



Introduction to AML/CTF

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1

On the Agenda

*“Behind every great
fortune there is a crime”*

Honore de Balzac

On the Agenda

- **Introduction**
- **History of Money Laundering and Terrorism Financing**
- **Stages of Money Laundering and Terrorism Financing**
- **Link of Money Laundering and Terrorism Financing**
- **Typologies of Money Laundering and Terrorism Financing**
- **Vulnerabilities of the Insurance Industry to ML and TF**
- **Red Flags**
- **Impact of Money Laundering and Terrorism Financing**
- **International Initiatives to Combat Corruption, Money Laundering and Terrorist Financing**



Introduction

Money Laundering

- The word '**laundry**' literally means '**cleaning**'.
- Metamorphically, money laundering refers to '**cleaning of money**'.

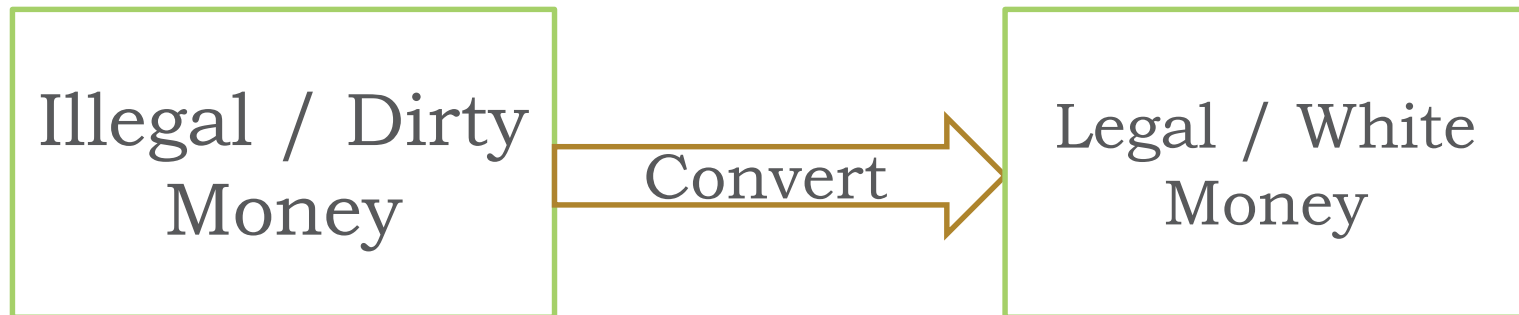


Introduction

- What is money laundering?



Money Laundering



- Money laundering can be described as the process of converting illegal funds and assets into legitimate funds and assets.

