



Financial Crime Risk

Role of the Board and Senior Management

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Discussion



Economic crime is a massive and growing problem and pose risks for business, the public sector and citizens



Public and private sectors are urged to take a public stance in this fight. Building trust and promoting collaboration is the way forward



Information sharing and the use of technology are needed to uncover criminal networks



This is not just a compliance issue but poses a risk to the integrity of the financial system

Definitions

The logo for the Financial Reporting Centre (FRC) consists of the letters 'FRC' in a bold, black, sans-serif font.

Financial Reporting Centre (FRC): Kenya's Financial Intelligence Unit) established under section 21 of the Proceeds of Crime and Anti-Money Laundering Act, 2009. Independent body whose principal objective is to assist in the identification of the proceeds of crime and combating money laundering. The FRC became operational on April 12, 2012



The **Financial Action Task Force (FATF)** is an inter-governmental body established in 1989. To set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system



Eastern and Southern Africa Anti-Money Laundering Group: Implement FATF Recommendations, coordinating with international organizations, study emerging regional typologies, develop institutional and human resource capacities, and co-ordinate technical assistance.

Financial Crime

Money Laundering

Definitions

Money Laundering - the concealment of the origins of illegally obtained money, typically by means of transfers involving financial institutions or legitimate businesses.

3 stages:



Placement – Movement of cash from its source so as to disguise its true origin. This is followed by placing it into circulation through financial institutions, casinos, shops, bureau de change and other businesses.



Layering - Makes it more difficult to detect and uncover a laundering activity. It is meant to make the trailing of illegal proceeds difficult for the law enforcement agencies. E.g. purchase of property and assets



Integration - Movement of previously laundered money into the economy mainly through the banking system and thus such monies appear to be normal business earnings. E.g. Sale of property and assets

Definitions

Financial Crime (FinCrime) - Crime that is specifically committed against property. Almost always committed for the personal benefit of the criminal, and involve illegal conversion of ownership of the property.

Types of FinCrime:

Bribery and Corruption	Hostage Taking/Kidnapping (Political or Terror Related)	Organized Crime
Counterfeiting and Piracy of Products	Human Trafficking and Other Human Rights Abuse	Racketeering
Currency Counterfeiting	Illicit Trafficking in Stolen and Other Goods	Robbery (Only High-Value)
Cybercrime/Hacking/Phishing	Insider Trading and Market Manipulation	Securities Fraud
Environmental Crimes	Migrant Smuggling/Slave Labor	Money Laundering
Extortion	Sexual Exploitation of Children (for Financial Benefit)	Smuggling (Including in Relation to Customs and Excise Duties and Taxes)
Falsifying Information on Official Documents	Narcotics and Arms Trafficking (Production and Distribution)	Financing of Terrorism
Forgery	Price Fixing/Illegal Cartel Formation/Antitrust Violations	War Crimes
Fraud/Embezzlement/Theft/Cheating	Pharmaceutical Product Trafficking/Illegal Distribution/Illegal Production/Banned/Fake Medicines	
Tax Evasion/Tax Fraud	Piracy (Sea)	

Money laundering continues to dominate the headlines...

'EU drafts new money laundering laws following bank scandals'

Share     



CFA Institute Contributor



Identity thieves are getting more sophisticated

Criminals hide 'billions' in crypto-cash - Europol

By Shiroma Silva
BBC News

12 February 2018



'Danske Bank implicated in \$234 billion money laundering scandal'

Financial services providers are launching a national campaign to combat rise in fraud and remind customers to stop and think

Punjab National Bank hit by \$1.8bn in fraudulent transactions

Simon Mundy in Mumbai FEBRUARY 14, 2018

Shares in Punjab National Bank, one of India's largest lenders, have fallen more than 4 per cent after it announced the detection of fraudulent transactions worth \$1.77bn.

