



Financial
Intelligence Centre

Anti-Money Laundering and Counter-Terrorism Financing Workshop

What happens with the intelligence that is gathered?

Monitoring and Analysis
February 2019

Purpose of the presentation

- **Provide some background on the FIC and its activities**
- **Provide an overview of the environment in which the Investment Advisor or Intermediaries industry operates**
- **Provide data on statutory reporting as submitted to the FIC**
- **Focus on the vulnerabilities, threats with regards to money laundering and terror financing activities.**
- **Illustrate how these reports are used to combat crime.**

Presentation outline

- Why do we need collaboration?
- Anti-Money Laundering (AML)/Counter-Terrorism Financing (CTF) Framework
- The FIC and why crime concerns it
- Value chain and FIC's involvement
- Stakeholders
- Reporting
- FIC's contribution to investigations
- Case studies
- Statistical overview
- Observations and Way Forward



Why do we need collaboration?



- **Destruction** caused by financial crimes:
 - An average of 3.1% of annual **turnover** is spent on combating financial crimes; and
 - 47% of respondents have been **victims of financial crime** over the last 12 months*.
- Financial crime and professional money laundering schemes have become more **complex and sophisticated** to bypass the AML/CFT controls that have been put in place.
- On the other hand, **terrorists** are using **small amounts of money** to inflict great amounts of damage, and as a result, TF is becoming harder to detect.
- Partnerships between government and the private sector can help both parties more **effectively safeguard their financial systems** against misuse by criminal organisations or terrorists.
- Addressing these more complex issues requires **proactive engagement** between government and the private sector.

*Revealing the true costs of Financial Crime” - Thomson Reuters 2018 Survey Report

Anti-Money Laundering (AML)/Counter-Terrorism Financing (CTF) → Framework

Money laundering is the taking of criminal proceeds and disguising its illegal origin in order to use the funds to perform legal or illegal acts.

Financing of Terrorism (TF)

The solicitation, collection and provision of funds to support terrorists, their acts and organisations. They want to conceal both the financing and the nature of the activity being financed.

Global

Financial Action Task Force (FATF)
intergovernmental body focusing on combating ML and TF. It is a **policy making and standard setting** body (IMF and World Bank).



Domestic

Financial Intelligence Centre Act (Act 38 of 2001) – [FICA] established the FIC and placed obligations on **accountable institutions** and other businesses deemed vulnerable to money laundering.

The Prevention of Organised Crime Act (Act 121 of 1998) [POCA] - Introduced the crime of ML and sets 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.

Client identification and verification (RBA) [s21]

Record keeping [s22]

Reporting [s28, 28A, S29]
STRs, CTRs, TPRs

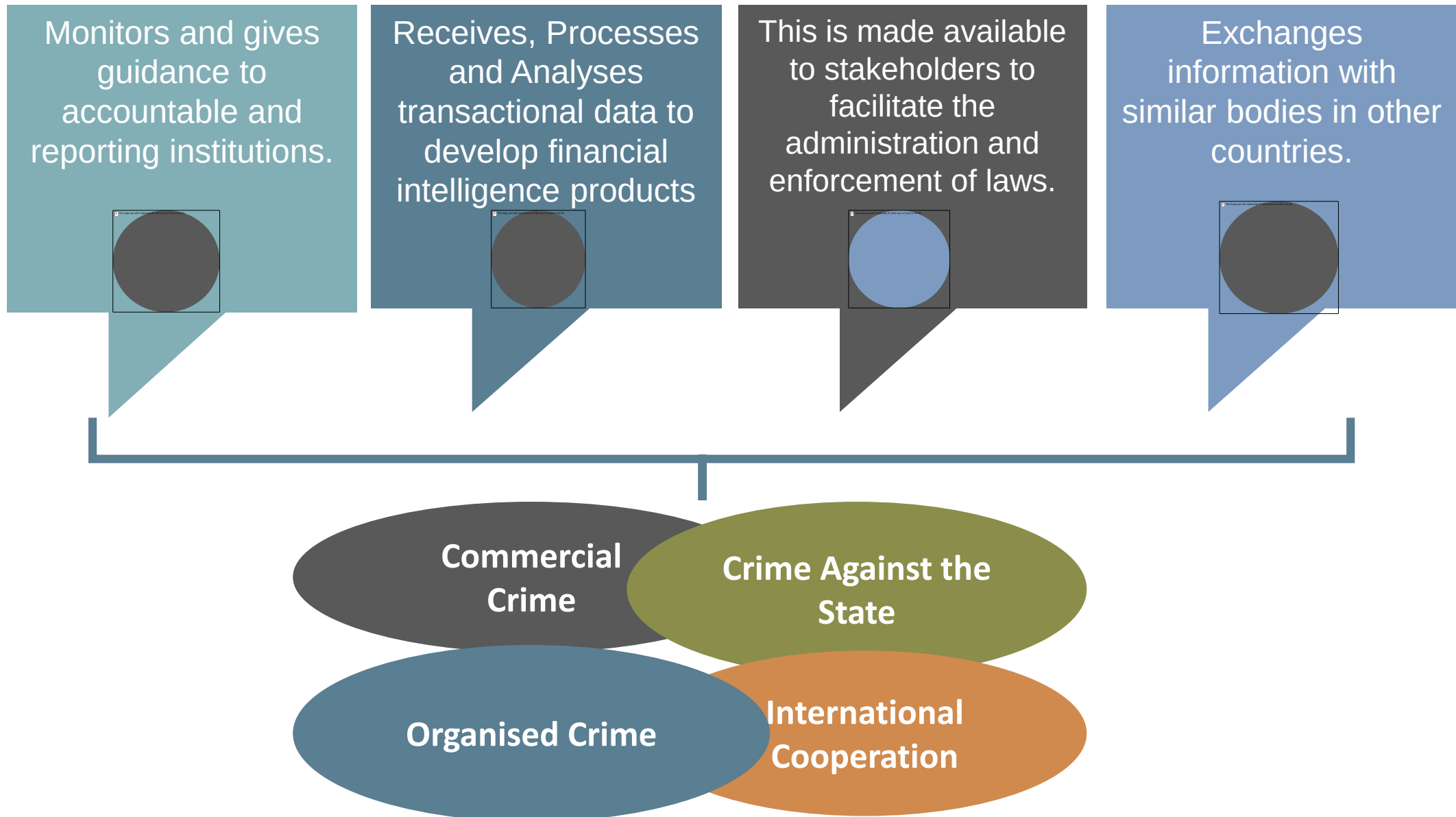
Risk Management
Compliance Program
(RBA) [s42]

Competent person to
ensure effective
compliance [s42A]

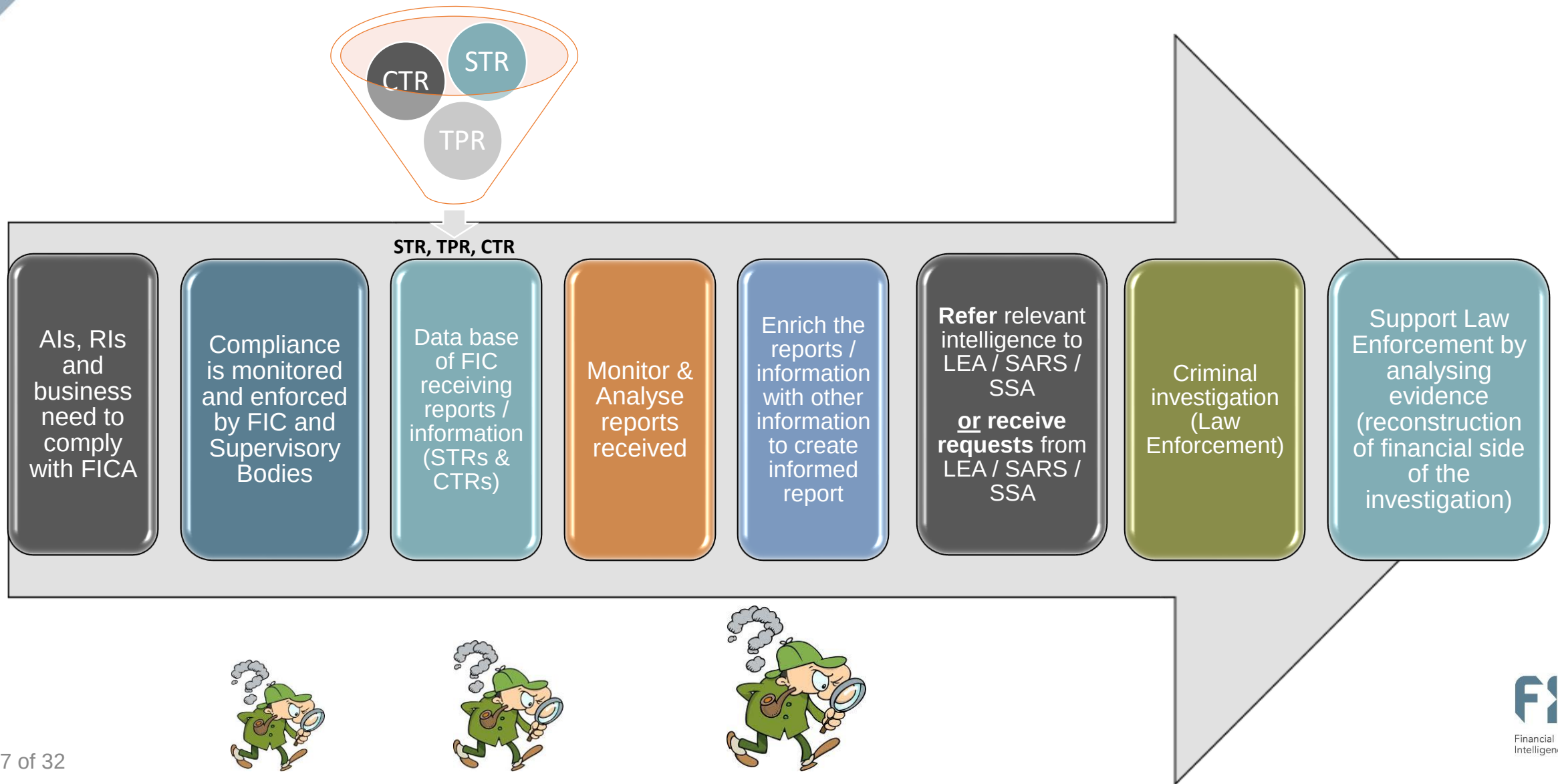
Ongoing training of
employees [s43]

