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TRENDS AND TYPOLOGIES REPORT NO 03 OF 2017

MONEY LAUNDERING TRENDS RELATED TO GIFT REMITTANCES IN AUTHORISED DEALERS AND AUTHORISED DEALERS WITH LIMITED AUTHORITY IN NAMIBIA

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A. DEFINITIONS

"Accountable Institution (AI)" means a person or entity listed in schedule 1 and 3 of the Act. The term "accountable and reporting institutions" in this document refers to all Authorised Dealers and Authorised Dealers with Limited Authority;

"Act" refers to the Financial Intelligence Act, 2012 (Act No. 13 of 2012);

"Authorised Dealer" means, in respect of any transaction in respect of gold, a person authorised by the Treasury to deal in gold, and in respect of any transaction in respect of foreign exchange, a person authorised by the Treasury to deal in foreign exchange. Authorised Dealers are authorised by the Treasury, through the Bank of Namibia, to trade in terms of section 2 of the Exchange Control Regulations of 1961[1]. In practice, these are commercial banks authorised to trade in foreign currency;

"Authorised Dealers with Limited Authority (ADLAs)" These are also dealers authorised in terms of section 2 of the Exchange Control Regulations of 1961 to trade in foreign currency. In practice, these are authorised dealers that rea granted limited authority to only trade in foreign currency by exchanging and/or remitting same, on behalf of their customers;

"CDD" means Customer Due Diligence;

"Client and Customer" have their customary meaning and are used interchangeably;

"Customer due diligence" means a process which involves establishing the identity of a client, and monitoring all transactions of the client against the client's profile;

"Currency exchange (CE)" Activity that involves accepting currency, or other monetary instruments, funds, or other instruments denominated in the currency, of one or more countries in exchange for the currency, or other monetary instruments, funds, or other instruments denominated in the currency, of one or more other countries.

"Enhanced customer due diligence (EDD)" means doing more than the conventional customer due diligence measures mentioned above and includes, amongst others, taking measures as prescribed by the FIC to identify, as far as reasonably possible, the source of wealth, funds and any other assets of the client or beneficial owners whose activities may pose a risk of ML, TF or PF;

[1] As promulgated by Government Notice R1111 of 1 December 1961 and amended up to Government Notice No. 135 in Government Gazette No. 3232 of 8 July 2004

“Establish identity” means a two tier process consisting of ascertainment or collecting of certain identification information, and verification of some of the information against reliable documentation or information;

"FATF" means the Financial Action Task Force;

“FIA” the Financial Intelligence Act, 2012 (Act No. 13 of 2012), as amended (also referred to as the Act);

“FIC” means the Financial Intelligence Centre. It is sometimes referred to as the Centre;

"Foreign currency" means any currency which is not legal tender in the Republic, and includes any bill of exchange, letter of credit, money order, postal order, promissory note, traveller's cheque or any other instrument for the payment of currency payable in a currency unit which is not legal tender in the Republic;

“PACOTPAA” refers to the Prevention and Combatting of Terrorist and Proliferation Activities Act, 2014 (Act No. 4 of 2014), as amended;

“POCA” refers to the Prevention of Organized Crimes Act, 2004 (Act No.29 of 2004), as amended;

“PF” refers to Proliferation Financing;

“Proliferation financing” is defined by FATF as the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, 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;

“ML” refers to Money laundering;

“Money laundering” refers to the act of disguising the true source of proceeds of unlawful activities. Note that the Act’s definition of a “money laundering activity” includes acts of a person who engages, directly or indirectly, in a transaction that involves proceeds of any unlawful activity.

“Records” means any material on which information is recorded or marked and which is capable of being read or understood by a person, or by an electronic system or other device;

"Regulations" refer to the regulations made under the provisions of section 67 of the Act and published by Government Notice No. 3 of 2015 promulgated in Government Gazette No. 5658, dated 28 January 2015;

"SAR" refers to a suspicious activity report submitted to the FIC in terms of sections 33 (1) & (2) of the Act;

"STR" refers to a suspicious transaction report submitted to the FIC in terms of sections 33 (1) & (2) of the Act.

"TF" refers to Terrorist Financing.

"Terrorism" Whilst no acceptable international definition on terrorism exists, it is generally described as the execution of acts of violence against persons or property, or a threat to use such violence, with the intent to intimidate or coerce a Government, the public, or any section of the public to achieve or promote any tribal, ethnic, racial, political, religious or ideological objectives[2].

[2] See full definition of "terrorist activity" as provided for in section 1 of the Prevention and Combating of Terrorist and Proliferation Activities Act, 2014 (Act No. 4 of 2014) (PACOTPAA)

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C. FOREWORD

This typology report is one in a series of FIC publications which are intended to provide targeted feedback to targeted sectors within the Financial Intelligence Act, 2012 (Act No. 13 of 2012) as amended (FIA) Regulated Populace. This particular report is focused on cross border Gift remittances facilitated by Authorized Dealers (ADs) and Authorized Dealers with Limited Authority (ADLAs), in Namibia, covering the period 2009 to 2016.

ADs and ADLAs are licensed by the Bank of Namibia to facilitate cross border remittances of ‘Gifts’ on behalf of their clients, as part of their authorized remittance authority. The Financial Intelligence Centre (FIC) with concern noted that controls surrounding such remittances, are not effective to the extend required to prevent, (where necessary) mitigate and combat Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF) risks and activities. Observations, primarily from STRs and cases emanating from ADs and ADLAs, as well as information from FIA compliance inspections in the sector has informed this view and opinion.

The FIC is pleased to present this ML Typologies and Trends Report on Gift remittances, for the benefit of ADs and ADLAs in Namibia. This report is intended to provide targeted feedback to these Accountable Institutions to assist them in strengthening their Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation Financing (AML/CFT/CPF) compliance regimes pursuant to relevant obligations under the:

- Financial Intelligence Act, 2012 (Act No. 13 of 2012), as amended;
- Prevention and Combatting of Terrorist and Proliferation Financing Activities Act, 2014 (Act No. 04 of 2014), as amended (the PACOTPAA); and
- Prevention of Organized Crime Act, 2004 (Act No. 29 of 2004), as amended, (the POCA).

The main obligations that would enhance mitigating risks stated herein includes the requirement for ADs and ADLAs to:

- register with the FIC;
- establish a FIA compliance regime[3];
- ensure effective record keeping; and
- ensure effective customer identification and related customer due diligence.

These obligations, if complied with, enhance effectiveness in detecting and reporting relevant suspicious and threshold based reports to the FIC. Detecting and reporting are crucial steps of the national ML/TF/PF combatting objectives.

Namibia's AML/CFT/CPF regime is comprised of a variety of stakeholders, including government, law enforcement agencies, the FIC, private sector, the general public, and the international community. The strength of any AML/CFT/CPF regime is gauged by the effectiveness of stakeholder controls and efforts aimed at mitigating ML/TF/PF risks within that regime.

As part of Namibia's efforts to identify, assess, mitigate, deter, detect and prevent such risks, ADs and ADLAs play an important role in safeguarding the integrity of Namibia's financial system. Strong AML/CFT/CPF regimes, such as that which Namibia strives to have, enhance financial sector integrity and stability, which in turn facilitates Namibia's continued integration into and participation within the global financial system. Such regime also strengthens governance and fiscal administration in Namibia. Securing the integrity of the national financial system remains essential to financial sector and macroeconomic stability, both at the national and international levels.

The FIC hopes that this report will help Accountable Institutions to better understand some of the vulnerabilities they face with regards to cross border Gift remittances, and that it will highlight the importance of the role the private sector plays in assisting the FIC

[3] Which, to the extent required incorporates measures to ensure compliance with relevant provisions of the PACOTPAA & POCA

to produce timely, relevant and actionable financial intelligence for law enforcement and national security partners.

LEONIE DUNN
DIRECTOR: FIC

SECTION A: INTRODUCTION AND BACKGROUND

1. Background

At the time of publishing this report, the Bank of Namibia has licensed nineteen Accountable Institutions to provide Authorised Dealer services that primarily include cross border remittance of funds. This total does not include branches of such Accountable Institutions. Eight such Accountable Institutions are typical commercial and lending banks. The other eleven are commonly known as 'Bureaus' or Money Service Businesses (MSBs), which are formally licensed as Authorised Dealers in Foreign Currency with Limited Authority. These are non-bank entities which provide cross border remittance and foreign currency exchange services.

It should also be noted that the total number of licensed Accountable Institutions does not include the number of their agents (such as Western Union etc). In the Namibian regime, the agents are often covered through the principal (AD or ADLA) which engages/contracts with the agents.

ADs and ADLAs provide a range of unique, valuable, and competitive financial services for Namibians and international customers, and while the variety of AD and ADLA types and sizes can provide consumers with expanded choices, it also means that the sector has unique challenges and risks with respect to ML and TF. This report is part of the FIC's commitment to demonstrate the value of information submitted by Accountable Institutions, in terms of helping to identify trends in ML and TF, and also to provide tangible feedback which assists the AD and ADLA sector with its own compliance regimes.

ADs and ADLAs are Accountable Institutions in terms of the Financial Intelligence Act. As such, they are required to register with FIC. Furthermore, ADs and ADLAs must fulfill other legislative obligations, which include establishing a compliance regime, filing reports (STRs/SARs/CTRs), identifying clients/due diligence, maintaining records.

2. Executive summary

Sectoral FIA compliance inspections conducted by the FIC in the period 2012 to 2016 show that more STRs emanating from Gift remittances could be reported to the FIC. Enhancements in transactional monitoring systems and due diligence measures could assist in this regard. Furthermore, the FIC believes that the ADs could be reporting more STRs than the quantities reported in the period 2009 to 2016. ADLAs have comparatively facilitated much lesser transactions than ADs, but ADLAs have detected and reported at least 41 STRs, which are 29 more than those reported by ADs in the said period.

The Single Discretionary Allowance[4] (SDA) avails a platform for the remittance of funds in the form of Gifts, with minimal identification and due diligence expectations, as per Exchange Control Rulings. These minimum due diligence obligations present opportunities by those advancing ML and TF interests to use Gift remittances as a way to move funds/proceeds between jurisdictions. It is for this reason that the FIA and its accompanying Regulations advocate for ADs and ADLAs to implement due diligence measures that are commensurate with the ML/TF risks each client presents in Gift remittances.

Apart from the introductory and background section, other sections of this report speak to various matters as follows:

- The first section presents a **record of financial values and volumes** remitted by ADs and ADLAs in the period 2009 to 2016. It provides an overview of the **size of the Gift remittance sector** in terms of financial values and volumes. With consideration of this overview, this section further presents FIC's **outcomes of STR/case analysis** on Gift remittances;
- The second part of the report speaks to **ML Methods and Techniques** commonly used in the sector as observed from STRs and cases analyzed. The section on ML

[4]The SDAs are regulated by Exchange Control Ruling B.7. Although SDAs cover more than conventional Gifts, within the context of this report, the FIC is specifically concerned with SDAs related to "Gifts". For purposes of this report, other SDAs are thus excluded within this context. The SDAs are regulated by Exchange Control Ruling B.7.

