



Financial
Intelligence Centre

The role of the FIC and possibilities to
co-operate with the Insurance Industry.

The Insurance Crime Bureau
Annual Conference 2018

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The role of the FIC



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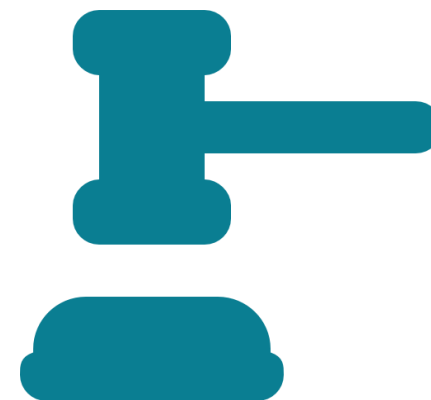
Sharing of information



Statistics



Conclusion



Legislative mandate related to Money Laundering (ML) and Terror Financing (TF) - SA

The Financial Intelligence Centre was established in terms of the Financial Intelligence Centre Act (Act 38 of 2001) which placed obligations on financial institutions and other businesses deemed vulnerable to money laundering. The Act works in conjunction with:

The Prevention of Organised Crime Act (Act 121 of 1998) [POCA]

Introduced the crime of money laundering and set the penalties associated with a conviction.

The Protection of Constitutional Democracy Against Terrorist and Related Activities Act (Act 33 of 2004) [POCDATARA]

Introduced measures to address the financing of acts of terrorism.

The South African Police Service Act (Act 68 of 1995)

Functions of SAPS:
SA internal security, maintain law and order, investigate offences and prevention of crime

The National Strategic Intelligence Act (Act 39 of 1994)

Legislative mandate of the FIC



The FICA
established the FIC
to:

Identify the
proceeds of
unlawful activities

Combat **money
laundering**
activities and the
**financing of
terrorist** and related
activities

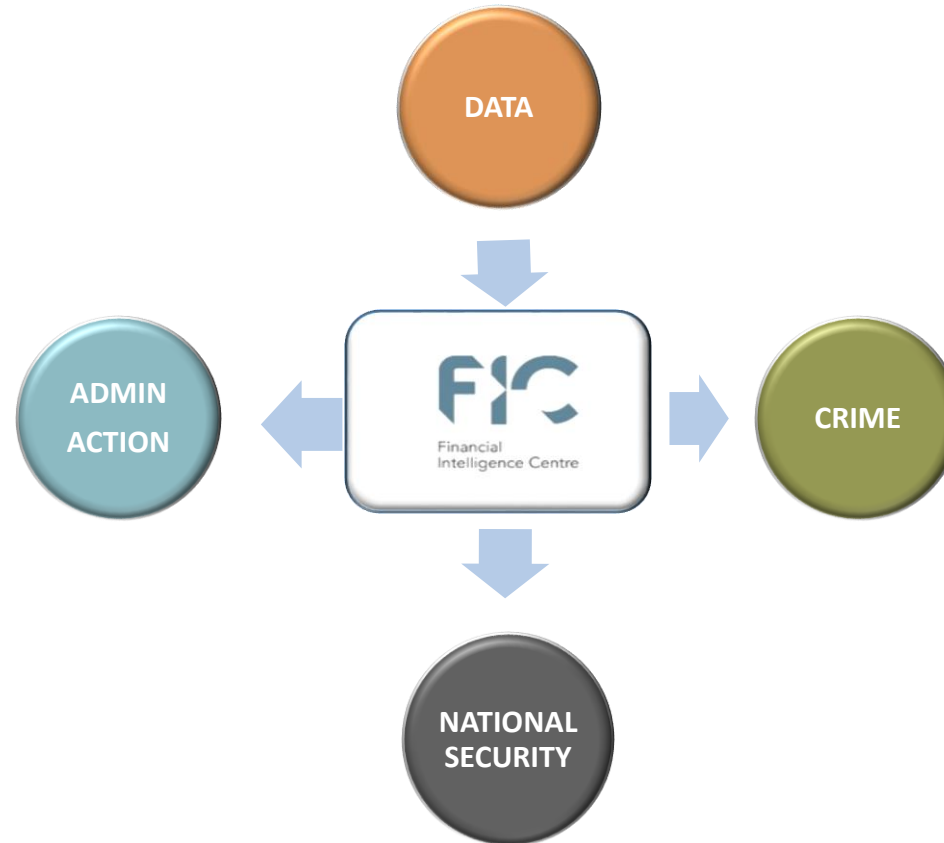
Share information
with

- law enforcement authorities,
- supervisory bodies,
- intelligence services,
- SARS and
- other international agencies

Supervise and
enforce **compliance**
with the FIC Act

Stakeholders

- Accountable Institutions (AIs)
- Reporting Institutions (RIs)
- Government Departments (CIPC, DHA, NT, SARB)
- Data Providers (Experian, Compuscan)
- SABRIC/SAFPS/SAICB