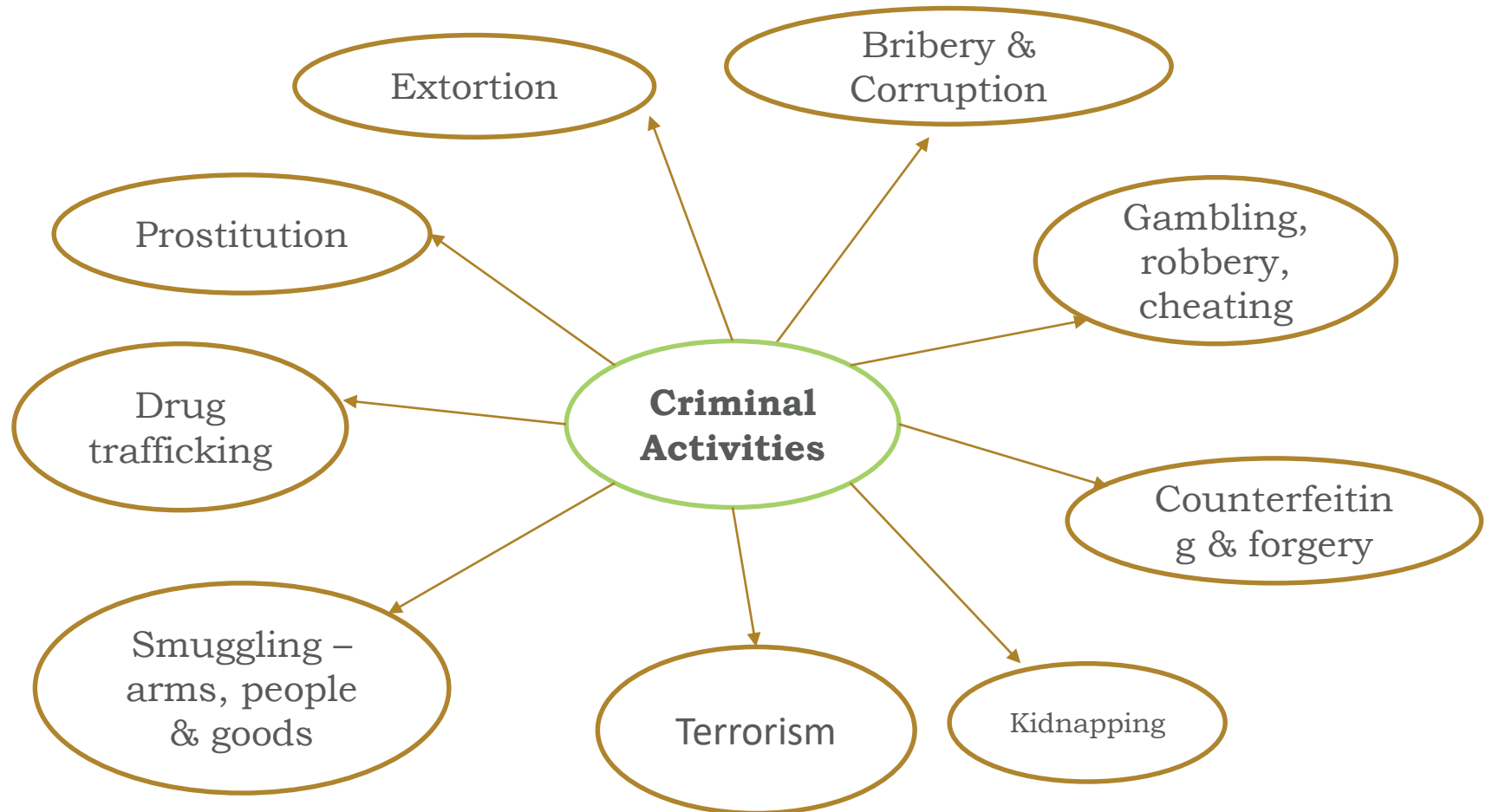
Money Laundering

Money laundering

“Any financial transaction which generates an asset or a value as the result of an illegal act.”

Sources of Illegitimate Funds

- Sources of illegitimate funds is from criminal activities such as:



3

History of Money Laundering and Terrorism Financing

History of Money Laundering

- Money laundering takes place in both the private and public sector, as well as in capitalist and socialist political systems.
- The term "money laundering" originated from a famous gangster Al Capone disguised his illegally acquired wealth in the form of a legalized income.
- Capone acquired wealth through gambling, extortion, prostitution and bootleg alcohol.
- Capone purchased multiple laundromats and dry cleaners in Chicago and would mix the illegal profits with the legitimate profits of his dry-cleaning business.



The Expanded Crime of Money Laundering

- The events of September 11, 2001 changed the way traditional money laundering (***proceeds of crime***) was viewed by the international community.
- Money laundering was expanded to include the use of legal funds for illegal purposes (i.e. terrorism financing and tax evasion)



