



Financial
Intelligence Centre

Joint Meeting:
Standing Committee on Finance,
Portfolio Committee on Trade and Industry and
Portfolio Committee on Mineral Resources
(National Assembly)

Illicit Financial Flows update

Date: 20 March 2019

PURPOSE OF THE PRESENTATION

To apprise the Joint Meeting on the work and contribution of the Inter Agency Working Group (IAWG) and the Financial Intelligence Centre (FIC) on Illicit Financial Flows (IFF)

OUTLINE OF THE PRESENTATION

- **BACKGROUND**
 - Submission of regulatory reports to the FIC and related processes
- **Inter-Agency Working Group (IAWG)**
 - Coordination around Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT)
 - Work of the IAWG on IFFs
- **FIC's contribution on matters to combat Illicit Financial Flows**
 - IAWG of IFFs
 - Illicit Tobacco
 - Bulk Cash Smuggling
 - Exchange Control
- **WAY FORWARD**
 - Partnerships
 - Feedback mechanism

BACKGROUND OF THE PRESENTATION

SUBMISSION OF REGULATORY REPORTS TO THE FIC BY STAKEHOLDERS

Submit Cash Threshold Reports to the FIC - more than R24 999.99

Submit reports related to suspicious and unusual transactions (not yet a **criminal case**)

How does reporter form a suspicion?

Guidance note 04A – FICA

Client, service, transaction and conduct

Schedule 1 - Accountable Institutions

- Banks /Foreign Exchange
- Long Term Insurers
- Estate Agents
- Gambling Institutions
- Financial Advisors
- Attorneys

Schedule 3 – Reporting Institutions

- Motor vehicle dealers
- Kruger rand dealers

Schedule 2 – Supervisory Bodies

- Reserve Bank
- Financial Sector Conduct Authority (FSCA)
- Law Societies
- Estate Agency Affairs Board

Business?

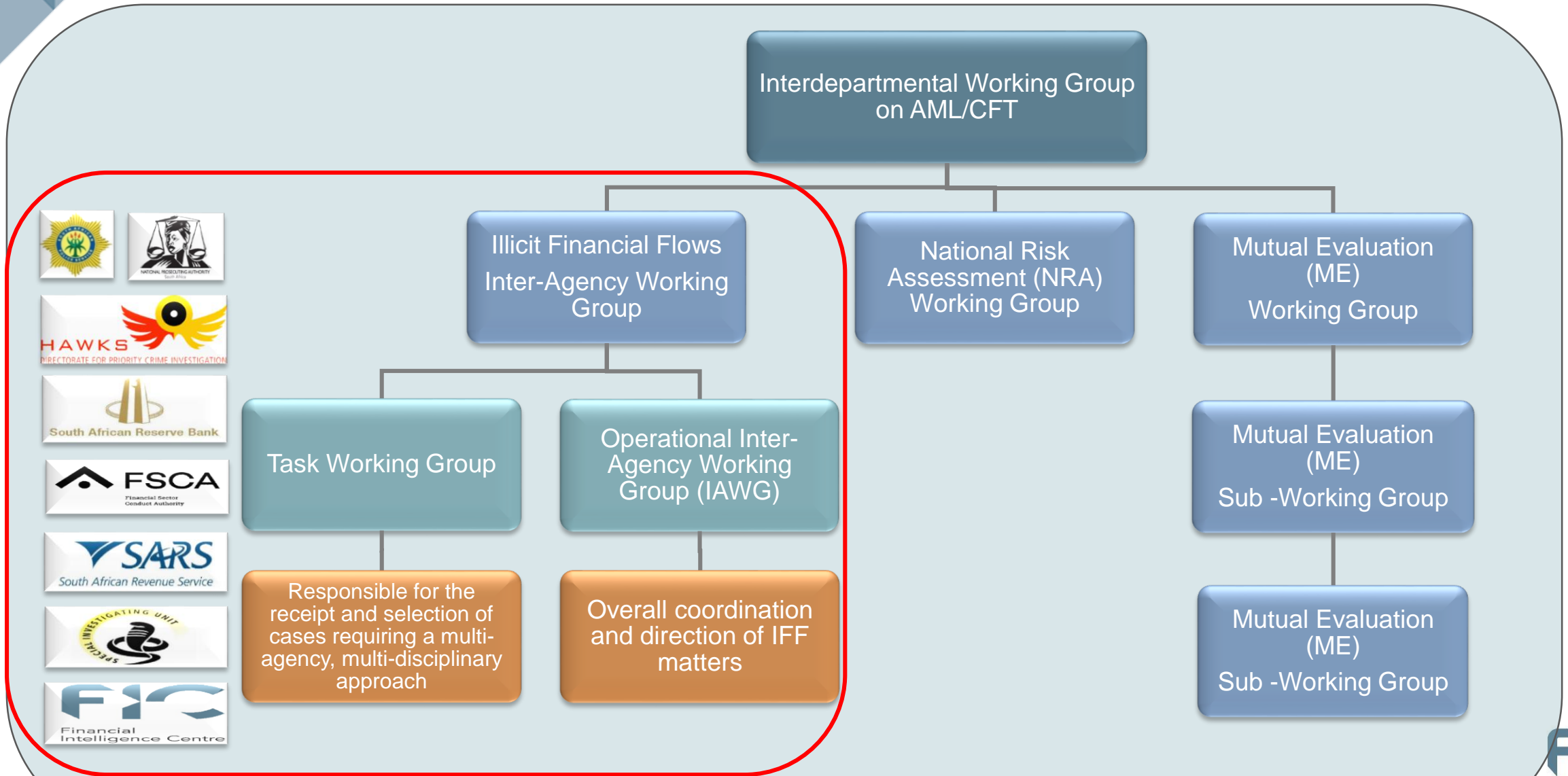
Anyone conducting a business – FICA requires all businesses to report suspicious and unusual financial transactions.

