OVERVIEW OF MONEY LAUNDERING SITUATION IN WEST AFRICA AND THE ROLE OF INSURANCE COMPANIES IN COMBATING THIS PHENOMENA

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1.0 OVERVIEW OF MONEY LAUNDERING AND TERRORIST FINANCING

- Money laundering is fundamentally simple concept – it is the process by which PROCEEDS from a criminal activity are disguised to conceal their illicit origin.

- Over the years, countries have been grappling with the issues relating to money laundering and terrorist financing through prevention, detection and prosecution.

Overview of Money Laundering and Terrorist Financing (Cont'd)

- The complexity in the fight against this menace is mainly as a result of the sophisticated techniques adopted by criminals.
- Such techniques involve the use of different types of financing institutions, multiple financing transactions, the use of intermediaries such as financial advisers, accountants, shell corporations and other service providers, transferring to and from different countries as well as the use of different financial instruments and all kinds of value-storing assets.

2.0 WHAT IS MONEY LAUNDERING

- Money laundering has been defined in a number of ways.

- According to the United Nations Conventions (1988) and (2000) money laundering is defined as "the conversion or transfer of property, knowing that such property is derived from any offence or offences or from an act of participation in such offence or offences, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such offence or offences to evade the legal consequences of his actions".

3.0 WHAT IS MONEY LAUNDERING (Cont'd)

- The Financial action task force, which is the international standard setter for anti-money laundering efforts defines "money laundering" as "the processing of criminal proceeds to disguise their illegal origin" in order to "legitimize" the ill-gotten gains of crime.

4.0 WHAT IS TERRORISM?

- According to the International Convention for the Suppression of Financing of Terrorism of December 1999, the primary objective of terrorism is "to intimidate a population, or to compel a Government or an International Organization to do or abstain from doing an act". This is in contrast to other types of criminal activity where financial gain is generally the ultimate objective.

- The definition of terrorism is not universally accepted due to significant political, religious and national implications that differ from country to country.

5.0 LINK BETWEEN MONEY LAUNDERING AND TERRORISM FINANCING

- The techniques used to launder money are essentially the same as those used to conceal the sources of, and uses for, terrorist financing. Funds used to support terrorism may originate from legitimate sources, criminal activities, or both.

6.0 MAGNITUDE OF THE PROBLEM

- The activities of money launderers and terrorists are highly secretive and do not lend themselves to statistical analysis. Recent estimates by the IMF put the figures at between 2 – 5% of the world's GDP i.e. US$1.3 trillion – US$3.3 trillion.
- India, which is forth in the World ranking has a GDP of US$3.3 trillion;
- Germany, Europe's largest economy and ranks fifth in the World has an annual GDP of US$2.9 trillion; and
- Nigeria has an annual GDP of US$315 billion.

7.0 THE PROCESSES OF MONEY LAUNDERING

- Due to the large sums of money involved in money laundering, produced through the vast range of criminal activities (political corruption, arms trafficking etc), criminals resort to placement, layering and integration to legitimise their proceeds.
- **Placement**: This is the physical disposal of cash proceeds derived from illegal activity.
- **Layering**: This is the process of separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.

The Processes of Money Laundering (Cont'd)

- **Integration**: This is provision of apparent legitimacy of criminally derived wealth. If the layering process has succeeded, integration schemes place the laundered proceeds back into the economy in such a way that they re-enter the financial system and appear to be normal business funds.

8.0 IMPORTANCE OF INSURANCE BUSINESS IN ECONOMIC DEVELOPMENT

- Economic Activities/Reduce Economic Loss and ensures continuity
- Employment creation
- Tax payment – Revenue generation for governments
- Conservation of foreign Exchange – Insure outside
- Re-insurance – saves foreign exchange
- Insurance Funds – available for investment

9.0 IMPACT OF MONEY LAUNDERING

9.1 The Socio-economic Impact of Money Laundering

While money laundering and the financing of terrorism can occur in any country, they have particular economic and social consequences for developing countries, because their markets tend to be small and, therefore, more susceptible to disruption from criminal or terrorist influences.

9.2 Governments/National Economies

- Failure to prevent money laundering permits criminals to benefit from their actions, thus making crime a more attractive proposition. It also allows criminal organizations to finance further criminal activities. Thus the level of crime is increased.

Governments/National Economies (Cont'd)

- Money Laundering activities tends to undermine financial systems by putting into question its integrity. It could also have adverse macro-economic effects and affect the exchange rate through large transfers and capital flows.

- Such activities could disrupt the stability of certain economic sectors – such as the ground sub-sector etc.

Governments/National Economies (Cont'd)

- Unchecked laundering may engender contempt of the law, thereby undermine public confidence in the legal system and in the financial system, which in turn promotes economic crime such as fraud, exchange control violations and tax evasion.

- Money laundering facilitates corruption, ultimately, the accumulation of economic an financial power by unscrupulous politicians or criminals organization can undermine national economies and democratic system.

