

Anti Money Laundering & Counter Financing Terrorism

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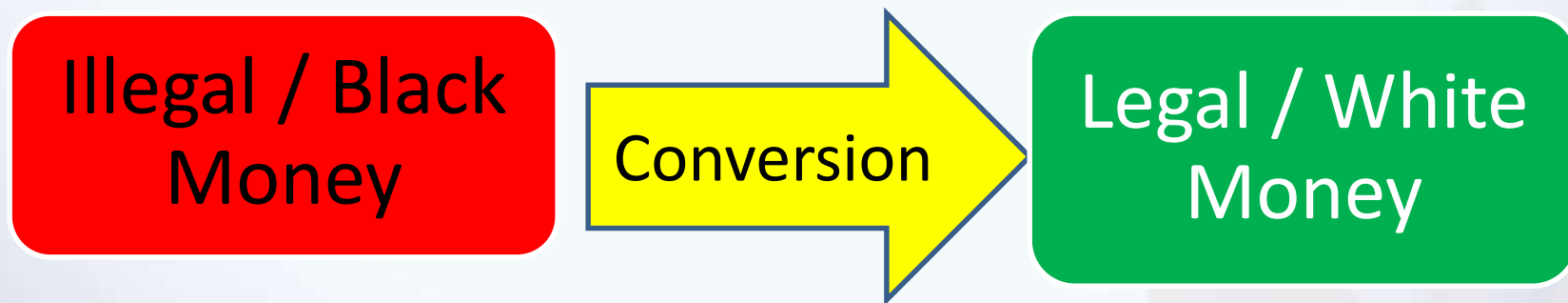
What is Laundering?

- The Word “Laundering” literally means “Wash and Iron” (Clothes or Linen)
- **What is Money Laundering?**
 - Metaphorically, money laundering means “Cleaning of Dirty Money”
 - The process of converting illegal funds or assets into legitimate funds or assets



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History of Money Laundering

- 1970; The BSA (**Bank Security Act**) was established and became one of the most important tools in the fight against Money Laundering.
- 1980s; Money laundering as a crime attracted interest, essentially within a drug trafficking context.
- 1989; Financial Action Task Force (FATF) was formed, to set up standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.
- The FATF is therefore a “policy-making body” which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.
- Money Laundering methods have become more creative and stringent since 1989, 1993, 1996, 2001, 2003 and most recently in 2012.



Money Laundering as per section 3 of the Prevention Money Laundering Act;-

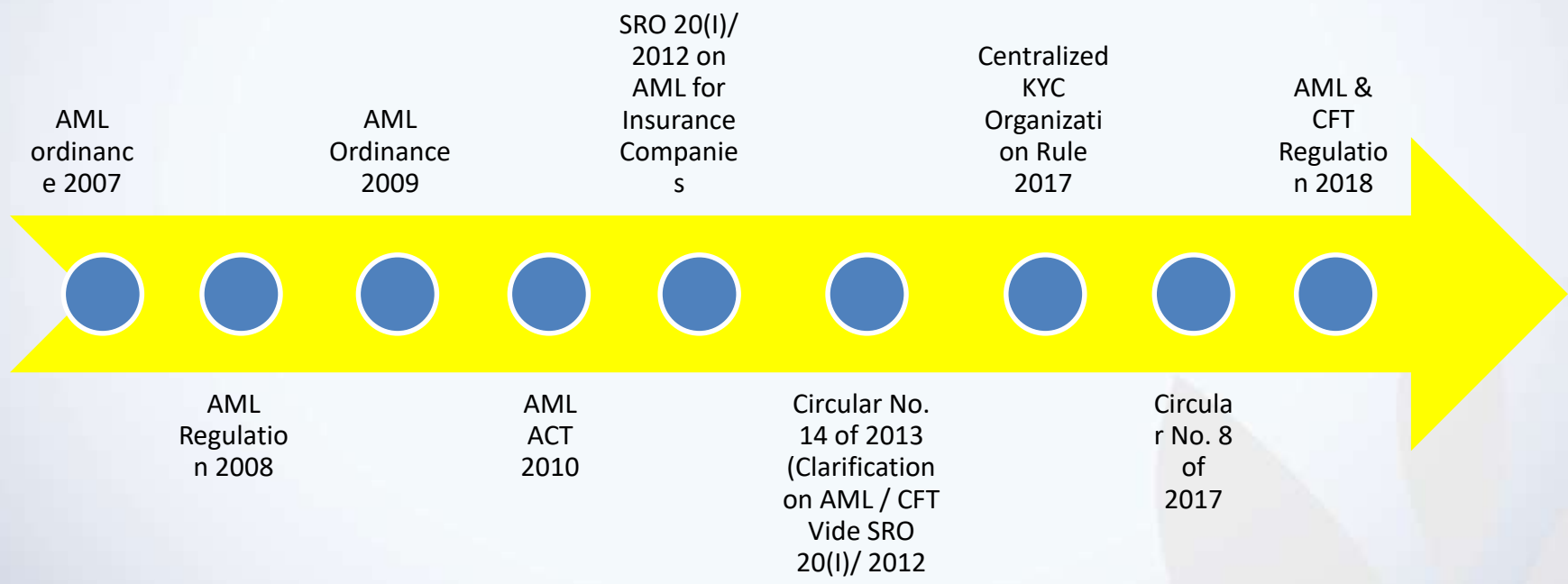
- “Who so ever directly or indirectly attempts to indulge or knowingly assist or knowingly is a part or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering.”