Registration with FIC
AI; RI - [s43B]

The FIC and why crime concerns it

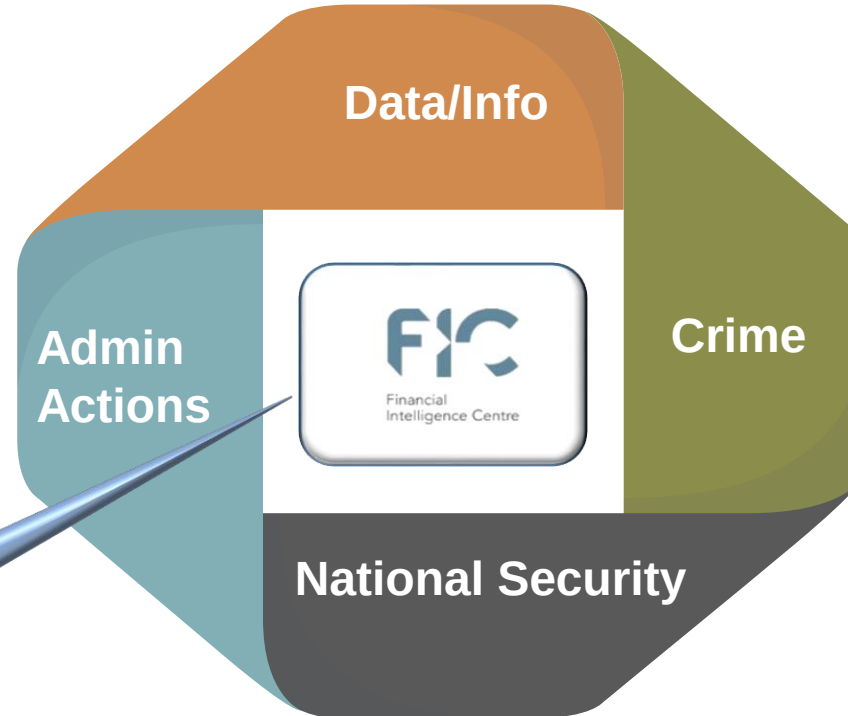


Value chain and the FIC's involvement



Stakeholders

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



- South African Revenue Services (SARS)
- Special Investigating Unit (SIU)
- Public Protector (PP)
- Supervisory Bodies (SARB, FSB)
- National Treasury
- Commissions of Inquiry

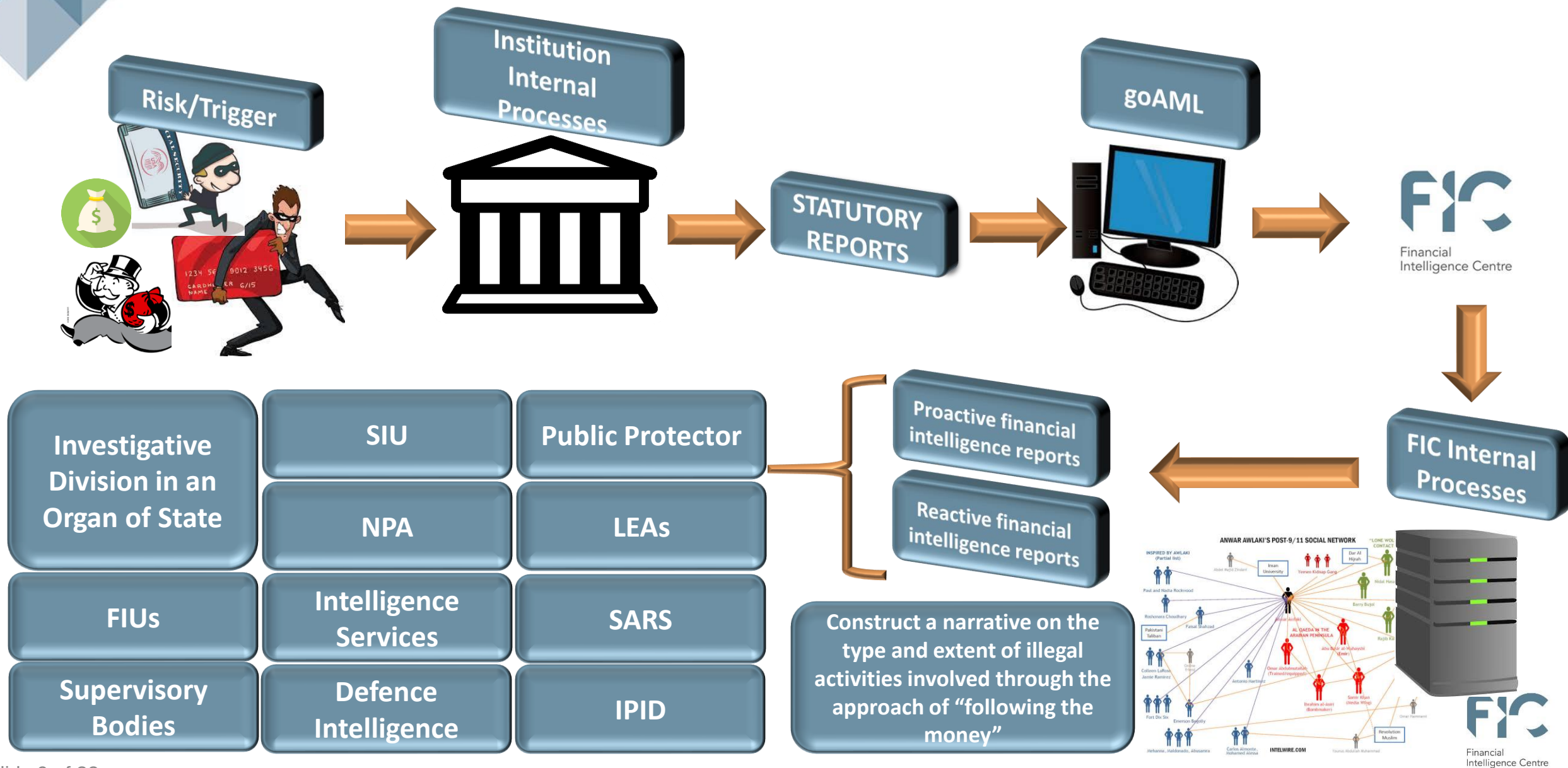
Provide intelligence upon
REQUEST or at the
INITIATIVE of the FIC

