



Financial Intelligence Centre

**Review of the Quality of reports submitted to the FIC
Motor Vehicle Dealership Sector
Reporting period: May 2009 to December 2017**

Report Date: 22 January 2019

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1. Acronyms, Abbreviations & Glossary

AI (s)	Accountable Institution (s)
AML	Anti-Money Laundering
CFT	Countering the Financing of Terrorism
CPF	Combating Proliferation Financing
CTR	Cash Transaction Report (s)
FIA	Financial Intelligence Act, 2012 (Act No. 13 of 2012) as amended
FIC	Financial Intelligence Centre
GoAML	A standard software system used for Anti-Money Laundering reporting and communication
ML	Money Laundering
NAD	Namibian Dollars
RI (s)	Reporting Institution (s)
SAR (s)	Suspicious Activity Report (s)
STR (s)	Suspicious Transaction Report (s)
TF	Terrorist Financing

2. Background

The Financial Intelligence Act, 2012 (Act no.13 of 2012) as amended (FIA) classifies Motor Vehicle Dealers (MVDs) as Reporting Institutions (RI) under Schedule 3. Consequently, the FIA requires these institutions to implement control measures (including reporting controls) aimed at preventing, detecting and mitigating identified Money Laundering, Terrorism and Proliferation Financing (ML/TF/PF) risks. Products and services provided by MVDs are vulnerable to ML/TF/PF activities. MVDs, 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.

The Financial Intelligence Centre (FIC) is mandated to amongst others, coordinate, supervise, monitor and regulate RIs' 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 outcomes of such review are contained herein. It is hoped that this report highlights observations which may enhance controls geared towards detecting and reporting suspicious transactions. Their ability to detect specified transactions which are reportable reflects an institution or sector's overall control effectiveness level.

The objective of this assessment was to enhance the usefulness and overall quality of different types of reports received by the FIC, thereby improving compliance behaviour. The quality assessment considered reporting behaviour of Suspicious Transaction Reports (STRs), Suspicious Activity Reports (SARs) and Cash Transaction Reports (CTRs) above NAD 99 999.99. The results of the assessment were used by the FIC to assist the RI's understand the areas where improvements are needed. This should thus create a platform for designing and implementing effective AML/CFT/CPF controls. A significant component of these controls is the ability to timely detect transactions or behaviour that is reportable as CTRs, STRs or SARs.

3. Industry Overview:

MVDs are required as per section 32 and section 33 to report CTRs above NAD 99 999.99, as well as STRs and SARs respectively. STRs are reported based on unusual behaviour/transaction of a client which is found to be inconsistent with the known client financial profile. A SAR is different from a STR described above, in that a suspicious activity is not a transaction per se but activities that may escalate to a future transaction or activities that give rise to reportable matters.

CTRs, STRs and SARs are reported to enable the FIC to collect, analyse transactions and share intelligence outputs with relevant law enforcement agencies such as the Namibian Police, The Receiver of Revenue, Anti-Corruption Commission and the Office of the Prosecutor General.

MVDs services or products are inherently vulnerable or susceptible to potential Money Laundering (ML) abuse, as the industry does not have an active regulatory body to monitor their activities. Equally, the general lack of controls observed in the sector as per the FIC's compliance assessment observations (at institutional level) enhances 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 purchase or sale of vehicles. The ease with which large amounts of proceeds can be moved around under the disguise of vehicle trading is attractive to criminals who would want to launder proceeds of crime.

As at the time of issuing this report, the FIC had registered a total of 89 MVDs, for FIA compliance supervision and monitoring purposes. Records from NATIS indicate that the country has about 518 MVDs registered with such authority. This literally means the FIC has not registered most of the entities in the sector. The scope of this review covered the period from 05 May 2009 to 31 December 2017.

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

STRs are reported for the purpose of enabling the FIC to collect, analyze and disseminate case reports to the relevant law enforcement agencies. When a MVD has knowledge of any suspicious transactions concluded with them, or suspect 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 ML/TF/PF purposes report to the FIC. Such report should be within 15 working days of detecting such suspicion report be reported to the FIC.

