



FINANCIAL INTELLIGENCE CENTRE
REVIEW OF THE QUALITY OF REPORTS SUBMITTED
TO THE FIC
INSURANCE SECTOR
REPORTING PERIOD: 2009 TO 2017
REPORT DATE: 25 January 2019

TABLE OF CONTENTS

1. Acronyms, Abbreviations and Glossary	3
2. Introduction	4
3. Purpose.....	4
4. Industry Overview	5
5. Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs)	6
5.1 Short Term Insurance Service Providers	7
5.1.1 Suspicious Transaction Reports.....	7
5.1.2 Suspicious Activity Reports	9
5.2 Long Term Insurance Service Providers	9
5.3 Recommendations / Area that may need improvements	11
6. Cash Transaction Reports (CTRs).....	12
6.1 Short Term Insurance Service Providers	12
6.2 Long Term Insurance Service Providers	12
6.3 Recommendations / Areas that may need improvements (CTR reporting).....	13
7. Conclusion.....	13

1. Acronyms, Abbreviations and Glossary

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

2. Introduction

The Financial Intelligence Act No.13 of 2012 as amended (FIA) classifies Short-Term Insurance Service Providers as Reporting Institutions (RIs) under Schedule 3 and Long-Term Insurance Service Providers as Accountable Institutions (AIs) under Schedule 1. Consequently, 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. These controls include measures to enable detection of transactions that should be reported to the Financial Intelligence Centre (FIC) via GoAML. These reports are primarily Suspicious Transaction Reports (STRs), Suspicious Activity Reports (SARs) and Cash Threshold Reports (CTRs).

Services provided by Insurance Service Providers (ISPs) can be exploited for ML/TF/PF purposes. ISPs, by virtue of availing such services have a role to play in contributing to prevention measures in terms of the FIA. The sector's Anti-Money Laundering, Combatting of Terrorism and Proliferation Financing (AML/CFT/CPF) activities therefore contribute to the national combatting efforts. The ability to detect specified transactions which are reportable reflects an institution or sector's overall control effectiveness level.

The STRs, SARs and CTRs are used by the FIC and various other relevant authorities to enhance ML/TF/PF prevention and combatting efforts. The quality of such reports can shape the outcome of a ML/TF/PF case within the domains of the FIC, law enforcement or prosecution. It is for this reason that all efforts should be made to enhance the quality of such reports.

3. Purpose

The FIC is mandated to, amongst others, coordinate, supervise, monitor and regulate AIs and RIs' efforts implemented to reduce ML/TF/PF risk exposure. In furtherance of this, the FIC has embarked on a review to assess the quality of reporting behaviour in various sectors.

The object of the review was to understand the usefulness and quality of various report types escalated to the FIC, identify areas that may need improvement and work with the sector to enhance the quality of such reports. This review was limited to STRs, SARs and CTRs as per FIA obligations of ISPs.

The results of such review were used by the FIC to assess the design and adequacy of AML/CFT/CPF controls (herein referred to as controls) in reporting the above mentioned reports.

4. Industry Overview

The Namibia Financial Institutions Supervisory Authority (NAMFISA) supervises and regulates the long term and short term insurance service providers in Namibia, for both prudential requirements under applicable laws as well as compliance with the FIA. Long term insurance service providers are seventeen while short term insurance service providers are fifteen in number. NAMFISA's records indicate that long and short term insurance service providers collectively employ about 1 100 insurance Agents and Brokers.

Similar to other sectors, the insurance services sector is susceptible to ML/TF/PF risks. Certain products such as life cover policies can be abused to launder funds. Equally, criminals can make lump sum payments on insurance products as a way to launder their proceeds. A typical example is that a Money Launderer may purchase a Life Insurance or investments product through agents or brokers and make premium payments with proceeds of crime. When the product/policy is surrendered (during the course, but usually prematurely), proceeds from such policy are easily disguised and the true origin may not be readily known. Alternatively, a criminal may opt to insure high value goods acquired with illicit funds, where insurance premiums may also be paid with proceeds of crime. A fraudulent claim would then be made against the policy, therefore effectively laundering such funds and creating a complex audit trail.

In an effort to reduce and manage ML, PF and TF risks, RIs and AIs are required in terms of sections 32 and 33 of the FIA to report STRs, SARs and CTRs (above the NAD 99 999.99 threshold).

Therefore, this feedback report should be used by insurance providing institutions to enhance the quality of all reports escalated to the FIC and also guide implementation of remedial efforts related to reporting.

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

ISPs have an obligation in terms of the FIA to report STRs and SARs. These reports should be filed within 15 (fifteen days) from the date that the suspicion arises. The need to file STRs and SARs with the FIC arose with the coming into effect of the repealed Financial Intelligence Act of 2007 on 05 May 2009.

STRs and SARs can be escalated by ISPs to the FIC in the following circumstances:

- a. when the insurer 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; and
- b. has been used or is about to be used in any other way for ML, TF or PF purposes.