Methods and Techniques is linked to Annexure 1 which presents sanitized case examples. From such case examples and publicly available information, indicators specific to Gift remittances were extracted. The indicators or potential red flags which may be useful to the sector are in Annexure 2 of this report;

The FIC **Guidance** on how ADs and ADLAs can further enhance risk mitigation controls aimed at combatting threats emanating from Gift remittances is contained in the **Revised Directive 01 of 2016** available on the FIC website. This report contains a summarized version of such guidance.

In the period concerned, there were no cases, STRs nor SARs, associated with Gift remittances, which had a Terrorist nor Proliferation Financing aspect to it. For this reason, the report focused on Money Laundering and related financial irregularities observed.

This study found that major ML techniques used in the STRs/Cases involved structuring or attempting to circumvent due diligence and record-keeping requirements; Customs Clearing Agents/Importers possibly abusing Gift remittance provisions for their business transactions; smurfing or using nominees, and/or other proxies etc to remit funds illicitly. Structuring, as a method used to facilitate remittances irregularly was by far the most prevalent ML technique observed in STRs and cases. This technique was largely used in both ADs and ADLAs.

3. Objectives of this report

Amongst others, the following observations prompted the issuing of this typology report:

a. Less reporting of STRs/SARs associated with Gift remittances, especially amongst ADs;
b. Sectoral reporting behavior which is inconsistent (e.g only a few ADLAs reporting STRs); and
c. Lack of understanding of vulnerabilities which are potentially exploited by those abusing AD and ADLA financial systems.

In an effort to enhance measures geared towards changing the status quo as per above observations, the report aims to provide an overview on the:

a. Notable ML trends and typologies employed to launder funds through this sector, associated with Gift remittances;
b. Predicate offences linked to Gift remittance irregularities (from FIC analysis of STRs and cases);
c. Syndicates and persons committing these crimes and their methods of operation; and
d. Areas within combative frameworks that may need improvement.

4. Methodology

Existing FIC information and datasets formed the backbone of the approach in this study. Much of the information presented herein was sourced from:

a. STR/SAR data filed by ADs and ADLAs with the FIC;
b. Observations from notable exceptions obtained through FIA compliance assessments in the sector;
c. Data obtained from the Exchange Control Division of the Bank of Namibia; and
d. Some context from FIA compliance inspections in the sector also informed contents of this report.

SECTION B: SUMMARY OF GIFT REMITTANCES AND STRs REPORTED

5. GIFT REMITTANCES AND ASSOCIATED STRS IN THE SECTOR

The FIC is of the view that reporting behavior in terms of STRs pertaining to potential ML activities leaves a lot to be desired. FIA compliance inspections in this sector always reveal that more STRs could be reported by the sector. These inspections always detect transactions worth reporting which were not reported, let alone detected (flagged) for further internal review. Additionally, the large financial values and volumes of transactions remitted both inwards and outwards, in respect of Gifts, suggest that controls in the sector could do with some enhancements to improve their effectiveness.

This study found that ADs only reported 12 STRs, while ADLAs reported 41 STRs associated with Gift remittances for the period 2009 to 2016. It is the FIC's considered position that given the significantly higher financial values and transactional volumes of Gift remittances facilitated by ADs, the ADs should be reporting more STRs than ADLAs.

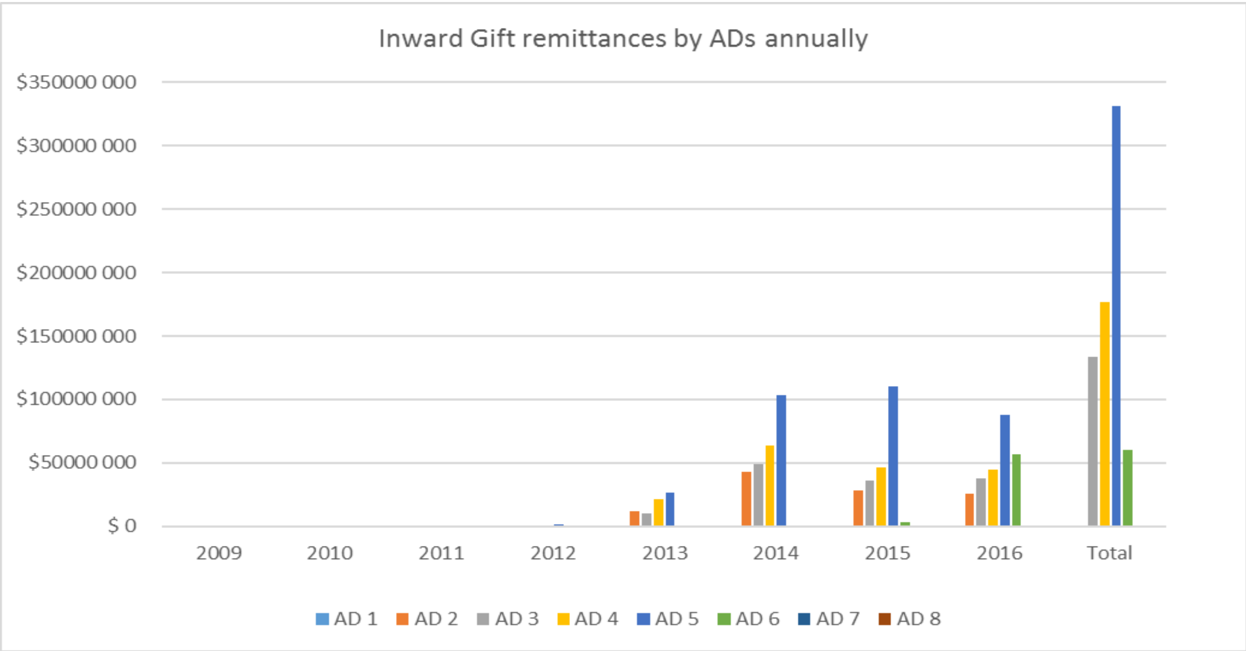
5.1 Authorised Dealers (ADs)

The ADs are commercial banks licensed by the Bank of Namibia to, amongst others, avail Authorised Dealer services such as cross border remittance services and the buying and selling of foreign currency. At the time of publishing this report, eight banks were licensed to provide such services.

5.1.1 Inward Gift remittances by ADs

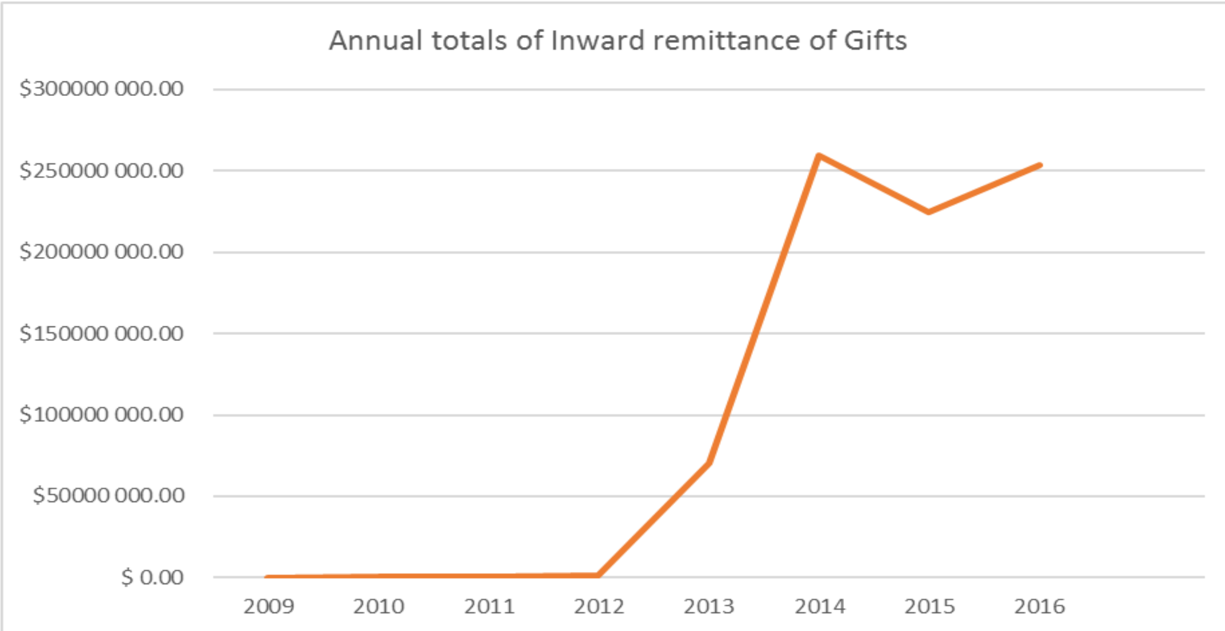
The graph below presents a summary of inward Gift remittances by eight ADs authorised to facilitate such cross border remittances in the period 2009 to 2016. All eight ADs inward remitted (received) a total of NAD 701,613,199 in the form of Gifts, in this period. This was based on data obtained from the Bank of Namibia's Exchange Control Division.

ADs 3, 4 and 5 were the biggest entities in terms of funds received for Gifts over the period. ADs 3, 4 and 5 facilitated transactions to the value of NAD 133,555,489; NAD 176,829,688 and NAD 331,264,713 respectively. AD 6 only started receiving funds in the form of Gifts from the year 2015 while ADs 7 and 8 only commenced with such transactions in 2016.



Graph 1 Inward remittance by ADs annually

Records further indicate that financial values on inward remittances spiked around 2013 and dipped towards 2014 and 2015 (as per below).