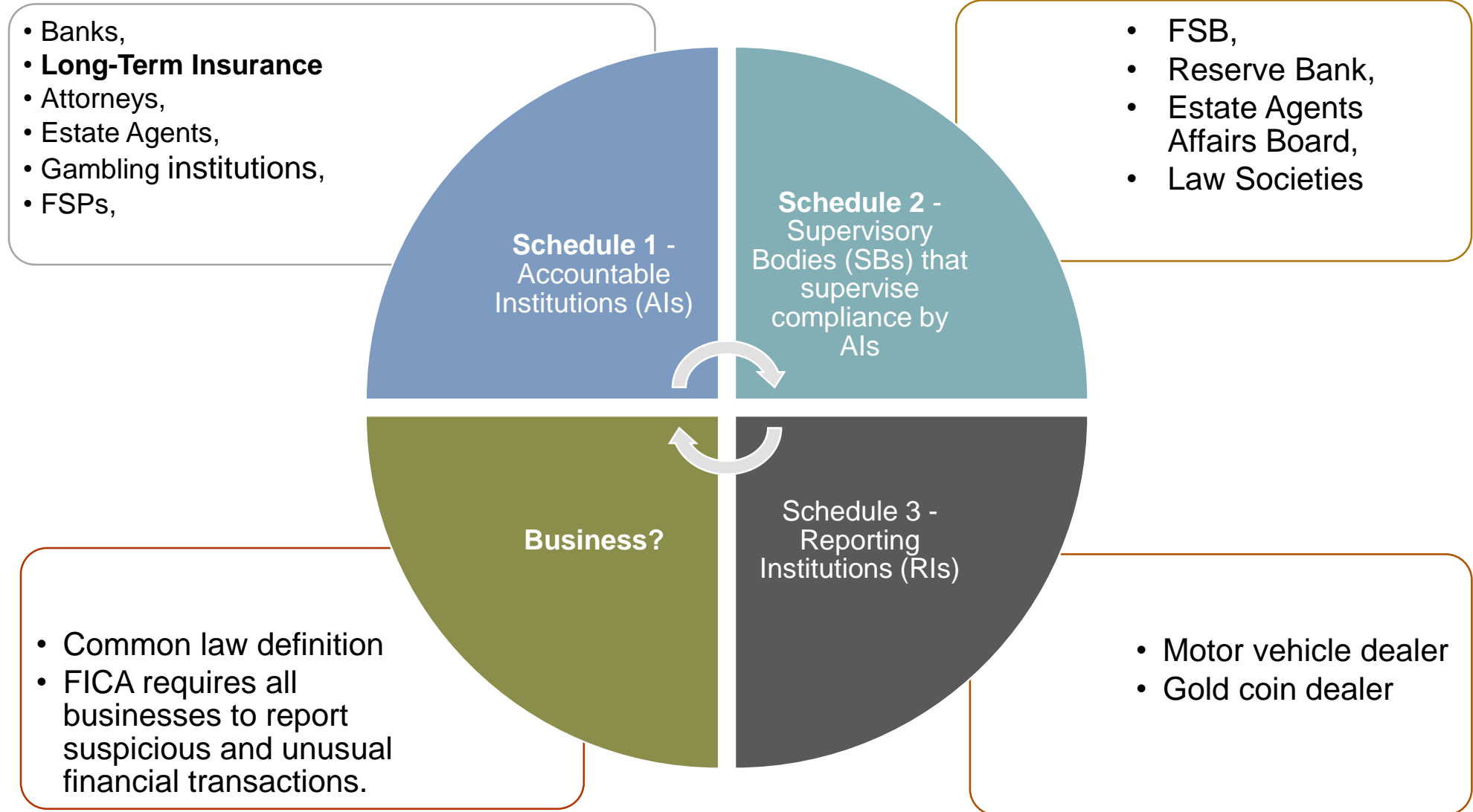


- South African Revenue Services (SARS)
- Special Investigation Unit (SIU)
- Public Protector (PP)
- Supervisory Bodies (SARB, FSB)
- National Treasury
- Department of Trade and Industry
- Auditor General

- SA Police Service
 - Directorate Priority Crime Investigation (DPCI)
 - Anti-Corruption Task Team (ACTT)
 - General Detectives
- National Prosecuting Authority (NPA)
 - Asset Forfeiture Unit (AFU)
- Independent Police Investigative Directorate (IPID)
- Department of Environmental Affairs
- Department of Home Affairs (Investigations)
- Department of Correctional Services (DCS)

- National Intelligence Coordinating Committee (NICOC)
- State Security Agency (SSA)
- Defence Intelligence
- Foreign FIUs (Egmont Group)

Who needs to comply with FICA? (CATEGORIES OF ENTITIES – DIFFERENT OBLIGATIONS)



7 pillars of compliance

Compliance with FICA

Section 43B:

Registration with the FIC

Offence →
Section 61A

Section 42A:

Appoint a compliance officer

Offence →
section 62(b)

Section 42:

Formulate & Implement Internal Rules

Offence →
section 61

Section 43(:

Training of employees

Offence →
section 61(a)

Section 21:

Client identification and verification

Offence →
section 46

Section 22:

Record keeping

Offence →
section 47

Section 28
CTR
Section 28A
TPR
Section 29 -
STR:

Reporting

Offences →
Section 51,
51A & 52



Money laundering vulnerabilities - international perspective

- FATF Typologies Report (2004 - 2005) covers money laundering vulnerabilities in the insurance sector.
- The report indicates that the insurance sector could be attractive to money launderers seeking to place funds into a financial product offering a reliable, clean return on investment.
- It further states that if a money launderer is able to move funds into an insurance product and receive a payment made by an insurance company then the funds appear legitimate.
- Overall picture of the insurance sector is that of a rapidly expanding and substantial market, with insurers offering sophisticated products and competing with other parts of the financial services industry.

What is the real money laundering risk in Long-Term insurance?

- | | |
|--|--|
| <ul style="list-style-type: none">• Risk?• Industry generates a massive flow of funds—some of it might not be as clean as we would like to think• Which life insurance products (and product features/options) might be (ab)used?<ul style="list-style-type: none">• Purchase of (investment type) Single Premium Policies• Annuity Policies,• Purchase of High Regular Premium Savings policies.• Refund of Premiums during the cooling off period or deliberate overpaying of premiums.• Surrenders/Redemptions/Withdrawals:• Top-Ups• Policy loans• Transferring ownership/designating beneficiary. | <ul style="list-style-type: none">• Using Single Premium policies as collateral for bank loans• Secondary life market• The nature of the insurance business that keeps these launderers away• It must be appreciated that insurance is a risk transfer mechanism, and that as a natural consequence insurers need to analyse each risk they are taking on whether such risk assessment is done via appropriate IT systems or by trained underwriters. Underwriters carry out (risk-based) risk assessments (e.g., financial underwriting) on applicants.• Even at claims stage, claims assessors are trained to look out for potential insurance fraud risk factors which are very similar to potential money laundering risk factors. |
|--|--|