The FIC applies a risk-based approach in assigning priority levels to STRs and 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. On the other hand, reports classified as 'low priority' are not attended to immediately. Some of the factors which impact STR/SAR prioritization include:

- a) the significance of monetary values involved in the suspicious transaction;
- b) the possibility of perpetrators fleeing from Namibia or any other jurisdiction internationally;

- c) the risk of funds being withdrawn from accounts, used or placed beyond the reach of Law Enforcement Authorities (at times, this guides decisions on intervention by the FIC in terms of section 42 of FIA);
- d) the likelihood that the transaction relates to the most prevalent predicate offences: Tax evasion, fraud, corruption, etc.;
- e) whether there are any prospects of prosecution, recovery, seizure, preservation of funds and/or property;
- f) whether subjects/entities are related to other STRs and SARs reports, known to the FIC or on the FIC database;
- g) whether the submitted report relates to known typologies and trends considered to be high risk;
- h) whether the submitted report has clear links to criminal organizations/activities;
- i) priorities of Law Enforcement Agencies;
- j) whether there are any pending investigations led by investigating authorities on which the submitted report may impact;
- k) whether the submitted report identifies well known subjects involved in high risk ML/TF/PF transactions;
- l) whether the geographic location of transactions as identified in the submitted report, is regarded as high risk for ML/TF/PF purposes;
- m) whether the transaction has already been executed or/not executed; and

5.1 Short Term Insurance Service Providers

5.1.1 Suspicious Transaction Reports

The FIC database shows that only 4 STRs were received from this sector over a period of 5 years:

Year	2012	2013	2014	2015	2016	2017	Total Amount Involved
STRs	1	0	0	1	1	1	4
Total Amount	0	0	0	NAD 460 000.00	0	0	NAD 460 000.00
Case files Opened	0	0	0	1	1	1	3

Table 1: A table of STRs received from short term insurance sector over the period

No reporting occurred before 2012. In 2014, there were no reports received from the sector as seen in *Table 1* above. Three (3) of the four (4) reports were escalated for further analysis and resulted in actionable intelligence, whereas one (1) STR was regarded as 'low priority'.

The grounds for suspicion within these reports are summarized in *Table 2* below:

No of STRs	Grounds for Reporting STRs
2	Clients flagged by the sanction screening tool
1	Due to Inland revenue and tax evasion related enquiries
1	Irregular insurance spending

Table 2: A summary of Short Term Insurance's grounds for reporting STRs.

Statistics indicate that of all 15 registered short term insurance service providers, only 4 entities reported STRs. Each of the 4 entities reported 1 STR since 2012.

Regardless of significant supervision and monitoring on the sector by the FIC and NAMFISA since 2012, there insignificant change in the reporting behavior of this sector. Worth noting is that there were no STRs reported between 2009 and 2011 and between 2013 and 2014.

5.1.2 Suspicious Activity Reports

Only three (3) SARs were received by the insurance sector since the FIA came into effect. The SARs were specifically received from the short term insurance institutions. The grounds for suspicion submitted for the 3 SARs were all based on clients' suspicious behavior/activities, although no transactions took place. From such SARs, only 1 was rated as 'high priority' and a case file opened for further investigation. Table 3 below, shows record of such SARs, year of submission and the number of case files opened.

Year	2017	2016	2015	2014	2013	2012	Total
No of SARs	0	1	2	0	0	0	3
Case files opened	0	0	1	0	0	0	1

Table 3: SARs submitted to date

5.2 Long Term Insurance Service Providers

In total, thirty (30) STRs were submitted by the sector in the period May 2009 to December 2017. The FIC opines that the awareness raised in 2012, in addition to the monitoring and supervision activities in 2016 may have contributed to the increase in STRs reported in the years 2013 and 2017 respectfully. Two STRs with a total value of NAD 2.73 million were recorded in 2014 while no STRs were recorded in 2015, as seen in Table 4 below.

Year	2017	2016	2015	2014	2013	2012	2011	Total
No of STRs	10	2	-	2	15	-	1	30
Total Amount	NAD 6 952 708	NAD 735 620	-	NAD 2 730 000	NAD 5 584 107	-	-	NAD 16 002 435.00
Case Opened	1	-	-	1	4	-	-	6

Table 4: Summary of STRs received over the period

It is important to note that only 20% (6 of 30) of STRs recorded for the period 2009 to 2017 warranted escalation to cases for further investigation.

Table 5 below indicates the number of STRs received and the reasons for suspicion in each such STR. 30% (10/30) of the STRs were wrongly reported as they were based on the CTR threshold of NAD 99,999.99. Those 10 STRs were all reported in 2017 by one long term insurance service provider.

Another observation worth noting is that 28% (9/30) of the STRs which were reported over reporting period were based on positive matches flagged by the AIs screening tools. This speaks to the effectiveness of such monitoring systems, although other relevant factors need to be considered in determining overall system effectiveness.

No of STRs	Reason for reporting STR
10	Suspicion based on CTR Threshold
4	Transaction behavior not in line with client profile
1	Suspicion because of the suspension of a policy
1	Because of a lack of information obtained/received
3	Because of suspected fraud/forgery
9	Clients flagged by sanction screening tools
1	Because of a suspicious life insurance quoting enquiry
1	Due to claim disputes between client and insurer

Table 5: A summary of the reasons for reporting.