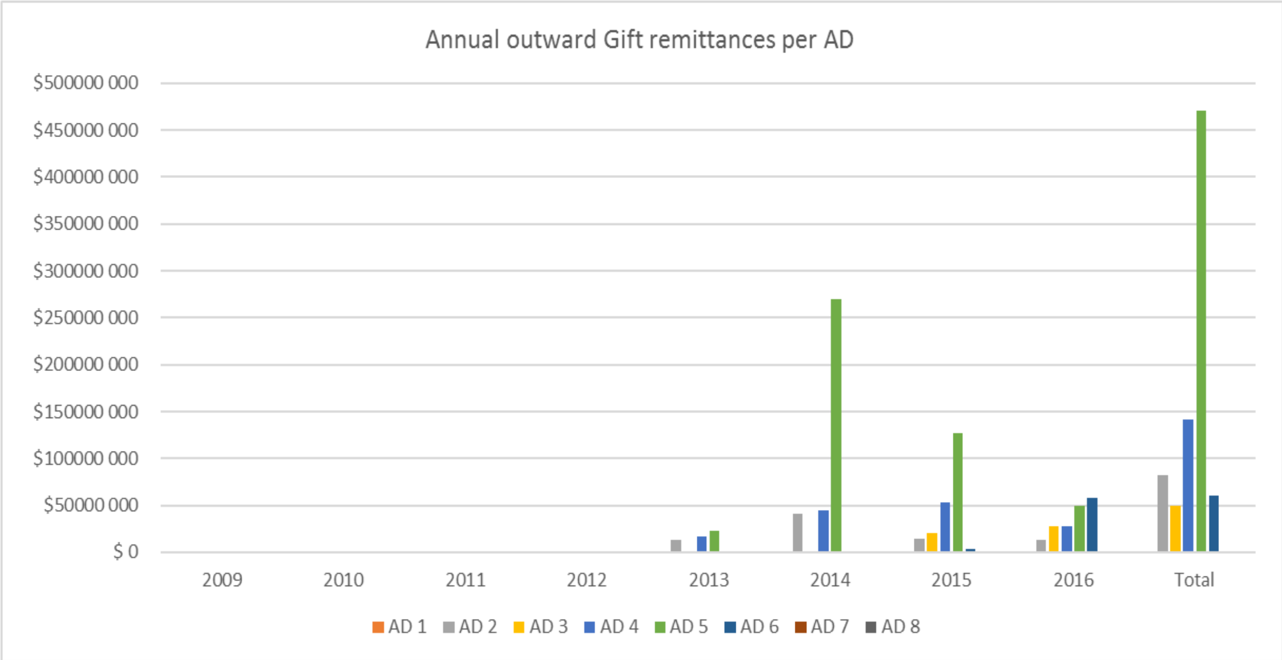


Graph 2 Annual totals of Inward remittance of Gifts

5.1.2 Outward Gift remittances by ADs

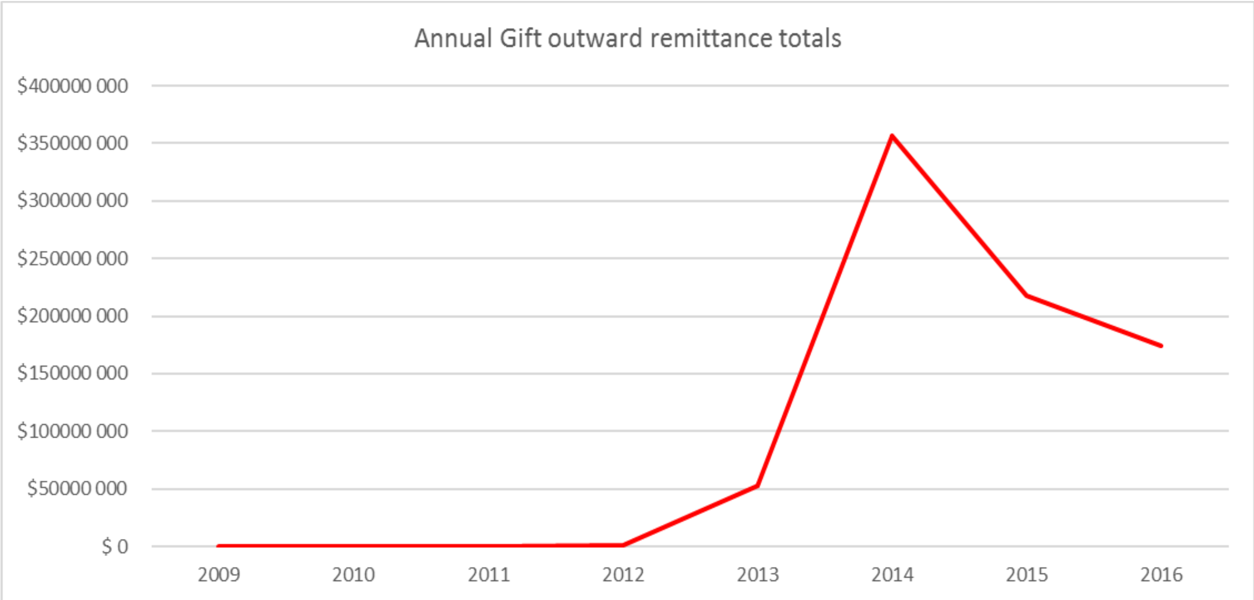
The graph below presents a summary of outward Gift remittances by the eight ADs authorised to facilitate such transactions in the period 2009 to 2016. All eight ADs remitted a total of NAD 803,621,422 in the form of Gifts, in this period. ADs 2, 4 and 5 were the biggest entities in terms of funds remitted outward for Gifts over the period. ADs 2, 4 and 5 facilitated transactions to the value of NAD 82,178,269; NAD 140,980,866 and NAD 470,467,166 respectively.

AD 6 commenced with outward remittance services, in the form of Gifts in the year 2015 while AD 8 only commenced with such transactions in 2016. AD 7 did not facilitate any outward remittances at all, despite facilitating inward remittances to the value of NAD 37,332 in the period 2016.



Graph 3 Annual outward Gift remittances per AD

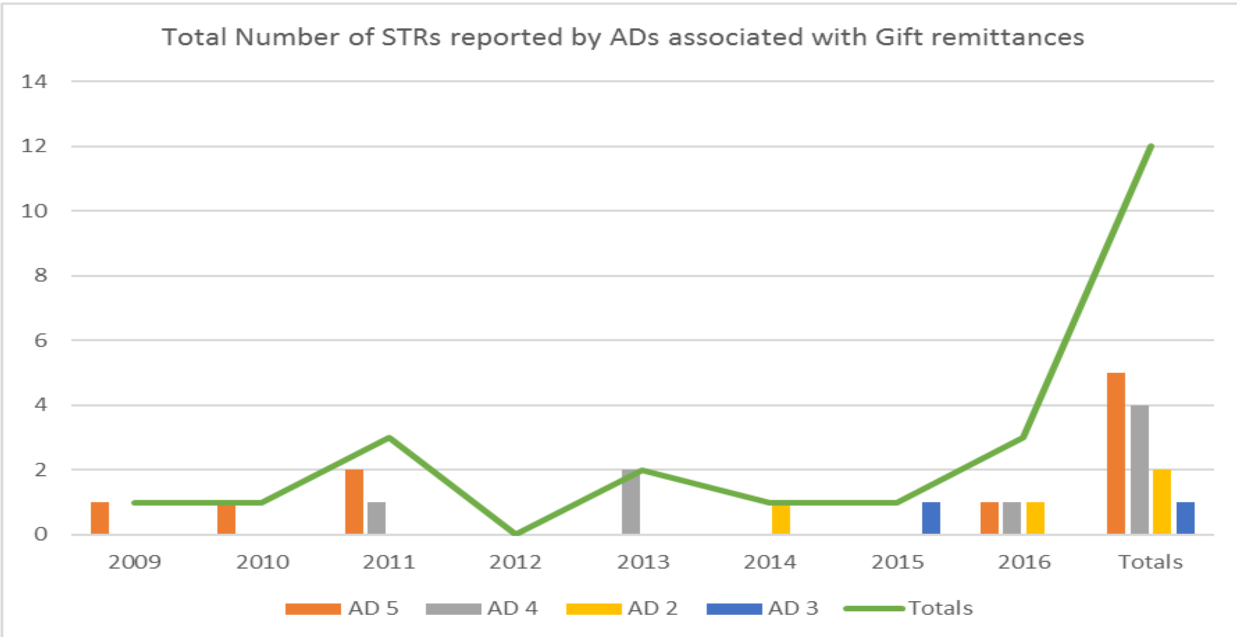
Records further indicate that outward remittance financial values spiked around 2013 and dipped towards 2014 and 2015 (as per below).



Graph 4 Annual Gift outward remittance totals

5.2 STRs reported by ADs associated with Gift remittances

This section presents FIC observations pertaining to STRs and SARs received.



Graph 5 Total number of STRs reported by ADs associated with Gifts emittances

The following observations on STRs emanating from Gift remittances are worth noting for the period 2009 to 2016:

a. Only 12 STRs were filed by all ADs with the FIC;
b. In the year 2012, no STR was filed by the sector with the FIC;
c. The most STRs filed with the FIC annually were three (filed in 2011 and 2016); and
d. AD 5 and 4, reported the highest number of STRs. These ADS also reported the highest number of inward and outward Gift remittances.

The FIC believes that the ADs could be reporting more STRs. ADLAs have comparatively facilitated much lesser transactions than ADs, but ADLAs have detected and reported 41 STRs, which is 29 (242%) more than those reported by ADs.

5.2.1 SARs filed by the ADs related to Gift remittances

In the period 2009 to 2016, only one SAR was filed by ADs with the FIC. This SAR was filed by AD 5 in 2016. It is worth noting that ADLAs reported 15 SARs[5] in the same period. The FIC is concerned that there could be a lack of understanding of transactions which could be reported as SARs or that monitoring systems are not detecting such suspicious activities. It is also worrying that ADLAs, who comparatively have facilitated much lesser transactions than ADs have detected and reported much more SARs than ADs.

5.2.2 Common Designated Offence Types in FIC Case Disclosures in the Sector

In examining cases where the services of ADs were used by individuals suspected of criminal activity, a number of potential offence types were observed and are listed in the table below. The following table was derived from the relevant FIC STR records for this sector for the period 2009 to 2016, and provides a summary of the primary designated offence types that were suspected or alleged to be associated with each case. It should be noted that case disclosures reviewed for this report were not solely connected to transactions conducted at ADs. Other sectors could have been involved. It is important to note that many cases involve multiple designated offences, this table only refers to the offence types which were suspected to be most prominent in the reviewed cases.

Commonly observed Money Laundering (ML) designated Offence Types	Proportion of cases of this type involving transactions at ADs
Substantive offence not identified[6]	72%
Drug trafficking and related offences	0
Mass marketing fraud (MMF)	12%
Fraud (similar type)	24%
Terrorist Financing (TF)	0
Potential Tax Evasion	24%

[5] SARs did not related to potential TF nor PF

[6] They reflect potential abuse of the BOPCUS Gifts category. About half of these cases were either set aside or classified as low priority.