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

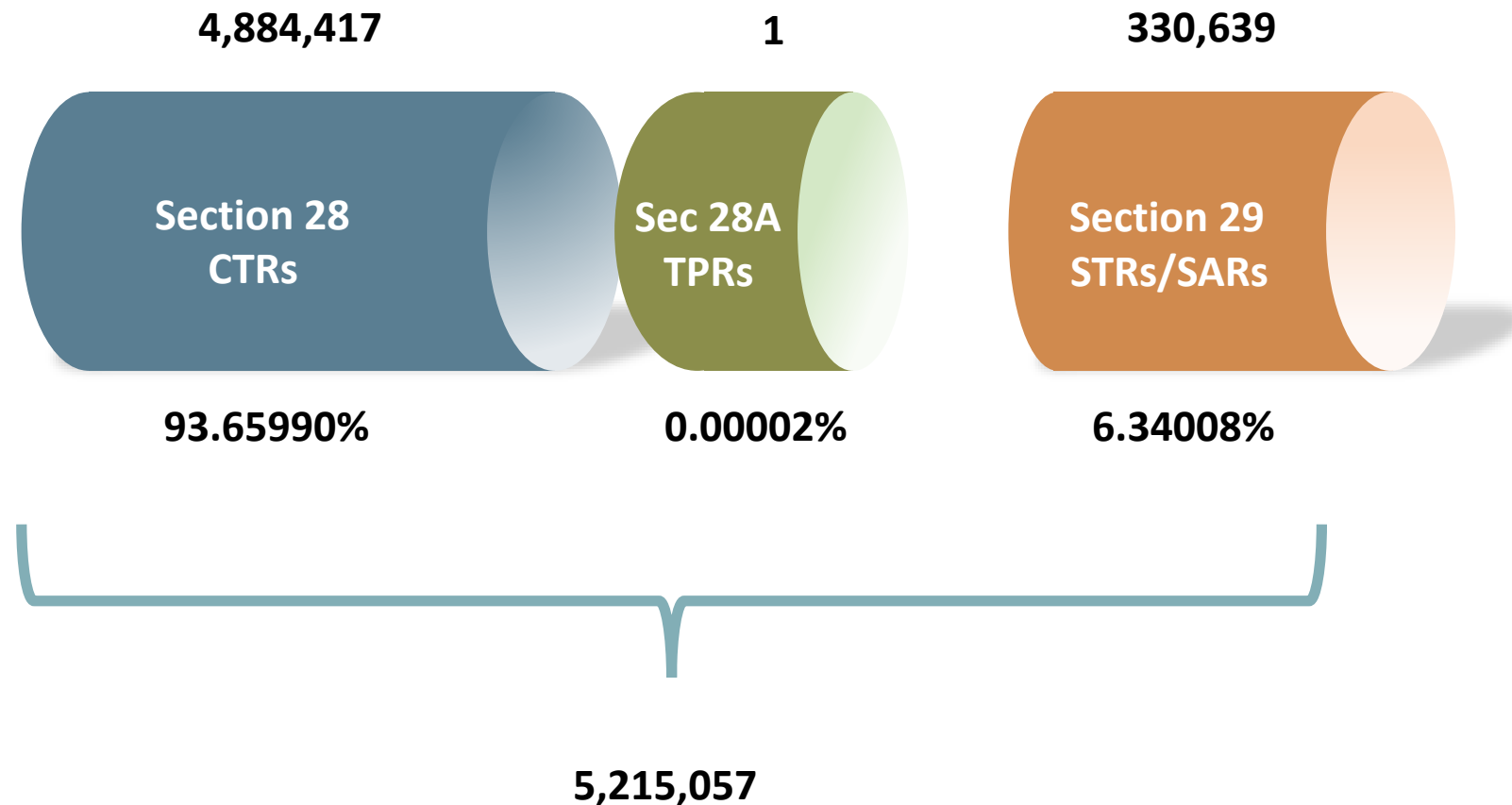
- JCPS Cluster
- SA Police Service
 - General Detectives
 - Directorate Priority Crime Investigation (DPCI)
 - Crime Intelligence
- National Prosecuting Authority (NPA)
 - National Prosecuting Services (NPS)
 - Asset Forfeiture Unit (AFU)
- Independent Police Investigative Directorate (IPID)
- An investigative division in an organ of state
- An investigating authority
- Department of Environmental Affairs
- Department of Correctional Services (DCS)