Only 24% (4 of 17) of the registered long term insurance service providing institutions reported STRs as per below table. No STRs were received from the other 13 institutions.

Name of Entity	No of STRs submitted
Institution A	11
Institution B	17
Institution C	1
Institution D	1

Table 6: 4 of the 17 Institutions that reported STRs

5.3 Recommendations / Area that may need improvements

- a) Insurance service providing entities should avail sufficient reasons for reporting suspicious activities (grounds for suspicion). It has been highlighted that reasons for suspicion are too vague and not specific enough to add value in terms of directing investigations. For this reason, many reports could have been set as 'low priority' and would most likely not be attended to immediately. Creating an adequate client financial profile and using same for monitoring purposes can go a long way towards helping to determine behaviour which is not in line with a client's financial profile. This in turn is useful as a guide for establishing/flagging a suspicion which could be reported as a STR/SAR;
- b) Some STRs do not have an amount attached to them because no transaction actually occurred. Where no transactions occurred, the institutions are encouraged to rather report a Suspicious Activity Report (SAR) as opposed to a STR;
- c) Most of the STRs reported do not have supporting documents attached. The FIC encourages the industry to ensure at all times, that transactional, identification or any related evidence/information that supports the suspicion, is submitted with the report;
- d) All entities, both long term and short term insurance service providers are encouraged to comply with the provisions of the FIA and ensure that controls are implemented to enable effective monitoring of suspicious or potential suspicious activities and transactions. Effective FIA compliance coupled with effective monitoring is regarded by the FIC as the most prudent manner to detect reportable activities/transactions;
- e) Insurance agents and brokers are an integral part of the insurance sector due to their direct contact with customers. It is common that to a certain extent, service providers as principals rely on such agents to execute certain controls. Institutions should therefore ensure that such Agents and Brokers are duly capacitated

(training, internal controls at agency level) to enhance control effectiveness. Insurance service providers remain accountable for AML/CFT/CPF work performed on their behalf by their staff, agents and brokers.

6. Cash Transaction Reports (CTRs)

Short and long term insurance service providers are required to report to the FIC, 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 AI/RI in excess of a threshold amount of NAD 99 999.99 (CTRs) as from 28 January 2015. This section presents observations of FIC analysis on CTRs from the sector.

6.1 Short Term Insurance Service Providers

Two (2) CTRs were received from the short term insurance service sector since January 2015. Both CTRs were received in 2015 from one entity. 93% (14 of 15) of the registered short term insurance service providers did not submit any CTRs to the FIC.

Year	2012	2013	2014	2015	2016	2017	Total Amount Involved
No Of CTRs	0	0	0	2	0	0	2
Total Amount	0	0	0	NAD 330 000.00	0	0	NAD 330 000.00

Table 7: Shows the CTR reporting pattern from January 2015 to date

6.2 Long Term Insurance Service Providers

Only 3 CTRs were reported to the FIC since inception and all such CTRs were reported in 2017. Despite the ML/TF/PF risks identified within this sector and numerous monitoring and supervision activities from the supervisory body, only 2 of the 15 institutions reported CTRs. If there are transactions that have exceeded the reporting threshold, such should be reported duly.

Year	2012	2013	2014	2015	2016	2017	Total Amount Involved
No Of CTRs	0	0	0	0	0	3	3
Total Amount	0	0	0	0	0	NAD 561 169.00	NAD 561 169.00

Table 8: Long Term Insurance sector CTR submissions

6.3 Recommendations / Areas that may need improvements (CTR reporting)

- a) Only 2 of the 15 institutions have reported CTRs. Reporting of cash transactions in general across the insurance sector is below regulatory expectations. All the short and long term insurance service providers should submit cash threshold reports for cash paid and received above the required threshold of NAD 99 999.99, should such transactions occur;
- b) Short and long term insurance service providers should ensure that all required fields are duly completed when CTRs are submitted on the GoAML Portal.

7. Conclusion

The most notable observation by the FIC as far as reporting of STRs, SARs and CTRs are concerned is non-reporting by some insurance service providers and general under-reporting in the sector as a whole. The sector's reporting behaviour requires significant improvement.

With 32 registered insurance service providers and over 1 100 registered agents and brokers who are currently underwriting long and short term insurance products for the insurance institutions in the midst of inadequate ML/TF/PF controls, the FIC believes that the general poor AML/CFT/CTF controls could be used by criminals to launder proceeds within the insurance sector.

Insurance service providers should ensure that the staff (inclusive of agents and brokers) pay particular attention to a client's financial behaviour/transactions and if such is not in line with their financial profile, report same to the FIC.

The methods and indicators documented herein should be used by all insurance service providers, including all agents and brokers as a benchmark and guideline in detecting and reporting STRs, SARs and CTRs.

A handwritten signature in black ink, appearing to read 'P.P. K. [unclear]'. The signature is written in a cursive style.

L. DUNN
DIRECTOR: FIC