FINANCIAL INTELLIGENCE CENTRE

REVIEW OF REPORTING BEHAVIOUR AND QUALITY OF REPORTS: MONEY OR VALUE TRANSFER SERVICES SECTOR

REPORTING PERIOD: MAY 2009 TO DECEMBER 2017

Report Date: 21 January 2019

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1. Background

The Financial Intelligence Centre (FIC) is mandated to, amongst others: coordinate, supervise, monitor and regulate relevant controls within Accountable Institutions (AIs) in terms of the Financial Intelligence Act, 2012 (Act No.13 of 2012) as amended (FIA). The FIA classifies Money or Value Transfer Service Providers (MVTs) as Accountable Institutions (AIs) under Schedule 1. Services provided by MVTs are vulnerable to ML/TF/PF activities. MVTs, by virtue of availing such services have a role to play in contributing to prevention measures.

The FIA requires these institutions to implement control measures aimed at preventing, detecting and mitigating Money Laundering, Terrorism Financing and Proliferation Financing (ML/TF/PF) risks. Amongst others, these controls include measures to enable detection of reportable transactions that should be submitted to the FIC via the GoAML portal. Such reports are used by the FIC and various other Competent Authorities (CAs) to enhance ML/TF/PF combatting efforts. Such reports can further shape the outcome of a ML/TF/PF case within the domains of the FIC, Law Enforcement, CAs or prosecution. Enhancing the quantity and quality of these reports has an impact on overall effectiveness and it is therefore crucial.

This report is primarily presented with the aim of enhancing the FIA reporting behaviour and quality of all reports escalated to the FIC.

2. Purpose

In furtherance of its mandate, the FIC has embarked on a review to assess the reporting behaviour in various sectors in terms of their value addition. This assessment was carried out to:

a) understand the usefulness and quality of various reporting types escalated to the FIC;
b) identify areas that may need improvement; and
c) enable necessary action with the relevant sectors to enhance the quality of such reporting.

The review was limited to Suspicious Transaction Reports (STRs), Suspicious Activities Reports (SARs), Additional Information Files (AIFs) and Cash Threshold Reports (CTRs) reported by the MVTs sector.

The results of the analysis as documented herein should be used by AIs to guide the implementation of remedial efforts related to reporting obligations.

3. Sectoral overview

MVTs refers to financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTs provider belongs. Transactions performed by such service providers can involve one or more intermediaries and a final payment to a third party. This may also include new payment methods.

In terms of international practice, there is a wide range of MVTs business models and they vary from small independent businesses to large multinational corporations. Some engage only in domestic transfers and others transfer funds internationally. For the purpose of this analysis, the focus is based on MVTs offered by Non-banking institutions (NBI) and also excludes Authorised Dealers with Limited Authority (ADLAs).

Locally there are five MVTs registered in terms of the FIA, in the FIC database as at 31 December 2017.

MVTs in practice may provide a very wide range of services to a very diverse range of clients. For example, services may include, but are not restricted to: wire transfers, mobile payments, money transfers, Cash-in and Cash-out methods, mobile wallets, bank deposits, etc.

The report is cognisant of the view that any financial institution, including certain MVTs providers can be abused for ML/TF/PF purposes. The TF risks are highlighted in the context of potential emerging Terrorist threats.

Overall, ML/TF/PF risks and threats are influenced by the extent and quality of the national AML/CFT/CPF regulatory and supervisory framework as well as the implementation of risk-based controls and mitigating measures by each MVTs provider.

4. ML/TF/PF Risks in the Sector

The risks of MVTs are generally known to possibly stem from four major risk factors being: anonymity, elusiveness, rapidity and poor oversight.

a) **Anonymity:** owing to inadequate Customer Due Diligence (CDD). If customer identification processes exist but verification processes are ineffective and/or transactions are largely anonymous;

b) **Elusiveness:** control weaknesses on user registration of mobile or similar devices makes it challenging to ensure the person conducting a transaction is the registered user, and information pertaining to the amount, origin, and destination can be disguised;

c) **Rapidity:** mobile money transactions typically occur in real time, allowing for rapid transaction layering; and

d) **Oversight:** MVTs not adequately regulated or supervised.

In an effort to reduce and manage ML/TF/PF risks, AIs are required to report the following to the FIC within prescribed time lines using the prescribed format in terms of the FIA:

a) section 33: to report all STRs, SARs and AIFs;
b) section 32: to report all CTRs above NAD 99 999.99; and
c) section 34: all domestic Electronic Funds Transfers (EFTs) as well as International Funds Transfers (IFTs).

5. Summary of transactions reported on the FIC GoAML portal

Reviews on MVTs sectoral reporting behavior shows that only one (1) institution has reported transactions to the FIC in the period May 2009 to December 2017. *Table 1* below gives an overview of the reports, and value of transactions submitted by the AI to the FIC in the said period. The low reporting behavior could be due to ineffective Customer Due Diligence and transaction monitoring by the AIs which hampers the detection and reporting abilities.