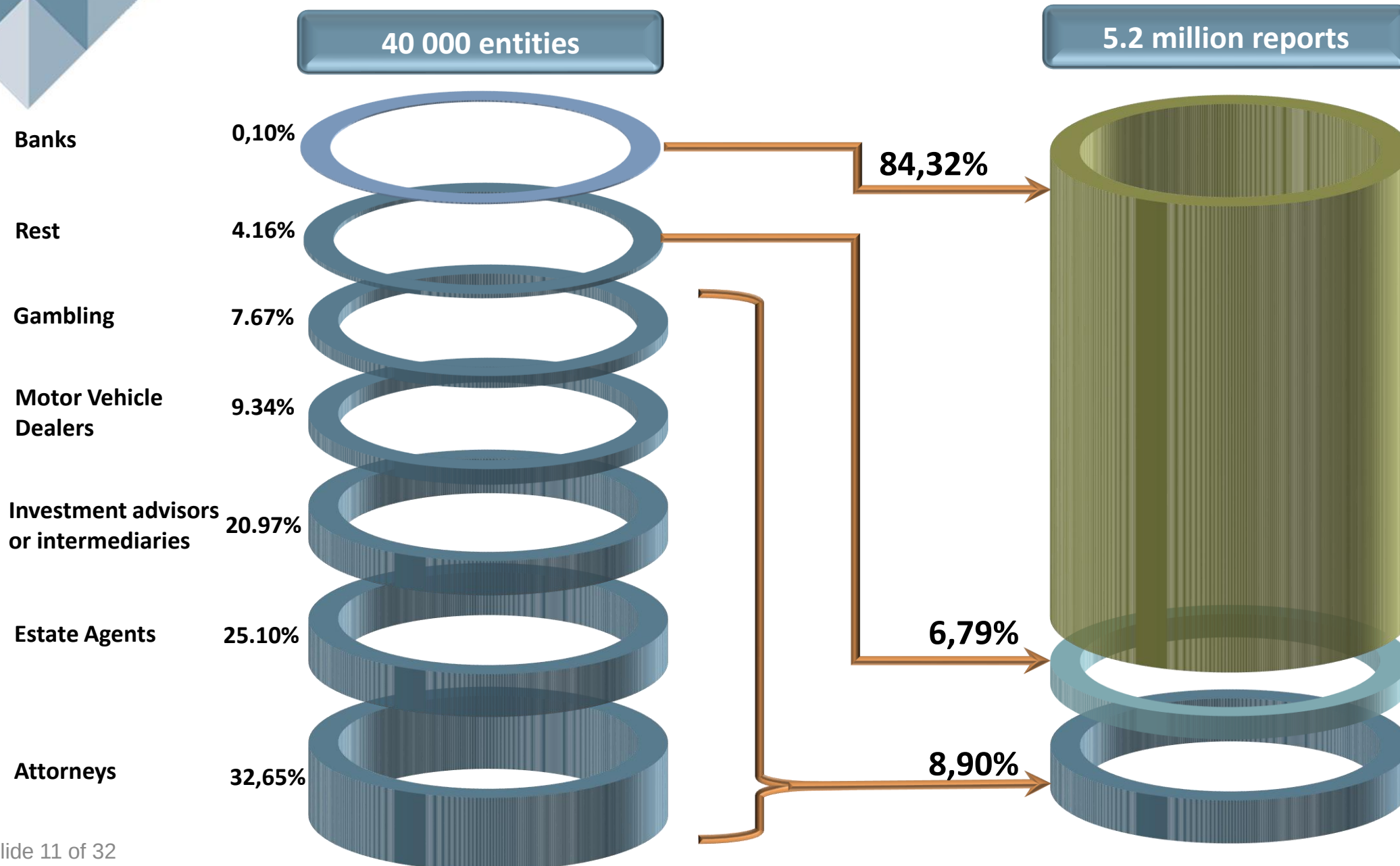
Life cycle of a statutory report



Statistical overview – reporting: all scheduled entities FY2017/18



Scheduled reporting entities vs statutory reporting



Investment Advisor or Intermediaries

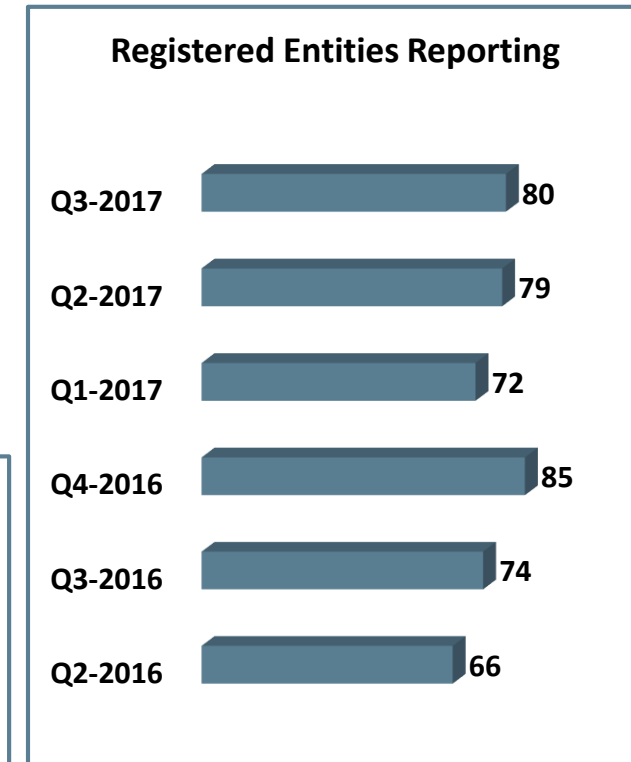
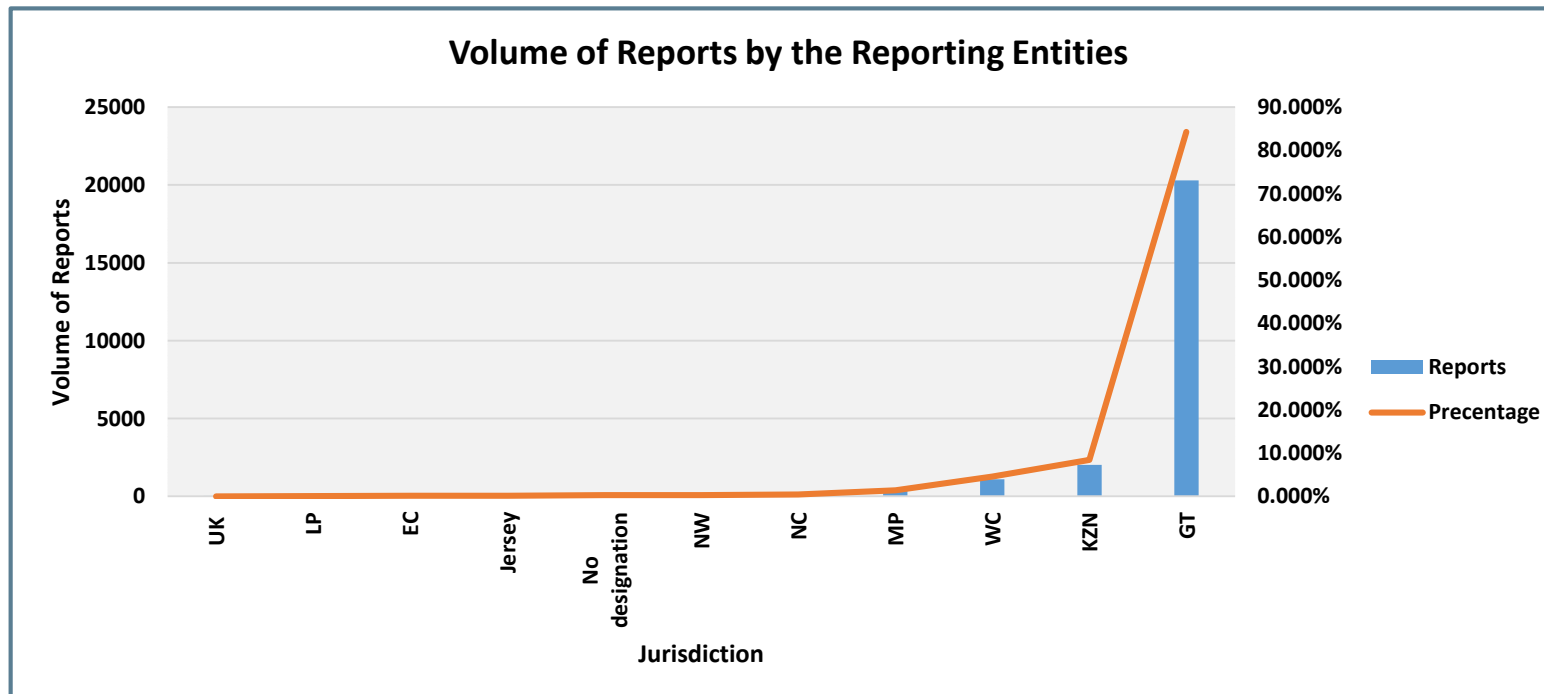
The aim is to provide data on statutory reporting as submitted to the FIC. This feedback covers six (6) financial year quarters over two financial years, commencing with Q2-2016 and ending with Q3-2017. [1/4/2016 – 31/12/2017]

The Investment Advisor or Intermediaries in numbers

- A total of R9 trillion was reported as assets under the management of categories II, IIA and III FSPs as at 30 June 2016.
- As of 31 March 2017 a total of 10 669 FSPs were registered with the FSB.
- The Financial Intelligence Centre (FIC) has 8 965 (Q3-2017) Financial Advisory and Intermediary Services registered on its system

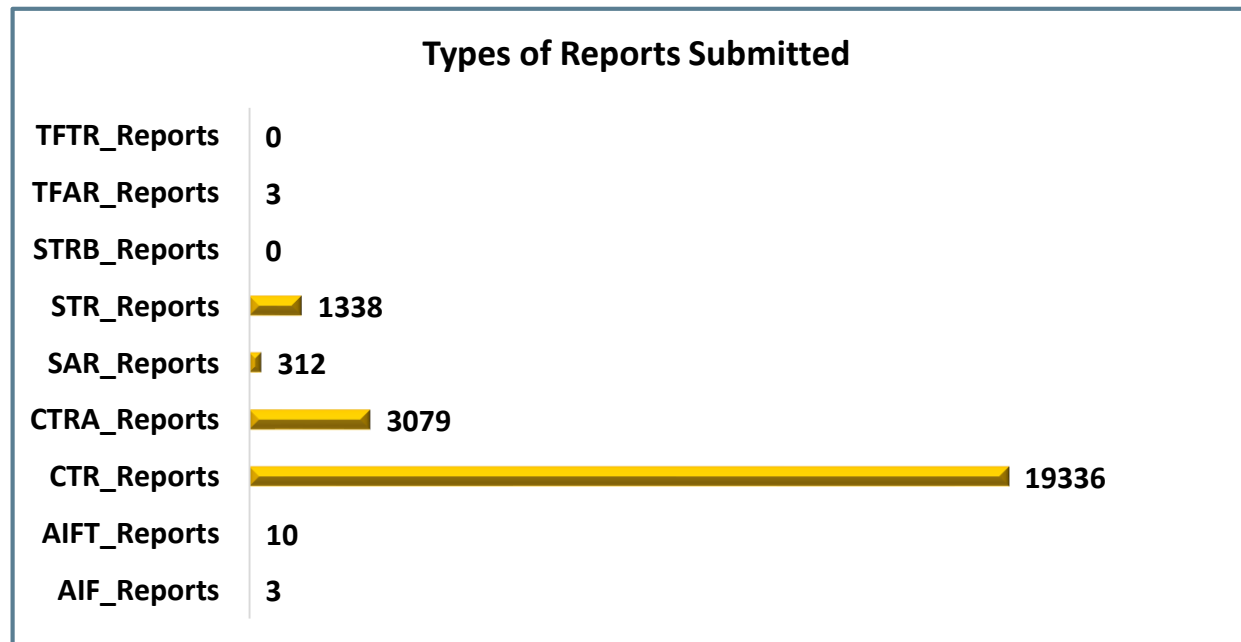
Investment Advisor or Intermediaries - reporting

- [1/4/2016 – 31/12/2017]
- A total of 456 entities reported to the FIC for the time period.
- A total of 24 081 reports were submitted for the time period to the FIC.
- The Gauteng Province submitted the majority of the reports, 20 297 (84%).
- A total of 24 081 reports were submitted representing 142 097 transactions to the value of R9 885 104 943,00 (9,8 billion)