OPERATIONAL PARAMETERS

- Access to financial records are limited to what is permitted under Section 27, 27A, 32 and 35 of the FIC Act.
- Account information is limited to transactions reported and transactions identified from additional information gathered under sections 27 and 32 of the Act.
- The FIC has no power to engage the subjects of its analysis, to conduct interviews, to take statements, or to use signal or human intelligence sources in an attempt to contextualise the transactions it analyses.
- The FIC can engage the relevant reporting entities from time to time to seek clarity and to provide feedback on what was reported as envisaged in the FIC Act.
- Contextualisation of the transactions are performed using amongst others open source information, government databases, affidavits from litigation, media articles and academic publications.

Inter-Agency Working Group on IFFs

Coordination around Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT)



WORK OF THE INTER-AGENCY WORKING GROUP ON IFFs

- **Adopted Working Definition (as adopted by the IAWG-IFF)**

- *An Illicit Financial Flow (IFF) is defined as the illegal movement of money or capital from one country to another when funds are illegally earned, transferred and/or utilised.*

- This definition therefore covers various aspects in relation to the flow of funds:
 - **Illegally earned money** (e.g. proceeds of drug trafficking, fraud or theft). This will fall within the legislative framework relating to proceeds of crime – POCA.
 - **Legally earned money**, but illegally transferred. This falls within the legislative framework relating to Exchange Control and would typically relate to fraudulent documentation being presented, or non-declaration of cash in the case of “cash mules”.
- **Case Selection Criteria [for Inter-Agency Collaboration beyond BUSINESS AS USUAL]**
 - Cases must fall within the definition of IFFs;
 - Minimum financial threshold of R100 million;
 - Minimum of three investigative agencies involved; and
 - Any other significant matter (which may fall outside of the above case selection criteria)
- The IAWG is currently working on eight (8) cases (**beyond BUSINESS AS USUAL**) following a multi-agency (DPCI, NPA, AFU, Reserve Bank, SARS, FSCA and SIU) and multi-disciplinary approach.