**COMMONLY REFERRED TO AS
THE “PROCEEDS FOR CRIME”**

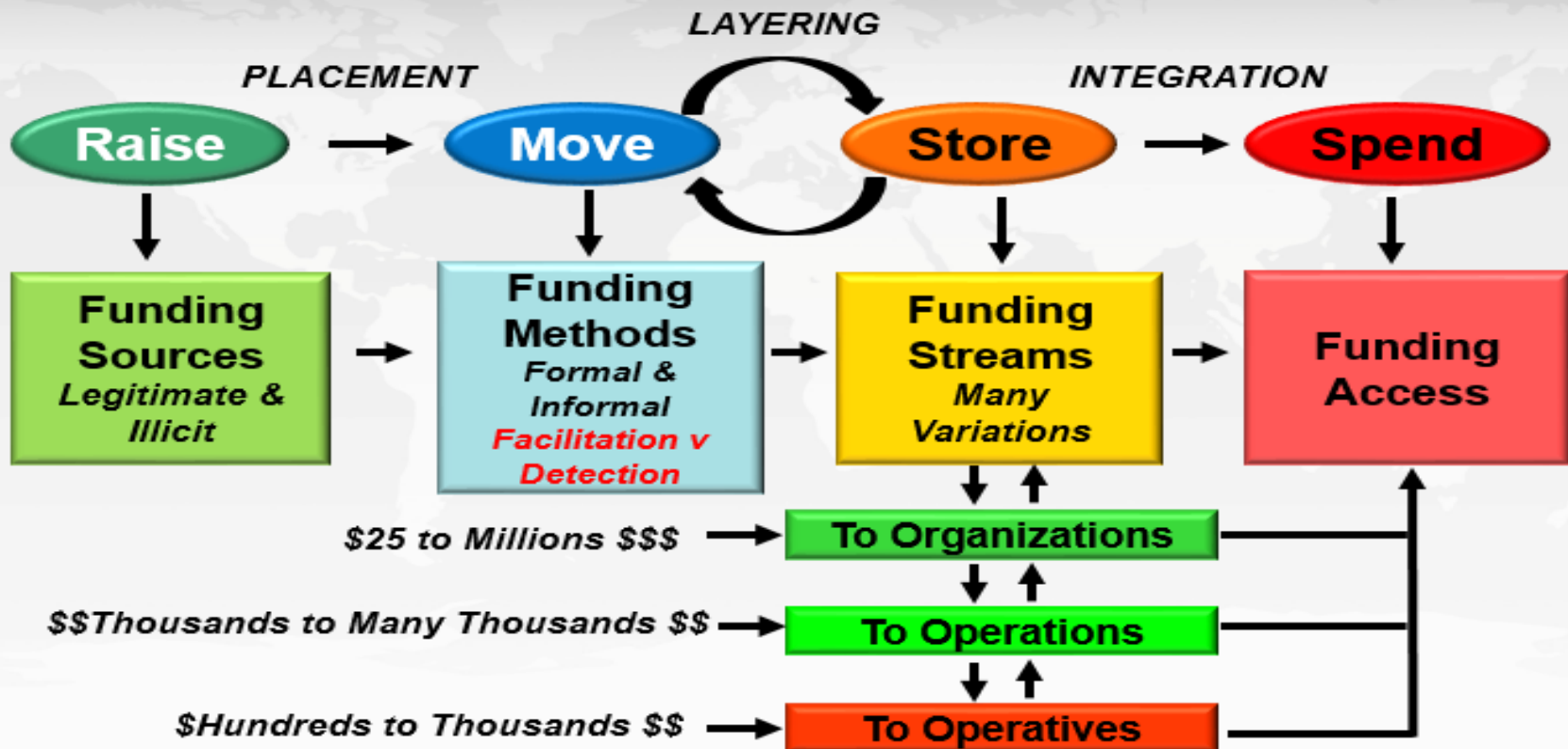
Terrorism Financing

- Terrorism financing has been referred to as the ‘**reverse money laundering**’, which is a practice whereby ‘**clean**’ or ‘**legitimate**’ money is acquired and used to **support terrorism**.



Stages of Terrorism Financing

Funding: Sources / Methods / Access



4

Money Laundering and Terrorism Financing Cycle

Stages of Money Laundering

1. Predicate Crimes

- Corruption & bribery;
 - Fraud;
- Organized crime;
- Drug & human trafficking;
- Environmental crime;
 - Terrorism

2. Placement

Initial introduction of proceeds of crime into the stream of commerce.
Most vulnerable stage for the money launderers as it involves a huge sum of money.

