a

TRENDS AND TYPOLOGIES REPORT 2017/18

FINANCIAL INTELLIGENCE AUTHORITY

A Financial crime free Malawi

Table of Contents

Glossary of Items

Abbreviation	Meaning
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
CDD	Customer Due Diligence
FATF	Financial Action Task Force
FCA	Financial Crimes Act
FIA	Financial Intelligence Authority - Malawi
MLCO	Money Laundering Compliance Officer
PEP	Politically Exposed Person
STR	Suspicious Transaction Report
ESAAMLG	Eastern and Southern Africa Anti- Money Laundering Group
EGMONT	Group of FIUs
KYC	Know Your Customer
LEA	Law Enforcement Agency
ML/FT	Money Laundering/ Terrorist Financing

Section A:

1 Introduction

The Financial Intelligence Authority (FIA) is established by section 3 of the Financial Crimes Act No. 14 of 2017 (FCA) as Malawi's national central agency responsible for combating money laundering, terrorist financing and the proliferation of weapons of mass destruction.

The core function of the FIA is receipt, analysis of financial transaction reports from financial institutions and other reporting entities and disseminating financial intelligence to law enforcement agencies and other relevant stakeholders for further investigation. The FCA gives the FIA additional powers amongst other measures such as conducting parallel financial investigations as well as clearly spelling out powers to restrain, recover and manage proceeds of crime.

The FIA continues to work with various stakeholders locally and internationally in combating money laundering and terrorist financing. Within the local framework, the FIA works closely with Malawi Police Service (MPS), Anti-Corruption Bureau (ACB), Malawi Revenue Authority (MRA), Department of National Parks and Wildlife (DNPW) and the Reserve Bank of Malawi (RBM) amongst other relevant stakeholders. These stakeholders are the main recipients of our financial intelligence. Further, the relationship is multidimensional and in that the FIA receives and analyses information from reporting entities as well as requests for information from stakeholder. The FIA is also member of several taskforces set up to achieve specific goals in combating financial crime such as wild life, exchange control violations and the sharing of information.

Internationally, the FIA is member of EGMONT Group of FIUs. The Egmont Group is an informal network of FIUs around the world with a current membership of over a hundred fifty. The Egmont Group provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing (ML/TF). Malawi is also a member of ESAAMLG, a regional FATF styled body, and the FIA participates in ESAAMLG activities by positioning itself for excellence in information sharing/exchange through the ESAAMLG FIU Forum.

The above linkages make the FIA uniquely positioned to produce strategic Intelligence reports such as Trends and Typologies for stakeholder to appreciate and enhance defense mechanisms to ensure Malawi meets the global Anti Money Laundering and Counter Financing of Terrorism (AML/CFT) standards and laid down by the FATF.

1.1 Objective

This report primarily addresses the reporting institutions and LEAs on the emerging and continuing escalation of some typologies in money laundering happening in Malawi. The public is also appraised on how criminals are using the financial system and the mechanisms they employ to launder proceeds of crime.

It is worthwhile for the FIA to produce strategic intelligence reports such as this report to ensure active participation of reporting entities, LEAs and the public in combating ML/TF. This report contains sanitized cases (case studies) that provide insights to those that are charged with various roles and responsibilities in combating, investigating and prosecuting financial crime. Members of the public are further made aware of the techniques that criminals are employing so that they avoid being victims or being used as conduits that may cost them up to a lifetime imprisonment.

1.2 Executive Summary

The 2017/18 Typologies report covers a number of areas such as wildlife/ environment crimes, theft of public funds and abuse of office, concealing assets/funds by circumventing customer identification requirements and use of nominees, obtaining funds by false pretense, money laundering through illegal externalization of foreign currency and insurance disinvestments. This report also focuses on the proceeds derived from the above predicate crimes.