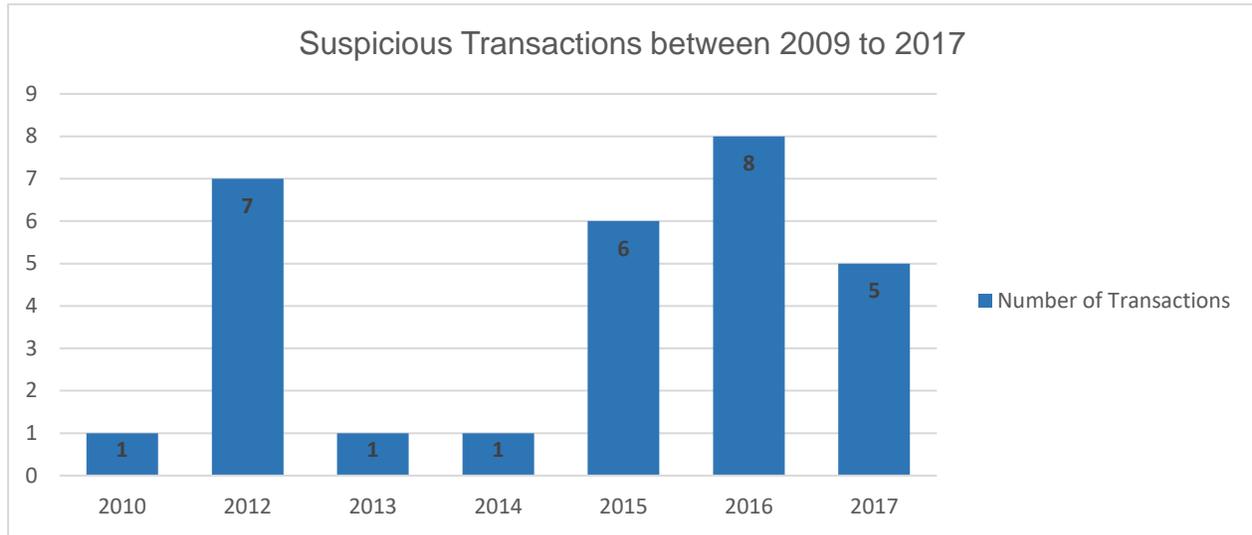
For the period under review, only 24 STRs (which consists of 29 transactions) were received from the sector. Eight of the twenty-four were escalated for further analysis and resulted in actionable intelligence, whereas thirteen STRs were classified as 'low priority' while the rest was 'set aside'.

The FIC applies a risk-based approach in assigning priority levels to STRs/SARs received. The same applies to the actual investigation of such reports. Reports regarded as "high priority" are normally attended to at the earliest opportunity, depending on various considerations at the time. Some of the factors taken into consideration include:

- a) the monetary values involved in the suspicious transaction;
- b) the possibility of flight of funds beyond the reach of law enforcement [the risk of funds being withdrawn from accounts or spent by perpetrators;
- c) the possibility of perpetrators fleeing from Namibia or any other jurisdiction internationally;
- d) the likelihood that the transaction relates to the most prevalent predicate offences e.g. Tax evasion, fraud and corruption, etc.;
- e) assessment whether there are prospects of recovery, seizure, preservation of funds and/or property;

- f) whether subjects/entities are related to other reports under analysis, known to the FIC or on the FIC database;
- g) feedback received on similar reports issued to Law Enforcement Agencies in the past;
- h) whether the submitted report relates to known typologies and trends considered to be high risk;
- i) whether the submitted report has clear links to criminal organizations/activities;
- j) priorities of Law Enforcement Agencies;
- k) whether there are any pending investigations led by investigating authorities on which the submitted report may impact;
- l) whether the submitted report identifies well known subjects involved in high risk ML/TF/PF transactions;
- m) whether the geographic location of transactions as identified in the submitted report, is regarded as high risk for ML/TF/PF purposes; and
- n) whether the transaction has already been executed or/not executed.

Chart 1: Number of STRs received during the period under review



As per above twenty-four STRs were received from the MVDs from 2010 to 2017. No STRs were received from the sector in 2011.

Only one SAR was received for the period under review. However, the SAR received was supposed to have been filed as an STR as the transaction in question did actually take place.

Table 1: Reasons for suspicion for the transactions received.

No of STRs	Reason for reporting STR
6	Suspicion based on CTR Threshold
1	Trade in of higher value to lesser value vehicle
2	Suspicious raised from client implicating Newspaper reports
3	Client paid in money and requested refunds
3	The age and position held by buyer does not match the amount paid
4	Other reasons
2	Suspected fraud/ forgery
3	No reason

25% (6/24) of STRs received were wrongly reported. These reports were supposed to be filled as CTRs (instead of STRs) as the reasons for suspicion was because they had exceeded the threshold of NAD 99 999.99.