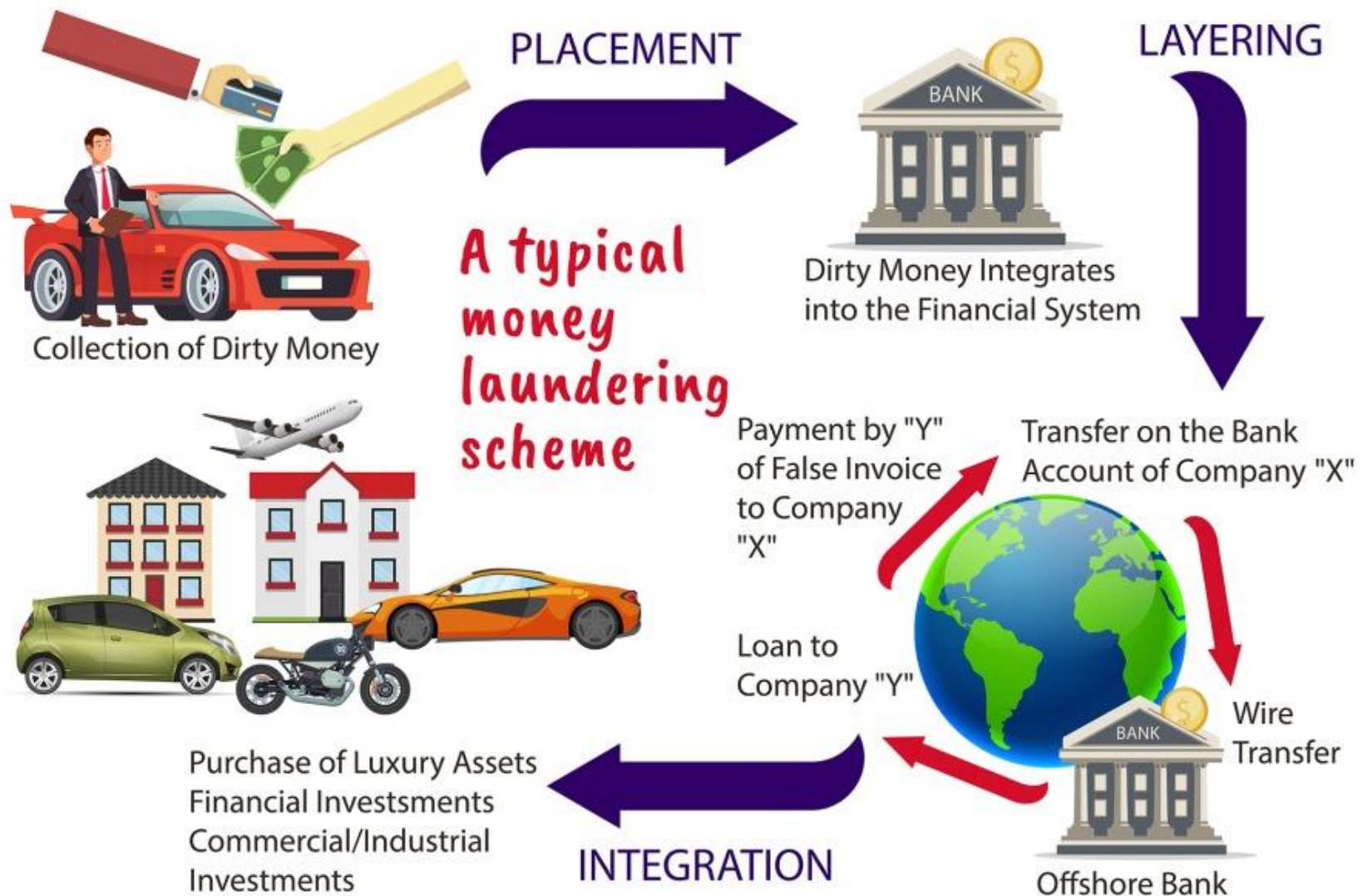
3. Layering

Distancing the money from its criminal source.
Movement of money into different accounts & different countries.
Most difficult to detect.