Table 1: Reports submitted to the FIC – May 2009 to December 2017

Institutions	CTRs	STRs	SARs	EFTs	IFTs	AIF
Institution 1						
No of Reports	-	-	-	-	-	-
No of Transactions	-	-	-	-	-	-
Total Value	-	-	-	-	-	-
Institution 2						
No of Reports	118	24	7	401	563	5
No of Transactions	156	43	N/A	824	6,390	5
Total Value	26,067,872.00	1,807,730.00	N/A	205,362,563.00	31,347,091.00	12,000.00
Institution 3						
No of Reports	-	-	-	-	-	-
No of Transactions	-	-	-	-	-	-
Total Value	-	-	-	-	-	-
Institution 4						
No of Reports	-	-	-	-	-	-
No of Transactions	-	-	-	-	-	-
Total Value	-	-	-	-	-	-
Institution 5						
No of Reports	-	-	-	-	-	-
No of Transactions	-	-	-	-	-	-
Total Value	-	-	-	-	-	-

6. Suspicious Transactions and Activities Reporting

MVTs have an obligation to report STRs and SARs within fifteen (15) days after the suspicion or belief concerning the transaction that gave rise to the suspicion arose. With regards to the STRs and SARs submission, AIs may also submit AIFs to supplement the already submitted information, if need be.

STRs and SARs are reported with the sole purpose of enabling the FIC to timeously enable intelligence dissemination to relevant CAs and LEAs.

This ensures investigation, prosecution and asset freezing/forfeiture on predicate and related ML/TF/PF offenses and enhance national combatting efforts.

FIC records indicate that over the last eight (8) years, only one (1) Institution submitted twenty-four (24) STRs and seven (7) SARs to the FIC. *(See table 1 above).* At sectoral level, the institutional reporting behavior has room for improvement.

Summary of observations from STRs, SARs and AIFs reports received

Category	Exception Noted	FIC Expectation
Reason for suspicion	Blank or N/A	Field is mandatory for completion
Transaction location	Blank	Field is mandatory for completion
Other information	Few information provided	More information to be provided to enable assistance for analysis and investigation.

7. Cash Threshold Reporting

MVTs have an obligation to report within five (5) working days, any transaction concluded by or on behalf of a client which involves cash payments presented to and received by it, or cash pay outs made by the MVTs in excess of a threshold amount of NAD 99 999.99. This obligation came into effect in January 2015.

Over the last three (3) years, only one (1) Institution submitted one hundred and eighteen (118) CTRs to the FIC. *(See table 1 above).*

7.1 Summary of observations from CTR Reports received

Category	Exception Noted	FIC Expectation
Conductor details	Blank	Name of person completing the transaction
Transaction mode	In-branch/office	Select “In-branch deposit/withdrawal”
Transaction location	Blank	Indicate the transaction location
Source party - deposit	Account	Should be the name
Source party - withdrawal	Name	Should be an Account number

8. Domestic and International Funds Transfers

MVTs have an obligation to report within five (5) working days all international or cross border funds transfers concluded by or on behalf of a client, or all domestic electronic funds transfers in excess of the threshold amount of NAD 99 999.99. This obligation also came into effect in January 2015.

Over the last three (3) years, only four hundred and one (401) EFTs and five hundred and sixty-three (563) IFT reports were escalated to the FIC by the MVTs sector, as shown in Table 1 of this report. It is a great concern to the FIC as such reporting is only received from one (1) institution within the sector.

8.1 *Summary of observations from EFTs & IFTs reports received*

Category	Exception Noted	FIC Expectation
Source Party	"000000000"	Should be an account number
Primary person	Unknown	Should be a name
Source country	Unknown	Country name should be indicated
Transaction description	Not clear	Clear, understandable description is required
Source bank and branch	Unknown	Indicate bank and branch name
Source currency	Blank	Currency name is required for IFTs
Source amount-foreign	Blank	Foreign source amount value is required
Destination currency	Blank	Currency name required for IFTs
Destination-foreign amount	Blank	Foreign destination amount value is required

9. Recommendation: Risk Based Approach

A risk-based approach (RBA) is recommended for MVTs to ensure that measures to combat ML/TF/PF risks are commensurate to risk exposure. The RBA enables an institution to prioritize and thus deploy its time, resources and efforts relative to the level of risk exposure. This creates a platform to discharge risk management/controls in the most efficient ways possible. The norm is that the highest areas of risk exposure are accorded the most time, attention and resources. This leads to tailored deployment of controls thus enhancing efficiency and effectiveness.

10. Conclusion

The FIC's analysis on the sector's reporting behaviour shows that not all entities within the sector are reporting STRs, SARs, CTRs, EFTs and IFTs as seen from illustrations herein. The FIC has also observed that although some MVTs are reporting, the quality of such reports requires enhancement to positively and meaningfully impact combatting efforts. The FIC encourages the sector to ensure that institutions comply with obligations in terms of the FIA, including the conducting of effective Customer Due Diligence that enables the effective monitoring of client transactions and behaviour. Such will enhance the detection of reportable transactions.

In conclusion, the sector is further urged to ensure compliance with reporting obligations as per sections 32, 33 and 34 of the FIA. These reports contribute to the making of a vital database used for ML/TF/PF combatting efforts.

P.P

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