Malawi has seen an increase in reported environmental crimes which encompasses, fauna and flora. The courts have convicted several suspects and meted out various degrees of punishment to the perpetrators ranging from fines to imprisonment. The FIA has been instrumental in assisting LEAs with financial analyses and reaching out to foreign jurisdictions within the Egmont Group or under bilateral arrangements. However, wildlife crime fighting is facing a number of challenges. There is an urgent need for prosecutors and investigators of wildlife crime to consider following the proceeds of this crime. This can be achieved through multi agency cooperation and tying money laundering charges together with the predicate crime. Since 2016, various stakeholders have come together under the umbrella of inter-agency network/taskforce fighting wildlife crime. The taskforce consists FIA, MRA, DPP, MPS, ACB and DNPW and others. The taskforce has registered some success that needs to be further strengthened by ensuring that proceeds of crime are taken away through asset forfeiture regime. In all cases that have been tried in court, only one case has resulted in a money laundering conviction. Other cases are still being tried with money laundering charges attached. The FIA has not received any Suspicious Transaction Report (STR) on the subject as most of the work has been done as a result of requests from other agencies. It should be noted that STRs on environmental crimes have not been forthcoming as case studies have shown that the individuals involved usually use cash and not the traditional financial system for their transactions. Very few transactions go through money remittance services disguised as payment for legitimate exports/imports.

It has been nearly five years since the first *Cashgate* cases were unearthed. There has been further onslaught on public funds through other means by unscrupulous officers. Just like *Cashgate*, some officers are using loopholes in the public financial system and exploiting them for their own benefit. Unlike in the 2015-2017 Typologies report, the perpetrators have identified new techniques to launder their ill-gotten proceeds. The report will outline these methods in detail. It is worth noting that the FIA is working with stakeholders to bring the vice to a halt. In the previous reports, the FIA concentrated on emerging trend that was focused on the predicate crimes.

In this edition the FIA through the STRs it has analyzed has noticed an emerging trend where some individuals circumvent customer identification requirements to conceal the beneficial owner of funds. We have come across people using third parties to open accounts that are used to receive fraudulent funds transfers. Ultimately the individuals control the account without the knowledge of the alleged owner (the third party) of the account. Financial institutions are responsible for instituting preventative measures against customers that would use their products and services to conceal illicit funds through know your customer (KYC) or Customer Due Diligence (CDD)

requirements. Despite having these measures some customers still try to conceal the beneficial ownership of the funds that are in the financial institution.

The FIA has further noticed an emerging trend in the insurance sector where typical investment portfolios are subsequently disinvested for reasons that do not make economic sense within a very short period of time. The trend mostly involves individuals rather than legal persons. Usually the investment is made in cash and on the disinvestment, the funds are payable in a form of an instrument or a transfer that may appear to legitimize the source of funds once the funds hit the customer's account at the recipient bank. It should be noted that the cases studies under this category have not been tested and concluded. However, the cases show tell-tale signs of irregular and illegitimate financial activity with the aim of laundering the proceeds of crime. Insurance companies are urged to fully implement KYC measures at on boarding and during the course of the business relationship and report attempted or unusual transactions that follow this pattern

Section B:

2. Overview of the STRs Received

This section looks at the general overview of the STRs received from the reporting Institutions, which were analyzed and/or disseminated to LEAs. The section intends to provide a feedback to the reporting institutions to help them in strengthening their AML compliance regime particularly to identify and file STRs.

The report covers STRs that were received and analyzed from the various reporting institutions for the fiscal year 2017/2018 (July 2017 to June 2018). Great focus has been given to report from banks, as banks continue to be the source of most of the STRs that are analyzed and disseminated to LEAs. 91 STRs were received; 81 from the banking sector, 8 from insurance sector.