4. Integration

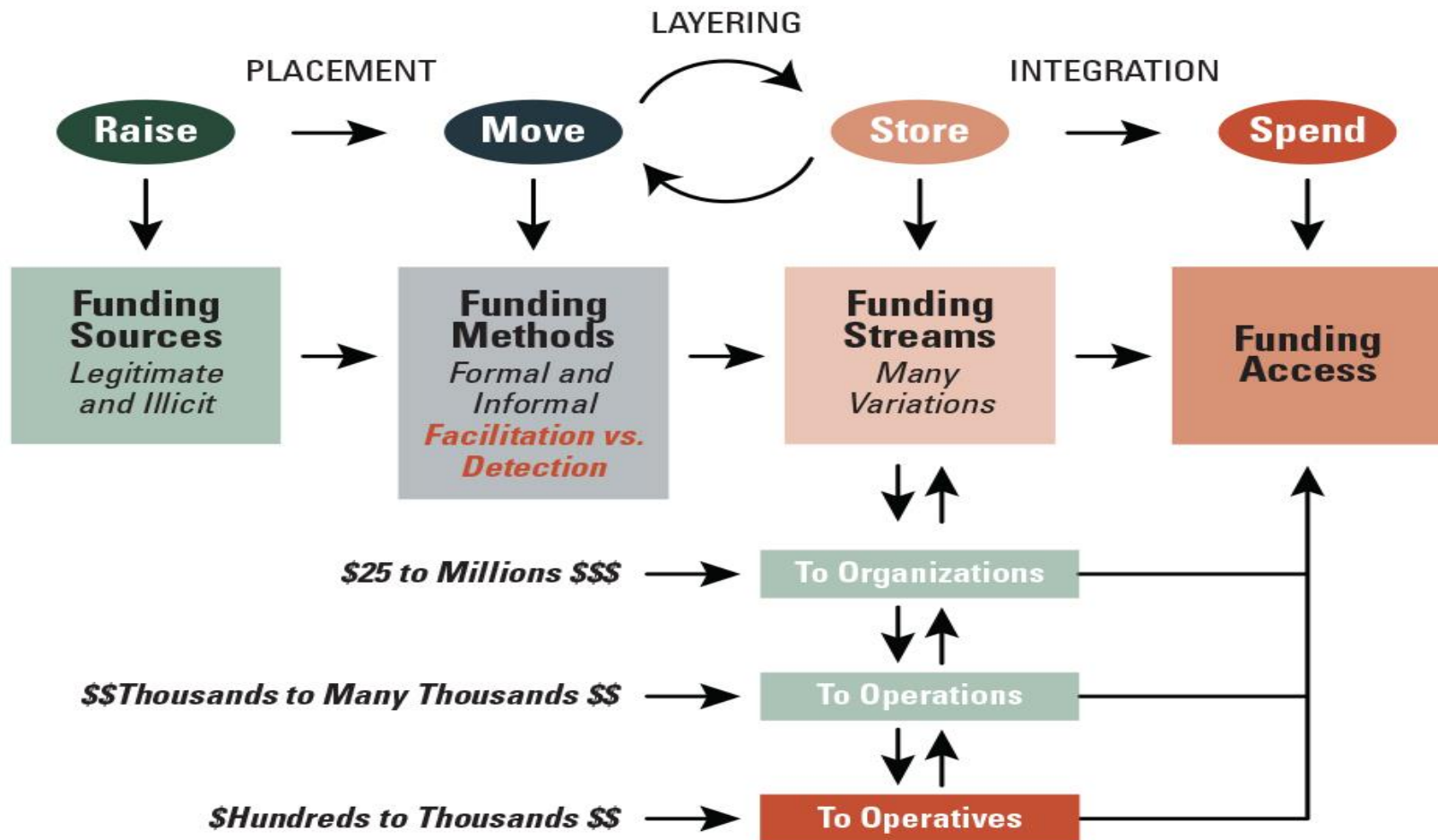
Proceeds that have been 'cleaned' are distributed back to the criminals.
Creates appearance of legitimate wealth.

Stages of Money Laundry



Terrorism Financing

Figure 1: Funding: Sources / Methods / Access



5

Link Between Money Laundering and Terrorism Financing

Link Between ML and TF

▪ **ML**

Not all ML is TF

TF

But most of TF is ML

Money Laundering	Terrorism Financing
Concealing the illicit origin of proceeds of crimes.	Collection or provision of funds for terrorism purposes.
Source of funds is always from illegal activities.	Source of funds can be both legal as well as illicit sources.
Amounts involved are normally huge.	The amounts involved do not necessarily have to huge, small donations can be made.

The primary goal of individuals or entities involved in **terrorism financing** is therefore not necessarily to **conceal** the **sources** of the money but to conceal both the **funding activity** and the **nature** of the **funded activity**.

Money Laundering and Terrorism Financing

- There is a subtle but very important difference between money laundering and terrorism financing.
- The main objective of money laundering is to convert dirty / illegally acquired funds into clean / legitimate funds.
- Terrorism financing can be the opposite:
 - ⇒ Use of clean / legitimate funds (often in legitimate donations to charities)
 - ⇒ Misdirected by account holders to their criminal colleagues in what appears to be legitimate activities – charities and others.
- The amounts involved in terrorism financing are small as compared to those involved in money laundering.

6

Typologies of Money Laundering and Terrorism Financing

Typologies

- Deals with methods, techniques and trends of money laundering and terrorist financing.
- There are various techniques that are employed, though some are more common and profitable than others.
- Some of the popular techniques include:
 - ⇒ Bulk cash smuggling
 - ⇒ Structuring and smurfing – Payments in various instalments just below the required threshold.
 - ⇒ Trade based laundering – altering invoices to disguise movement of money.



Techniques Employed

- ⇒ Cash intensive business – Can mingle funds from legitimate operations with funds obtained through illegal means.
- ⇒ Shell companies and trusts – can be used to disguise the true owner or agent of a large amount of money.
- ⇒ Real estate laundering – Acquiring property using funds from illegally and then disposing the property to legitimize the proceeds.
- ⇒ Casino laundering – Using illegally acquired funds to buy chips in a casino, play then cash the chips.
- ⇒ Abuse of NGOs and charitable institutions.
- ⇒ Use “gatekeepers” professional services (lawyers, accountants, brokers etc).
- ⇒ New payment technologies.