Table 1 Common ML offences in proportion to STRs/cases (ADs)

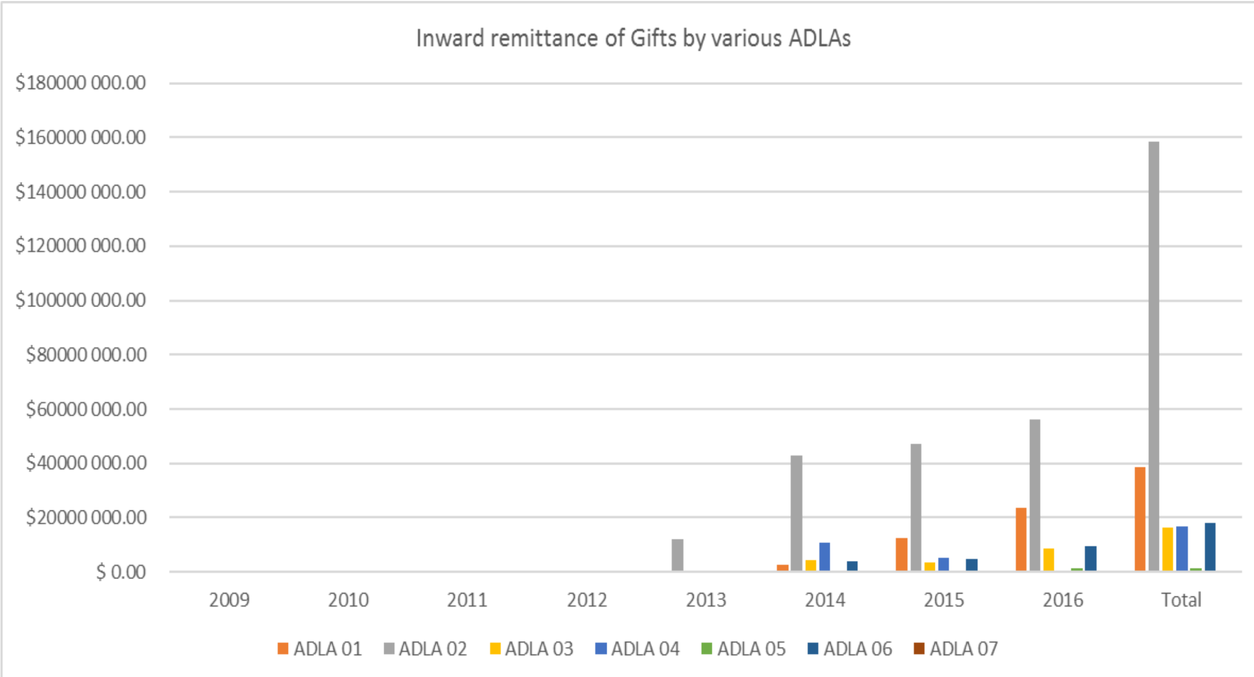
5.3 Authorised Dealers with Limited Authority (ADLAs)

5.3.1 Inward Gift remittances by ADLAs

The ADLAs are commonly referred to as 'Bureaus'. At the time of publishing this report, there were eleven ADLAs licensed by the Bank of Namibia. Some ADLAs are not authorised to facilitate cross border remittances (thus only dealing in foreign currency exchange). These ADLAs therefore do not facilitate Gift remittances.

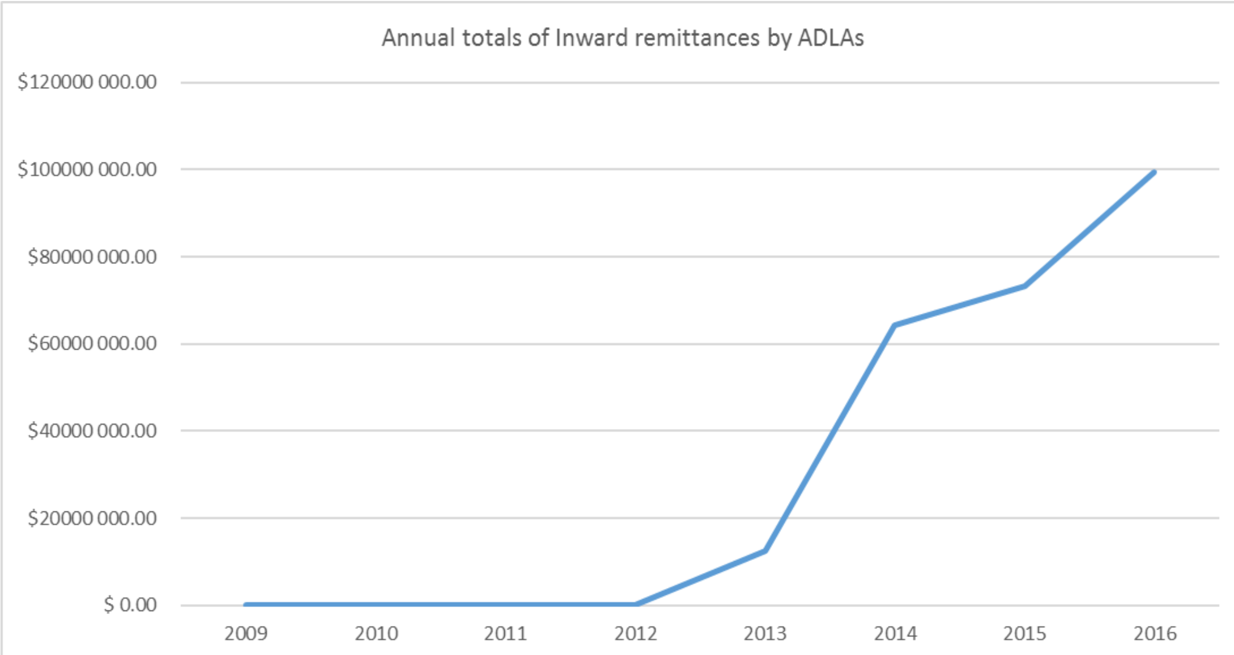
Graph 6 below presents a summary of inward Gift remittances by primarily seven ADLAs authorised to facilitate such transactions in the period 2009 to 2016. All seven ADLAs received a total of NAD 249,315,418 in the form of Gifts in this period. This was based on data obtained from the Bank of Namibia's Exchange Control Division.

ADLAs 01, 02 and 06 were the biggest entities in terms of total funds received for Gifts over the period as they facilitated transactions to the value of NAD 38,693,108; NAD 158,373,165 and NAD 17,833,036 respectively. ADLAs 03 and 04 are close to the financial values remitted by ADLA 06 as they inward remitted NAD 16,141,661 and NAD 16,868,377 respectively. ADLA 06 only started receiving funds in the form of Gifts from the year 2014 while ADLAs 05 and 07 only commenced with such transactions in 2016.



Graph 6 Inward remittance of Gifts by various ADLAs

Records further indicate that financial values on inward remittances spiked around 2013, further increasing in the years 2014 up to 2016 (as per below). Despite the decrease in total financial values remitted by ADs over the last two calendar years, there appears to be a growing increase in inward remittances of Gifts by ADLAs. It is not clear if this points to clients moving their Gift inward remittance transactions from ADs to ADLAs.

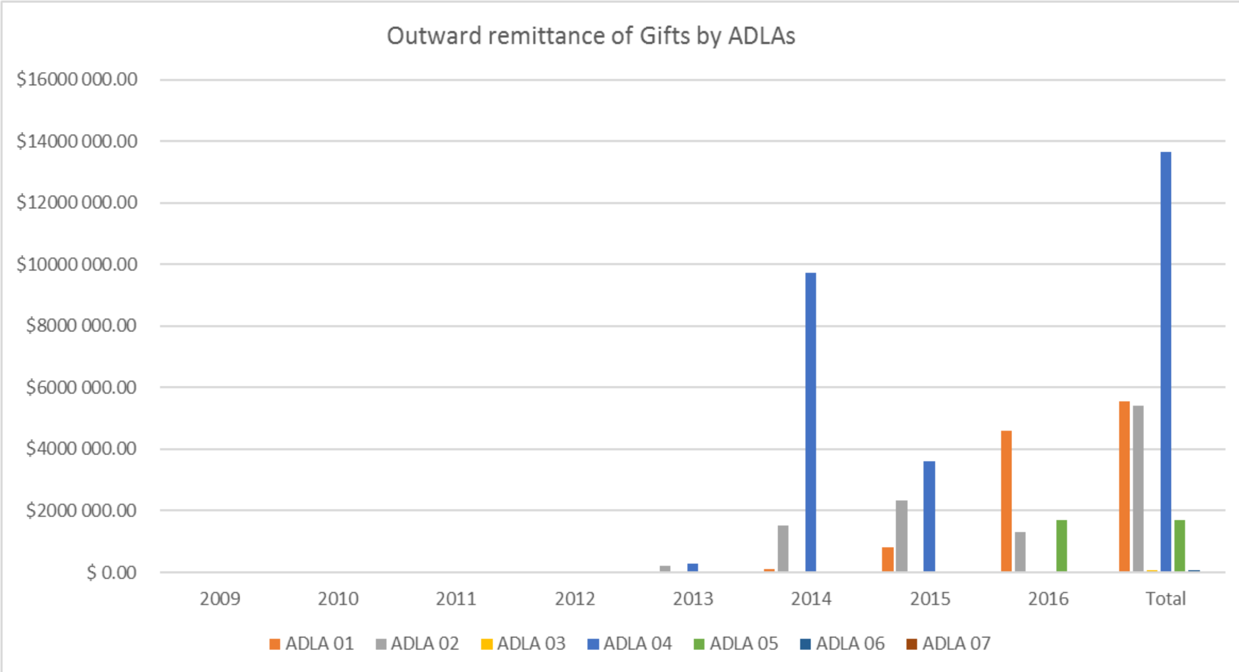


Graph 7 Annual totals of Inward remittances by ADLAs

5.3.2 Outward Gift remittances by ADLAs

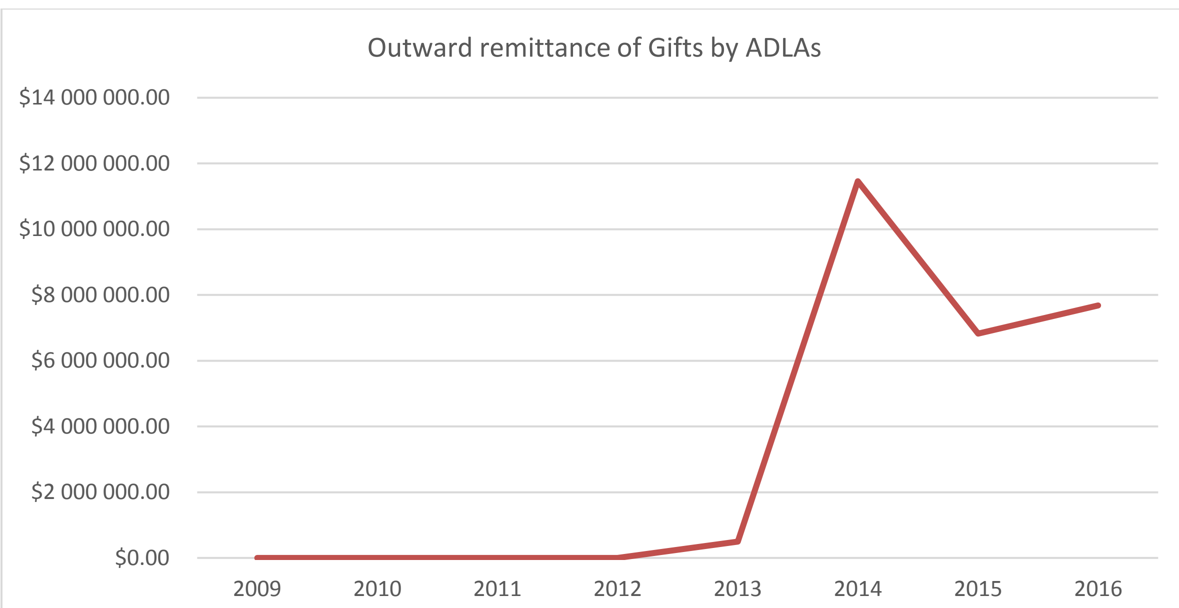
The graph below presents a summary of outward Gift remittances by seven ADLAs authorised to facilitate such transactions in the period 2009 to 2016. The seven ADLAs remitted a total of NAD 26,465,526 outwards, in the form of Gifts, in this period. ADLAs 01, 02 and 04 were the biggest entities in terms of funds remitted for Gifts over the said period. ADLAs 01, 02 and 04 facilitated transactions to the value of NAD 5,547,673; NAD 5,395,789 and NAD 13,654,683 respectively. This shows that while ADLA 02 facilitated the largest financial value in terms of inward remittances (NAD 158 million), ADLA 04 appears to have facilitated the largest financial value in terms of outward remittances, for the period.