Short-term Insurance Industry - Proposed inclusion and benefits of regulating them

- Short-term insurers are a rich source of information on beneficial ownership for South African law enforcement. This is particularly so in instances where assets are registered in the names of friends or relatives to conceal their origin and real ownership.
- Suspicious Transaction Reports (STRs) filed by the short-term insurance sector will enable tracking of criminal trends within the insurance industry thereby assisting the FIC and the industry in its fight against fraud, corruption, ML and TF
- Regulating the short-term insurance sector will ensure greater transparency on a wider range of high risk financial products/transactions

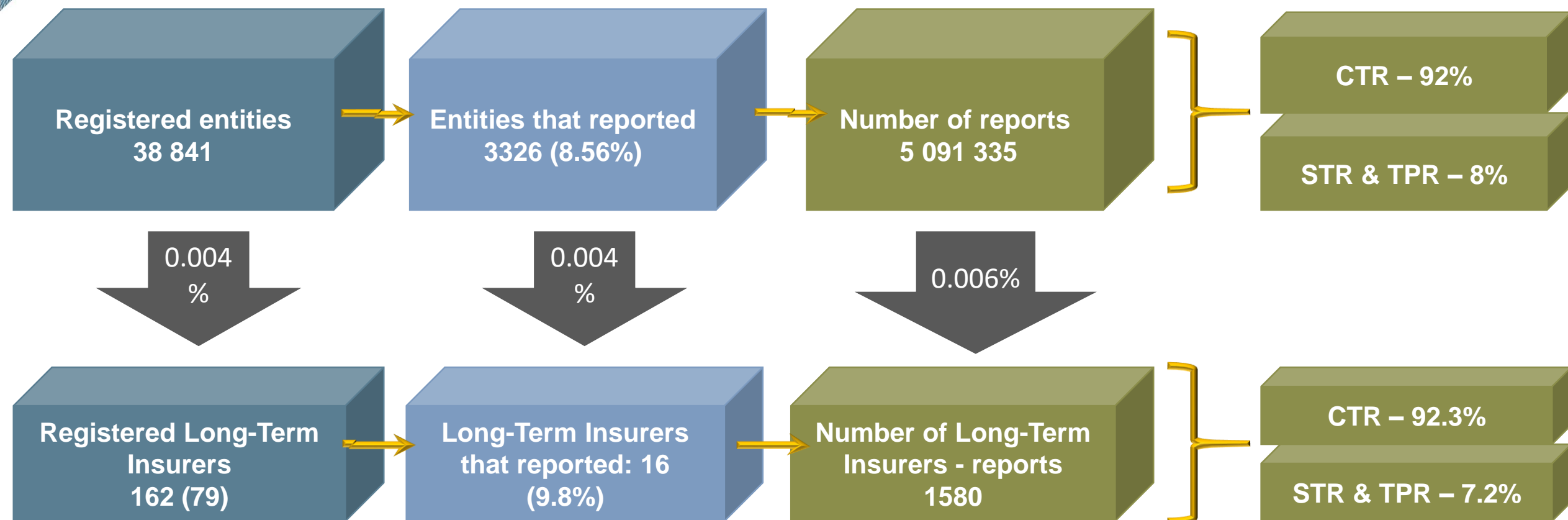


Short-term Insurance Industry - Proposed inclusion and benefits of regulating them

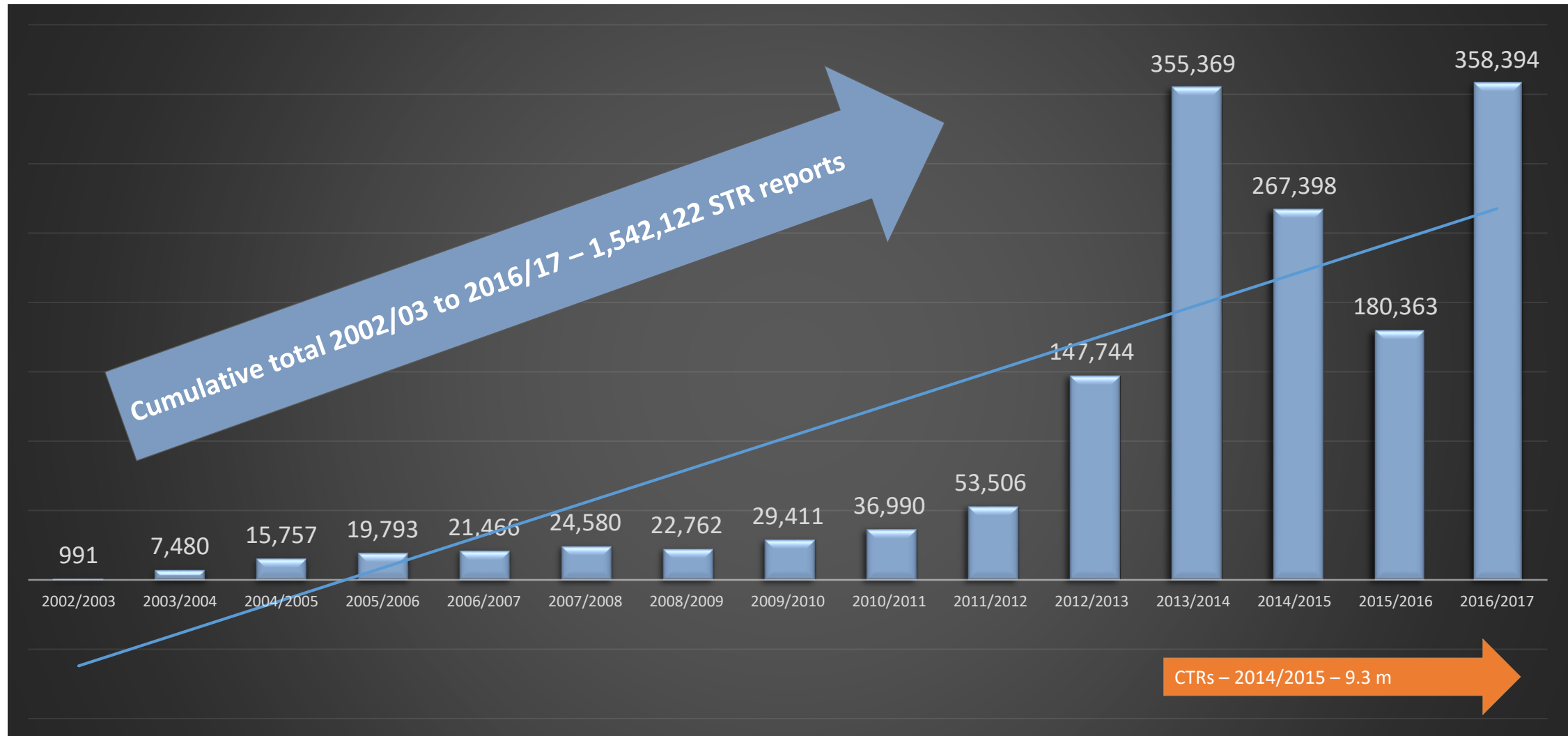
The information held by the short-term insurance industry is invaluable:

- High-value assets insured should attract high levels of scrutiny and the information gleaned from this could be useful in the fight against money laundering and the financing of terrorism.
- Abnormalities in individual profiles such as sudden purchases and insurance of high-value goods such as jewellery, boats, real estate, artwork, antiques, precious metals and stones, should result in STRs being filed with the FIC. This would also assist the FIC in following up with the suppliers of such goods on the spending patterns of their clients.
- Insurance documents, such as contracts, policy schedules, claims histories and the names and bank details of the insured or beneficiary could provide intelligence on unknown individuals linked to subjects of interest.

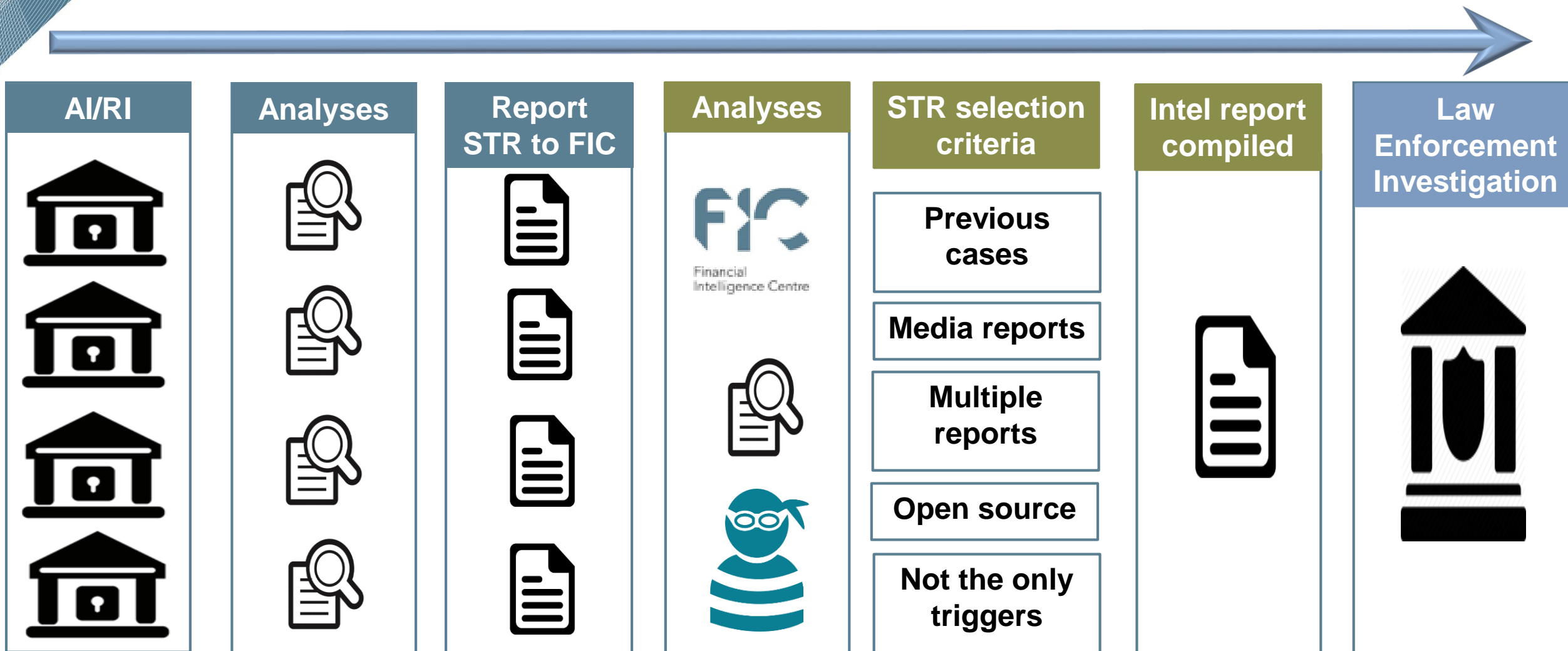
REPORTING: 1 April 2016 to 31 March 2017



Suspicious and unusual transaction reporting the last 15 years



STR value chain



Operational Focus

- Focus on **National Security** in relation to: Threats to the authority of the state, territorial integrity of the Republic, well-being & safety of South Africans, economy of the Republic and security challenges from foreign terrain

Crimes
against the
State (CATS)

- Narcotics, Illicit Mining, Precious Metals and Diamonds, Non-ferrous metals, Environmental crime, Specific Violent Crime, Human Migration, Vehicle related crimes, Firearm related crimes

