



Insurance
Regulatory
Authority

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Introduction to AML/CFT – August 2020



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On the Agenda

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- Introduction
- 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

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Introduction

History of Money Laundering & Terrorism Financing

- 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 the famous gangster, Al Capone who 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.



History of Money Laundering & Terrorism Financing

- 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”**

Money Laundering

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



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:



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**.



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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.

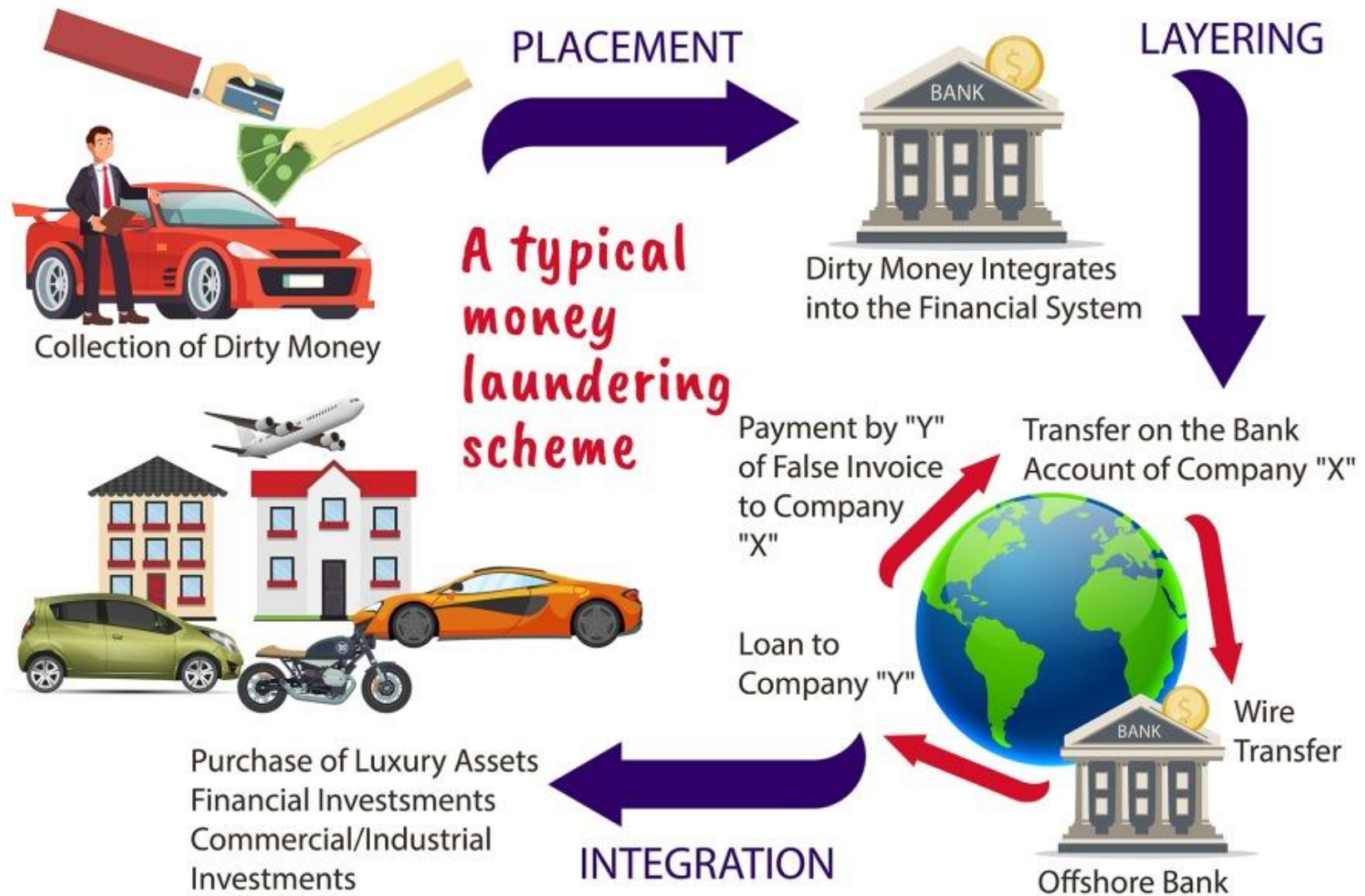
3. Layering

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 Laundering



Terrorist Financing Process

Raise

Donations/ Direct support.
Charity & NGO grants.
Proceeds of crime.

Store

Bank & other accounts.
Prepaid cards.
Bulk cash storage.
High value commodities e.g. oil, precious metals, used vehicles etc.
Cryptocurrencies

Move

Banks & financial sector.
Money service business.
Informal value transfer system – hawala.
Foreign exchange.
Bulk cash couriers.
Cryptocurrencies.

Spend

Administrative & overheads.
Recruiting & training.
Personnel & dependents.
Media & messaging.
Weapons & materials.
Planning & preparations

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Link Between Money Laundering and Terrorist Financing

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.