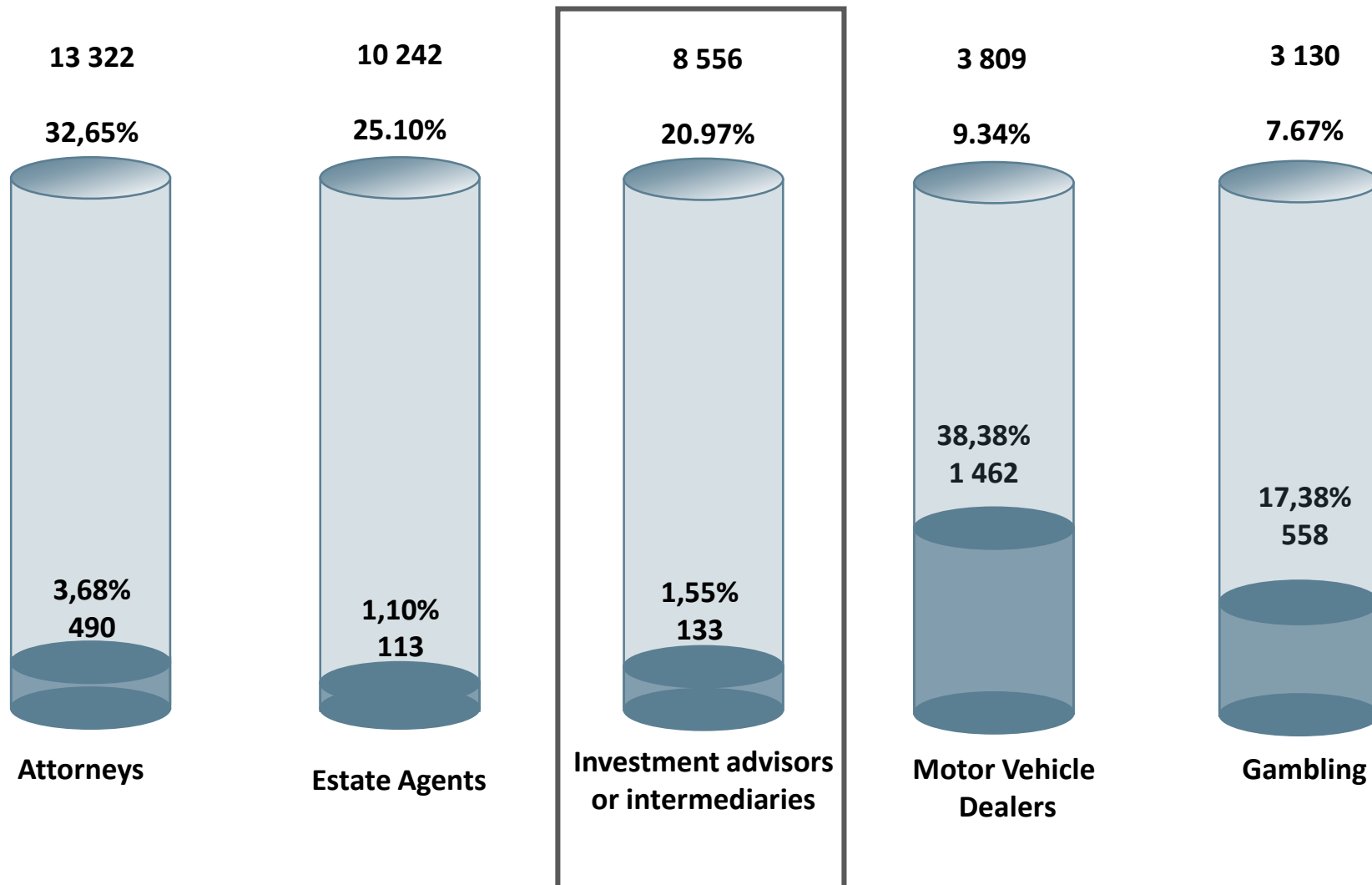


Investment Advisor or Intermediaries - reporting

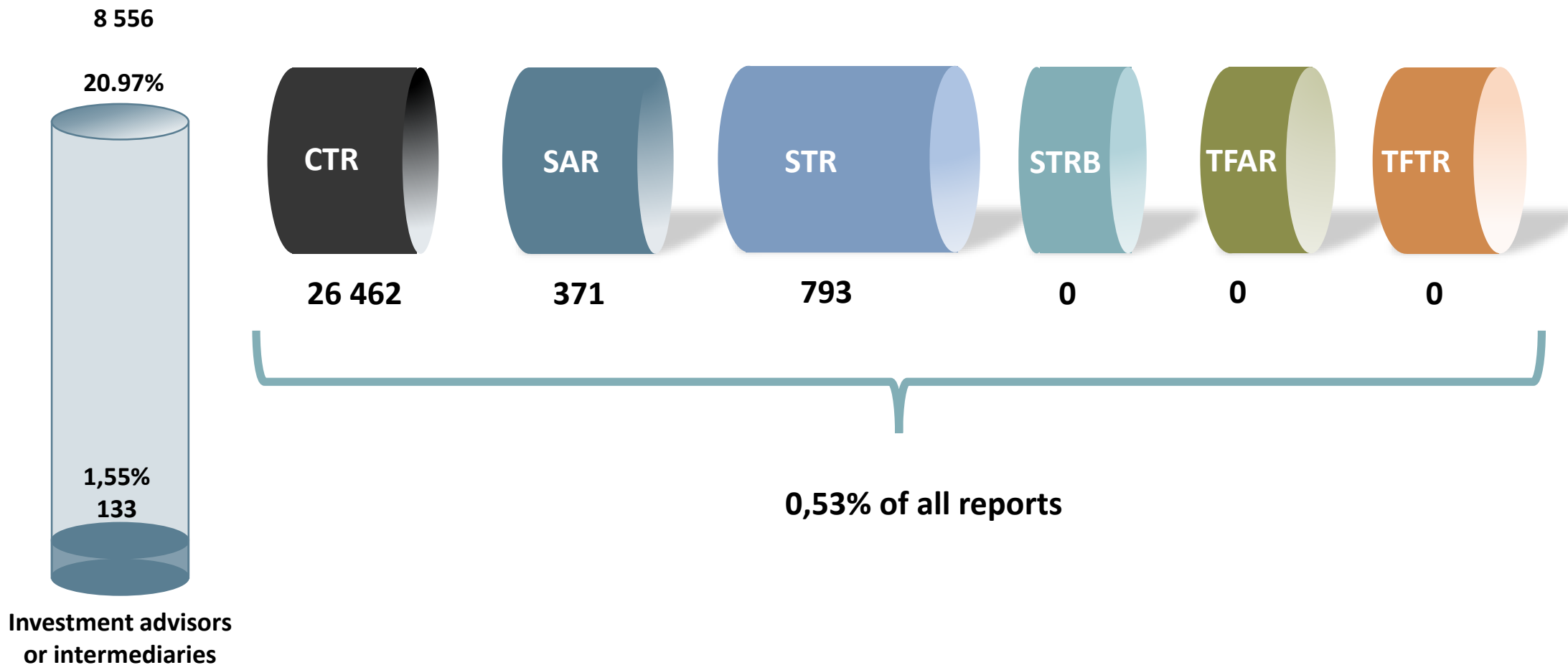
- [1/4/2016 – 31/12/2017]
- The types of reports submitted indicated that Cash Threshold Reports (CTRs), Cash Threshold Aggregate Reports (CTRA) and Suspicious Transaction Reports (STRs) were the largest volume of reports submitted to the FIC
- A total of 19 336 CTRs were reported, representing 32 180 transactions to the value of R6 184 010 150,00.
- A total of 3 079 CTRAs were reported representing 108 318 transactions to the value of R2 193 727 302,00
- A total of 1 308 STRs were reported representing 1 558 transactions to the value of R1 421 834 854,00.



Scheduled reporting entities vs actual reporters [1/4/2017-31/3/2018]



