financial intelligence centre
REPUBLIC OF SOUTH AFRICA

# SUMMARY REPORT ON THE FINANCIAL INTELLIGENCE CENTRE ANNUAL REPORT 2010/11

**Purpose of the FIC**

The Financial Intelligence Centre (FIC) is South Africa's national financial intelligence unit tasked to provide financial intelligence to law enforcement agencies, intelligence agencies and the South African Revenue Service.

This is achieved by ensuring that designated categories of business comply with requirements for registering with the FIC and general compliance obligations, and submit reports on transactions. This enables the FIC to analyse trends in transactions and monitor the flow of money in the economy.

The FIC Act, 38 of 2001, as amended, established the FIC to assist in:

- Identifying the proceeds of unlawful activities;
- Combating money laundering activities;
- Combating financing of terrorist and related activities;
- Sharing information with law enforcement and other local and international agencies.

The FIC Act requires all businesses to report suspicious financial transactions. It also introduces a regulatory framework of control measures requiring certain categories of business to take steps regarding client identification, record-keeping, the appointment of a compliance officer, training staff, the reporting of information to the FIC and the introduction of internal compliance structures, policies and procedures. These requirements apply to a broad range of financial and non-financial institutions, and define the anti-money laundering responsibilities of supervisory bodies, and the FIC.

The primary activities of the FIC are to:

- Make information that it collects available to investigating authorities, intelligence services and the South African Revenue Service (SARS) to facilitate the administration and enforcement of the laws of the Republic
- Exchange information with similar bodies in other countries
- Monitor and give guidance to accountable and reporting institutions, supervisory bodies and individuals regarding their performance and compliance with the provisions of the FIC Act;
- Supervise and enforce compliance with the FIC Act to facilitate effective supervision and enforcement by supervisory bodies;
- Contribute to the global framework against money laundering and the financing of terrorism

- Develop policy options for the Minister of Finance based on an assessment of the available financial intelligence.

**The FIC's strategic objectives for 2010/11**

- Improve consumption of FIC products and services
- Encourage greater compliance by accountable institutions and the public
- Enhance financial intelligence capacity in East and Southern Africa
- Strengthen South Africa's financial intelligence framework
- Develop and commission FIC's information and communication technology system
- Become a more sustainable and capable institution.

**FIC at a glance – key statistics**

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|---|
| 2 – new reporting streams introduced - cash threshold reporting and electronic cross border foreign transaction reporting |
| 25 percent increase – in the number of STRs as compared to 2010/11 |
| 36 990 – the number of STRs received as compared to 29 411 for the period 2009/10 |
| 1 311 671 – the number of Cash Transactions Reports received |
| R32,792 billion – estimated minimum value of Cash Transaction Reports received |
| 8 661 – the number of accountable and reporting institutions registered with the FIC, following implementation of FIC Amendment Act 11 of 2008 |
| 192 inspections conducted [70 voluntary compliance reviews by FIC and 122 joint compliance reviews with supervisory bodies] |
| 75 compliance awareness training sessions hosted with private sector [accountable institutions] and a gambling supervisor |
| 495 – the number of requests received from law enforcement agencies (LEA) - 26 percent up from 393 in 2010/11 |
| 112 requests from foreign law enforcement agencies – close to 35 percent up from 2010/11 |
| R6.7 million – frozen in bank accounts to enable Asset Forfeiture Unit to preserve these amounts |
| 1 Joint Experts Meeting of FATF, the Egmont Group & and first African outreach (November 2010) |

## Typologies

The FIC operates in a dynamic international environment. Every day, enormous flows of capital and cash move around the world. An unquantifiable portion of these monetary flows is the result of criminal activity. Often, such proceeds are disguised in highly complex arrangements, requiring specialised detection skills. The FIC and its counterparts develop typologies to assess threats posed by criminal activities and feed these to governmental, investigating and prosecuting authorities. Global regulatory bodies continuously review the policy environment in which financial intelligence units (FIUs) operate, developing supporting standards and policies based on these assessments.

### FIFA 2010 World Cup™: Scoring with financial intelligence

The FIC participated in the National Joint Operations Centre during the World Cup. Our roles were to share information about suspicious or unusual financial activity, provide financial transaction and bank account information, and conduct financial profiling. The FIC sourced information from global counterparts and was empowered to freeze bank accounts for up to five days. During the event:

- Eleven FIC staff were assigned to the National Joint Operations Centre each day
- The FIC participated in 14 criminal investigations
- The FIC provided financial intelligence to other agencies on numerous subjects and entities.