A crackdown on financial crime means global banks are derisking

Charities and poor migrants are among the hardest hit



Cyber attacks are more sophisticated than ever - interview with Seth Berman

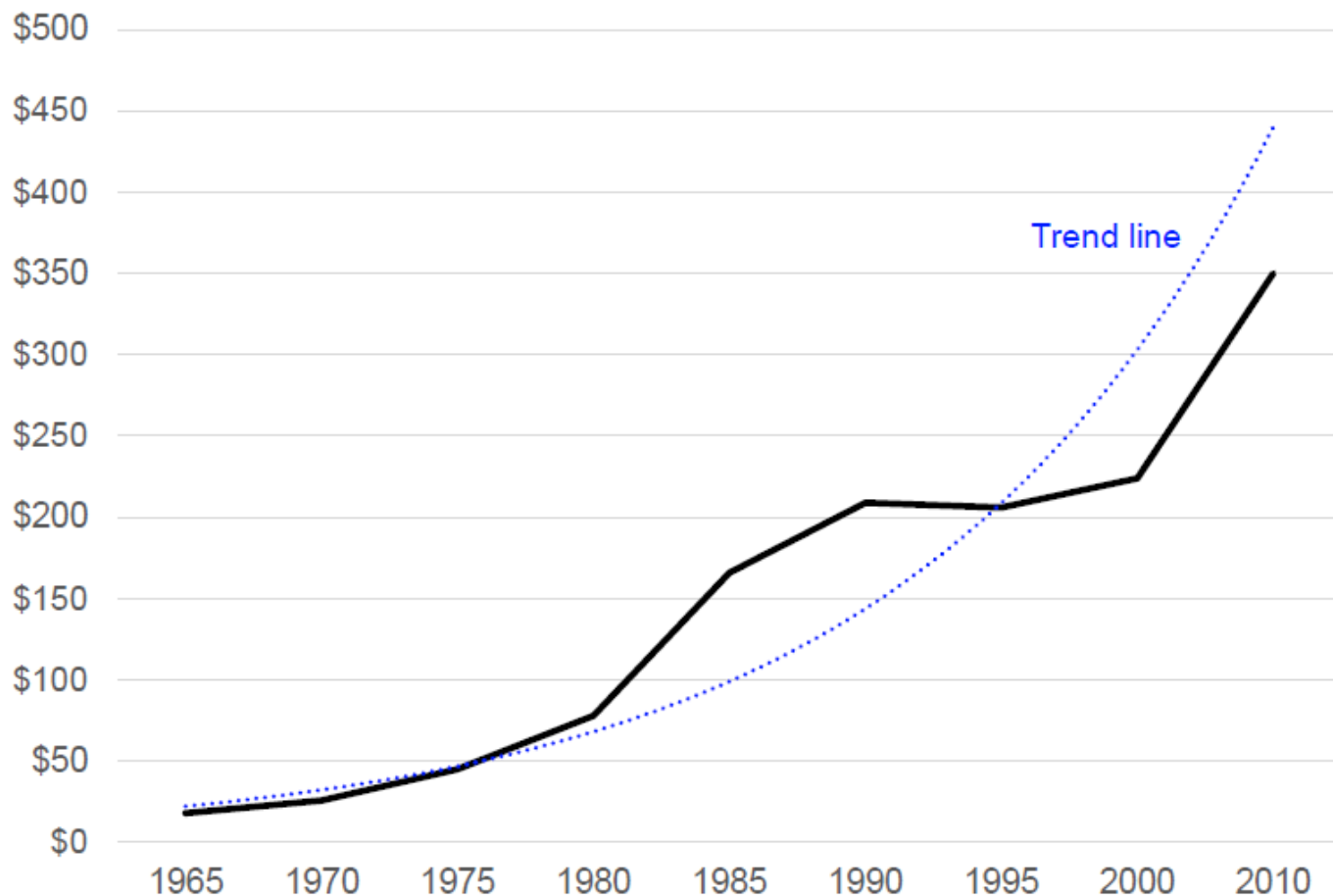
The executive managing director at Stroz Friedberg talks legal cyber crime, financial security and why any business that handles customer credit cards and data is at risk



US puts Kenya on list of cash laundering hotspots

Collectively, we're 1% from total failure...there's a crisis of confidence

Chart: Estimated earnings from criminal activity in the US, billions (tax evasion excluded)



Money laundering is truly a global phenomenon

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Proceeds from criminal activity in some regions appear to be increasing exponentially

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‘Technical’ compliance, rather than effectiveness, is at the center of the current AML system

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Data protection rules will impede information sharing between the public and the private sector