Table 2: Only 9 of the 89 Institutions reported STRs

Entity	No of STRs reported
Institution A	7
Institution B	4
Institution C	3
Institution D	3
Institution E	2
Institution F	2
Institution G	1
Institution H	1
Institution I	1

Out of 89 MVDs registered with the FIC, only 10% (9/89) have reported STRs as per the table above. No STRs and SARS were received from the other 80 institutions registered with the FIC.

4.1 Areas that need Improvements: STR and SAR Reporting

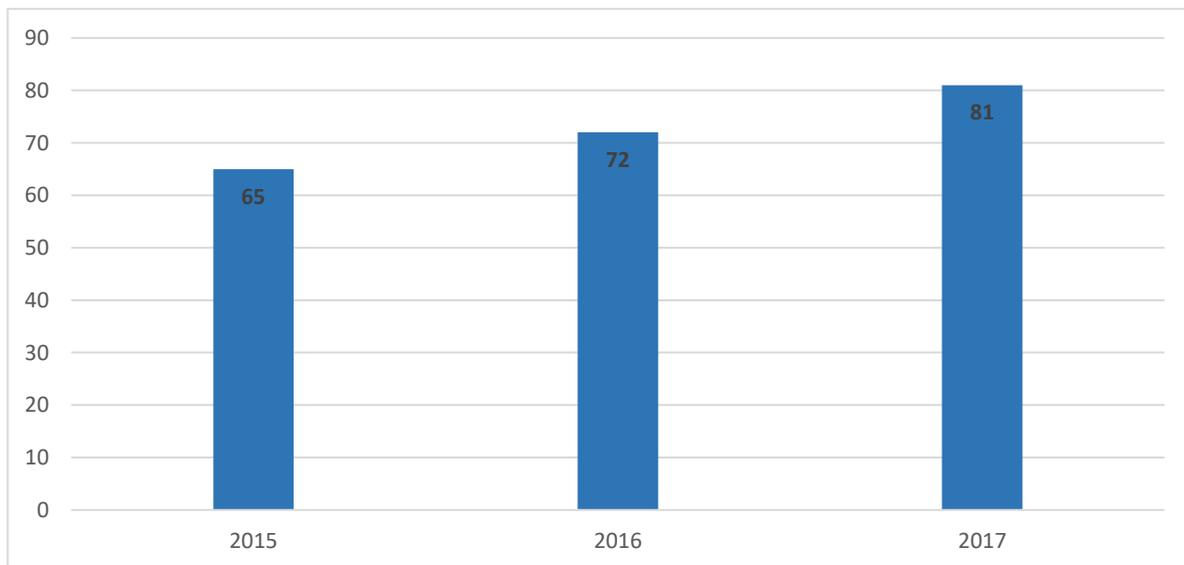
- a) When filing STRs and SARs, institutions should always avail as much information about the grounds for suspicion as possible. The FIC's view is that when customer due diligence is executed accordingly, it becomes easy to have a basis for reasons for detecting and reporting transactions as suspicious (ground for suspicion);
- b) MVDs should note that where a transaction did not take place, a SAR should be reported to the FIC. It is only when a transaction has taken place that an STRs should be reported;
- c) Most of the STRs reported do not have supporting documents attached to them. When filling reports, MVDs should always ensure to attach transactional, identification or any related evidence that is available;

- d) MVDs should complete as many of the available fields as possible on all report types, should the information be available. Ideally, when record keeping in terms of the FIA is complied with, it becomes easier to have all the required information at hand for reporting purposes;
- e) All MVDs are encouraged to comply with the provisions of the FIA and ensure that controls are implemented to enable the detection and/or identification, monitoring and reporting of suspicious or potential suspicious activities.

5. Cash Threshold Reports (CTRs)

MVDs 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 reporting institution in excess of the threshold amount of NAD 99 999.99, with effect from 28 January 2015.