The World Cup marked a new level of co-operation between government agencies, and a new level of engagement with the private sector. Examples of our contribution to this joint effort are profiled below.

**Accommodation scams**

The FIC helped in the investigation of accommodation scams targeting overseas visitors. Syndicates advertised bogus bookings over the internet, and demanded large deposits to "secure" reservations. Unsuspecting tourists were lured to deposit funds, and the booking agents would subsequently disappear and were no longer contactable.

In one case, an individual was asked to deposit R18 000 into the account of a third party. The victim duly made an electronic transfer, and only realised that she was a victim when the guest lodge said it had no reservation.

The FIC discovered that the account into which the funds were deposited was owned by a South African who had previously been reported for suspicious overseas remittances. Furthermore, the account was linked to 419 scams; it was held in a third country under a different name.

**Uncovering an illegal pyramid scheme**

During the past year, the FIC referred two STRs to the South African Police Service based on suspicions that a community-based pyramid scheme was drawing on the investments of poor people using false promises. The Bellville commercial crime branch in Cape Town opened an investigation.

On visiting the subject's residence, the police observed a long queue of people in front of the house who explained that they were investing money that would deliver huge dividends by the end of the week. Further investigation confirmed the subject's involvement in pyramid scheme activities. Important evidence was seized from the residence.

After conferring with the police, the banks froze the relevant accounts. The subject approached the court to overturn the hold on his accounts. Meanwhile, the Asset Forfeiture Unit requested the FIC to place a section 34 hold on the relevant accounts, and the FIC identified two additional accounts. The accounts remain frozen.

**Profiling cash-in-transit robberies**

The Hawks asked the FIC to compile profiles and provide information on a list of subjects linked to cash-in-transit robberies. Through in-depth profiling and financial analysis, the FIC established that all of the subjects were or had previously been employed by security companies. The FIC's findings help the police to understand how such robberies are conducted, and highlight the need for firms to conduct due diligence on their employees.

**Inter-agency co-operation brings Ponzi scheme to a halt**

The FIC co-ordinated an inter-agency task team that tackled the largest Ponzi scheme yet to operate in South Africa. The total estimated value for the South African leg of the scheme is over R12 billion.

The scheme drew in several hundreds of "investors" who contributed substantial funds to import anti-retroviral drugs, based on the promise of large percentage payouts. As the economic recession hit home globally, the funds to pay out investors at the promised rates dried up and the scheme was revealed.

The task team was made up of agencies in the Justice and Treasury departments. The FIC provided the financial intelligence that helped participating agencies to co-ordinate a targeted investigation and to identify information used as evidence for eventual prosecution.

Perpetrators' accounts were frozen and some assets were confiscated. The task team also developed a list of all scheme investors, facilitators and administrators.

The investigation was supported by the FIC's partnerships with FIUs in several other countries. International co-operation helped the FIC to establish the cash flow pattern, the accounts involved and the method of laundering money. This information was given to other agencies and helped direct the investigation.

**Identifying a card-skimming syndicate**

During the reporting period, the South African Police Service asked the FIC to provide information for an investigation with Bulgarian authorities on card-skimming fraud. Some of the subjects were operating from South Africa. The police provided the FIC with telephone numbers identified by law enforcement. Through in-depth profiling and analysis, the FIC linked the contact numbers to a syndicate and provided financial profiles of the syndicate members to law enforcement.