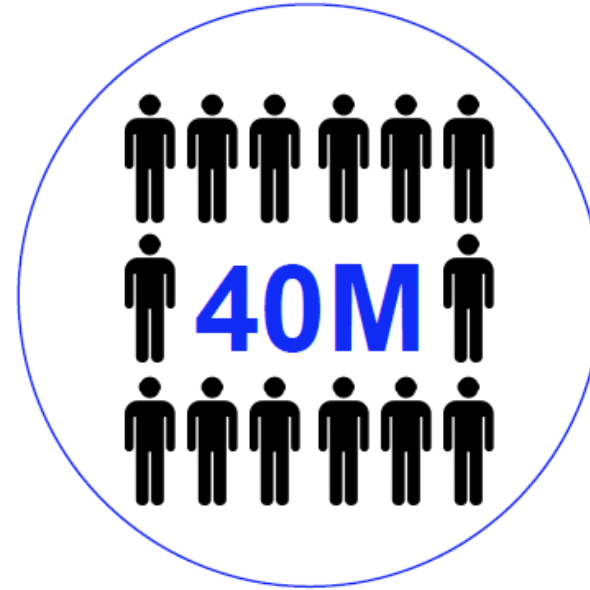
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Correspondent banks are terminating relationships with regional institutions (e.g. ‘de-risking’), creating barriers to entry and financial inclusion

Let's not forget the human cost.

The current number of modern-day slaves is higher than the number of legal slaves in past centuries. It also exceeds the population of some of the world's largest cities.

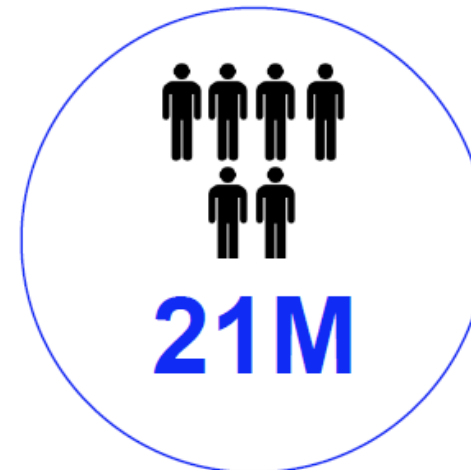
Victims of Modern Day Slavery



Population of
Shanghai



Population of
Beijing



Population of
Nairobi



Common challenges to perform due diligence and monitoring



Substantial Compliance Cost

- Compliance costs for SACCOs, banks and other players are significant and growing
- But, the cost of not complying is even higher



Financial Exclusion

- Despite proven demand for Financial Services, the market has not yet met those demands
- Global regulators recognize and seek to curb financial exclusion



Rapidly Evolving Technology

- Technology advances increase the capabilities of bad actors
- Lack of regulatory standards on new technology limits ability to counter financial crime