Reporting by investment advisors or intermediaries



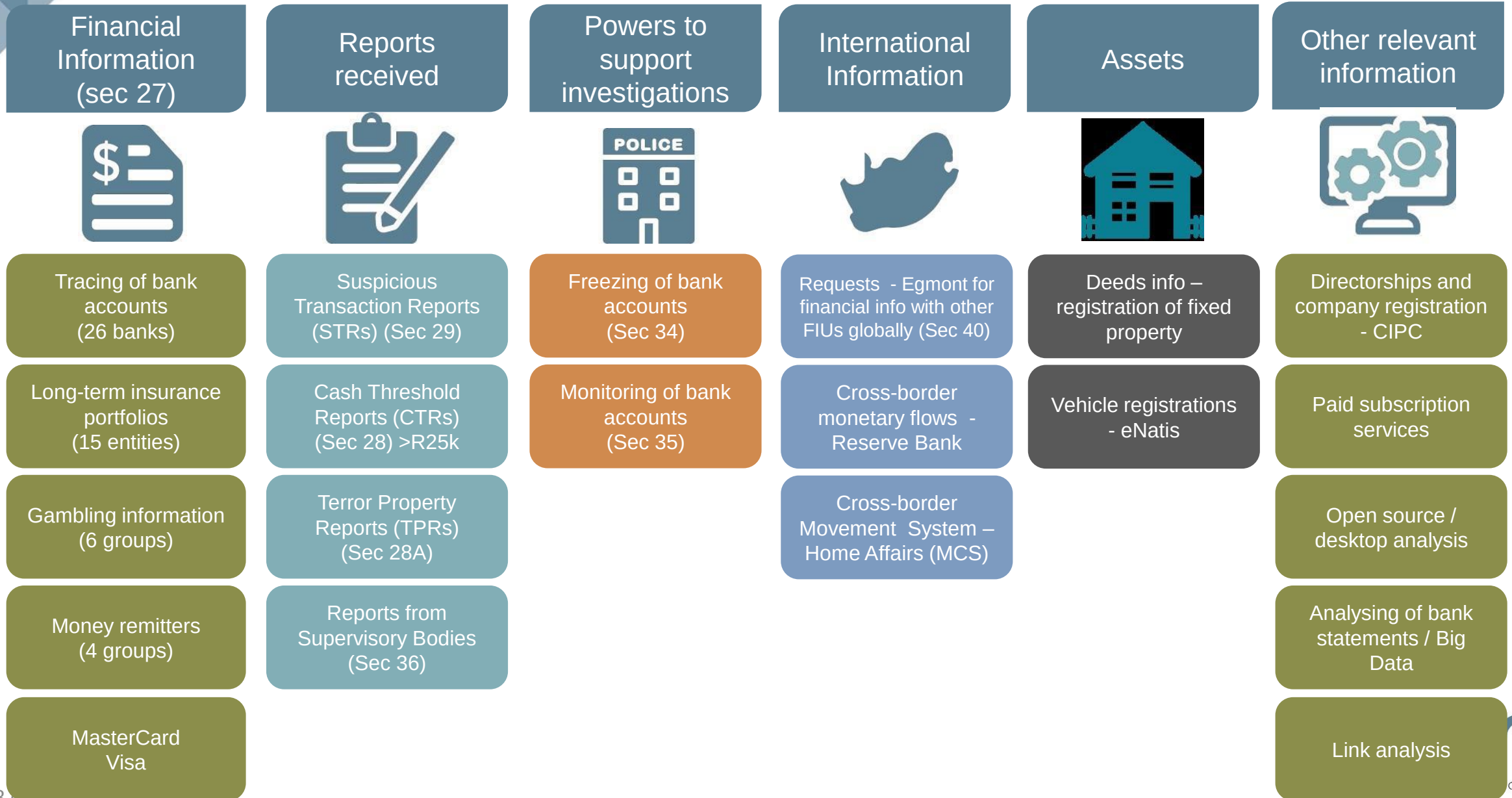
What makes a good STR/SAR?

Provide clear and concise information.

- Who? – the subject, its associates and relationships
- What? – the transaction or activity
- When? – date of detection, date of occurrence, span of time
- Where? – location of the client and where the transaction occurred
- How? – describe how the activity/transaction was completed or attempted
- Why? – results of your investigation into why the activity/transaction is reported/suspicious



FIC's contribution to investigations



How does the FIC produce financial intelligence reports?

Accountable and reporting institutions are legally required to submit reports to the FIC on suspicious and unusual transactions; transactions over a certain cash threshold; and transactions related to property owned or controlled by or on behalf of a terrorist.



These reports may include sensitive information about financial transactions, amounts involved, bank account details and account balances, for example.



The FIC is the gatekeeper of this information, which is treated as private and confidential, and is only shared in terms of the FIC's mandate and within legislative parameters .



The FIC analyses the information and produces financial intelligence products. The information referred for investigation does not contain the actual suspicious or unusual transaction reports made to the FIC. The referral contains descriptions of the transactions and analysis of their potential links to unlawful activity.



The financial intelligence report is handed over to the relevant authorities for further action and/or investigation if necessary.



Case study 1) Organised Crime syndicate

- The FIC supported a law enforcement investigation between 2014 and 2017 that resulted in the successful pursuit and arrest of a **large syndicate** on charges relating to murder, attempted murder, kidnapping, VAT fraud, and cloning of stolen motor vehicles. The South African Revenue Service and the Asset Forfeiture Unit confiscated about R486 million from the syndicate.
- During this investigation the FIC analysed reports and financial transactions that led to the identification of another large **foreign syndicate** that was hydroponically cultivating **cannabis**. The syndicate was operating both domestically and internationally.
- The FIC's analysis during 2017/2018 of financial data assisted to identify:
 - **Individuals** running hydroponic operations in the North West, Gauteng and the Free State. Four of these illicit operations were successfully disrupted and the subjects arrested. Equipment valued at about R5 million was seized.
 - **Properties** purchased with the suspected proceeds of crime in the KwaZulu-Natal South Coast region. This information helped uncover eight hydroponic cannabis laboratories in KwaZulu-Natal.
- Four foreign nationals and three South Africans were arrested. The authorities made additional arrests in Gauteng and confiscated equipment, vehicles and cannabis products to the **value of about R26 million**.

2) Theft and money laundering

- The FIC received a request regarding a subject who **allegedly stole about R460 million** from her employer over a period of eight years. She reportedly duplicated payments to legitimate clients and service providers, paying money directly into her deceased husband's bank account.
- Through financial profiling, the FIC established that funds were going into a relative's bank account and then used **to buy luxury vehicles and several properties**. The money was also used to fund gambling activities and family holidays, and donations to family members.
- The FIC's analysis of the husband's bank statements revealed funds paid to **an insurance company in large monthly instalments** and, at times, frequent payments during the month too. It was established that the premiums were paid with the stolen proceeds of crime.
- The FIC issued a **directive in terms of section 34 of the FIC Act** to prevent the subject from accessing these investment products which represented the proceeds of crime, to the value of about R21 million. The subject was subsequently arrested and the Asset Forfeiture Unit proceeded to attach or preserve several assets worth millions under the Prevention of Organised Crime Act.



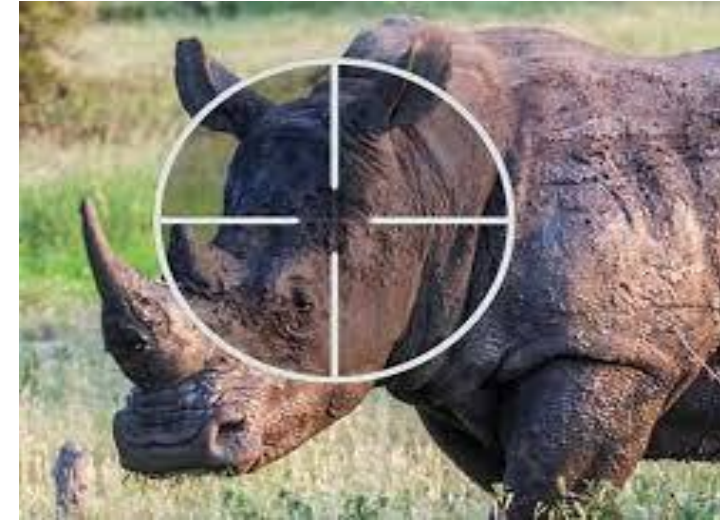
3) Cracking a cryptocurrency - Ponzi scheme



- The FIC identified what appeared to be an alleged Ponzi scheme run by an individual marketing a “**new cryptocurrency**”. This product was marketed as Africa’s first cryptocurrency and investors were promised huge returns on their investments.
- The FIC’s analysis of the individual’s bank statements revealed that there was **no cryptocurrency** and that this was indeed a Ponzi scheme.
- A restraining order was issued for more than R2.8 million in proceeds from the alleged scheme, and the FIC assisted the Asset Forfeiture Unit in obtaining a preservation order relating to **fixed property and vehicles worth more than R4 million** that was bought using the proceeds of the scheme.

4) Case study: Following the money to find rhino poachers

- An investigative documentary **exposed people and criminal networks** believed to be involved in the illegal rhino horn trade.
- This led to the **FIC's** involvement in **assisting** the Hawks in its investigations.
- The FIC provided financial intelligence on **foreign nationals** involved in the syndicate.
- The FIC was able to identify the methods being used to **launder the proceeds** of rhino horn trade, which included the use of cash deposits, international fund transfers and electronic transfers, often through the accounts of third parties.
- The syndicate also used the money to buy **cars** and immediately changed the ownership.



