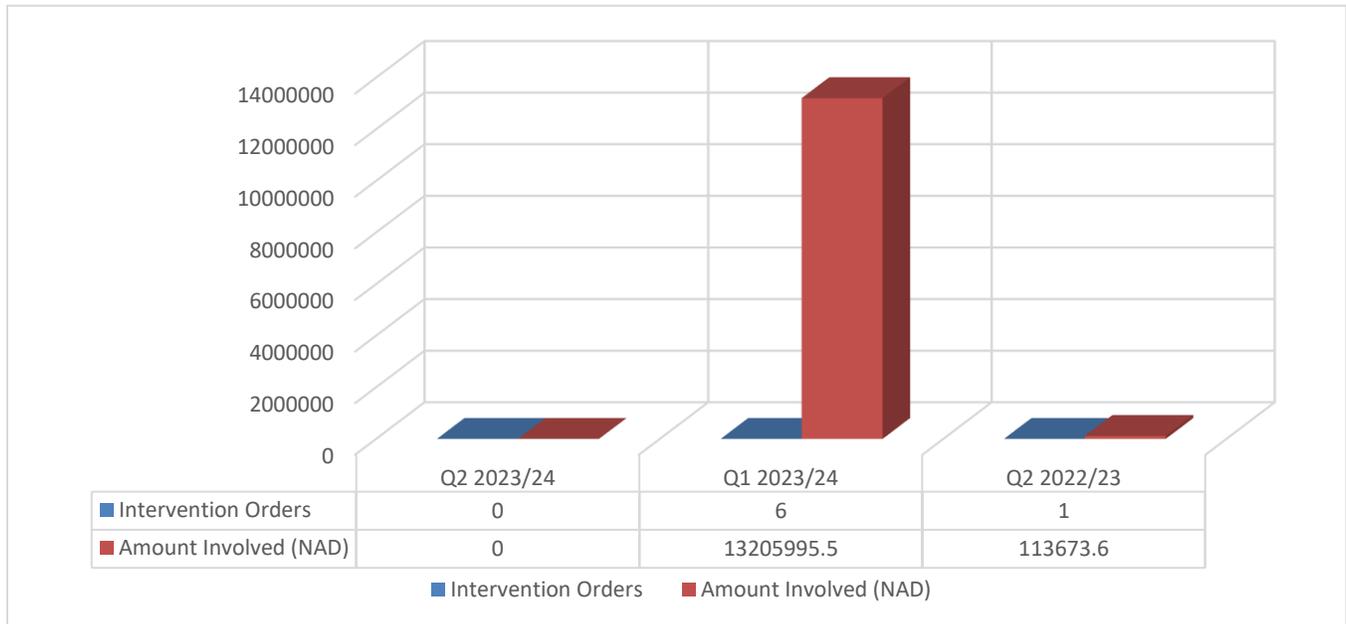**Chart 7: FIC Registration and Training of Accountable and Reporting Institutions**

Training and registration are essential to supervisory activities. Training or capacity building in particular is essential as it enhances compliance behavior. Equally, the registration of institutions with the FIC enhances supervisory effectiveness. Note that not all legal persons and arrangements are undertaking the customer due diligence (CDD) measures required by the FIA and not all the supervisory bodies have the desired level of understanding of information on ML/TF vulnerabilities specific to the legal sector to provide to their members. Limited awareness about ML/TF vulnerabilities and red flag indicators reduces the likelihood that legal persons and arrangements would be in a position to prevent the misuse of their services.

During the period under review, the FIC trained 23 institutions and registered 337 Accountable and Reporting Institutions.

5. PARTNER AGENCIES: STATISTICS

Chart 8: Asset Recovery (Intervention Orders)

	Q2 2023/24	Q1 2023/24	Q2 2022/23
■ Intervention Orders	0	6	1
■ Amount Involved (NAD)	0	13205995.5	113673.6

■ Intervention Orders   ■ Amount Involved (NAD)

The above chart shows the number of intervention orders issued by the FIC as well as the monetary values involved. No intervention/restriction orders were issued during the period under review.

It is important to note that the Receiver of Revenue's (NAMRA) Tax Assessment outcomes emanating from the FIC's Spontaneous Disclosures were not included in this report. Additionally, preservations and forfeitures as a result of such disclosures disseminated by the FIC to the Office of the Prosecutor General were also not included in this report. The amounts provided herein therefore only speak to the data within the domain of the FIC.

6.   CONCLUSION

To our esteemed stakeholders, it is essential to ensure that reports submitted to the FIC are relevant, timely and meet quality expectations, especially in terms of explaining grounds for suspicions (with STRs/SARs). The FIC humbly requests stakeholders to consider such areas and implement measures to positively impact the national Anti-Money Laundering, Combatting the Financing of Terrorism and Proliferation framework. It is only through these reports that useful and meaningful intelligence can be produced for further use by the FIC, Law Enforcement and other relevant bodies.

The report equally presents FIC observations on areas that may need improvement. The FIC will internalize to find ways to enhance its outputs, particularly around resource constraints which often hamper its outcomes.

Z. BARRY
ACTING DIRECTOR: FINANCIAL INTELLIGENCE CENTRE