Link Between ML and TF

▪ **ML**

Not all ML is TF

TF

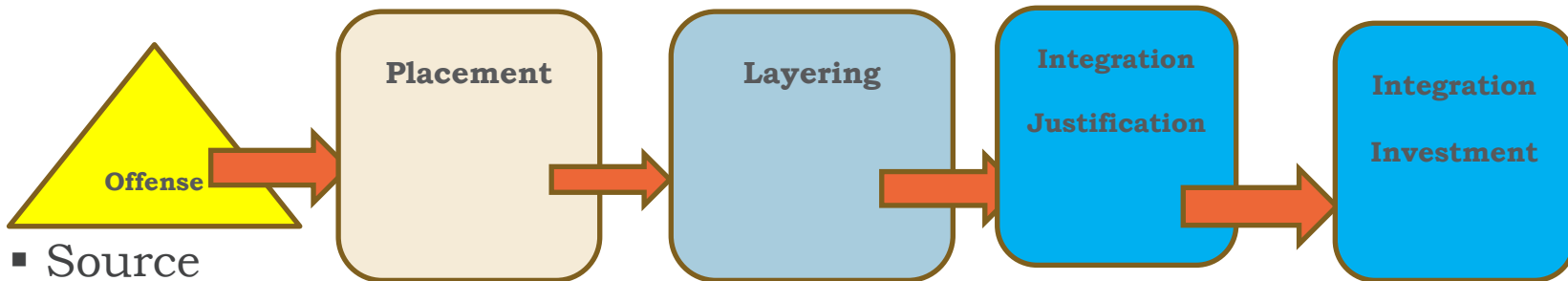
But most of TF is ML

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 be huge, small donations can be made.

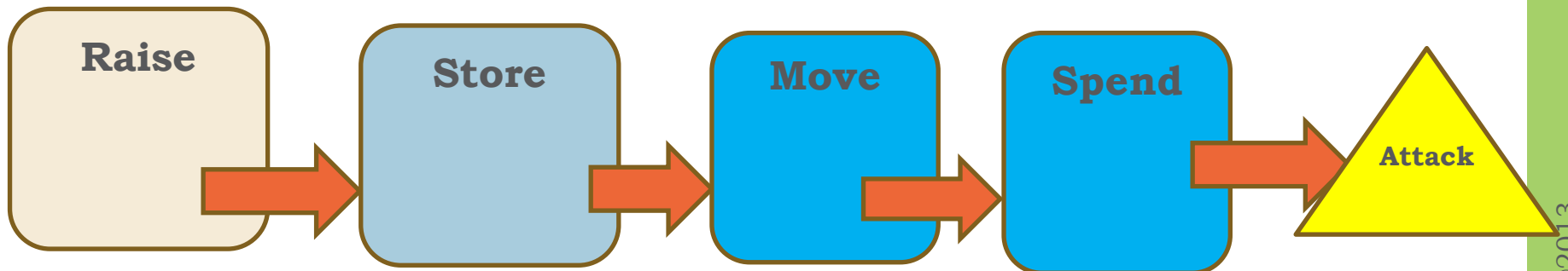
The primary goal of individuals or entities involved in **terrorism financing** is not necessarily to **conceal** the **sources** of the money but to conceal both the **funding activity** and the **nature** of the **funded activity**.

Comparing the Models

▪ Money Laundering



▪ Terrorist Financing



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Typologies of Money Laundering and Terrorism Financing

Typologies

- Deals with methods, techniques and trends of money laundering and terrorism 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 illegally acquired funds 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.

Cash-intensive businesses



Current and Emerging Trends

⇒ New payment technologies

- Cryptocurrencies – transactions based on blockchain technology promise faster, cheaper and anonymous transactions.
- Prepaid value cards – anonymity and non-face-to-face transactions.
- Increased use of online payment services.

⇒ Funnel accounts – Criminals exploit branch networks of financial institutions.

- where illegally acquired funds are deposited and allows criminals immediate access of the funds in a different geographical location.

⇒ Offshore bank accounts of foreign legal entities

- Overly complex transactions or opaque ownership structures; and
- layered legal entities or trusts in various jurisdictions.
- Facilitate hiding of the funds and their beneficial owners.

Current and Emerging Trends

- ⇒ Increased use of gatekeepers to establish sophisticated trusts
 - Attorneys, accountants, trust and company services providers, notaries, estate agents, etc.
 - Engaged in both self-laundering and third-party laundering.
 - Initially were involved in establishing of entities and opening accounts.
 - Now they are actively involved in the management of criminal clients' illicit funds and providing money laundering as a service.
 - PEPs are considered as gatekeepers due to the power they wield and access to funds which they can manipulate for their own advantage – self-laundering..
- ⇒ Third Party Money Laundering Group (TPMLG)
 - Criminals outsource the processing of laundering illegally acquired funds to the Group for a fee or commission.
 - The Group may establish complex and durable means of processing their clients' illegally acquired funds – they may not privy to their clients predicate offenses.
 - Criminals concentrate on their criminal activities.

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Vulnerabilities of the Insurance Industry



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.

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.

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**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.

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**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.