ADLA 06 only commenced with outward gift remittances in the year 2014 while ADLA 05 commenced these services in 2016. ADLA 07 does not appear to have facilitated any outward Gift remittance transactions for the period 2009 to 2016.



Graph 8 Outward remittance of Gifts by ADLAs

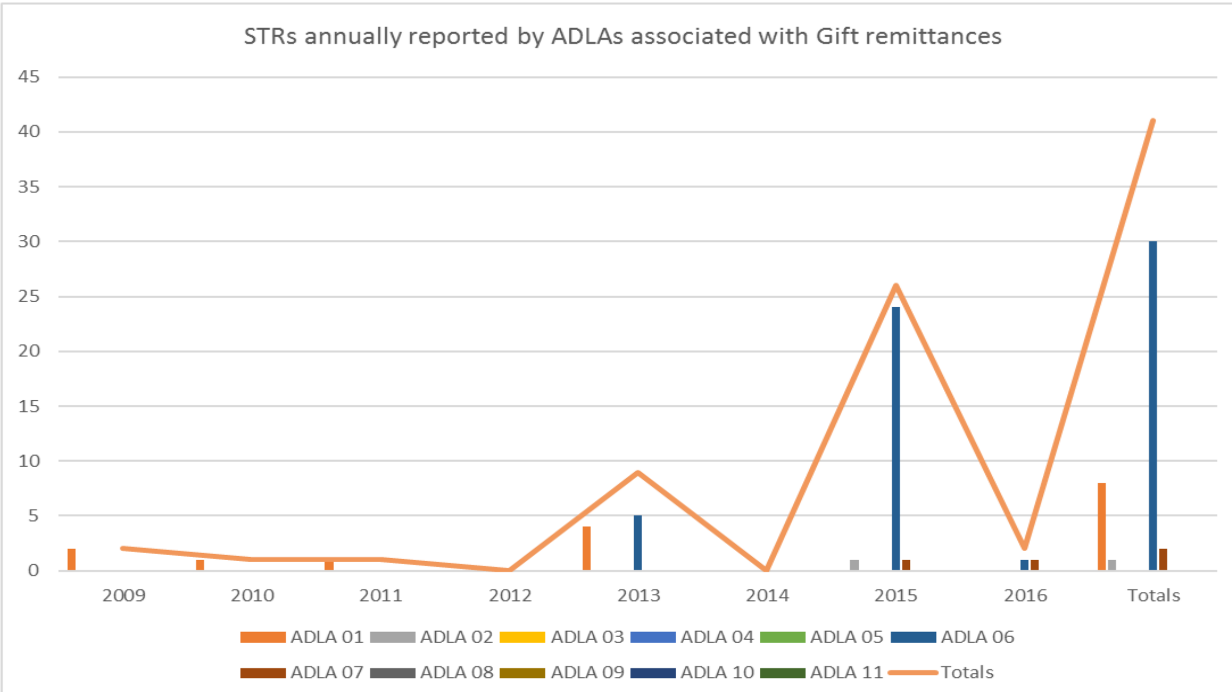
Records further indicate that financial values on outward remittances spiked around 2013, to the end of 2014, before starting to decline (as per below). This decline in financial values remitted outward by ADLAs for Gifts is similar to the trend seen with ADs over the last two calendar years.



Graph 9 Outward remittance of Gifts by ADLAs

5.4 STRs reported by ADLAs associated with Gift remittances

This section presents FIC observations pertaining to STRs received.



Graph 10 STRs annually reported by ADLAs associated with Gift remittances

The following observations on STRs emanating from Gift remittances are worth noting for the period 2009 to 2016:

a. Only 41 STRs were filed by all ADLAs with the FIC. All 41 STRs were filed by 4 ADLAs as follows;
   ADLA 01 filed 8; ADLA 02 filed 1; ADLA 06 filed 30 while ADLA 07 filed 2 STRs;
b. The most STRs in a year (26) were field in the year 2015, with ADLA 06 filing 24 of such STRs;
c. In the years 2012 and 2014, no STRs were filed by the sector with the FIC; and
d. ADLAs 03, 04, 05, 08, 09, 10 and 11 never filed any STRs on Gift remittances with the FIC in the said period.

5.4.1 SARs filed by ADLAs related to Gift remittances

In the period 2009 to 2016, only 15 SARs were filed by ADLAs with the FIC, with 12 such SARs being filed by ADLA 06 and the remaining 3 by ADLA 01. The FIC is concerned that there could be a lack of understanding of transactions which could be regarded as SARs or that monitoring systems are not detecting such suspicious activities. It is equally worrying that most SARs were filed by only one ADLA, in the whole sector, for the seven-year period.

5.4.2 Common Designated Offence Types in FIC Case Disclosures in the Sector

In examining cases where the services of ADLAs were used by individuals suspected of criminal activity, a number of potential offence types were observed and are listed in the table below. The following table was derived from the relevant FIC STR records for this sector for the period 2009 to 2016, and provides a summary of the primary designated offence type that was suspected or alleged to be associated with each case. It should be noted that case disclosures reviewed for this report were not solely connected to transactions conducted at ADLAs. Other sectors could have been involved. It is important to note that many cases involve multiple designated offences, this table only refers to the offence types which were suspected to be most prominent in the reviewed cases.

Commonly observed Money Laundering (ML) designated Offence Types	Proportion of cases of this type involving transactions at ADLAs
Substantive offence not identified[7]	63%
Drug trafficking related offences	0
Mass marketing fraud (MMF)	0
Fraud (or similar type)	7%
Terrorist Financing (TF)	0
Potential Tax Evasion	30%

[7] They reflect potential abuse of the BOPCUS Gifts category. About half of these cases were either set aside or classified as low priority.

Table 2 Common ML offences in proportion to STRs/cases (ADLAs)

6. CHALLENGES RELATING TO STRs FILED BY ADs AND ADLAs

Due diligence is not always carried out as expected by the FIA and its accompanying Regulations. In most cases, the ADLAs fail to collect the required basic identification information pertaining to a client/transaction. Information such as a client's source of funds and source of income/profession or nature of their business activities is usually not obtained or poorly obtained. This leads to further failures including:

a. Inability to detect suspicious transactions (owing to the lack of an adequate financial profile); and
b. Inability to avail sufficient *grounds for suspicion* when eventually filing STRs with the FIC;

The starting point for effective monitoring in order to detect suspicious transactions is thus due diligence, specifically the Know Your Customer (KYC) controls. The above mentioned (especially point A) are key factors which possibly contributes to the general under reporting of STRs that are related to Gift remittances in this sector.

SECTION C: ML/TF METHODS AND TECHNIQUES OBSERVED

7. ML/TF METHODS AND TECHNIQUES OBSERVED

The FIC identified and focused on STRs/cases (for the period 2009 to 2016), which were the most illustrative of how ADs/ADLAs could be exploited for ML/TF/PF purposes. While some ML/TF/PF risks are common across the AD/ADLA sector (and other sectors), the FIC also recognizes that the mere differences in services offered by ADs from those offered by ADLAs presents differences in the types and nature of ML/TF/PF risks. For example, ADLAs usually facilitate Gift remittance transactions for *walk-in clients*, while ADs could have clients who have established relationships (hold bank accounts) with such entities and such clients use the AD's cross border remittance services for Gift remittances. For this reason, the FIC has endeavored to show how specific ML/TF techniques have been observed by using examples which focus on the different AD/ADLA service lines. In this context, the most commonly observed money laundering techniques are described in this section.

The study found the following methods to be most commonly employed by persons abusing services of ADs and ADLAs:

a. Customs clearing agents/Importers abusing Gift remittance services;
b. Structuring or attempting to circumvent record keeping requirements;
c. Attempting to circumvent client identification requirements; and
d. Smurfing, using nominees, and/or other proxies and abusing an NPO account.

It is worth noting that Structuring appears to be the most common technique employed in most STRs and cases. The element of structuring transactions was noted in various other STRs/cases also classified differently (such as smurfing).

The FIC recognizes that some STRs/cases have elements which could qualify such STR/case to classification in more than one technique or method. The methods and techniques that the STRs/cases have been classified in only reflects the observation of the FIC and does not necessarily mean that such classification excludes such

STRs/cases from being classified under another technique or method. The classification as per this report is meant to group certain types of STRs/cases which may point to the same type of indicators. Below is a summary reflecting the methods and/or techniques used in STRs and cases reviewed:

Commonly observed ML techniques/methods	Proportion of cases of this type of technique/method
Customs clearing agents/Importers abusing Gift remittances	8%
Structuring or attempting to circumvent record keeping requirements	18%
Attempting to Circumvent client identification requirements	14%
Smurfing, using nominees, and/or other proxies	11%
Abusing an NPO account, funds received by NPO as Gifts	2%

Table 3 Commonly ML techniques and methods in proportion to STRs/cases

7.1 Customs Clearing Agents/Importers possibly abusing Gift remittance provisions

The FIC has noted an unfortunate trend which could point to Customs Clearing Agents and/or Importers paying for goods or alternatively sending funds (which appears business related) and declaring such payments as Gifts, through ADLAs[8]. This could be a mechanism to:

a. Facilitate capital flight (purely to move funds abroad);
b. Escape the import duties and taxes levied if cross border remittance procedures; for business related activities, are followed accordingly; and
c. Advance Trade Based Money Laundering activities.

[8] This was not noted in STRs/cases involving ADs

7.2 Structuring or attempting to circumvent record-keeping requirements

"Structuring" can be defined as a pattern of financial transaction activity in which a single transaction is broken down into multiple/ sequential transactions below the threshold which would require mandatory reporting and/or the application of an AD/ADLA's client ID and record-keeping obligations. As a more general (and more obvious) technique, some conductors simply ask that transactions not be recorded.