Organised
Crime

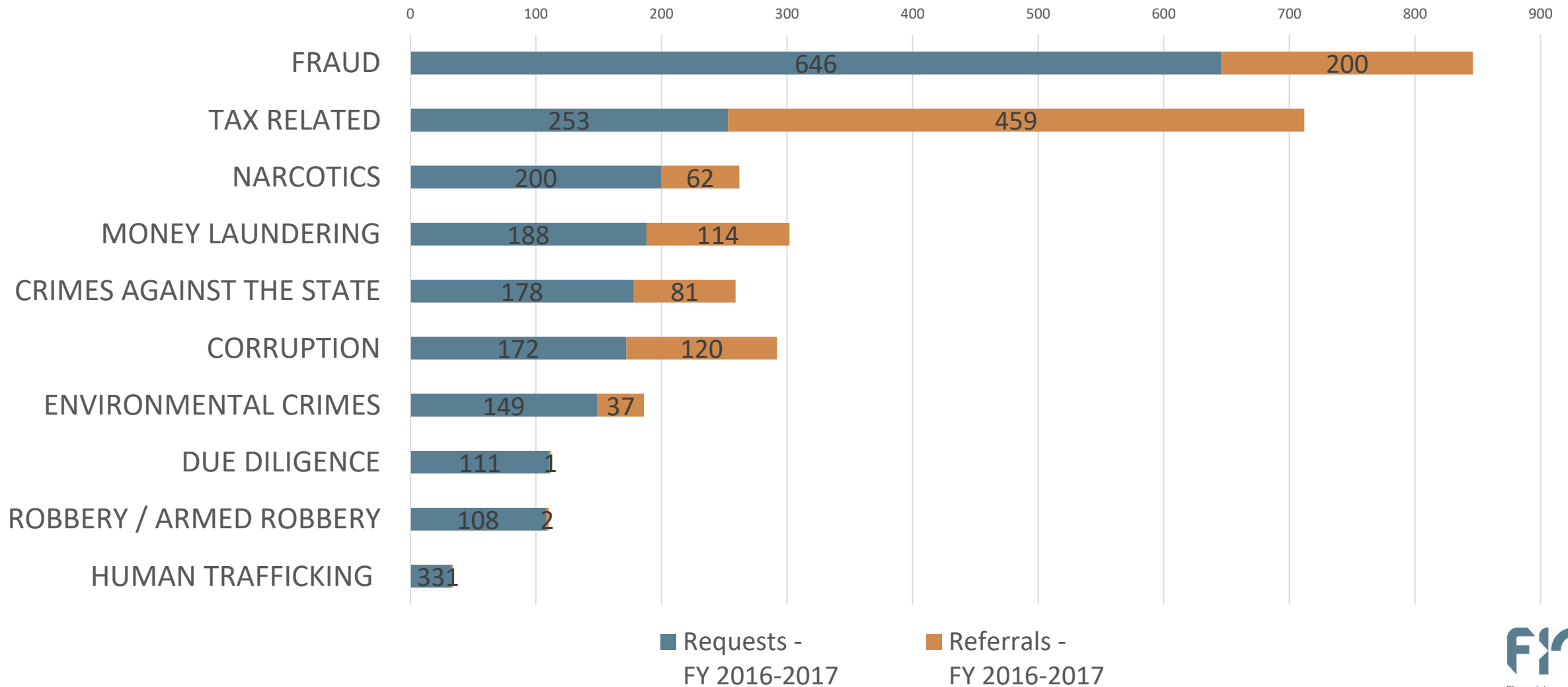
Commercial
Crime

- Corruption, Cyber/Electronic Fraud, Serious Economic Offences, Serious Fraud, Illicit Tobacco