2.1. General Observations on The STRs Received

.2.1.1. Common/ Prevalent Indicators

- Large cash deposits remain a prevalent indicator. Personal bank accounts being credited regularly with huge sums of cash where there is no known business and source of income. We however noted that most customers do not truthfully declare their sources of income hence lots of legitimate transactions reported as STRs.
- Forged and false documents used to apply for foreign exchange. This follows large cash deposits with immediate applications for foreign exchange. The forged documents include invoices, export documents, travel documents and cheques.
- Large sums of cash deposits from multiple source into a newly opened account followed by immediate international transfer/ application for forex purchase
- Opening of parallel accounts with an aim of diverting funds, particularly cheques intended for the main account to the parallel account. For instance, accounts employees opening a parallel account for an institution's welfare program, and credited cheques written in the name of the institutions account meant for the genuine account into the parallel account.
- Providing false account opening details and false business financial statements with an aim to defraud the bank through accessing loans.
- Under-declaration on KYC in terms of expected turnover and source of income. Lack on enhanced CDD by the financial institution resulting in filing of STRs where updating of KYC information could have resolved the suspicions.
- Use of third parties and nominees. The use of third parties like relatives and associates to receive suspicious funds from proceeds of a financial crime.

- Financial institutions honoring instructions made electronically without verifying authentication of the messages.
- Multiple customers involved in different type of businesses but who appear related conducting international funds transfers to the same overseas beneficiary
- Unreported cases or a lack transaction monitoring mechanisms. Due to challenges in transaction monitoring some suspicious transactions are never noted and subsequently not reported.
- Sale of large sums of foreign currency whose source is unclear or disguised as proceeds from sale of farm produce across the borders of Malawi.
- Account activity inconsistent with a customer's profile. For instance, a young person who is still serving public officers receiving pension even when they have not reached retirement age.
- Customer unwilling to provide further information when requested by a financial institution and terminating the business relationship. This has been common in the insurance sector
- Customer providing falsified financial account to obtain loan, credit or overdraft facility from financial institution.

2.2. Recommended and Possible sources and Triggers for STRs

.2.2.1. Public/Media Information

FIA notes that other suspicious transactions are left unreported due to challenges with transaction monitoring and failure to use public information on possible financial crimes. For instance, information on people arrested for financial crimes like corruption, fraud, wildlife crimes can assist to trigger suspicions where transactions are made in accounts of the concerned persons and their associates. Reporting institutions need to use widely available information to check their clientele against adverse news either from open or closed sources.

.2.2.2. Conduct and actions of employees of financial institutions.

Whilst there has not been a concluded case on breaches in financial institution, there are instances of willful negligence where staff overlook policies and procedures. There have been incidents where employees have connived with suspects to defraud other customers or the financial institutions. Some staff have been in contempt of banking procedures and have been assisting customers to easily access certain products and services that have stringent requirements in contravention to some laws. The relevant authorities must take the initiative to prosecute and penalize negligent employees or those who willfully aid and abet the malpractice.

2.3. Emerging Risks

.2.3.1. Trade-based money laundering (cases of over-invoicing and forged invoices used with a bid to externalize funds): With most cases there is a mismatch between the known business turnover and the amounts being externalized. For example, a small trading shop or business in salt but eternalizing funds regularly in the name of importing machinery.

.2.3.2. Illegal trade in wildlife and wildlife products: Accounts benefiting from international inward transfer of funds from destinations associated with ivory trade and drug trafficking.

.2.3.3. Mingling of legitimate and illicit funds. This refers to the mixing of illegitimate funds (proceeds of crime) with those from a legitimate business. The launderer has a front business that he uses to introduce dirty money into the financial system usually at placement stage.

.2.3.4. Identity theft: This includes forged identification documents to tampering with communication lines where fraudsters get access to victims' phone numbers and use them to confirm or request fraudulent payments

2.4. Challenges Related to Filed STRs

- Use of shell companies and comingling of legitimate and illicit funds: It's hard to prove sources of funds where suspects hide behind legitimate cash intensive businesses and mingle the income with proceeds from crime and illegitimate business e.g. ivory trade, sales from illegal logs, black forex market.