5) Drug Manufacturing and depositing the proceeds (smurfing)



- The FIC assisted in a drug manufacturing matter in which the main subject was arrested on several **historic cases**. The subject's **wife** started assisting the subject by opening a bank account for the purpose of depositing the **proceeds of crime** and also receiving the proceeds of crime from persons to whom the drugs were distributed.
- The FIC identified **numerous CTRs** on accounts linked to the spouse of the subject and closer analyses of accounts obtained revealed that the transactions were styled as **business related transactions**, but it became evident that these transactions were clearly styled as such in order to **avoid detection ("smurfing")**.
- The total amount of cash deposits made into the account amounted to close to R1m. The FIC was able to support the **Asset Forfeiture Unit (AFU)** in a successful Preservation order in terms of the Prevention of Organised Crime Act (POCA) with which an amount of R 364,424.68 was **seized as the proceeds of crime** in the reported account.

6) Ponzi scheme uncovered

A Ponzi scheme is a fraudulent investment scheme, which offers investors unusually high returns, but the pay-outs do not come from actual profits – the victim's own money, or money paid by subsequent investors, is used.

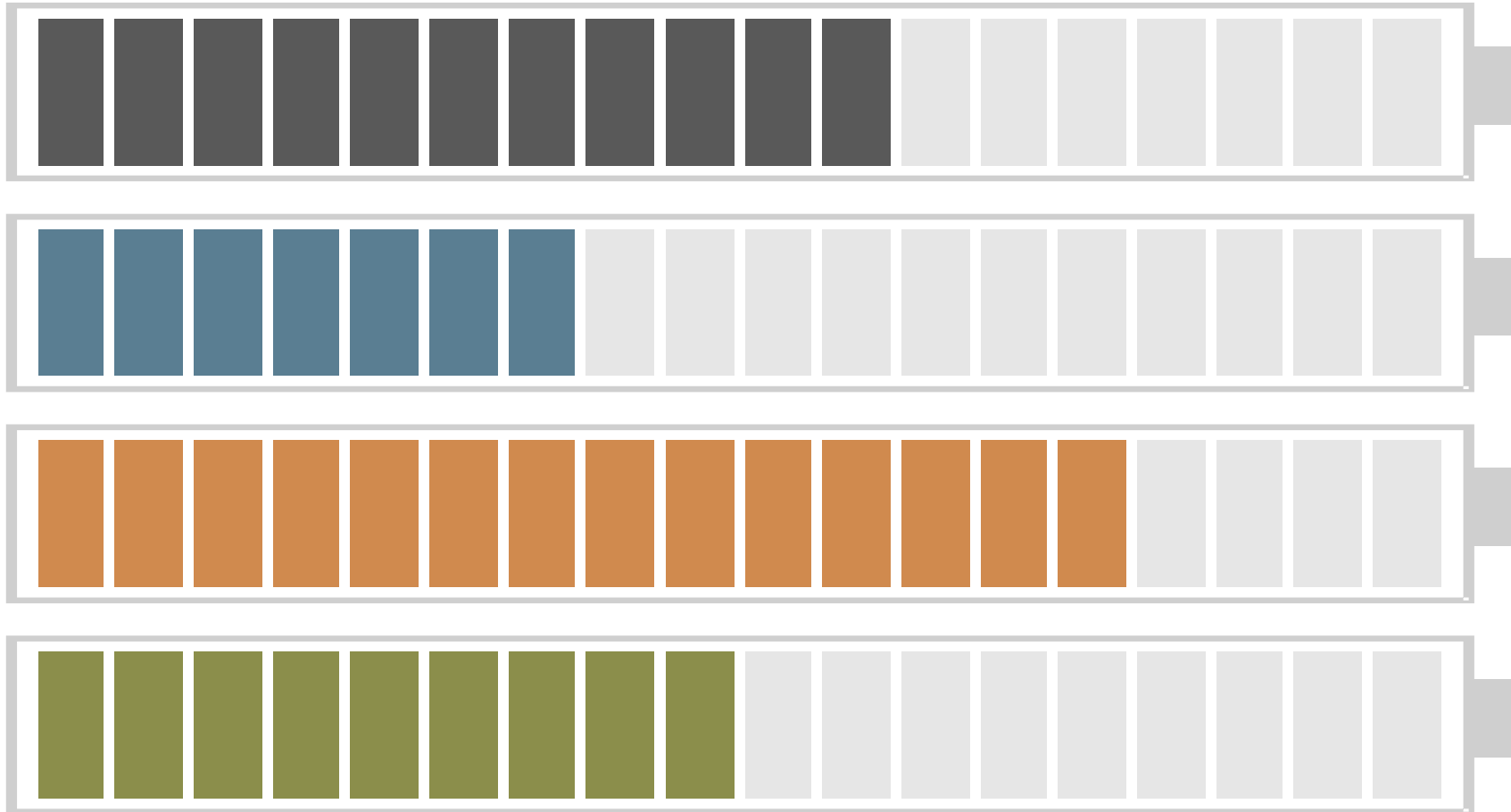
- Through its analysis of reports received, the FIC identified two business accounts with activities indicative of a **Ponzi scheme**.
- Both investment companies promised a **100% return** on investment within one to five days.
- The FIC's analysis revealed:
 - Similar transacting patterns involving cash and electronic funds transfers on both accounts.
 - A funds transfer between the two entities, linking them to each other.
 - The transacting pattern in both accounts reflected an almost equal amount of deposits followed by withdrawals.
 - Both entities were **not registered with the Financial Services Conducting Authority**.
 - Both directors were under the age of 30 and no movable or immovable assets could be linked to either director.
 - The addresses of the entities were the same as the addresses of the directors, in a residential area.
- Working with the Reserve Bank, the SAPS and the then Financial Services Board, the FIC shared its transactional analysis for judicial action to **recover the proceeds of the scheme**.

Detection Indicators

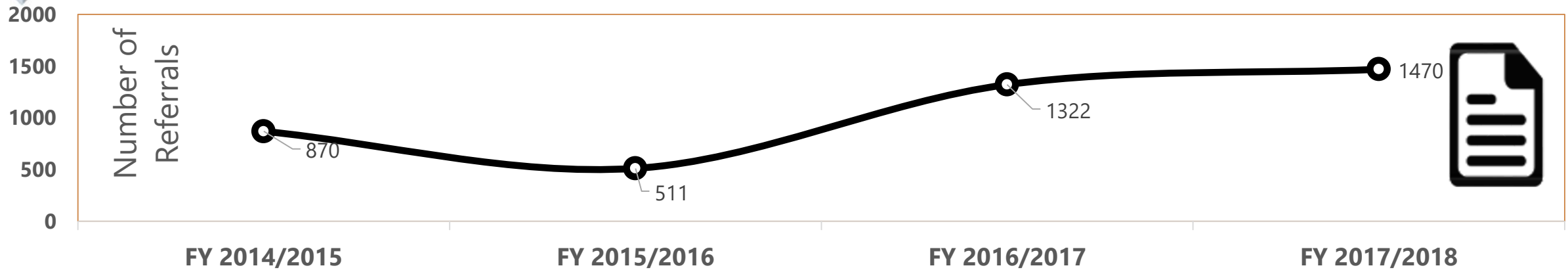


1. High end **vehicle purchases** that are seemingly not in line with the expected income of the customer.
2. Concealment/misuse within **Business** structures
3. Illogical business **activity** - why do multiple transfers at a higher charge
4. Multiple **transactions** in a short time period with no underlying business rationale
5. Use of **False** Identities and documents / Missing documentation normally to be expected from a legitimate business
6. Purchasing of property in **family** members' names.
7. Purchasing of valuable **commodities** / **extreme luxury goods**, normally associated with extremely wealthy persons (Brand Name Boutique Clothing, expensive watches and expensive electronic goods etc.)
8. Gambling activities - significant year on year **increase** in turnover / not in line with the expected income of the customer.
9. Declared Source of Income **not aligning** to activity of the customer /exceeds the expected deposits for the customer.