FUTURE INTER-DEPARTMENTAL AND INTER-GOVERNMENTAL COOPERATION

- During 2015 at the presentation of a Report on IFFs to the Africa Union, by a high level panel, the chairperson, Mr Mbeki, said the continent was then losing \$50 billion. What is the amount for South Africa?
 - NICOC is busy with a risk assessment around IFFs which will assist in quantify the figure for South Africa. This is done by joint development of typologies/risk information - bringing together experts from the public and private sectors to better understand typologies used by criminals and develop risk indicators for industry to better detect this activity.
- In response to IFFs the FIC has developed a centralised, integrated, record keeping and statistical coordinating mechanism which will help to coordinate feedback to the appropriate stakeholders.
- Enhance application of appropriate data mining techniques to wider datasets for more effective utilisation of existing information.
- Recommendations:
 - Additional resources to fully capacitating the team that deals with these matters to ensure that there is dedicated focus.
 - This will assist in capacitating FIUs and law enforcement agencies so that they can be able to track, disrupt and repatriate what has left the country

OVERVIEW ON CASES UNDER INVESTIGATION IN IAWG

IFF1/2018: Case overview / progress

- Nature of matter : **Ponzi Scheme**
- Potential loss suffered: **R126 million exported from the Republic**
- Agencies involved: **SARB, AFU, NPA, SAPS, DPCI, SARS, FIC**
- Status:
 - **Warrant of arrest for suspect circulated and flagged on Interpol Blue Notice**
 - **Exploring possibilities of extradition / MLA**
 - **R70m frozen by SARB**
 - **Criminal Investigation: Obtained investor statements, obtained 61 bank accounts/appointment of a forensic accountant**
 - **AFU in process with preservation orders for remaining assets**

IFF2/2018: Case overview / progress

- Nature of matter : **Exchange Control Contraventions**
- Potential loss suffered: **R700 million exported illegally from the Republic**
- Agencies involved: **SARB, AFU, NPA, SAPS, DPCI, SARS, FIC , SIU**
- Status:
 - **R42m frozen by SARB**
 - **SARS has interest in the imports due to under declaration and price miss-invoicing**
 - **SAPS is conducting the criminal investigation**
 - **AFU prepares for possible orders**

IFF3/2018: Case overview / progress

- Nature of matter : **Exchange Control Contraventions**
- Potential loss suffered: **R397 million exported illegally from the Republic**
- Agencies involved: **SARB, AFU, NPA, SAPS, DPCI, SARS, FIC**
- Status:
 - **Submission of documents to the authorised dealers in support of applications to effect import related payments confirmed false by purported clearing agent**
 - **R10m frozen by SARB**
 - **SARS has interest in the imports due to under declaration and price miss-invoicing**
 - **SAPS conducts criminal investigation**
 - **AFU prepares for possible orders**

IFF4/2018: Case overview / progress

- Nature of matter : **Transfer of Illicit Proceeds** from transnational movement of rhino horn
- Potential loss suffered: **R2,7 billion of prepaid vouchers purchased with proceeds derived from rhino horn**
- Agencies involved: **SARB, AFU, NPA, SAPS, DPCI, SARS, FIC**
- Status:
 - ***New modus operandi* identified**
 - **Information gathered and financial analysis have been concluded**
 - **Sales of prepaid vouchers in Dec 2015 – Jan 2016 - R 747 million (2 months)**
 - **Sales of prepaid vouchers during March 2013 – Aug 2015- R1.4 billion (17 months)**
 - **AFU now in position to register a criminal case on prepaid vouchers**
 - **SAPS convicted one suspect on possession of illegal Rhino horn**

IFF5/2018: Case overview / progress

- Nature of matter : **Hawaladar**
- Potential loss suffered: **Unknown**
- Agencies involved: **SARB, AFU, NPA, SAPS, DPCI, SARS, FIC**
- Status:
 - **Linked to an international Hawala network that is currently being investigated by US Homeland Security Investigations and US honorary advisor to the Financial Task Team.**
 - **AFU has obtained affidavit setting out cash seizures in the US and can seize assets**
 - **Have international cooperation on the matter**
 - **Domestic engagement with law enforcement to have intelligence lead investigation**