- Use of nominees and third parties. Lawyers, accountants provide services that can be used to conceal the origin of money, such as purchasing property, securities and other investment assets on behalf of their customers. This is extended to customer who act on behalf of others to transact in the financial system

Section C:

3. Money Laundering Methods and Techniques

The Financial Intelligence Authority reviewed and analyzed the suspicious transactions reports and requests received in 2017/2018 from which it has observed emerging and on-going money laundering methods and techniques. In this report the FIA has notes that wildlife crime is posing a major threat to several wildlife species in Malawi. The major species heavily threatened in Malawi are Elephants hunted for their ivory, Mukula and Cider trees used for logs. There have been a number of seizures of ivory in Asia and Australia of ivory consignments originating from Malawi. Malawi is both the source and transit for illegal wildlife products. The FIA has specifically observed some trends and techniques used when moving illicit proceeds of illegal wildlife trade into Malawi.

3.1. Preference to use of remittance transactions to move illegal proceeds

- International money/wire transfers from high risk jurisdictions on wildlife crime to suspected wildlife crime syndicates in Malawi
- Transfers from high risk jurisdictions on wildlife crime to people in freight forwarding business in Malawi
- Transfers from high risks jurisdictions to some companies in Malawi suspected to be involved in wildlife crimes. This has been unearthed through mismatch between the economic activity and the money remittance received.
- Other indicators include foreign nationals purportedly hiding behind legitimate business as fronts for illegal wildlife trade.

3.2. Use of third parties to receive and transfer the illegal proceeds and conceal properties obtained from proceeds of crime

- Corrupt public officials use family members, third parties and associates to launder proceeds of crime and conceal ownership of funds and assets.
- Relations of public officers being used to launder illicit funds by carrying out transactions and purchasing property on behalf of corrupt officials
- Properties/real estate registered in the names of family members to distance themselves from illicit funds and avoid detection from authorities

3.3. Providing false information to meet customer identification requirements

- Mostly common in trade-based money laundering. Concealing information about the beneficial ownership or control of funds to hide the link between funds involved in the transaction and criminal act from where the funds were generated
- Creating an impression that the transaction is legitimate where it may raise suspicion if correct information is provided.
- Use of fake business registration certificates, fake identities and fake import documents

3.4. Collusion between employees of reporting entities and crime syndicates to circumvent transactions requirements

- Trade based money laundering is a growing concern in the banking sector with the growth in international trade. ML is facilitated by collusion between importers, exporters and bank officials are who are given inducement to execute the illegal transactions
- Bank officials processing import payments by ignoring Exchange Control Regulations i.e. allow import payments without supporting documents.
- Processing import payments without making enhanced customer due diligence of the sender and beneficiaries.

3.5. Dis-investments of insurance policies

- Customers deliberately refuse to meet identification requirements forcing insurance companies to cancel policies. When such funds are reimbursed by the insurance company (by cheque/transfer) the launderer has successfully obscured the link between the crime and the generated funds
- Early redemption as an indicator of money laundering is when potential policy holder is more interested in cancellation terms of a policy than benefits of the policy. The launderer buys a policy with illicit funds and then informs the insurance company that he has changed his mind and cancels the policy agreeing to pay the penalty.

Section D

Money Laundering Typologies in Malawi

TYPOLOGY 1: Environmental Crime: Use of remittances to move illegal proceeds

In 2017 the FIA established an emerging trend in which suspected syndicates involved in wildlife crimes had been receiving funds suspected to be proceeds from wildlife crime. The syndicates received the funds through Western Union and international transfers disguised as upkeep and investment capital. The funds were broken down into smaller transactions which totaled up into huge amounts but were received in amounts ranging from USD $5,000 to USD $50,000. The origin of most of these funds was Hong Kong. These funds had been received by the suspects after several suspected illegal shipments of government trophy (wildlife parts and products) from Malawi had been intercepted in east Asian Countries-Singapore, Thailand, China and Australia.