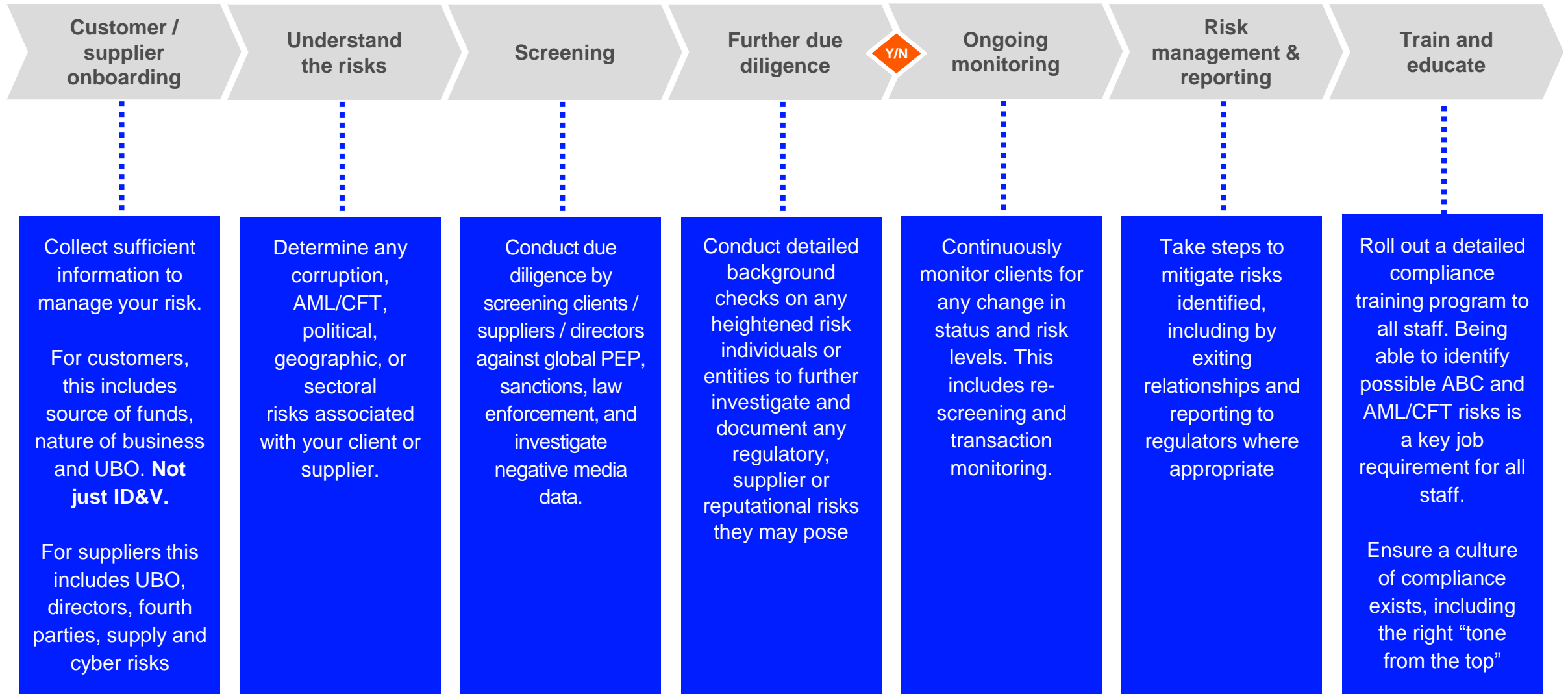
Complex Regulatory Environment

- Regulatory approaches differ significantly between jurisdictions
- Sometimes there are opposing requirements

What can we do?



A Risk-Based Approach to Managing Customer & 3rd Party Risk



Risk based approach to list management

Three key questions to ask: Screen **what** (e.g. customers, payments, employees), against **which lists** and **how often**?

“Minimally Viable” Screening programme

What: All customers and relevant related parties (e.g. UBOs) and all cross-border transaction. Employees [POCAML, 10(6)(e)]

Which lists: Sanctions (UN and implicit sanctions like INSAE-50-WC) and PEPs. Kenya to include KESEL Payments against sanctions only – POCAML 27(3)

How often: Customers – daily (banks) but others can be less often (e.g. weekly or at pay-out for insurance). Transactions – prior to execution.

“Middle of the ground” screening programme

What: All customers, related parties, cross-border transactions and material or risky domestic payments. Reference data screening (e.g. ISINs if relevant). Employees and suppliers.

Which lists: As before, but with further sanction lists like OFAC, UKHMT, and sectoral sanction lists if relevant (e.g. RSSRE). Selected structured adverse media (e.g. KEEACC LE list)

How often: Daily. Transactions – prior to execution.

“Significant” screening programme (example)

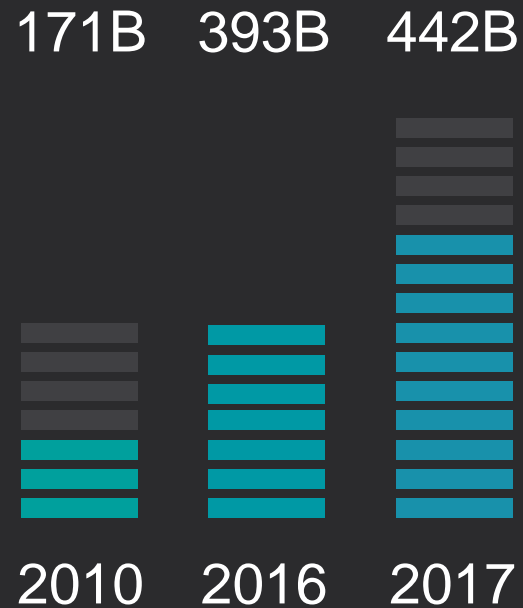
What: All customers, wide set of reference data, all transactions for sanctions (prior to execution) and look-backs against other data (e.g. PEPs)

Which lists: All of the World-Check data, plus unstructured adverse media data (e.g. Media-Check)

How often: Daily. Transactions – prior to execution for sanctions. Regular look backs (e.g. weekly).

One more thing...

Saccos are growing:
Asset base of deposit taking saccos have more than tripled over the past 9 years



Regulations are growing:
More organizations are being designated as supervisory bodies (Reporting Institutions) under POCAMLA

- ICPAK
- Capital Markets Authority
- Central Bank of Kenya
- Insurance Regulatory Authority
- Betting Control and Licensing Board
- NGO Coordination Board
- Estate Agents Registration Board
- Retirement Benefits Authority



Questions?