9.3 Weakened Financial Sector

- Money laundering can harm the soundness of a country's financial sector as well as the stability of individual financial institutions in many ways. The effects include reputation, operational, legal and concentration risks resulting in the following:
  - loss of profitable business;
  - liquidity problems through withdrawal of funds;
  - termination of corresponding business facilities e.g. banking, re-insurance;
  - investigation cost and fines;
  - asset seizure; and
  - decline in stock value.

9.4 International Consequence and Foreign Investment

- A reputation as a money laundering haven, alone, could cause significant adverse consequences for development in a country.
- Foreign Financial Institutions may decide to limit their transactions with institutions from money laundering havens.
- At times, legitimate businesses and enterprises from such a country may suffer from reduced access to world markets or are subjected to a higher cost due to extra scrutiny of their ownership, organization and control system.

International Consequence and Foreign Investment (Cont'd)

- Any country known for Lax enforcement of AML/CFT is less likely to receive foreign private investment. For developing nations, eligibility for foreign governmental assistance is also likely to be severely limited.

- More importantly is the possibility of inclusion in the "non-co-operating countries and territories; list maintain by FATF.

10.0 POSSIBLE WAYS TO LAUNDER MONEY THROUGH INSURANCE BUSINESS

- Investment as an insurer.
- Insurance of fictitious assets with a view to effect cancellation.
- Insurance of assets illegally acquired with a view of foul play to receive compensation.

NB: The reliance on third parties for due diligence.

11.0 PREVENTIVE MEASURES

The FATF has established a number of preventive measures for countries and institutions to adopt in the fight against money laundering.

11.1 Secrecy/Confidentiality Laws

- Secrecy/confidentiality laws should not conflict with or inhibit the effectiveness of money laundering strategy.

Preventive Measures (Cont'd)

11.2 Establishment and Implementation of Policies and Controls

Sound anti money laundering and crime prevention strategy

- to emanate from board and senior management;
- board and senior management to be fully accountable for anti money laundering requirements;
- screening of would – be – employees;
- appointment of compliance officer at a senior level; and
- all staff to be familiar with strategy.

Preventive Measures (Cont'd)

11.3 Appropriate Customer Identification and Diligence Procedures in Place

- Procedure to ensure institutions have and maintain adequate knowledge about their customers.

- Customer identification requirements known as "Know Your Customer" (KYC) assist in the detection, deterent and prevention of money laundering and terrorist financing.

Preventive Measures (Cont'd)

- KYC practices:
  - promotes good business, governance and risk management;
  - help maintain the integrity of financial system and enable development;
  - reduces the incidence of fraud and other financial crimes; and
  - protects the reputation of the institution against the detrimental effect of association with criminals.

Preventive Measures (Cont'd)

- It is important to know when to verify, whose identity to verify.
- Procedure to cover both natural and legal persons.
- Information required for verification.
- Special treatment of PEPS. (senior level approval, establish sources of wealth/funds, enhanced on-going monitoring).

Preventive Measures (Cont'd)

11.4 Specific KYC Requirements by Insurance Companies – IAIS Guidelines

- establish to a reasonable level of satisfaction that every party relevant to the insurance application actually exists;
- verify all underlying principals as well as their relationship with policy holder;
- prohibit anonymous and fictitious accounts;
- verify, claims, commissions, and other monies administered to non policy-holders;

11.4 Specific KYC Requirements by Insurance Companies – IAIS Guidelines (Cont'd)

- increase due diligence regarding the purchase and sale of second hand endowment policies and the use of single-unit-linked policies; and
- monitor reinsurance or retrocession on a regular basis as a way to ensure payments to bona fide reinsurance entities at rates justified by the risk level.

Preventive Measures (Cont’d)

11.5 Record Keeping Requirements

Institutions should keep customer identification and transaction records for period of not less than five years. This information should be detailed enough to permit the prosecution of criminal elements and should be readily available to authorities upon request:

- information details to include, name, address, date and nature of the transaction, type and amount of currency involve, type and identifying number of account and any other relevant information;

Preventive Measures (Cont'd)

- The IAIS prescribe the information to be recorded to include, location completed, clients financial assessment, client's need analysis, payment method details, benefits description, copy of document used to identify customer identity, and details of maturity processing and claim settlement.

Preventive Measures (Cont'd)

11.6 Suspicious Transaction Reporting

To recognise the obligation to report if institution knows or suspect or have reasonable grounds to suspect that funds involve were derived from a criminal activity. Grounds for suspicion as per the IAIS guidelines include the following:

- unusual or disadvantageous early redemption of an insurance policy;

11.6 Suspicious Transaction Reporting (Cont'd)

- unusual employment of an intermediary in course of some usual transaction or financial activity;
- unusual payment method; and
- transaction involving jurisdiction with lax regulatory instrument regarding money laundering and terrorist financial.

Preventive Measures (Cont'd)

11.7 Cash Transaction Reporting

Reporting of transactions involving cash beyond the threshold set by the regulatory authorities.

Preventive Measures (Cont'd)

11.8 Awareness Raising and Training

- create awareness (customers, counterparties and public); and
- training and continuous training of staff.

THE END

THANK YOU