By carrying out transactions at levels below the mandatory reporting threshold (or attempting to) some conductors believe their transactions can effectively evade detection. Such conductors do not understand that AD/ADLAs are required to report suspicious transactions at any level, and/or believe that they have a greater chance of avoiding scrutiny by carrying out structured transactions. Structuring is by far the most prevalent ML technique observed in STRs and cases, and can be found in relation to all AD as well as ADLA types and service lines.

7.3 Attempting to circumvent client identification requirements (through misrepresentation)

Attempts to avoid AD/ADLA client identification obligations are very common, and occur across all AD/ADLA types within the sector. They are often linked to efforts to *mislead AD/ADLA* about the purpose of a transaction and may involve concealing information relating to the beneficial ownership or control of funds in an attempt to obscure a link between the money which is used to carry out a particular transaction and the criminal act from which the proceeds may have been gained.

This technique can also be used to create the false impression that a financial transaction is legitimate where it might be questioned if the conductor provided accurate information. This technique can include the use of illegitimate or fake identification/names/addresses, and/or unverifiable information based on combinations of real or illegitimate/fake names and addresses.

7.4 Smurfing, using nominees, and/or other proxies

The use of nominees or other proxies is observed with some frequency in FIC cases (and STRs) as part of an effort to conceal the beneficial ownership of the funds being moved or to obscure the coordinated nature of a series of financial transactions. The coordinated use of nominees for the purposes of breaking down what would be a large value transaction into several 'below threshold' amounts is a specific type of structuring which is often referred to as 'smurfing'.

8. INFORMAL MONEY REMITTANCE SERVICES

Informal money remittance systems can be used to send money around the world. They are often linked to a certain geographical region and go under specific names such as *hawala*, *hundi*, or *hawilaad*, depending on the geographical or cultural links of the persons who establish or use them. These are underground 'banking' channels in which the transactions are settled by offsetting an equivalent sum at the receiving location. The transfer request is made in one location (where funds to be transferred are received). The counter value is then distributed to a beneficiary at another geographic location through one of the network's correspondents. These systems have numerous advantages such as:

a. they are quick;
b. discreet; and
c. reasonably priced

which makes these services attractive for both legal and illegal use. In recent years it has become clear that informal money remittance systems play an important role in international Terrorism Financing and that they are a suitable medium for terrorists to transfer money.

Detecting these underground systems is by nature quite challenging. In countries with alternative money remittance systems, it is often difficult to prove illegal activities in these systems as they are often trust-based, secretive and unregistered, with indirect fund movements. It is therefore difficult to assess the degree of compliance even when informal value transfer service providers are legal.

Underground remittance activity, particularly that which is carried out by immigrants, serves a legitimate need, but also offers a potential for misuse for ML/TF/PF purposes. For instance, due to the lack of effective monitoring, anonymous customer transactions can take place and customer's beneficial owner can be hidden.

Non-registered service providers are often identified through reports by other currency suppliers under the reporting regime; by tip-offs made to the supervisory agency; and by analysis of information coming to the supervisory agency's attention either from its own staff/activities or from that of other law enforcement/regulatory agencies. The FIC has not come across information that may suggest the presence of such underground systems locally. However, given the presence of significant populations of foreign nationals locally, the possible underground operations cited herein could be in operation.

9. BASIC GUIDANCE ON RISK MITIGATION

The **Revised Directive 01 of 2016**, currently available on the FIC website avails detailed directives and guidance on how to enhance ML/TF/PF risk mitigating controls relating to Gift remittances. In summary, the Revised Directive provides that Gift remitting clients be subjected to the necessary level of due diligence (as per risk exposure) to give management reasonable assurance on ML/TF/PF risk management. In gaining such reasonable assurance, ADs and ADLAs must at a minimum, ensure to obtain the following information in an effort to mitigate risks:

i. understand the source of funds involved in such transactions;
ii. for inward remittances exceeding the set threshold - identify the sender(s), including their financial profiles or source(s) of income information;
iii. understand the relationship between the sending and receiving parties;
iv. to the extend possible, understand the true nature or purpose of such remittance(s);

v. ensure effective screening against relevant United Nations Security Council (UNSC) sanctions lists; and

vi. report same to the FIC, via GoAML as prescribed in the Revised Directive.

The NAD 99,999.99[9] and NAD 499,999.99[10] thresholds stated in the Revised Directive seeks to draw AD/ADLA managements' intervention and indicate reporting thresholds. This does not imply that remittances below the thresholds are necessarily low risk. This therefore implies that, amongst others, client profile information and transacting behaviour should have a bearing on AML/CFT/CPF control considerations related to cross border remittances and relevant risk ratings.

Escalating threshold-based reports to the FIC as per the Revised Directive does not take away the responsibility to detect and file Suspicious Transactions or Activities reports as per the FIA.

ADs and ADLAs ought to ensure that the transactional behaviour of clients are in line with the established client profiles. Where relevant implemented controls have satisfactorily reduced the inherent ML/TF/PF risks presented by both such client and his/her transacting behaviour to acceptable levels, the extent or level of due diligence measures applicable should be aligned accordingly.

There is a tendency to devote significant attention and controls to high risk clients, as rightfully advocated for - by the Risk Based Approach. The FIC has however noted that client risk ratings not timely reconciled with relevant or prevailing client behaviour could compromise controls. The nature of cross border remittances are such that prevailing behaviour needs to be Monitored[11], timely and effectively. For example, if a low or medium risk rated client transacts in behaviour that is beyond his or her known low risk profile, the AD or ADLA should have measures to timely detect such unexpected behaviour and ensure timely intervention to reduce ML/TF/PF risk exposure from such unexpected behavior or conduct.

[9] For SDA gift remittances (outwards)
[10] For inward gift remittances
[11] Monitoring herein is as per the Definition in the FIA Regulations. See FIA Regulations page 3

10. COMMENTS

The contents of this report will be reviewed from time to time when the need arises. Despite the wide consultations during drafting of this report, the FIC still expects comments and inputs from the sectors and relevant stakeholders aimed at enhancing the contents of this report. Such inputs will be highly appreciated and considered. Accountable Institutions will be notified of any aspect that may necessitate revoking or amending any contents of this report.

11. CONCLUSION

The Single Discretionary Allowance avails a platform for the remittance of funds, in the form of Gifts, with minimal identification and due diligence expectations, as per Exchange Control Ruling B.7. These minimum due diligence expectations present opportunities to those advancing ML and TF activities to use Gift remittance services as a way to move funds/proceeds between jurisdictions. It is for this reason that the FIA and its accompanying Regulations advocate for ADs and ADLAs to enhance due diligence measures and ensure same are commensurate with the ML/TF/PF risks each client or transaction presents. The **Revised Directive 01 of 2016**, currently available on the FIC website avails detailed directives and guidance on how to further enhance mitigating controls relating to Gift remittances.

The biggest observations from FIC analysis of the AD and ADLA sector concerns the inconsistent STR and SAR reporting behaviour. The following trends are concerning:

a. ADs and ADLAs that provide the same services, but some are not reporting any STRs at all, whilst others of similar stature (or dealing in similar volumes of transactions) are reporting annually; and
b. The larger sector (ADs) that are facilitating more transactions than ADLAs appear to be reporting much lesser STRs (12) than the ADLAs (41). Overall, the reporting behavior of ADs, when compared to ADLAs or the volumes and values of transactions leaves a lot to be desired.

Given observations from STR analysis, the FIC is of the view that criminals use some of the methods and techniques contained herein to undermine internal controls ADs and ADLAs have implemented to protect their systems from abuse. It goes without saying that criminal elements noted in the STRs over the years point to the involvement of sectors other than ADs and ADLAs. This presents a challenge as ADs and ADLAs may only be vested with details of the Gift remittance transactions they have been involved in. For this reason, it goes without saying that the trends and typologies reflected in this report advocate for a wider approach in all sectors, if combatting at national and international level is to succeed.

ANNEXURE 1: SANITIZED STRs/CASES

12. STRs/CASES REFLECTING ML/TF METHODS AND TECHNIQUES OBSERVED

The study found that there are hardly indicators that can be isolated to a single type of technique or method. An indicator for structuring cuts across or can be applied to the other techniques used to remit funds related to Gifts. For this reason, all indicators are summarized and presented in one section (under Annexure 2 of this report).

12.1 Customs Clearing Agents/Importers possibly abusing Gift remittance provisions

Case 1 (ADLA)

Large amounts received and declared as Gifts. Annual limit of NAD 1 million has been reached by this client. It is known by the ADLA staff members that the client runs a Logistics and Customs Clearing Agency. When a STR was field, client was remitting fund to the value of NAD 252k as a Gift.

Case 2 (ADLA)

A Namibian citizen, sends funds in 6 transactions for a months and a half. These transactions amount to USD 10,410.32 or NAD 128,366.00. Payments were remitted to beneficiaries in Cameroon and Spain, with 4 of the transactions amounting to USD 4,701.77 or NAD 57,303.31. All transactions were declared as Gifts, relationship with different receivers declared as friends, and source of funds declared as salary. The customer is an entrepreneur and is the owner of a guesthouse and an Import and Export company.

Case 3 (ADLA)

It appears Customer X was linked to the Z family members involved in Customs Clearing services, which were reported in 2015. 20 transactions were conducted within 2 months *(average 10 transactions per month). Amount involved was USD 11,264.02 or NAD 137,307.02. Funds originate from 4 different countries. Funds were received from 18 different persons on the same day (Thursday). Furthermore, on the next day (Friday) 2 transactions were received, both from Zambia, from the same senders. On the same day (Friday), 2 more transactions were received from London and Zambia from different senders. Funds were declared as Gifts from friends. Customer X receives these funds but given his lifestyle, it is clear that the Z family are possibly beneficiaries of such funds. ADLA staff members know the relationship between Customer X and the family.*

Case 4 (ADLA)

A client is employed by a freight forwarding firm as an Admin Assistant. She received a total of 12 transactions over a period of 6 months, amounting to USD 19,954.00 or NAD 240,208.92. Monthly transactions are: [Feb (01), May (03), June (02), July (02), September (03), October (01)]. Funds were received from 7 different senders. Funds originates from the DR Congo. All funds were received as Gifts. Relationships declared as friend/ client/ work/ work mate /work partner. Test question for one of the transactions was: 'Q – For, A Clearance'. Transactions seems to be clearing business related even though it is declared as Gifts. On average the monthly turnover is USD 3,325.67 or NAD 40,034.82. The business activities are related to services rendered, e.g. clearance and transportation. 5 transactions received as gift from the same person, Ms. X, amounting to USD 11,356.00 or NAD 134,662.91 within a period of approximately 2 months.