IFF6/2018: Case overview / progress

- Nature of matter : **Cash seizures at ports of entry**
- Potential loss suffered: **Unknown**
- Agencies involved: **SARB, AFU, NPA, SAPS, DPCI, SARS, FIC**
- Status:
 - **Detained and handed over R67m in cash seizures**
 - **Pilot project at ORTIA led by SARS**
 - **Domestic cooperation between law enforcement led by DPCI in Western Cape**
 - **Identified seven out of ten cases where suspects used same attorney to represent them**
 - **IAWG-TWG are in the process of establishing a dedicated project team**

IFF7/2018: Case overview / progress

- Nature of matter : **Money Laundering and Corruption**
- Potential loss suffered: **Unknown**
- Agencies involved: **SARB, AFU, NPA, SAPS, DPCI, SARS, FIC**
- Status:
 - **Sentenced : 8 years for corruption**
 - **Corruption case has been closed**
 - **Money laundering investigation in progress**

IFF8/2018: Case overview / progress

- Nature of matter : **Organised Crime Syndicates**
- Potential loss suffered: **Unknown**
- Agencies involved: **SARB, AFU, NPA, SAPS, DPCI, SARS, FIC**
- Status:
 - **The matter concerns organised crime syndicates opening accounts using South African banks to transfer money to China**
 - **SARB started a project and identified 15 bank cards linked to 147 bank accounts**
 - **98% of the funds are withdrawn in cash in China**
 - **175 accounts have been blocked**
 - **Sufficient information has been collected to initiate criminal investigation**

FIC's contribution on matters to combat Illicit Financial Flows –

- **IAWG on IFFs**
- **Illicit Tobacco Trade**
- **Bulk Cash Smuggling**
- **Exchange Control matters**