Cash-intensive businesses



7

Vulnerabilities of the Insurance Industry

Vulnerabilities of Insurance Industry

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Zipporah Wambui Karanja in a Nairobi court on January 24, 2019. PHOTO | DENNIS ONSONGO | NATION MEDIA GROUP

Vulnerabilities of the Insurance Industry

■ Non-life

- ⇒ Purchase legitimate businesses, insure then through arson or other means, cause a bogus claim to recover part of their investment.
- ⇒ Reinsurance by establishing:
 - bogus reinsurers to launder the proceeds of crime;
 - bogus insurers to place the proceeds of crime with legitimate reinsurers;
 - deliberate placement by the insurer of the proceeds of crime with reinsurers to disguise the source of funds.

■ Life

- ⇒ Unit-linked single premium contracts.
 - ⇒ Purchase of annuities.
 - ⇒ Lump sum top-ups to an existing life insurance contract.
 - ⇒ Lump sum contributions to personal pension contracts.
- Extensive use of intermediaries - the direct link to the policyholder.

8

Red Flags

Red Flags

- Paying a large “top-up” into an existing life insurance policy.
- Purchasing a general insurance policy and lodging a claim immediately.
- A customer who usually purchases small policies, suddenly requests a large lump-sum contract.
- Funding a policy using payments from a third party.
- Purchasing one or more single-premium investment-linked policies, then cashing them in a short time later.
- Premiums being paid into one policy, from different sources.

Red Flags

- Making over-payment on a policy, then asking for a refund.
- Relationship between policyholder and beneficiary seems unusual.
- Initiating a policy and then asking for a refund after the grace period.
- “Structuring” – i.e. purchasing several policies just under the threshold, instead of purchasing one large policy.
- A customer who is inquisitive about terms of cancellation as opposed to benefits of a policy.
- Unusually large payments using cash, money order or travellers cheques

Red Flags

- Redemption of a policy which is unusually early or does not make good economic sense.
- Purchasing an annuity with a lump sum rather than paying regular premiums over a period of time, particularly if the beneficiary is of an age which entitles him to receive the funds soon after.
- Purchasing products which are inconsistent with the buyer's age, income, employment or history.
- The funds coming from another country, particularly high-risk jurisdictions.
- customer who wants to pay a large premium with foreign currency or by way of wire transfer or via offshore banks.

9

Impact of Money Laundering and Terrorism Financing

Effects of ML and TF

- Erodes financial institutions
- Erodes customer confidence
- Weakens the financial sector's role in economic growth.
- Distorts investment and depresses productivity
- Facilitates corruption and crime at expense of economic development

Effects of ML and TF

- Increases the risk of macroeconomic instability.
- Facilitates illicit capital flight.
- Distorts prices and content.
- Affects taxation.
- Affects inflation.

10

Risks associated with ML and TF

- ML and TF can pose numerous risks to regulated entities.
- These include:
 - ⇒ Compliance and legal risk.
 - ⇒ Operational or transaction risk.
 - ⇒ Reputational risk.
 - ⇒ Liquidity risk.

10

International Initiatives to Combat Corruption, Money Laundering and Terrorist Financing

International Initiatives

- Financial Action Task Force (FATF) an intergovernmental agency established in 1989 to develop and promote international cooperation for combating money laundering.
- On 20th December 1988, the United Nations adopted a United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, making it possible for the first time to universally define the notion of money-laundering and provide for its suppression, combating at the same time traffickers themselves and their intermediaries and bankers.
- FATF-style regional bodies (FSRBs) established with the aim of combating money laundering by implementing the FATF Recommendations.

International Initiatives

- The FSRBs are:
 - ⇒ The Eurasian Group (EAG).
 - ⇒ Caribbean Financial Action Task Force (CFATF).
 - ⇒ Asia/Pacific Group on Combating Money Laundering (APG).
 - ⇒ Committee of Experts on the Evaluation of Anti-Money Laundering measures and the Financing of Terrorism of the Council of Europe (MONEYVAL).
 - ⇒ The Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG).
 - ⇒ Financial Action Task Force on Latin America (GAFILAT).
 - ⇒ Inter Governmental Action Group Against Money Laundering in West Africa (GIABA).
 - ⇒ Middle East & North Africa Financial Action Task Force (MENAFATF).
 - ⇒ The Task Force on Money Laundering in West Africa (GABAC).
- Kenya is a member of ESAAMLG.