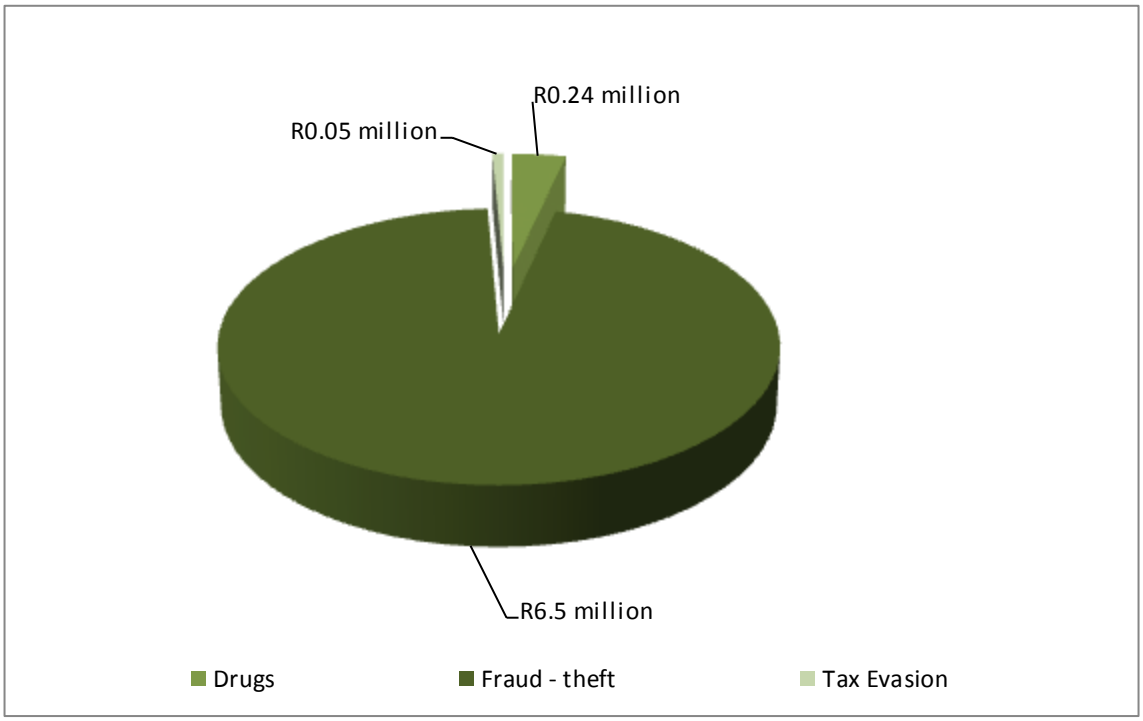
### Suspicious transaction reports

As a result of the FIC's enhanced compliance regime, and co-operation by entities obliged to report under the FIC Act, the FIC received 36 990 STRs during the reporting period – a 26 percent increase on the prior year. The vast majority (94 percent) came from financial bodies. The table below shows a sharp increase in the number of STRs each year since the FIC was established. This trend is a result of interventions by the FIC and the co-operation of private-sector institutions – particularly banks.

**Suspicious transaction reports**

| Financial year | Number of STRs | Accumulated total |
|---|---|---|
| 2002/03 | 991 | 991 |
| 2003/04 | 7480 | 8 471 |
| 2004/05 | 15 757 | 24 228 |
| 2005/06 | 19 793 | 44 021 |
| 2006/07 | 21 466 | 65 487 |
| 2007/08 | 24 580 | 90 067 |
| 2008/09 | 22 762 | 112 829 |
| 2009/10 | 29 411 | 142 240 |
| 2010/11 | 36 990 | 179 230 |

**Crime-related funds frozen by the FIC**




During 2010/11, the FIC identified various direct connections between criminal conduct and financial benefit, and froze relevant accounts to enable government agencies to secure the proceeds of crime. The FIC froze just over R6.7 million in bank accounts to enable the Asset Forfeiture Unit to preserve these amounts.

The FIC emphasises quality, rather than quantity. The aim is to provide high-quality, timely and actionable financial intelligence rather than larger volumes of lower-quality intelligence, much of which cannot be acted upon. This development has resulted in increased interaction with investigators. Our risk-based approach is designed to target high-impact cases involving large amounts of money and greater numbers of people.

## Registration of accountable institutions, December 2010 – March 2011

| SCHEDULE 1: ITEM NO. | | Registrations | | | | |
|---|---|---|---|---|---|---|
| | | Dec 2010 | Jan 2011 | Feb 2011 | Mar 2011 | Total at 31 Mar 2011 |
| 1 | Attorneys | 113 | 108 | 1435 | 730 | 2386 |
| 2 | Trust companies | 8 | 1 | 115 | 49 | 173 |
| 3 | Estate agents | 151 | 62 | 1146 | 627 | 1986 |
| 4 | Users of an exchange | 13 | 6 | 26 | 20 | 65 |
| 5 | Collective investment schemes | 12 | 8 | 18 | 6 | 44 |
| 6 | Banks | 20 | 1 | 18 | 6 | 45 |
| 7 | Mutual banks | 1 | 0 | 0 | 0 | 1 |
| 8 | Long-term insurers | 9 | 2 | 20 | 11 | 42 |
| 9 | Gambling | 239 | 15 | 113 | 239 | 606 |
| 10 | Foreign exchange | 8 | 30 | 138 | 16 | 192 |
| 11 | Money lenders against the security of securities | 3 | 6 | 8 | 4 | 21 |
| 12 | Investment advisors or intermediaries | 236 | 265 | 1125 | 579 | 2205 |
| 13 | Issuers of travellers' cheques & money orders | 3 | 0 | 3 | 1 | 7 |
| 14 | Postbank | 1 | 0 | 0 | 0 | 1 |
| 15 | Member of a Stock Exchange | Incorporated under Item 4 | | | | |
| 16 | The Ithala Development Finance Corporation Limited (Ithala) | 1 | 0 | 0 | 0 | 1 |
| 17 | Approved person by Registrar of Stock Exchanges | Incorporated under item 12 | | | | |
| 18 | Approved person by Registrar of Financial Markets | Incorporated under item 12 | | | | |
| 19 | Money remitters | 3 | 0 | 12 | 5 | 20 |
| **SCHEDULE 3: ITEM NO.** | | | | | | |
| 1 | Motor vehicle dealers | 69 | 93 | 471 | 201 | 834 |
| 2 | Krugerrand dealers | 5 | 3 | 16 | 8 | 32 |
| **TOTAL** | | **895** | **600** | **4 664** | **2 502** | **8 661** |