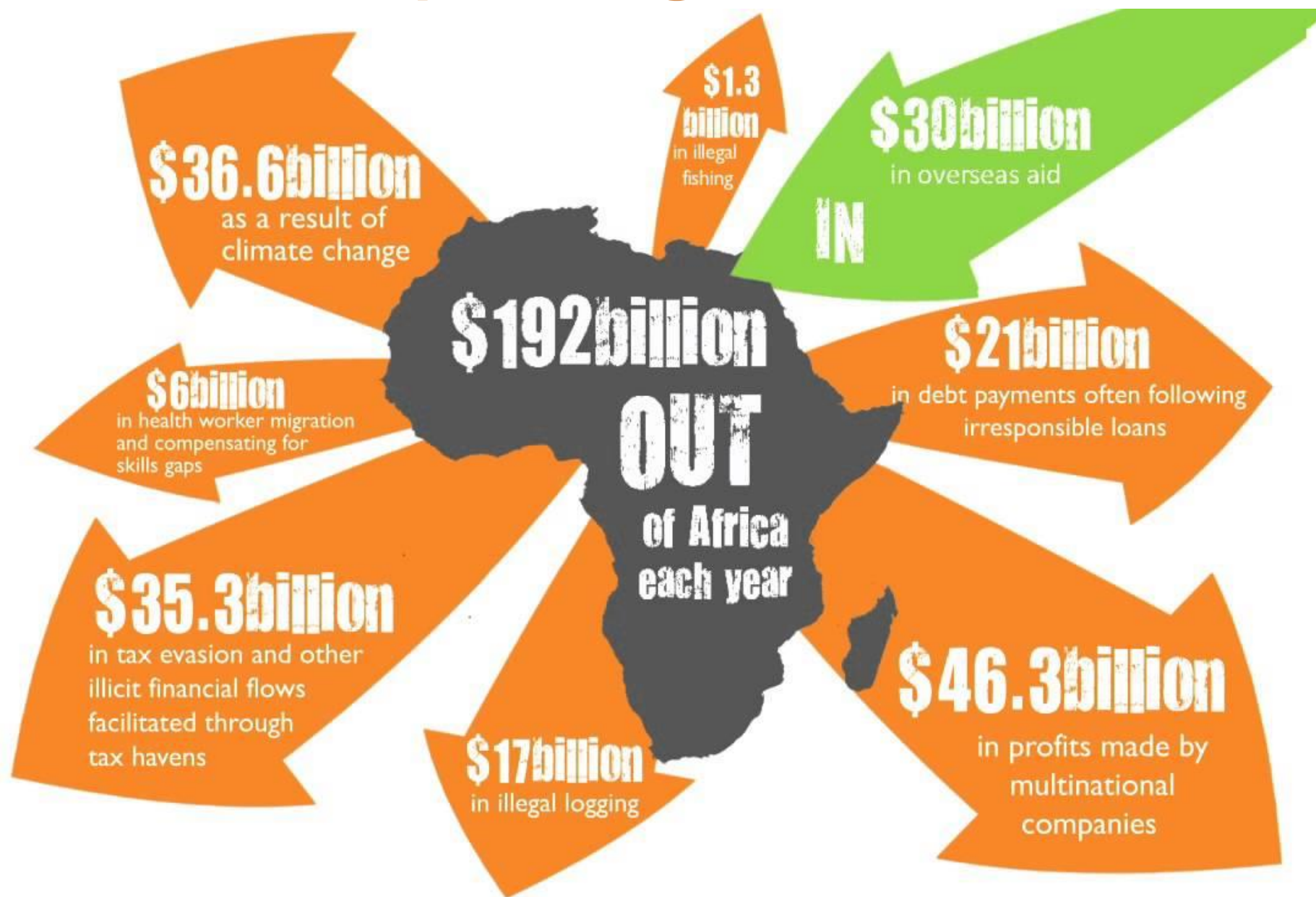
International
Cooperation

- Sharing of information with other FIUs globally.

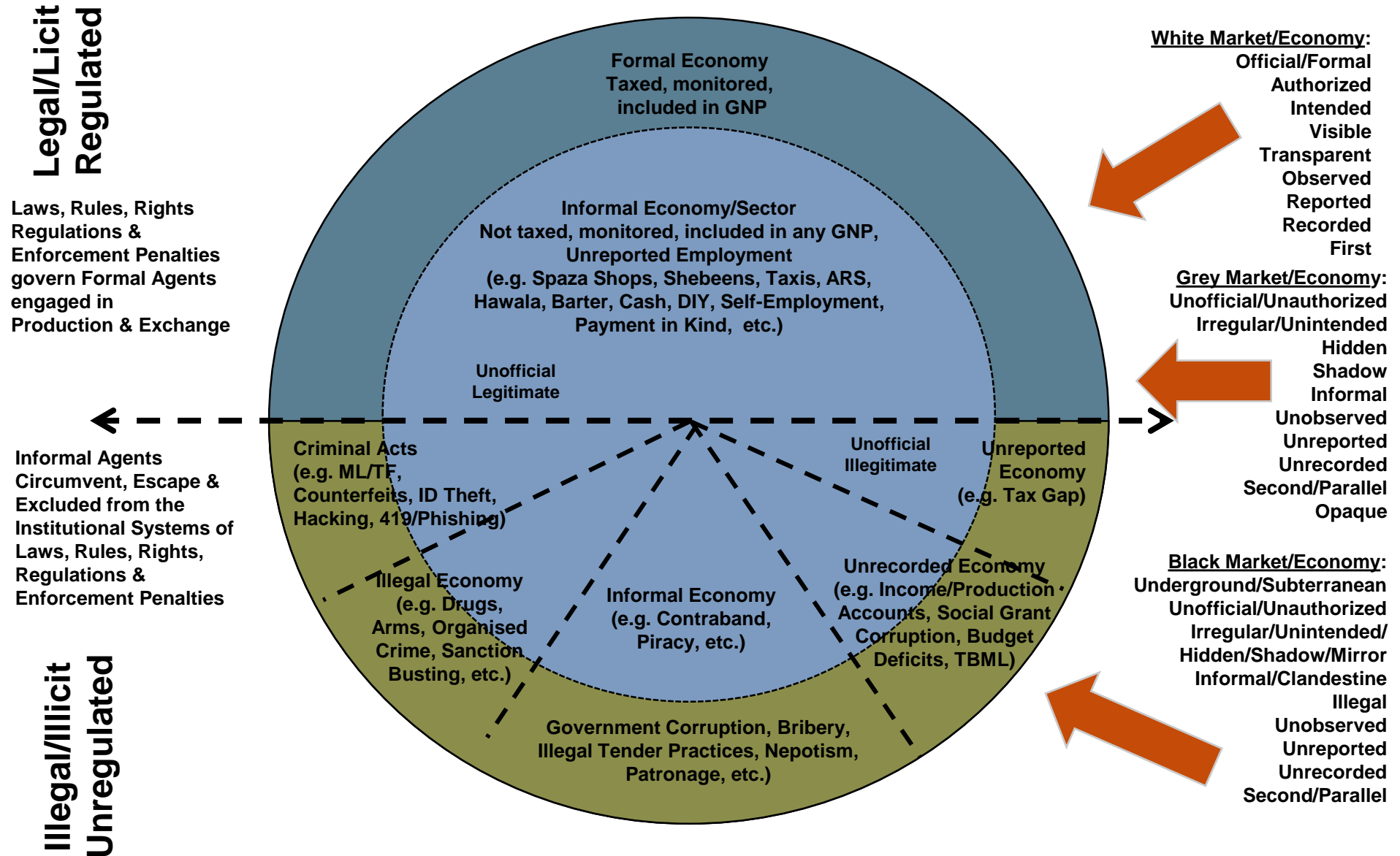
Top 10 themes - Requests responded to and Referrals made Financial Year 2016-2017



