



FINANCIAL INTELLIGENCE CENTRE (FIC)

REVIEW OF THE QUALITY OF REPORTS FROM THE CASINO SECTOR.

REPORTING PERIOD: 2009 TO 2017

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1. Acronyms and Abbreviations

AI (s)	Accountable Institution(s)
AML	Anti-Money Laundering
CFT	Combatting the Financing of Terrorism
CTR	Cash Threshold Report(s)
CPF	Combating Proliferation Financing
FATF	Financial Action Task Force
FIA	Financial Intelligence Act
FIC	Financial Intelligence Unit
GoAML	A standard software system used for AML/CFT reporting and communication
ML	Money Laundering
NAD	Namibia Dollars
RI (s)	Reporting Institution(s)
SAR	Suspicious Activity Report
STR (s)	Suspicious Transaction Report(s)
TF	Terrorist Financing

2. Background

The Financial Intelligence Act No.13 of 2012 as amended (FIA) classifies Casinos as Accountable Institutions (AI) under Schedule 1. Consequently, FIA requires these institutions to implement control measures (including reporting controls) aimed at preventing, detecting and mitigating Money Laundering, Terrorism Financing and Proliferation Financing (ML/TF/PF) risks. Services provided by Real Estate Agencies can be exploited for ML/TF/PF purposes. Real Estate Agents, by virtue of availing such services have a role to play in contributing to prevention measures. The sector's Anti-Money Laundering, Combatting of Terrorism and Proliferation Financing (AML/CFT/CPF) activities therefore contribute to the national combatting efforts. A significant part of such combatting efforts is the ability of AIs to detect unusual transactions, analyse them and report suspicious transactions to the FIC. Upon receipt of such, the FIC conducts analysis and escalate actionable intelligence products to relevant Law Enforcement Authorities.

The Financial Intelligence Centre (FIC) is mandated to, amongst others: coordinate, supervise, monitor and regulate the AIs' efforts to mitigate ML/TF/PF risks, thus enhancing FIA compliance. In furtherance of this, the FIC has embarked on a review of the quality of reports submitted by Accountable and Reporting Institutions in terms of sections 32, 33 and 34 of the FIA. The ability to detect reportable transactions reflects an institution or sector's overall control effectiveness level.

The object of the assessment was to enhance the quality of FIA reporting types received on the GoAML database, thereby improving compliance behaviour. The review of the quality of reports considered reporting behaviour of Suspicious Transaction Reports (STRs), Suspicious Activity Reports (SARS) and Cash Threshold Reports (CTRs) above NAD 24999.99. The results were used by the FIC to assess the design and adequacy of an AI's AML/CFT/CPF controls (herein referred to as controls) in reporting the above mentioned reports.

3. Industry Overview

Casinos are Accountable Institutions. They are required as per section 33 to report STRs, SARs and in terms of section 32 to submit CTRs in excess of NAD 24 999.99. STRs are reported based on unusual transactional behaviour of a client, which is found to be inconsistent with the known client financial profile. SARs are reported based on an unusual behaviour of a client or an activity conducted by a client who is about to enter into a transaction with the AI but same does not take place.

STRs and SARs are reported to enable the FIC to collect, analyse transactions and share actionable intelligence with relevant Law Enforcement agencies such as the Namibian Police, Anti-Corruption Commission, The Receiver of Revenue and the Office of the Prosecutor General. CTRs are an essential component of the FIC database used for datamining and other purposes.

Locally, Casino services are inherently vulnerable to potential ML abuse due to the following factors:

- the industry does not have an active prudential regulatory body to monitor their activities. Compliance behaviour is thus not enforced to a level that encourages AML/CFT/CPF efforts;
- the industry is exposed to a variety of clients that may have proceeds from illicit activities;
- Casinos are cash intensive businesses that often avail services 24 hours a day; and
- Casinos offer various financial services (e.g. foreign exchange and cash ins and cash outs)¹.

The Government of the Republic of Namibia has placed a moratorium on the licensing of Casino operations for over 15 years now. The FIC does not have reasonable assurance that the existing licensing measures meet the fitness and propriety expectations

¹ FATF Vulnerabilities of Casinos and Gaming sector report

recommended by the FATF² to reduce the risk of licensing beneficial owners who may expose Casino services to potential ML/TF/PF risks.

Additionally, the lack of controls observed in some Casino's within the sector as per the FIC's compliance assessments over the last five years reflects enhanced risk exposure. It is thus an unfortunate reality that the industry is exposed to a variety of clients who may launder proceeds of crime through the Casino services.

At the time of issuing this report, the FIC had registered a total of five licensed Casinos which are:

- Windhoek Country Club Resort;
- Swakopmund Hotel and Casino;
- AVANI Windhoek Hotel and Casino;
- Plaza Casino; and,
- Protea Pandu Casino.