**Cash threshold reports**

Cash threshold reports (CTRs) help the FIC identify the proceeds of crime. In 2010/11, a technical platform was introduced to receive CTRs from all accountable and reporting institutions. CTRs cover all cash transactions (notes, coins, traveller's cheques) of R25 000 and above. Attorneys, motor vehicle dealers and casinos began reporting from 4 October 2010, followed by the remaining accountable and reporting institutions from 1 December 2010. The banks generate most CTRs. The FIC received 1.3 million CTRs with a total estimated minimum value of R32.5 billion from October 2010 to the financial year end.

**Cash threshold reports received, 1 October 2010 – 31 March 2011**

| | Industry sector | Oct-10 | Nov-10 | Dec-10 | Jan-11 | Feb-11 | Mar-11 | Total |
|---|---|---|---|---|---|---|---|---|
| | **Schedule 1** | | | | | | | |
| 1 | Attorneys | 49 | 87 | 43 | 34 | 46 | 169 | 428 |
| 2 | Trust companies | 0 | 0 | 0 | 9 | 4 | 5 | 18 |
| 3 | Estate agents | 0 | 0 | 3 | 3 | 44 | 128 | 178 |
| 4 | Users of an exchange | 0 | 0 | 3 | 16 | 10 | 26 | 55 |
| 5 | Collective investment schemes | 0 | 0 | 34 | 76 | 50 | 118 | 278 |
| 6 | Banks | 0 | 1 | 118 112 | 486 553 | 225 592 | 254 468 | 1 084 726 |
| 7 | Mutual banks | 0 | 0 | 194 | 105 | 10 | 21 | 330 |
| 8 | Long term insurers | 0 | 0 | 25 | 25 | 16 | 48 | 114 |
| 9 | Gambling institutions | 19 151 | 28 918 | 41 105 | 39 685 | 22 461 | 29 246 | 180 566 |
| 10 | Foreign exchange | 0 | 0 | 2 182 | 1 304 | 3 940 | 2 434 | 9 860 |
| 11 | Money lenders against security of securities | 1 | 0 | 8 | 14 | 11 | 25 | 59 |
| 12 | Financial services providers | 0 | 0 | 12 | 81 | 41 | 90 | 224 |
| 13 | Issuers of travellers cheques & money orders | 0 | 0 | 431 | 208 | 146 | 0 | 785 |
| 14 | Postbank | 0 | 0 | 3 017 | 1 458 | 950 | 2 149 | 7 574 |
| 16 | Ithala | 0 | 0 | 0 | 0 | 0 | 3 | 3 |
| 19 | Money remitters | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Schedule 3** | | | | | | | |
| 1 | Motor vehicle dealers | 606 | 972 | 1 019 | 5 171 | 15 853 | 2 791 | 26 412 |
| 2 | Kruger rand dealers | 1 | 0 | 12 | 26 | 9 | 13 | 61 |
| | **TOTAL** | **19 808** | **29 978** | **166 200** | **534 768** | **269 183** | **291 734** | **1 311 671** |

**International environment**

- South Africa is the only African member of the Financial Action Task Force (FATF), which sets international standards in financial intelligence, backed by the support of its 36 member states
- South Africa takes part in the 14-member Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)
- The FIC leads South Africa's representation in both of these organisations
- The FIC is one of a handful of African members of the Egmont Group, an international organisation of 120 FIUs.

**Further detail can be obtained in the FIC's Annual Report for 2010/11**