As per Sub-Committee on Narcotics and Terrorism of US Senate Foreign Relations Committee;-

- “Money Laundering is the conversion of profits from illegal activities into financial assets which appear to have legitimate origins”



Regulatory Regime





Objectives of Money Laundering

- **Hide;** to reflect the fact that the cash is often introduced to the economy via commercial concerns which may knowingly or not knowingly be part of the laundering scheme, and it is these which ultimately prove to be the interface between the criminal activity and the financial sector.
- **Move;** clearly explains that money launderers use transfers, sales and purchase of assets, and change the shape and size of the lump of money to obfuscate the trail between money and crime or money and criminal.
- **Invest;** the criminals spend the money in assets or his lifestyles.



- After foreign exchange and Oil industry, the laundering of dirty money is world third largest business – Jeffery Robinson, *The Laundrymen*



How much is Laundered?
IMF ESTIMATE = 2.7% of Global
\$1.6 Trillion

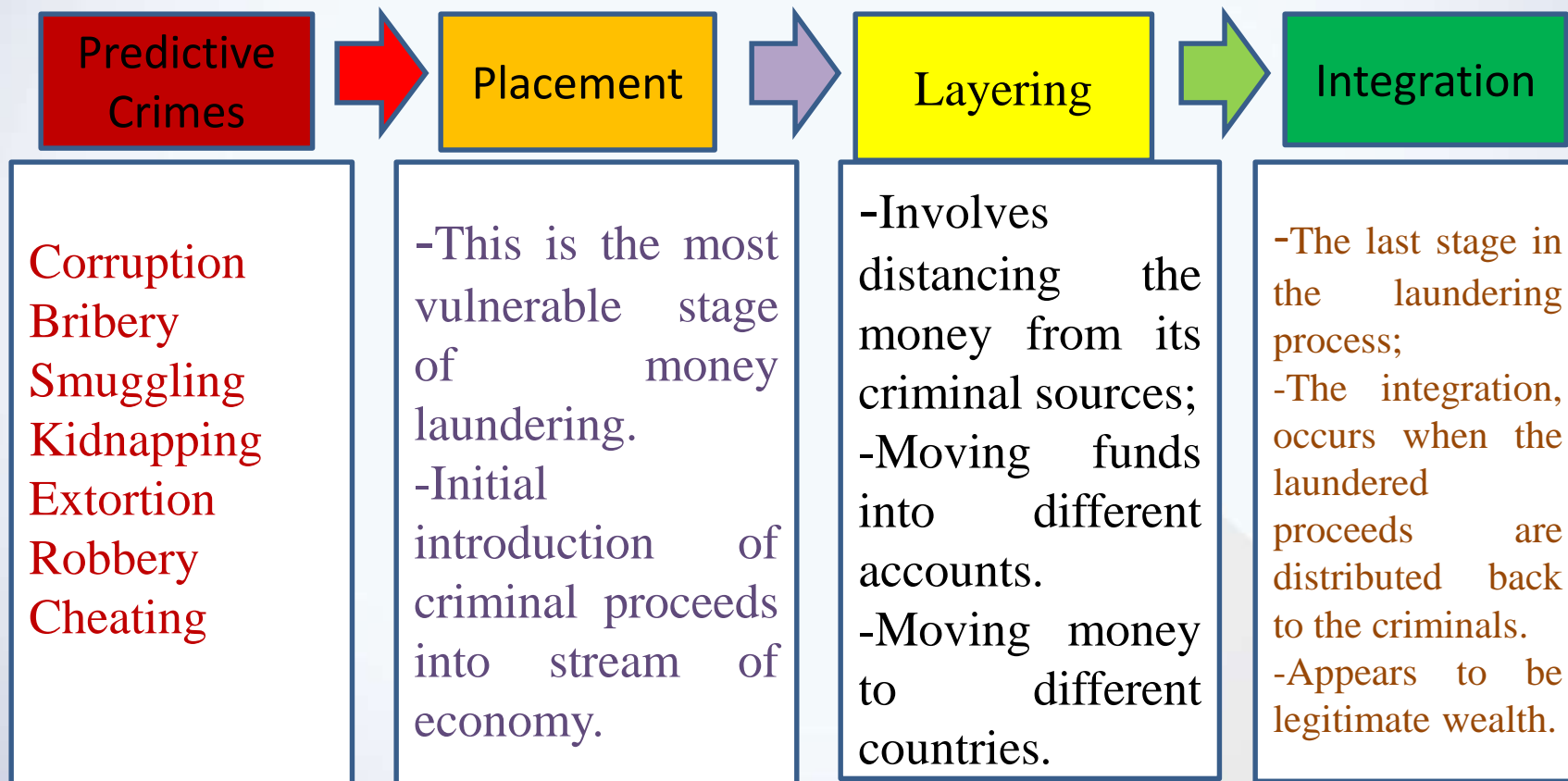


Money Laundering generally refers to “Washing” of the proceeds or profits generated from:





Process of Money Laundering





Money Laundering through:



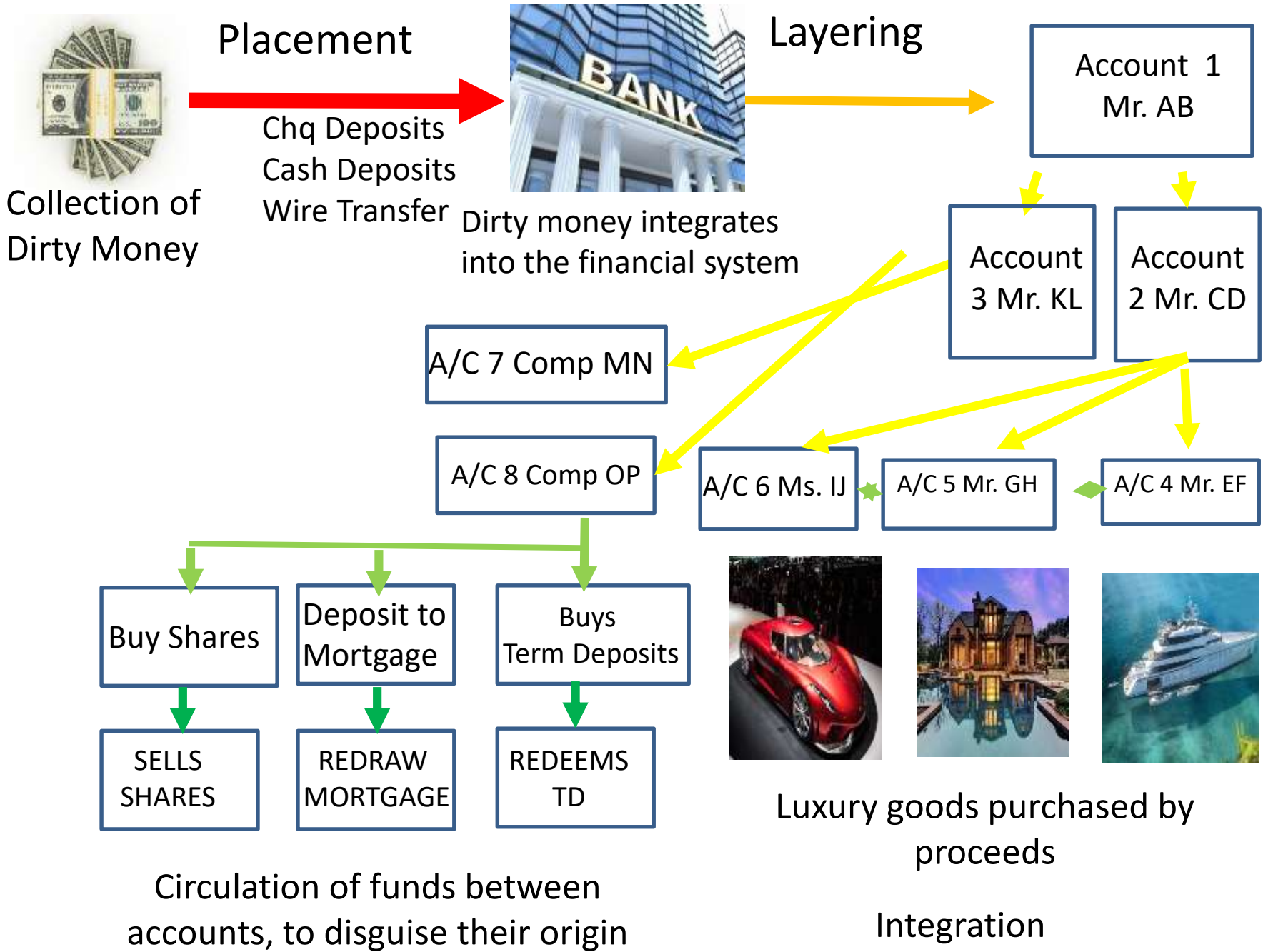
Other Examples;

- Money remitters,
- Cash intensive businesses
- Brokerage Firms
- Realtors
- Insurance Companies



Techniques employed during Money Laundering;

- Deposit structuring or smurfing
- Connected Accounts
- Payable through Accounts
- Loan Back arrangements
- Forex Money Changers
- Credit/ Debit cards
- Investment Banking and their Securities Sectors
- Insurance and Personal Investment Products
- Companies Trading and Business Activity
- Lawyers, Accountants and other Intermediaries
- Misuse of other Non-Profit Organization





Combating the Finance of Terrorism (CFT)

- (CFT) involves investigating, analyzing, deterring and preventing sources of funding for activities intended to achieve political, religious or ideological goals through violence and the threat of violence against civilians.



Financing of Terrorism

- Money to fund terrorist activities move through the global financial system via wire transfers and in and out of personal business accounts. It can sit in the accounts of illegitimate charities and be laundered through buying and selling securities and other commodities or purchasing and cashing out insurance policies.
- Although terrorist financing is a form of Money Laundering, it doesn't work the way conventional money laundering works. The money frequently starts to clean i.e as a 'charitable donation' before moving to terrorist accounts. It is highly time sensitive and requires a quick response.



Financing of Terrorism

- State Sponsored
- Other Activities-legal or Non-Legal

Legal Sources of Terrorist Financing

- Collection of membership dues
- Sales of Publications
- Cultural or Social events
- Door to door solicitation within a community
- Appeal to wealthy members of the community



Illegal Sources of Terrorist Activities

- Kidnapping & Extortions
- Smuggling
- Fraud including credit card frauds
- Misuse of Non-profit organization and charity funds
- Theft and robbery
- Drug Trafficking
- Human Trafficking



Money Laundering Risks;

- What are the risks to financial Institutes?
 - Reputational risk
 - Legal risk
 - Operational risk (Failed internal processes, people and systems & Technology)
 - Concentration risk (Either side of Balance Sheet)

All risks are inter-related and together have the potential of causing serious threats the financial organization.