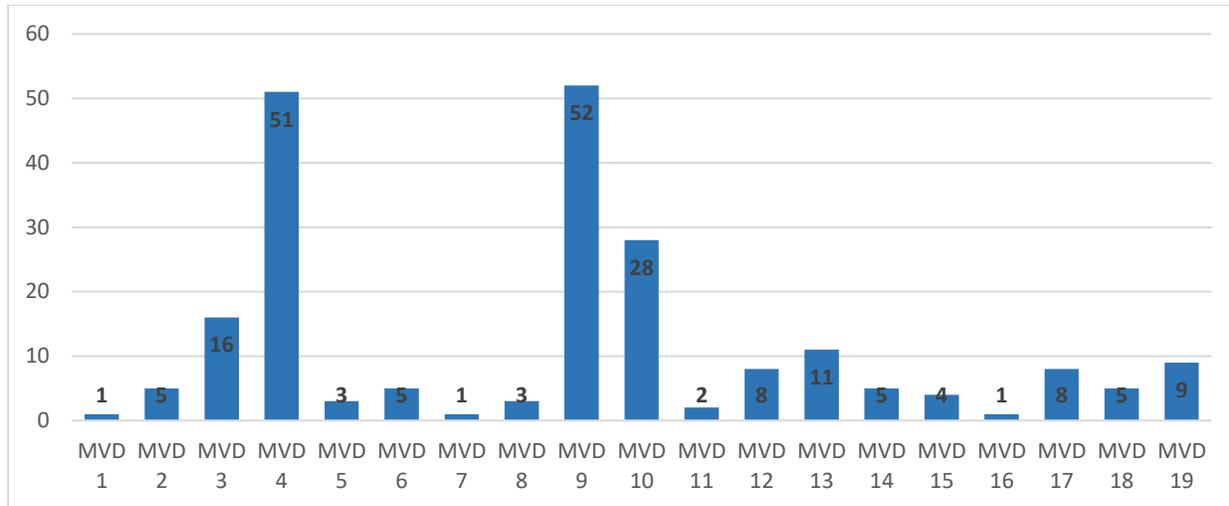
Chat 2: Number of CTRs Reported per year



A total of only two hundred and eighteen (218) CTRs were received from the MVDs sector since the reporting obligation came into effect. There is an improvement in the number of CTRs reported from the years 2016 to 2017. However, having regard to the number of

potential CTRs (reportable) transactions, as per findings in FIA compliance assessment reports, the FIC is concerned that the sector is severely under reporting.

Chart 3: Number of CTRs reported per Motor Vehicle Dealer



The diagram above shows an uneven reporting behaviour of CTRs over the sector. From registered institutions, 67% of CTRs are reported by four MVDs and the remaining 32% are shared among the remaining 15 MVDs that submitted reports to the FIC. The FIC understands that this could, in part, be explained by the differences in market shares of the different MVDs in the sector, but remains convinced that more reports could have been escalated.

5.1 Areas that need improvements: CTRs Reporting

- a) Reporting of cash transactions is observed to be generally low considering the size and volumes of transactions in the sector. The FIC therefore encourages all MVDs to ensure all cash transactions exceeding NAD 99 999.00 which have occurred since 28 January 2015 are reported to the FIC at the earliest convenience;
- b) MVDs should ensure that all required fields are completed when CTRs are submitted on the GoAML Portal. Ideally, when record keeping in terms of the FIA is complied with, it becomes easier to have all the required information at hand for reporting purposes;

- c) The FIC noted that some MVDs are reporting EFT and IFT transactions. In terms of FIC Circular 3 of 2015 MVDs do not have an obligation to report EFTs and IFTs; and
- d) MVDs should ensure that the correct report types are selected when submitting CTRs.

5.2 The industry's views and reasons on the areas that requires improvements

The FIC organized a feedback session on 27 October 2018 to enhance the understanding on some of the low reporting rates and quality of the reports. During the session the sector gave comments on the areas which were observed to be contributing factors to low reporting levels and poor report quality from the sector. The following is a summary of the points raised in the meeting with the sector.

5.2.1 The sector participants felt that there has not been any engagement with the FIC especially on reporting obligations, hence the industry is not certain on the reporting obligations and reporting procedure; and

5.2.2 The sector indicated that, the reporting process is cumbersome and not easy. It was thus requested that the FIC to consider simplifying such reporting processes.

6. Conclusion

Since January 2012, the FIC has had engagements with all sectors to enhance their understanding of the FIA and thus be in a position to report reportable transactions or activities. Such engagements have generally taken the form of FIA compliance assessments activities, which entail discussion of findings and recommendations, as well as training initiatives. At the time of presenting this report, the FIC has engaged in 79 compliance assessment activities in the MVDs sector and availed 19 training engagements with the same sector.

In all its engagements with the sector, the underlying observation is that not all reportable transactions have been reported from this sector and would further want to encourage all entities in this sector to ensure timely submission of reports to the FIC.

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