Case 5 (ADLA)

A Namibian citizen received funds on a regular basis at a Walvis Bay branch, Walvis Port branch and Ausspannplatz branch. Three branches involved. In five months, she received a total of USD 11,989.36 or NAD 134,727.32 in 22 transactions. The funds originate from 4 different countries and different beneficiaries. All funds are declared as Gifts from friends. She is the manager at a local firm, which is believed to be her own company. There is an indication that she is involved in the clearing and forwarding business. The residential addresses of the same beneficiary for funds send differs.

12.2 Structuring or attempting to circumvent record-keeping requirements

Case 1 (ADLA)

Five individuals send money to the United Arab Emirates/Dubai in 5 transactions within 2 days. Two of the transactions were done at Walvis Bay Port branch and the other three at Walvis Bay main branch. The total amount send within two days is USD 22,000.00 or NAD 283,385.48. It was noted that all 5 Individuals are linked by means of their employment. Two however declared source of funds received as Gifts from Mr. X, whilst the other two declared funds were received from a local food retailer, Mr. Y. All funds were sent to Dubai, to different beneficiaries as Gifts. The addresses and contact details for all 5 beneficiaries in Dubai are the same, even though they are different individuals.

Case 2 (ADLA)

A Namibian citizen send funds on five occasions to New York, USA, amounting to NAD 244k. This was all done in one month. She is an Administrator by profession and is employed by entity X. Transactions were send as Gifts and relationships with receiver declared as friend. This is one beneficiary receiving this large sum of money within a period of one month. Source of funds were also declared as Gifts from a person who happens to have an affiliation to entity X. The customer profile does not match with transactions.

Case 3 (ADLA)

Mr. X is a Security Officer or Guard by employed by a local security firm. In a month, he sent funds 11 times, to the value of NAD 84,470.33. Funds were sent to different countries and different beneficiaries. The relationship with receivers of such funds was said to be friend and funds were always declared as Gifts. Source of funds was said to be salary and Gift. The customer profile did not match the transactions.

Case 4 (ADLA)

The customer is a staff member of an AD, who receives large swift payments from a neighbouring country. Such inward remittances are regular (3 times monthly) and are at all times declared as Gifts. The receiver makes large cash withdrawals via a local branch. The relationship between sender and receiver could not be established. The manner in which funds are depleted is thus equally suspicious.

Case 5 (ADLA)

A Namibian citizen who is employed as an Analyst at a local entity conducted 4 transactions in which she sent funds. 3 such transactions were done at one of the branches and the other was done at another branch in the same town. He sent funds to the United States (USD 200.00) to a certain Ms X, relationship to her was not stated. He also conducted three transactions to the United Arab Emirates were he send in total USD 10,784.79 to 3 different people – Mr. A send USD 3,534.79; Mr. B send 3,825.00 and Mr. C send USD 3,570. For one of the recipients, the relationship was said to be business partner and his occupation was said to be unemployed. These 3 transactions were done in three days only. Source of funds was said to be salary. The addresses for the 3 transactions to United Arab Emirates is the same, even though it is different beneficiaries.

Case 6 (ADLA)

A Namibian citizen who declared her profession as a former Accountant at a local close corporation for three months did various transfers to China amounting to USD 2,889.62 or NAD 36,169.71. Beneficiaries were Chinese Nationals, and out of the 7 transfers done, 3 were send to the same beneficiary within one month, the other 4 were send to different beneficiaries. In another month, she sent USD 2,390.90 or NAD 30,076.61 to different beneficiaries. All transfers were declared as gifts, relationships with receivers were always stated as friends, and source of funds was always declared as salary. Four her different beneficiaries have the same residential address in China.

Case 7 (ADLA)

A Namibian citizen residing in Walvis Bay, is unemployed and received 5 transactions within 4 days, amounting to NAD 54 578.75. All funds originated from China, from 3 different beneficiaries. Three transactions were received in one-day amounting to NAD 36,893.50. The sender for three of the transactions is the same person, who appears to be of central African origin. The residential address for all three senders is Guangzhou 510 (the same). All transactions are declared as Gifts and relationships are stated as friend.

12.3 Attempting to circumvent client identification requirements (element of misrepresentation)

Case 1 (AD)

A client banking with one AD instructed the AD to perform a swift transaction on his behalf. The client requested the Foreign Exchange department to transfer an amount of NAD 700,000.00 from her cheque account to a certain individual outside the country. Although the AD was able to establish the source of funds as being an access bond on her Home Loan account, the AD was concerned that someone would take out an access bond or additional loan to that amount and remit all of it as a Gift. Another observation is that the client has also been sending smaller amounts as gifts since the beginning of that same year. (A SAR was filed by the AD on this transaction)

Case 2 (AD)

An Angolan citizen (Client A) opened a non-resident account with an AD (in 2009) and another Call Account (OFC) was opened in 2010 where only United States dollars are paid into this account. Another Angolan citizen appears to be the partner of client B for 15 years and also has power of attorney on both accounts. Large funds are transferred on a regular basis from Angola to their Namibian accounts and it appears as though it is distributed to pay the two persons' lifestyles. Both clients are said to be unemployed on the initial account opening documents, but information gathered from the branches *indicates they might have business activities in Angola but the AD has no supporting information to verify the source of funds from Angola. All funds received from Angola are reported as Gifts. The AD further stated that there is a risk that potential taxes may not be paid on these large amounts.*

Case 3 (AD)

A non-customer of the AD was involved in remitting MoneyGrams outward. The AD found that the client sent funds to different countries and beneficiaries. The customer declared that all such MoneyGrams sent were Gifts to different people, in different countries. One transaction was not successful due to 'fake' passport provided by the beneficiary/recipient.

Case 4 (ADLA)

A Namibian citizen, aged 68 who is currently residing in Windhoek, is a pensioner who send funds via 11 transactions in Windhoek to the United Kingdom, 5 to Nigeria and 5 to Ukraine. All the send transactions done to Nigeria and Ukraine, she has remitted funds to the same people. In the transactions send to Nigeria, she sent money to a certain Mr. X, who she declares as her friend. In the transactions to Ukraine, she sent to a certain Mr. Y, whom she also states as her friend. In the 11 transactions, she has send USD 19,004.62 or NAD 249,026.24 to the same people in two different countries. In one month only, she remitted USD 13,704.63 or NAD 182,697.36. In conversations with her as the sender, she was very defensive and did not answer questions (uncooperative). Transactions were always done with different Consultants in the ADLA, each time she transacted. Source of funds was said to be either Salaries or savings and Gifts.

Case 5 (ADLA)

Two Namibian citizens send funds to France to the same beneficiary and the reasons for such remittance was stated as "Gifts, need money for expenses". It was noted that the receiver is a Paris Regional Representative of a Lottery agency. These transactions could be in contravention of the Exchange Control Regulations and Rulings.

Participation in such lotteries also contravenes the Gambling Act. It appears as if both senders are sending funds to the said lottery. They both gave the same address of receiver as well as a copy of the receivers' identity document. The senders do not seem to be related in any way.

Case 6 (ADLA)

Referring to an earlier STR reported to the FIC. A client (Mr. X) with suspicious transacting behavior was possibly tipped off that he has been reported (interdicted) and it seem as if he was now receiving funds through other persons. An inward remittance was noted at one of the local branches, outside Windhoek, for a certain Mr. Y. He received USD 1,500.22 from Mr. Z, from Dubai. Funds were declared as a Gift from a friend. One of the senders for Mr. X was Mr. Z who is believed to be the same person as the one who send funds to Mr. Y as the contact details are the same. The incorrect spelling of the name was perceived as a way to circumvent controls. Mr. Y also stated his employer as company B, which is the same employer of Mr. X.

12.3.1 Remitting funds on behalf of foreign nationals who lack appropriate documents

These cases could also be categorized under "using nominees/proxies" (section 11.4).

Case 1 (ADLA)

A Namibian citizen conducted 15 send transactions comprising of 14 to the Philippines and 1 to Tunisia. In one month, she conducted 2 transactions amounting to NAD 93,896.51. The relationship is declared as friends and funds are remitted as Gifts. Source of funds is declared as Salary, which does not match her individual profile. She is a Manager at a local food retailer which also offers catering services and supplies. When contacted to find out more about the transactions, she indicated that she is sending these funds on behalf of her colleagues to their families. Apparently, her colleagues are in Namibia on employment visas and they currently await renewal thereof. The reason why she is assisting them is because their visas expired.

Case 2 (ADLA)

A Namibian National, conducted 18 send transactions in one day, from one local western union outlet. On a few occasions he also did multiple transactions per day. All send transactions were declared as Gifts to some areas in Zimbabwe, Botswana and Harare, payable to various beneficiaries. The relations with those he has sending to was said to be friend, and all beneficiaries were said to be either unemployed, self-employed, housewife or student. Investigations indicate that he is an arts and crafts seller by profession and visits a coastal branch regularly to send money on behalf of foreign tourists who do not have the valid documents at hand. It appears he could be helping them by exploiting the relatively less controls associated with Gifts remittances by citizens.

Case 3 (ADLA)

A client who also happens to be an arts and crafts seller by profession visits a coastal western union branch regularly to send money on behalf of foreign persons in Namibia. It appears most of the foreigners are from Zimbabwe, and he is simply send money to their families back home. In one month, he sent funds as Gifts in 12 transactions. The relationship with receivers of such funds was always stated as 'friend'. The possible explanation is foreign nationals who may not have the right documentation to be in the *country and he is possibly assisting them to remit funds back home.*

Case 4 (ADLA)

A Namibian citizen made 7 send transactions within 21 days from a northern based branch of an ADLA. All transactions were made to Zimbabwe, to different beneficiaries. Sender is a carpenter by profession, and is employed by a local building retailer. Funds were sent as gifts, and the relationship was always stated as friend, brother and sister. According to the ADLA, sender was doing these transactions on behalf of Zimbabwean nationals whose documents were apparently not in order. Amount involved NAD 14,028.00.

12.4 Smurfing, using nominees, and/or other proxies

Case 1 (ADLA)

An Angolan national (Mr. X) is married to a Namibian citizen. He made 5 transactions to different beneficiaries within a period of 10 days amounting to NAD 74 361.25. Funds were sent as gifts and source of funds said to be salary. Relationship was stated as mother's son/cousin/sister in law. Transfers are made to various countries. The ADLA also noticed that in April 2015, Mr. X visited the bureau with another person who is a fellow country man (Mr. Y). The latter send USD 5,000.00 or NAD 64,394.47 to a recipient in the United Kingdom, as a Gift. Mr. Y is in Namibia on a Visitors visa, which is due to expire soon. The source of funds declared as Business. Another transaction was send by Ms. Z, also a country man and associate of Mr. X, who transferred USD 4,478.00 or NAD 58,960.89 to the same person who received funds from Mr. Y in the UK and the customer was on a visitor's visa which expired in 2015. Funds were sent as Gifts to boyfriend. She identified herself as a Secretary by profession. All these senders are sharing the same residential address in Namibia and it is suspected that the two were sending on behalf of Mr. X.