Illicit Capital Flight from Africa



Formal / Informal economy

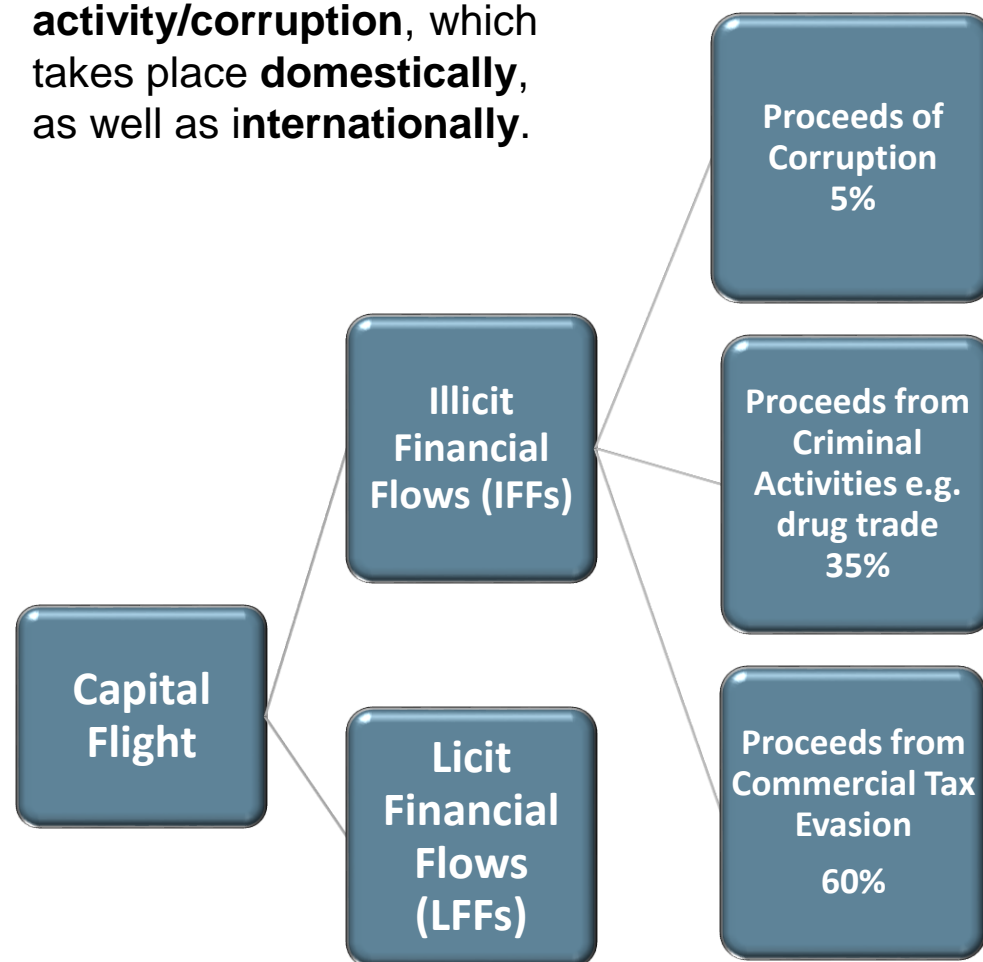


What are IFFs: Definition

Defining Illicit Financial Flows

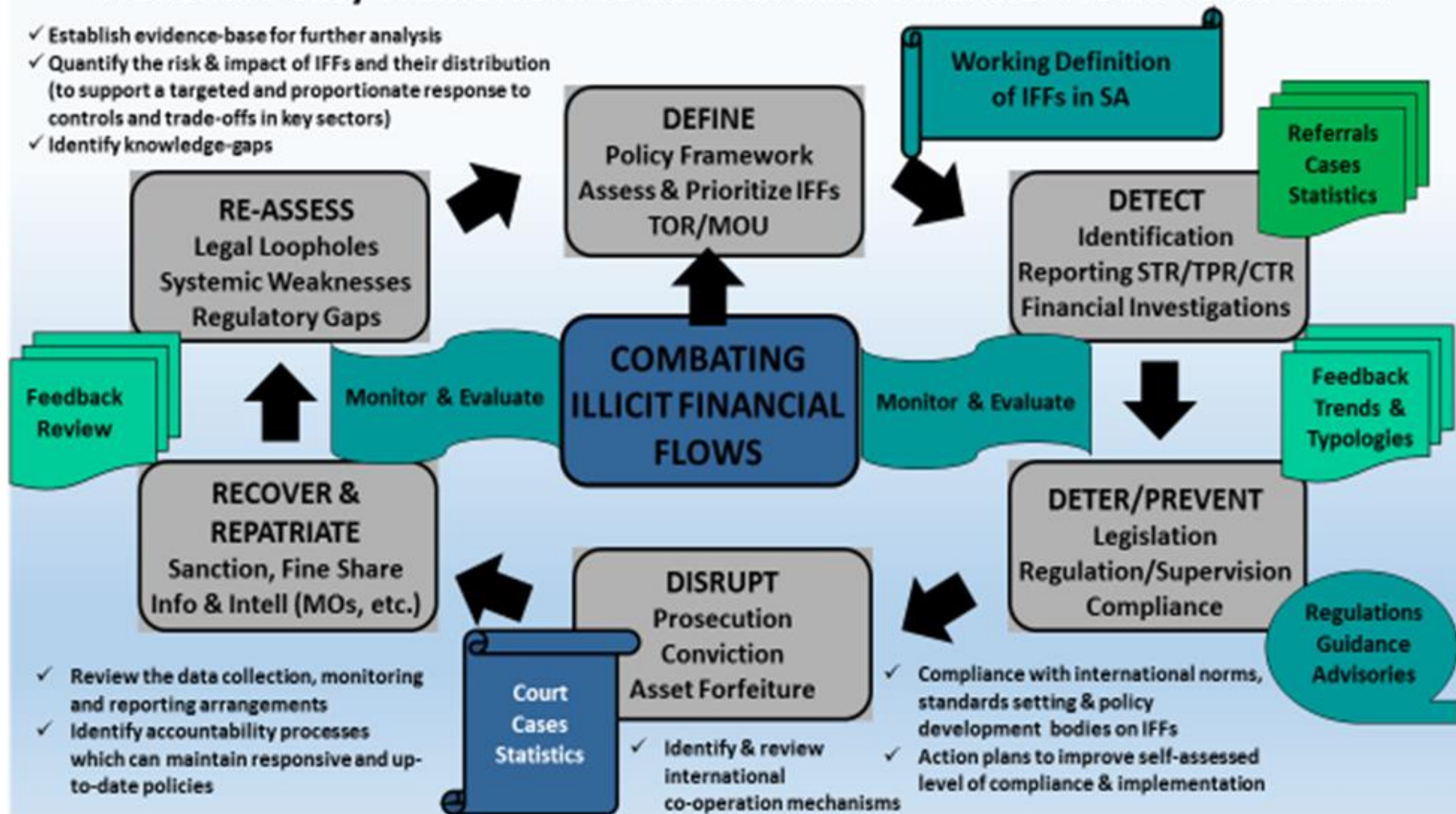
- Dev Kar, lead economist at **Global Financial Integrity (GFI)**, defines IFFs or illicit money as “money that is **illegally earned, transferred, or utilised**. Somewhere at its origin, movement, or use, the money broke laws and hence it is considered illicit.”
- **United Nations Development Programme (UNDP)**, definition: “include, but are not limited to, cross-border transfers of the proceeds of **tax evasion, corruption, trade in contraband goods, and criminal activities** such as drug trafficking and counterfeiting.”
- In **extractive sectors**, these flows mostly originate from **corruption, illegal resource exploitation and tax evasion (including smuggling and transfer mispricing)**.