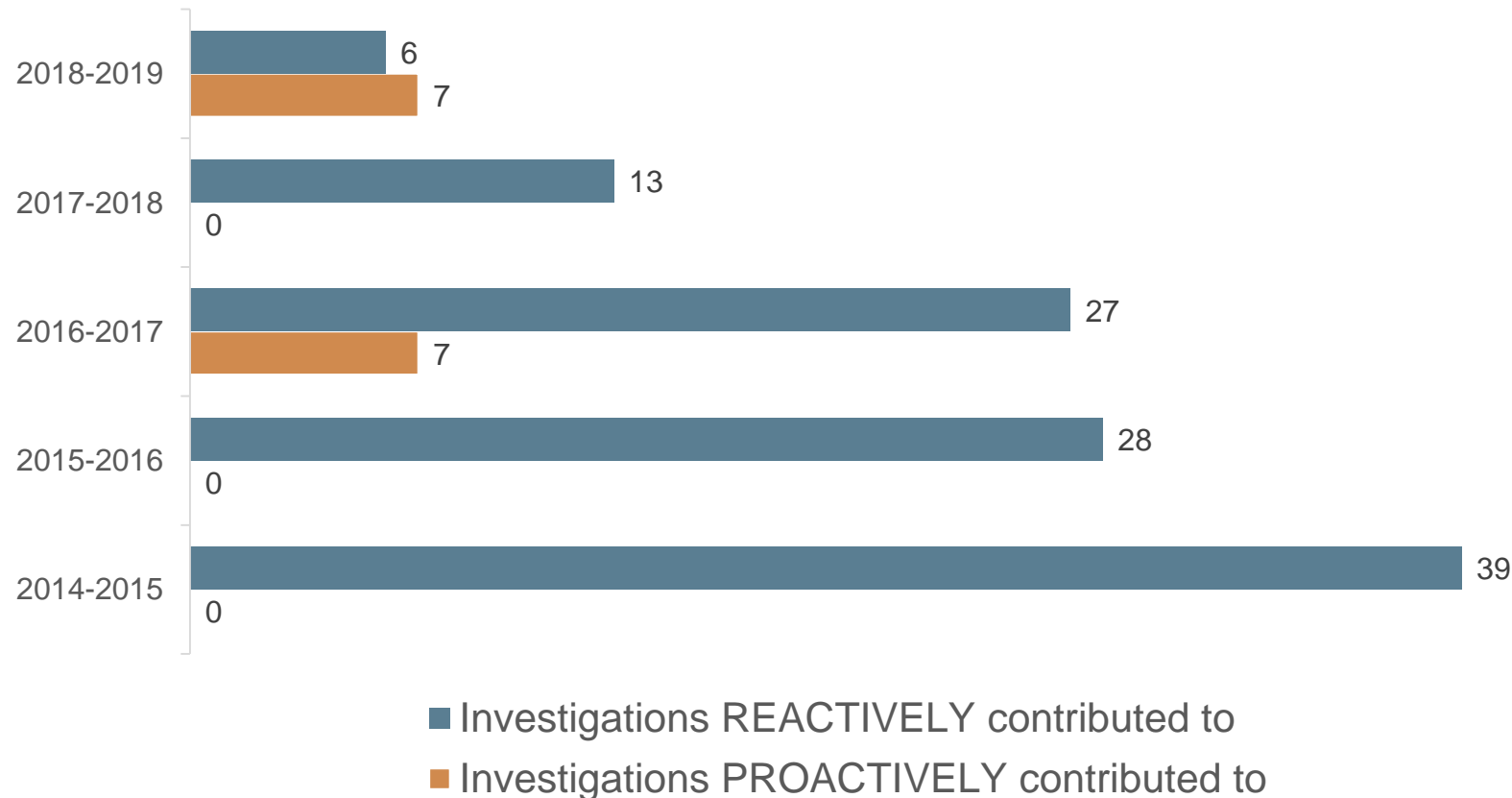
BROAD STATISTICAL INFO ON FIC INVOLVEMENT ON INTER-AGENCY WORKING GROUP ON IFFs

The FIC has analysed during 2017 to 2019 matters related to IFFs and in the process prepared and disseminated the following Financial Intelligence Reports (FIR):

	Reports <u>initiated and disseminated by the FIC</u> (proactive work)	Reports disseminated in <u>response to requests from LEAs</u> (reactive work)	Grand total
Number of reports issued per category	32	17	49
Number of different law enforcement agencies and international FIUs	8		
Number of individuals	40	12	52
Number of entities	237	89	326
Number of suspicious reports analysed	76		

SUPPORT PROVIDED BY THE FIC TO COMBAT ILLICIT TOBACCO TRADE – FINANCIAL YEARS APRIL 2014 TO MARCH 2018

FIC support related to Illicit Tobacco Trade investigations conducted by Law Enforcement Meeting for the respective financial years.



The Agencies with which the FIC cooperated on these matters are:

SARS, DPCI, SSA, SARB
Financial Surveillance
and the AFU

In relation to these 127 cases 549 suspicious transaction reports were received from financial institutions.

These cases were related to at least 50 individuals and 350 entities.

FIC's INVOLVEMENT - BULK CASH SMUGGLING MATTERS

There are some recent media reports on travelers arrested at South African airports with large amounts of cash. The FIC has supported these investigations in that it analysed, and continues to analyse, financial related information of these matters. From 2017 the FIC has prepared and disseminated the following Financial Intelligence reports (FIR) related to the following number of investigations:

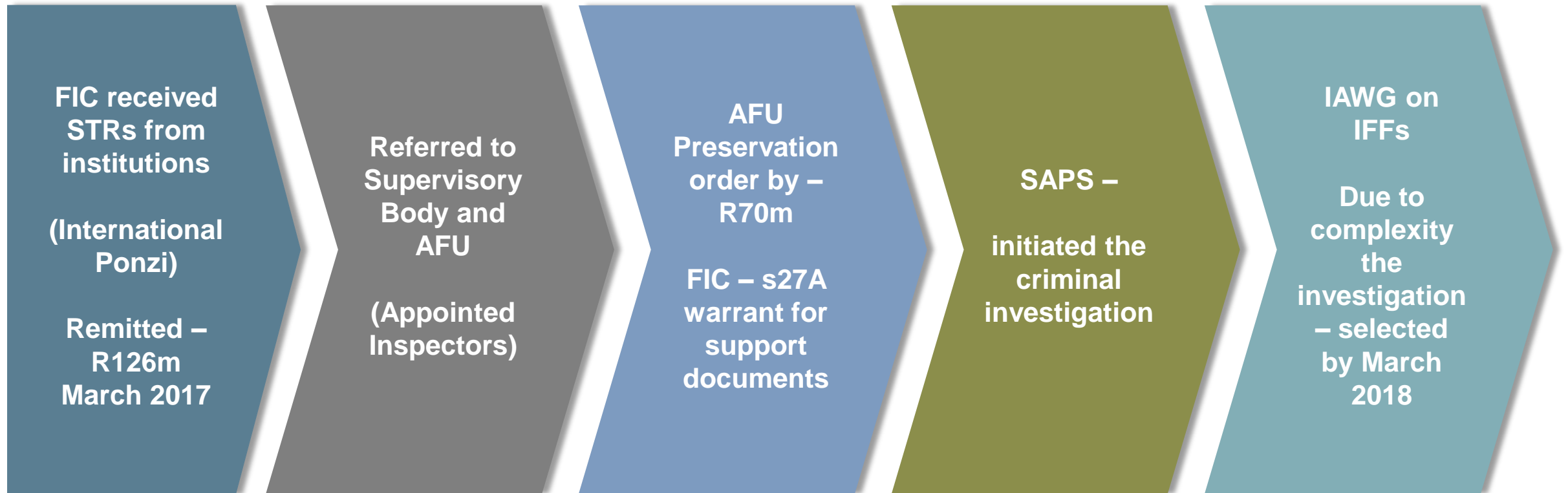
	Reports <u>initiated and disseminated by the FIC</u>	Reports disseminated in response to <u>requests from LEAs</u>	Grand total
Number of reports issued per category	11	15	26
Number of different law enforcement agencies	4		
Number of individuals	209		
Number of entities	225		
Suspicious transaction reports received related to matters	77		

FIC's INVOLVEMENT – CAPITAL FLIGHT/EXCHANGE CONTROL

As part of its mandate the FIC has supported investigations related to exchange control violations. From 2014 the FIC has **initiated**, prepared and disseminated the following Financial Intelligence reports (FIR) related to the following number of investigations:

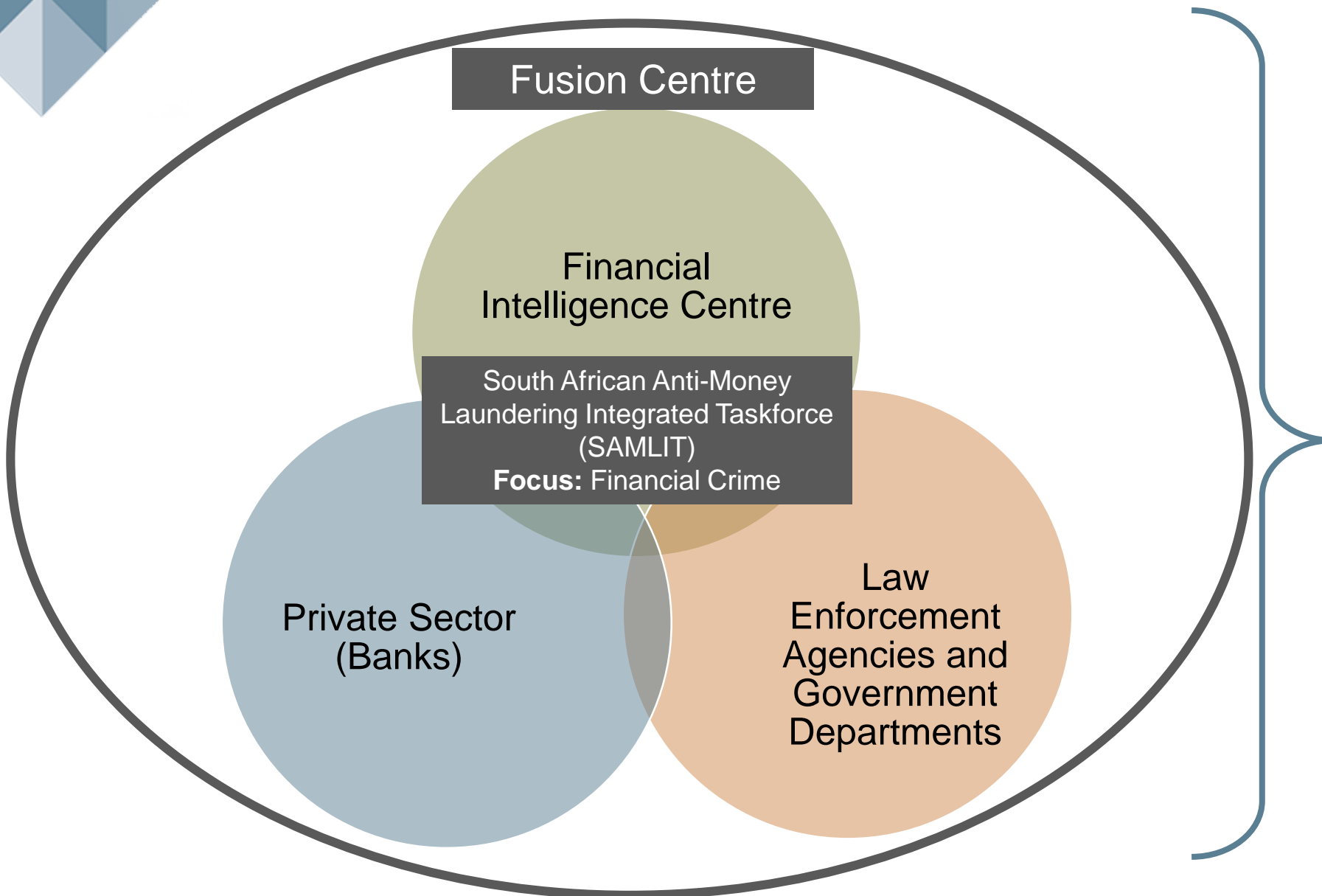
	Reports <u>initiated and disseminated by the FIC</u>
Number of reports	64
Number of different law enforcement agencies	7
Number of individuals/entities	208
Suspicious transaction reports related to these matters received	364