Case 2 (AD)

An accountholder (Client A) at one of the ADs, sends regular MoneyGrams as monetary *gifts to various people in Nigeria, other two persons in Senegal. The branch noticed that the same client transferred NAD 140,000.00 to another client's (Client B) account banking with the same AD. The receiver of such funds (Client B) then sends MoneyGrams to one of the persons who previously received funds from Client A, in Senegal, in the same year.*

Case 3 (ADLA)

The receiver, Mr. X received two payments from sender Mr. Y, from the USA for the amount of USD 2,200.00 and USD 2,500.00. Mr. X indicated the reason for such inward remittance as Gifts and Travel. He further described himself as being a Business Intelligence Practitioner but is known to the ADLA as a Teller at one of the Windhoek based ADs which is also authorised to facilitate Gift remittances. Mr. X further received two transfers from Mr. Z from the UK amounting to USD 3,614.35 and USD 3,657.98. Mr. Z is a Namibia known to be involved in international criminal activities such as drugs and diamond dealing. Investigations could however not yet establish the potential source of funds from Mr. Z and Y at the time of publishing.

Case 4 (ADLA)

A client who identified herself as a student sends large amounts of money. She has, in the last two months (prior to being reported) remitted over NAD 100,000 to the same persons in one country. Her source of funds and reason for sending such funds are both stated as Gifts.

12.5 Abusing an NPO account, funds received by NPO as Gifts

Case 1 (AD)

A religious organization (NPO) used to be under the management of Mr. X. In 2012, he was replaced by Mr. Y. When KYC re-verification was done, client indicated that the church had an expected monthly turn-over of NAD 150,000.00. Transaction analysis from January 2014 to March 2015 shows:

- *the client has made cash deposits (foreign notes and cash deposits in local* *currency) totaling an amount of NAD 746,399.99.;*

- *Equally for the same period, total debits of NAD 746,539.73- were made from the account;*
- *Looking at the sources of funds, clients seem to be depositing foreign currency into the NPO's account and declares them mostly as gifts. These funds were in Euros;*
- *Analysis could not trace any funds from this account used for church related purposes. Most transactions appear to be used for personal gain.*

Given the above, it was suspected that client could be using the NPO for his personal gain, example shopping on iTunes, at shopping at local supermarkets, international purchases and ATM withdrawals. Source of funds remains unknown.

ANNEXURE 2: INDICATORS

13. LIST OF INDICATORS OF POTENTIAL MONEY LAUNDERING ACTIVITY[12]

This section attempts to feature indicators which appear in the selected case studies in this report as well as additional indicators to assist antimony laundering and counter-terrorism financing officers to identify and describe suspicious behaviour for inclusion in STRs and SARs. This is a non-exhaustive list. It should also be noted that the single indicators by themselves may not necessarily be linked to money laundering, as some indicators may typically be found for many money service businesses not facilitating illicit finance. The indicators need to be considered with other information at an Accountable Institution's disposal in order to make informed decisions.

13.1 Indicators relating to transactions

a. The transaction seems to involve unnecessary complexity;
b. Use of front men/persons;
c. Transactions in a series are structured just below the regulatory threshold for due diligence identity checks;
d. The customer appears to be trying to avoid reporting requirements by using two or more service provider locations or cashiers on the same day to break one transaction into smaller transactions;
e. Two or more customers appear to be trying to avoid reporting requirements and seem to be working together to break one transaction into two or more transactions;
f. Transactions are carried out by the customer on behalf of third parties without there being an appropriate business relationship with such parties;
g. Frequent transaction requests/orders are made by the same client;

[12] Sourced from the Financial Action Task Force (FATF), Report on *Money Laundering through Money Remittance and Currency Exchange Providers*, June 2010

h. Sudden increases in the frequency/value of transactions of a particular customer without reasonable explanation;
i. An unusually large (cash) transaction;
j. The amount of the transaction is unusually large for the typical customer or for the AD/ADLA branch (e.g a branch in a remote location usually dealing in smaller amounts suddenly has this large value to process);
k. The transaction has no apparent purpose or no obvious economic/financial basis;
l. Unnecessary routing of funds through third parties (for example, giving a Namibian national a Gift of funds and the receiver remits such funds as Gift to others);
m. The customer uses intermediaries which are not subject to adequate AML Laws (for example, the foreign nationals using locals to remit Gifts on their behalf, owing to lesser AML controls for locals remitting such);
n. A customer sends/receives funds to/from him/herself, for no apparent purpose;
o. There is no genuine reason for the customer to use the services of an AD/ADLA business (for example, those remitting funds for their Customs Clearing businesses);
p. Customers send or receive (regular) payments from countries which are regarded as “tax havens” or non co-operating;
q. One person receives sums from many persons (from various countries/or from the same country);
r. Many persons (who have no obvious blood/business relation) are beneficial owners of transfers ordered by one person;
s. An under-aged person receives funds from many legal/natural persons and/or from different locations;
t. A customer sends/receives funds to/from counterparts located in jurisdictions which are known to be exposed to risks of, *i.e.* drug trafficking, terrorism financing, smuggling etc;
u. The customer reads from a note he apparently did not write himself;
v. The customer receives instructions from others;
w. The customer appears to be in doubt when asked for further details;
x. Difficulty in obtaining details of the beneficial owners;

y. No relationship between sender and beneficiary;

z. Non face-to-face customers that are not physically present for identification purposes;

aa. Transactions are accompanied by information which appears clearly false or contradictory;

bb. The customer is accompanied by others who keep a low profile or stay just outside the AD/ADLA;

cc. The customer is unwilling to provide routine information when requested or the information provided is insufficient, false, or hard for the AD/ADLA to verify;

dd. No or limited information about the origin of funds;

ee. The explanation for activity and/or the funds involved is not credible;

ff. The following are especially for ADs that manage client accounts:

  - Electronic transfers involving large sums of money does not include data allowing for the clear identification of such transactions;
  - Rounded deposits of funds are followed by like-amount wire transfers;
  - The supporting documentation does not add validity to the other information provided by the customer;
  - The customer is in a hurry to rush a transaction through, with promises to provide the supporting information later;
  - Correspondence is to be sent to another person than the customer;
  - The customer needs information on what has been deposited in the account before a large cash withdrawal or transfer to abroad;
  - Form is filled in advance;
  - The pattern of transactions has changed since the business relationship was established;
  - Money transfers to high-risk jurisdictions without reasonable explanation, which are not consistent with the customer's usual foreign business dealings;
  - Sudden increases in the frequency/value of transactions of a particular customer without reasonable explanation;
  - Instruction on the form of payment changes suddenly just before the transaction goes through; and

- The customer, without a plausible reason, repeatedly goes to agents located far from his/her place of residence or work.

13.2 Indicators related to transactions in which Cash is involved

a. Unusually large cash payments in circumstances where payment would normally be made by cheque, bank draft, etc (especially for ADs);
b. Cash is in used notes and/or small denominations (possible indication that the money originates from the criminal offence);
c. Customer refuses to disclose the source of cash;
d. Customer has made an unusual request for collection or delivery;
e. Banknotes brought by customer are in small denominations and dirty; stains on the notes indicating that the funds have been carried or concealed, or the notes smell musty are, packaged carelessly and precipitately; when the funds are counted, there is a substantial difference between the actual amount and the amount indicated by the customer (over or under); detection of counterfeit banknotes in the amount to be transferred or exchanged; and
f. Depositing funds in cash with further transfer of funds to other person on the same or next day (especially for ADs).

13.3 Indicators related to customer profile and behaviour

a. Customer's area of residence is inconsistent with other profile details such as employment;
b. The size or frequency of the transaction(s) is not consistent with the normal activities of the customer;
c. The customer's address is a post office box or a c/o address;
d. The customer's address is that of a company service provider (domiciliation service);
e. The customer's address information is difficult to verify;
f. The postal address for correspondence differs from the customer's official address;
g. The stated address does not exist;

h. A large number of persons are registered at the stated address, or there are a very large number of changing occupants, or other information is available indicating that it is not the real address of residence or domicile;
i. The address of customer's residence does not correspond to the customer's financial arrangements;
j. The customer changes address frequently (especially for ADs);
k. The customer cannot immediately provide additional identification documents;
l. Identification documents appear to be unused;
m. Identification documents are soiled making it difficult to read the necessary information;
n. The customer is known to have a criminal past;
o. The customer is close to a person who is known to have a criminal past;
p. Sudden change in the customer's life style;
q. The customer drives very expensive cars that do not correspond to his income situation; and
r. The customer hires or leases costly assets (*e.g.,* real estate or cars) that do not correspond to his income situation (if known).

13.4 Indicators related to customer behaviour

a. The customer is unwilling to provide details of his/her identity information and references;
b. The customer needs information on what has been deposited in the account before a large cash withdrawal or transfer to abroad;
c. Use of false identity documents to send money;
d. Customer changes a transaction after learning that he/she must show ID;
e. The customer shows no interest in costs or interests;
f. The customer does not choose the simplest way to carry out a transaction;
g. The customer has no connection with the area where the customer relationship is established;

h. Transaction is a price-raising link in a series of transactions with no obvious reasons for the choice;
i. The customer gives a rather detailed explanation that appears to be rehearsed concerning the reasons for the customer relationship or the transaction;
j. The customer does not respond to letters to the stated address (especially for ADs);
k. The customer has many newly established companies (especially for ADs);
l. The customer contracts a loan secured on lodging of equivalent security (especially for ADs);
m. The customer has companies abroad that are not justified by the customer's business (especially for ADs);
n. The customer explains that expensive assets are a loan from or financed by a third party (especially for ADs);
o. The customer uses a payment card from a country which is not his country of residence (especially for ADs);
p. Further indicators pertaining to customer behaviour:
    - Unusual large cash payments in circumstances where payment would normally be made by cheque, banker's draft, etc;
    - Transfers of funds without underlying transactions;
    - Personal remittances sent to jurisdictions that do not have an apparent family or business link;
    - Personal funds sent at a time not associated with salary payments;
    - The customer seems only after the counting to know which amount is being transferred;
    - The customer shows no interest in the transfer costs;
    - The customer has no relation to the country where he/she sends/receives the money and cannot sufficiently explain why money is sent there/received from there;
    - The customer has a note with information about payee but is hesitating if asked whether to mention the purpose of payment;
    - Use of groups of people to send money;

- Use of different money remittance businesses;
- There is not relationship between sender and the beneficial owner;
- Receiving money from different parts of the world (developed countries) from different people;
- Money is received during short periods of time;
- Money is received from different money remittance companies;
- Money is withdrawn in cash (this should be a concern for ADs); and
- Multiple senders toward a single individual.