The scope of this review covered the period from 01 January 2009 to 31 December 2017.

4. Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs)

4.1 Overview of STRs and SARs

- STRs and SARs should be escalated by a Casino to the FIC in the following circumstances:
- when the Casino has knowledge of any suspicious transactions concluded by it, or suspects that it has received or is about to receive the proceeds of unlawful activities; or
- has been used or is about to be used in any other way for Money Laundering or Financing of Terrorism or Proliferation purposes.

² The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a "policy-making body" which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

Casinos must report an STR or SAR within 15 working days from the day such suspicion or belief concerning the transaction arises. The need to file STRs and SARs with the FIC came into effect on 05 May 2009.

The FIC applies a Risk-Based Approach in assigning priority levels to reports received (STRs and SARs). Such prioritization determines whether an incoming report will be attended to immediately or at a later stage. Some of the factors taken into consideration in such prioritization includes:

- a. the monetary value in such suspicious transactions;
- b. the possibility of funds being used or placed beyond the reach of law enforcement;
- c. the possibility of flight of perpetrators from local jurisdiction;
- d. the likelihood that the transaction relates to most prevalent predicate offences: Tax evasion, fraud, corruption etc.;
- e. whether dissemination to Law Enforcement will likely add any value to the administration of justice;
- f. assessment whether there are any prospects of recovery, seizure, preservation of funds and/or property;
- g. feedback received on similar reports issued to Law Enforcement Agencies (LEA) in the past;
- h. whether related to known typologies and trends considered to be high risk;
- i. clear links to criminal organizations/activities;
- j. priorities of Law Enforcement Agencies;
- k. whether there are any pending investigations led by investigating authorities;
- l. whether the geographic location of transactions is regarded as high risk;
- m. whether the transaction has already been executed; and
- n. whether the subjects and / or entities related to other reports, known to the FIC or Law Enforcement.

The availability of resources within the FIC tasked with reviewing incoming reports at any point in time impacts the number of reports the FIC can effectively work on.

Based on the GoAML database, a total of **15** STRs were received from the Casino sector since May 2009. The sector only started reporting in the year 2011. It is worth noting that from the 15 STRs reported, 5 did not include the *grounds for suspicion*.

The FIA requires that such grounds be availed as it helps with further analysis and thus combatting efforts. It is worth indicating that grounds for suspicion are easily identified if the client's financial profile information is obtained when business relationships are established with the clients. The expectation is that a client's transacting behavior (gambling activities and transactions) are compared to the established profile of such client to detect any anomalies. When such transacting behavior or activities are not in line with such profile, the AI can assess to determine if such behavior or transactions amount to suspicious conduct which could expose the Casino to ML/TF/PF abuse. In this way, it is easier to detect transactions or behavior which are suspicious and the *grounds for suspicion* would be easier to explain.

For example, a client identified as a School Teacher, without any other source of income noted introduces NAD 100 000.00 in a Casino for gambling activities without sufficiently explaining the source of such funds. The fact that such financial values are not consistent with the expected earning profile of a Teacher, in the absence of other logical explanation, could amount to a suspicious transaction. The grounds for suspicion would thus be – “transacting in amounts beyond the earnings of his/her known profile or profession”.

In general, observations from the FIA compliance assessment reports in the casino sector point to inadequacies in obtaining client identification information when business relationships are established.

From the 15 STRs received, 9 STRs were regarded as low priority and only 1 STR resulted in a case being opened which is still under investigation by the FIC.

Years	No of STRs	Total Amount Involved in NAD
2009	0	0
2010	0	0
2011	1	90,000.00
2012	0	0
2013	1	163,000.00
2014	1	43,514.00
2016	3	222,000.00
2017	9	237,300.00
Grand Total	15	755,814.00

Table 1: Analysis of the STRs submitted via GoAML

As observed in Table 1 above, there were no STRs submitted between 2009 and 2010. The number of STRs increased in 2016 and 2017 in comparison to the preceding years. Partly, this can be attributed to the increased monitoring and supervision activities by the FIC in the Casino sector.

Only one SAR was submitted by the Casinos via GoAML. Such was reported in 2017. It is worth noting that this SAR was wrongly reported as a such. It should instead have been reported as a STR report. A transaction occurred in which the client bought chips for NAD 129 000.00, played for a few minutes and cashed out NAD 124 000.00. Investigations conducted by the FIC did not warrant further action and the report was classified as low priority.

4.2 Analysis of STR's rationale

Based on the transaction descriptions on the GoAML database, below is an analysis of the *grounds for suspicion* as submitted on GoAML.