Case study - Early detection by Banks - IFFs



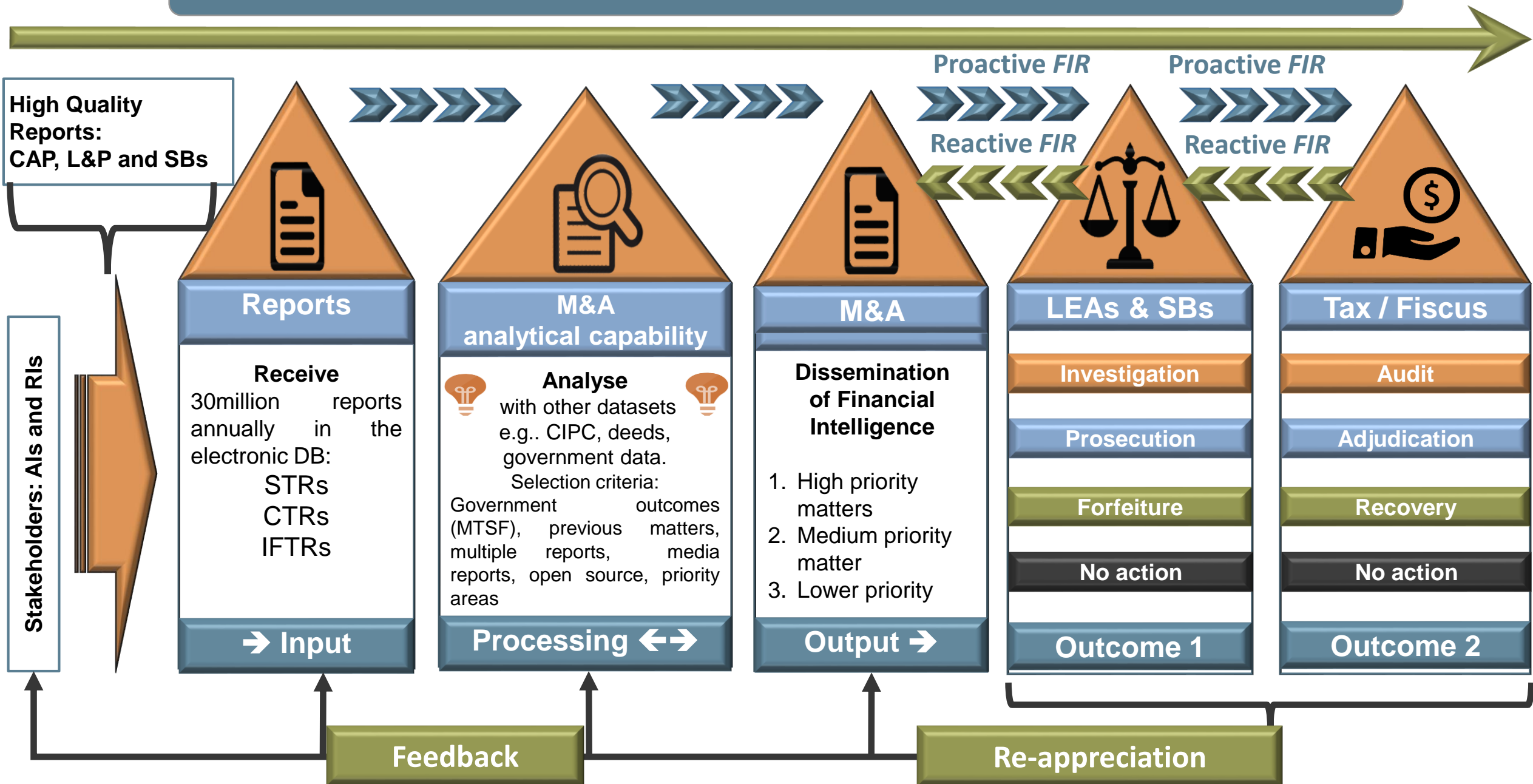
Way-forward

PARTNERSHIPS TO ADDRESS CRIME



To effectively and efficiently address specifically identified matters, relating to **national priority crimes** and follow an intelligence driven approach which provides a holistic view on priority crimes.

STAKEHOLDER INTERFACE MODEL: *FEEDBACK MECHANISM*



WAY FORWARD

The FIC will continue to:

- *Explore new ways or opportunities in the development of better technology and systems around big data to improve the integration, analysing and dissemination of financial intelligence.*
- *Create partnerships with the private sector to efficiently access relevant financial information to support law enforcement investigations (e.g. South African Anti-Money Laundering Integrated Taskforce (SAMLIT)).*
- *Develop mechanisms to improve the feedback received from LEAs.*
- *Seek improved access to government databases (e.g. DoT, Master, Deeds office and DHA).*
- *Conclude additional MOUs with Stakeholders in Government and LEAs to improve the quality of financial intelligence produced (e.g. SAPS, NPA, SARS, Master)*
 - *MOUs recently concluded with SIU, SSA, Office of Public Protector, and SARB*



THANK YOU