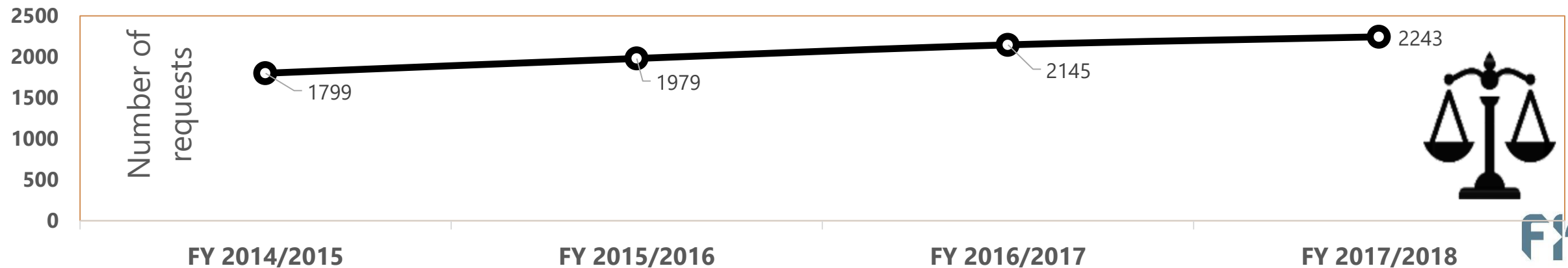
Statistical overview



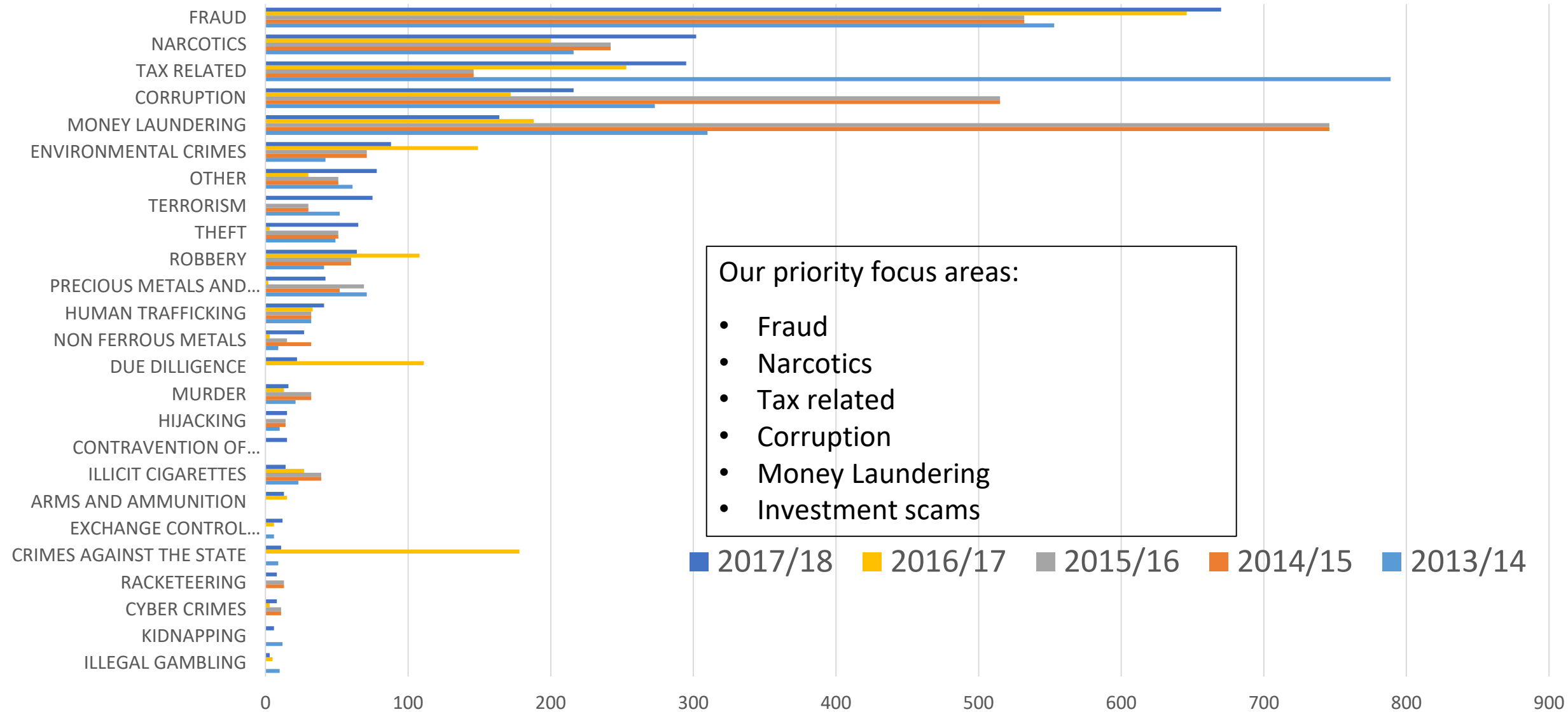
Proactive Financial Intelligence Reports produced to Domestic Law Enforcement Agencies and other FIUs (2014-2018)



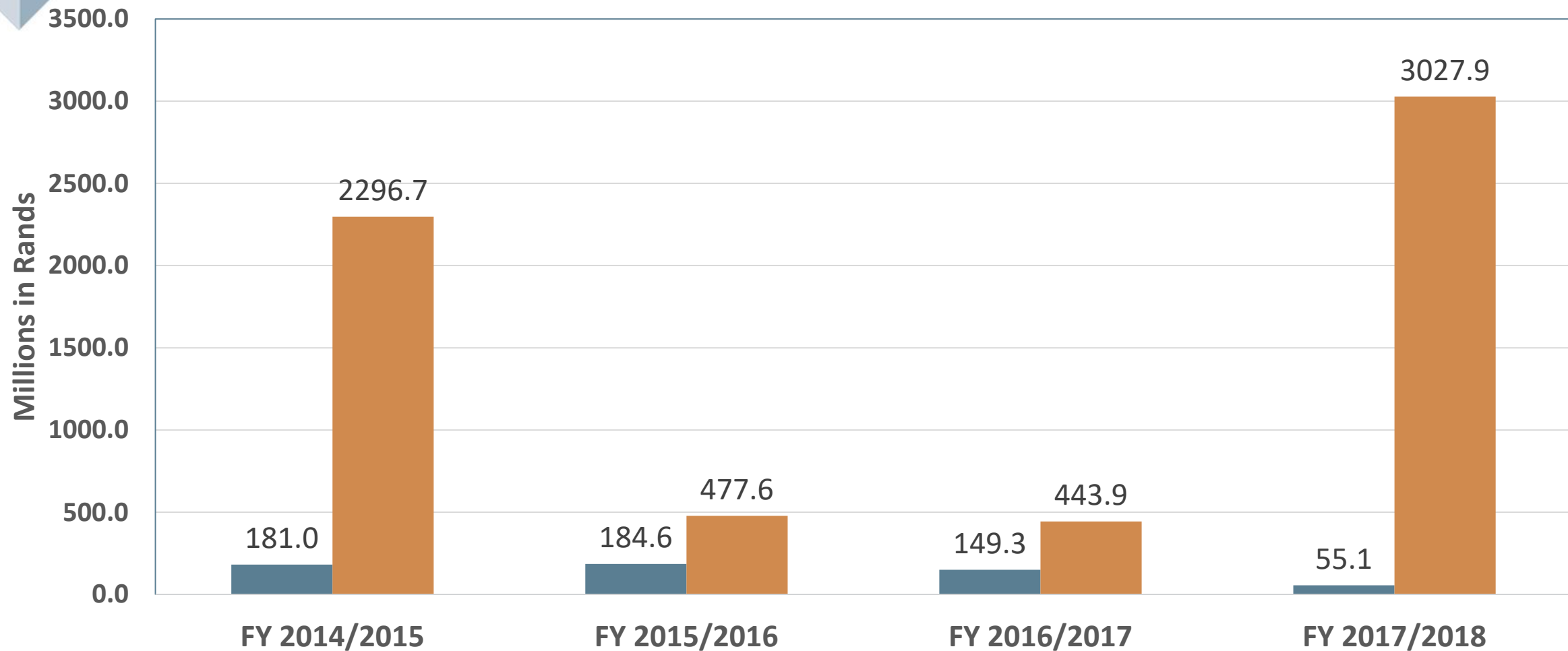
Reactive Financial Intelligence Reports produced on request by Law Enforcement Agencies and other FIU (2014-2018)



Crime types analysed 2013 to 2017



Suspected proceeds of crime frozen 2014-2018



Section 34 freezing of accounts

Proceeds of crime recovered using FinInt

Observations and Way Forward

- The Investment Advisor or Intermediaries, as with any financial sector, is vulnerable to abuse/misuse in terms of money laundering and terrorist financing.
- The large volumes of assets within the Investment Advisor or Intermediaries industry makes it a critical cornerstone of the South African economy and should be protected from any instability.
- South Africa is experiencing a dramatic shift in the way investigations are conducted using a multi-disciplinary approach involving different agencies and institutions.
- It is believed that financial intelligence is at the heart of every serious crime investigation in the country, and plays a central role in the successful apprehension and conviction of serious criminals.
- Detection and pursuit of criminal money flows are challenging for law enforcement.
- As FIC South Africa, we remain committed to engage with all stakeholders to ensure the collective effort in addressing the scourge of financial crimes.



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QUESTIONS