- IFFs are understood as the **international flow** component of **illegal activity/corruption**, which takes place **domestically**, as well as **internationally**.



National Policy Framework to Combat Illicit Financial Flows Value Chain

- ✓ Establish evidence-base for further analysis
- ✓ Quantify the risk & impact of IFFs and their distribution (to support a targeted and proportionate response to controls and trade-offs in key sectors)
- ✓ Identify knowledge-gaps





INTER-AGENCY WORKING GROUP ON ILLICIT FINANCIAL FLOWS



- The Inter Agency Working Group (IAWG) (created in 2017) on Illicit Financial Flows (IFFs) has been mandated by the principals as an inter agency structure of several South African government agencies tasked with collaborating to tackle illicit financial flows as it relates to the South African jurisdiction.
- Primary Objectives:
 - Implementation of the Approved Work Plan;
 - Oversee Risk Management;
 - Oversee Monitoring of Statistics Regarding IFF



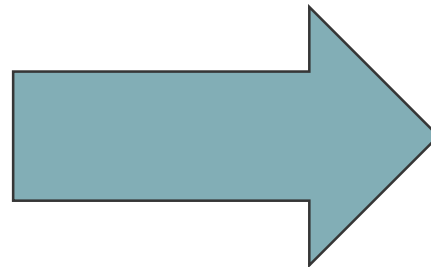
INTER AGENCY WORKING GROUP ON ILLICIT FINANCIAL FLOWS

Composition of IAWG - The IAWG shall comprise of the IAWG Chairperson (FIC) and such permanent representatives of each constituent agency as nominated in writing by their respective principals, in respect of the constituent agencies, as follows:

- National Prosecuting Authority;
- Asset Forfeiture Unit of NPA ;
- SIU;
- SAPS / DPCI;
- SARS;
- SARB Bank Supervision;
- SARB Financial Surveillance;
- Financial Services Board;
- Financial Intelligence Centre.

Case Studies

Using financial intelligence to combat crime





Case studies → Lessons learned



- Proper **analysis of bank accounts** reveal a lot – Cash flow analysis – charting in association chart
- Acquiring of **high value assets** (expensive houses and motor vehicles) via third parties
- **Concealment** within company **structures** and relatives (family members) - Using business ventures as a front for ML activities
- Usage of **third parties' accounts** to hide proceeds of crime (spouses' accounts)
- Large cash deposits into accounts and **rapid withdrawals** (proceeds of the crime)



Case studies → Lessons learned



- **Structuring of the funds** into accounts by making cash deposits at different branches so as to avoid raising suspicions
- Rapid movement through **multiple accounts**
- Transacting pattern **inconsistent with client's profile** - Change of account behavior without explanation
- **Early settlement** of ABF (asset based finance) accounts
- **Dormant accounts** received sudden huge deposits and rapid withdrawals
- Need for **collaboration and to coordinate** investigation steps

Access to the information held by the FIC.

Section 40 - In essence, the FIC makes information reported to it, and information obtained in terms of its mandate, available at its initiative or upon receipt of requests from specified stakeholders including investigating authorities, SARS, intelligence services and supervisory bodies in terms of the FIC Act.

FIC share
info with AO
at or
in terms of:

- an **investigating authority** in the Republic (defined in Section 1 as “investigating authority” means an authority that in terms of national legislation may investigate unlawful activities);
- the **National Prosecuting Authority**;
- the **Independent Police Investigative Directorate**;
- an **intelligence** service;
- the Intelligence Division of the National **Defence Force**;
- a **Special Investigating Unit**;
- an **investigative division** in an organ of state;
- the **Public Protector**;
- the South African Revenue Service;
- an entity **outside the Republic** performing similar functions to those of the Centre, or an investigating authority outside the Republic;
- a supervisory body;
- a person who is entitled to receive such information in terms of an **order of a court**; or
- person who is entitled to receive such information in terms of other **national legislation**.

Statistical information



Conclusion



- The FIC provides its clients with products and services resulting from its analysis, interpretation and representation of financial information in a manner that **enables** law enforcement authorities to **identify evidence** that can be used in a South African court of law .
- These services are performed to **support law enforcement and security agencies** in their efforts to prove crime and involve in-depth planning and coordination.
- The FIC gathers and receives information internationally through a network of financial intelligence units.
- The FIC is primarily mandated to **produce financial intelligence** that typically:
 - Produces **strategic intelligence** that contributes to shaping policy and positions.
 - Produces **operational intelligence** that assists in decision-making and planning on topical or defined issues.
 - **Identifies crimes and perpetrators** and the assets derived from proceeds of crime.

End