Grounds for Suspicion	No. of STRs	No. of cases opened
No reason given	1	1
Introducing cash in large amounts of money and cashing out shortly thereafter	3	0
Client loads money on a casino card using a bank card and cashes out shortly thereafter.	7	0
Client buying chips with Namibian Dollars and cashing out South African Rands shortly thereafter.	1	0
Client plays over the threshold, whilst refusing to provide CDD information i.e. Identity documentation	1	0
CTR threshold exceeded because of Casino winnings	1	0
Client cashes in Money and leave without playing	1	0
Total	15	1

Table 2: Grounds for submitting STRs

4.3 Recommendations / Areas for improvements: STRs and SARs

- a) During client take on, AIs should ensure clients are adequately identified. All information relating to their source of income/occupation/nature of business activities, source of funds involved in gambling transactions (if outside profile) should be established or known. This enhances the possibility of detecting transactions that are suspicious;
- b) Casinos are requested to ensure that proper due diligence is conducted on transactions that are unusual and fall outside of the clients' known financial profiles. Once a suspicion has materialized, the transaction or activity should be reported to the FIC as either an STR or SAR;
- c) When filing reports, Casinos are requested to complete all the mandatory fields and as many other fields as possible. More information is often needed when reviewing received STRs/SARs;

- d) Casinos should ensure that the “Transaction description” field is completed. The transaction description should be an explanation of what happened during the transaction for the Casino to find that such is indeed suspicious and should be reported. This field should contain as much information as possible as such assists the FIC in understanding the activity or transaction that took place.

5. Cash Threshold Reports (CTRS)

5.1 Overview of CTRs

In terms of section 32 and Circular 3 of 2015 (on Additional Reporting Obligations), Casinos are obligated 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 Accountable Institution in excess of a threshold amount of NAD 24,999.99 as from 28 January 2015.

Year	No of CTRs	Total Amount In NAD
2014	0	0
2015	30	2,278,688.00
2016	118	8,706,698.00
2017	1196	101,175,740.00
Total	2064	112,161,126.00

Table 3: A summary CTRs recorded between 2014 and 2017

Based on Table 3 above, the CTRs reported improved from year to year. The CTR reporting obligation came into effect in January 2015. The reporting thereof improved drastically in the years 2016 and 2017. Transactions in more than 70% of the reported CTRs point to potential structuring of some form to avoid the reporting threshold. The drastic increase in the number of CTRs submitted to the Centre is attributed to increased FIC monitoring, supervision and awareness efforts across the sector. The total amount

recorded for all CTRs reported to the FIC for the period 2015 to 2017 is illustrated in the below table.

Casino	No. of CTRs	Share of total population	Amount in NAD
Casino A	0	0	0
Casino B	4	0.20%	380,045.00
Casino C	14	0.80%	1,144,014.00
Casino D	261	13%	18,696,999.00
Casino E	1785	86%	91,940,068.00
Totals	2064	100%	130,858,125.00

Table 4: Share of the Casinos CTR reporting behaviour

Table 4 above shows an uneven reporting behaviour amongst Casinos, in terms of Cash transactions over the threshold. 86% of CTRs were submitted by one Casino and the remaining 13% were shared amongst the remaining 4 licensed casinos. In the absence of convincing reasons, the FIC opines that there could be room for improvement in the sector, especially for the Casinos with low or no reporting observations.

5.2 Recommendations /Area of improvements CTRs

- When filing CTR reports, Casinos should ensure that all fields are completed. The transaction location and the transaction description field should always be completed. The current trend is that some Casinos do not complete these fields;
- Casinos should ensure that the transaction description field is completed;
- Casinos should also ensure that the amounts to be reported should collectively exceed or be equal to the threshold of NAD 24 999.99; and
- Reporting of cash transactions above the threshold in general needs improvement. Casinos should report all cash transactions above the set threshold of NAD 24 999.99.

6. Conclusion

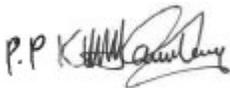
The FIC's analysis of the sector's reporting behaviour compared to financial data collected from the Casinos shows that some Casinos are not reporting STRs, SARs, and CTRs. Additionally, whilst a few Casinos have over the years made exemplary efforts to report, the majority of the sector are not reporting adequately. The FIC has also observed that some of the CTRs reported do not meet the threshold of NAD 24 999.99 as per the FIA.

The Casino sector is herewith further encouraged to:

- Firstly, ensure that clients are adequately identified (obtaining information concerning financial profiles of clients); and
- Secondly, use such financial profiles to determine if client's gambling activities and behaviour corresponds to the expect norm/client profile.

Additionally, Casino's should pay particular attention to client's financial transactions and gambling behaviour which may not be in line with the normal or general gambling behaviour of clients.

The methods and indicators as documented and stipulated herein should be used by all Casinos as a benchmark and guideline in their efforts to safeguard the national financial integrity. Casinos should ensure AML/CFT/CPF awareness amongst casino operators and all front line staff who are exposed to these activities, so they may help implement FIA compliance. Given the nature of Casino operations, controls are only as good as those who are entrusted to manage them.



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