Reputational Risk

- The reputation of a country and its financial institutions can be tarnished by an association with money laundering.
- The potential that adverse publicity regarding any financial institutions business practices, whether true or false, will cause a loss of confidence in the integrity of the institution.
- A major threat to institutions, as the confidence of the customers and general market place has to be maintained.
- Financial Institutions are vulnerable to Reputational Risk as they can easily become a vehicle for or a victim of customer's illegal activities.



Operational Risk

- The risk of direct or indirect loss, from inadequate or failed internal processes, systems, people or from external events.
- Weaknesses or failure to follow or implement the SOPs set by the Institutions or regulatory bodies.
- Ineffective control procedures and failure to practice due diligence.
- Foreign Direct Investors (FDI) do not trust the system and find other investment opportunities.



Legal Risk

- Financial Institutions may be exposed to lawsuits resulting from the failure to observe or follow mandatory standards or comply with the guidelines set by the regulatory authorities.
- The result of these lawsuits or adverse judgements can disrupt the operations or conditions of an Institution.
- Institutions can suffer fines, criminal liabilities and special penalties imposed by the legal authorities.



Concentration Risk

- It mostly applies on the assets side of the balance sheet; Information systems fail to identify the creditor's concentration to invest too heavily in a single investment or security.
- Early or sudden withdrawal of funds by large depositors adversely effects the liquidity of an organization.
- Laundered money is usually untaxed, meaning the rest of us have to make up for the loss in tax revenue to the government.



Effects of Money Laundering on the Society

- Increase in Criminal Activities
- Criminals become richer and poor become poorer.
- Society becomes corrupt
- Concentration of Power to Criminals
- Undermines Democracy



Punishment for Offence

- Hefty fines
- Confiscation of Assets
- Imprisonment
- License cancelation





Whistleblower

- A whistleblower (also written as whistle-blower or whistle blower) is a person who exposes any kind of information or activity that is deemed illegal, unethical, or not correct within an organization that is either private or public.
- Corruption, fraud, bullying, health and safety violation, cover-ups and discrimination are common activities highlighted by whistleblowers.
- Protection of whistleblowers is an important focus for the legal system, as is incentivizing whistle blowing when there are many reasons stopping employees from doing so. In the UK, the **Public Interest Disclosure Act 1998**, is the basis of legal protection of whistle blowers.



Tipping Off

Tipping Off:

- a secret warning or piece of secret information:

Tipping Off - Big misconceptions!

- The directors, employees and agents of The Company are prohibited under the Act from disclosing / tipping off directly or indirectly that the transaction has been reported
- Violation of the Act is a criminal offence and shall be punishable by a maximum term of three years imprisonment or a fine which may extend to five hundred thousand rupees or both.



Recommendations

- Reality is that no individual has the power to stop money laundering alone.
- If a country is hostile to money laundering, criminals simply look elsewhere for a place to clean their funds. Therefore, Global corporation is essential
- Financial Action Task Force (FATF), an International Organization has 37 member states. FATF has issued “40 Recommendations” for financial institution as standard to curb money laundering.



Recommendations

Some of these recommendations include;

- Identification and background check of depositors
- Report all suspicious activities.
- Build an internal taskforce to identify laundering clues.
- Financial institutions should not keep anonymous or fictitious accounts
- Financial institutions should, in relation to politically exposed persons (PEP), in addition to performing normal due diligence measures;
 - Have appropriate risk management systems to determine whether the customer is a politically exposed person.
 - Take reasonable measures to establish the source of funds and wealth
 - Obtain Senior management approval for establishing business relationship with such customers.



Recommendations

- Financial Institutions should maintain, for at least 5 years, all necessary records on transactions, to enable them to comply swiftly with information.
- Financial institution should pay special attention to all complex, unusual large transactions, and all unusual pattern of transactions, which have no apparent economic or visible lawful purpose.
- If a financial institution has reasonable grounds to suspect that funds are the proceeds of a criminal activity, it should be required, directly or indirectly by law & regulations, to report promptly its suspicions to the regulatory authorities.



Q&A

Questions & Answers