Case Summary

Offence	Illegal possession, dealing in government trophy
Customer	Individuals
Products	Remittance services and cash
Indicators	International funds transfers from foreign nationals and jurisdictions which do not make business sense

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Case Study 1.1

Transfers from high risk jurisdictions to some Mining Companies in Malawi suspected to be involved in wildlife crimes - mismatch between the economic activity, country of origin or person and the money remittance received

In 2017, there was an interception of 422 pieces of Ivory weighing 330 kgs in one of the far east Asian countries, which originated from Malawi. Local investigations established that the ivory was shipped by a foreign national in collusion with freight forwarding companies and LEA officers at one of the international airports in Malawi. The consignment, which was declared as rough stones, and packed in 15 cartons weighed about 2 tonnes. The authorities arrested 7 suspects including one foreign national who was the main principal suspect.

A further investigation established that the main suspect has a registered small mining company and was also an employee of another mining company involved in rough stones. Around the same period of the shipment there was inflow of funds amounting to US$ 50,000 from Hong Kong to the Mining Company whose purpose was indicated as investment capital. However, the flow of funds did not make economic sense since there was no known link between the directors of the Mining Company where the main suspect worked and the origin of the funds. It is highly likely that the funds were part of financial flows of illicit proceeds from wildlife crime which the Mining Company is involved in.

It is believed that the mining operation was a front for the illicit trade in government trophy in this case ivory.

Indicators and Red Flags

- International funds transfer receipts not tallying with declared business
- Unverified financial capital investments from other jurisdictions
- Collusion between exporter and local officials to circumvent pre-shipment inspection and port of exit

Case Study 1.2

Transfers from high risk jurisdictions on wildlife crime to suspected wildlife crime syndicates in Malawi

In 2013, two Malawians were arrested after being found in possession of 781 pieces of ivory weighing 2640 kgs valued at about USD $6 Million (MK4.3 Billion). The ivory was concealed in a consignment of bags of cement. The ivory was coming from Tanzania transiting in Malawi and was destined for Mozambique. The two were charged with the offences of possession of specimen of protected species and money laundering. They were convicted and ordered to pay a fine of USD $7,000 (MK5 Million) or face 5 years' imprisonment in default. There was information that the two Malawians were part of a syndicate of foreign nationals who were not identified and arrested.

The FIA noted that one of the two convicted individuals received funds from Hong Kong through Western Union. Hong Kong and China are known to be destinations for wildlife products. There was no mutually beneficial legal economic activity connecting the origin and beneficiary of the funds. The only explained link was that the funds likely payments of the wildlife products considering that the recipient was part of a syndicate involved in wildlife crime in Malawi.

Indicators and Red Flags

- International funds transfer receipts not tallying with declared business
- Not verifiable connection between originator and beneficiary of international funds transfers
- Concealment of illegal items or contraband in regular imports

TYPOLOGY 2: Theft of Public Funds

During the period under review FIA established a scheme and emerging trends in the abuse and theft of public funds, particularly pension funds. Due to lack of checks and balances, laxity in transaction monitoring in the pension payments systems, some officers tampered with the system and managed to insert ghost pensioners on the pension payroll and was overpaying some pensioners by figures that were over 500% in some cases.

The involvement of third players in the system delinked the individuals that compiled the beneficiary list and the those that uploaded the list for payments on the government payments system. This created an opportunity for government officers to insert names and tamper with the figures.

The payment system at the commercial banks which depends on the correctness of the account number created an opportunity for the diversion funds to accounts of the officers on the basis of valid account numbers despite using fake/ghost account names. Public officials used third parties to receive and transfer the illegal proceeds and also conceal properties obtained from proceeds of crime.

Case Summary

Offence	Theft by Public Officer
Customer	Public Officers
Product	Transfers and Instructions
Services	Accounts (Savings and Current)
Channel	ATM, money transfers, face to face
Indicators	Monthly pensions credits Third Parties Irregular government payments

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Case Study 2.1

Abuse of office and theft

The pensions payments section entrusted public officer X to assist them with uploading and encryption of list of names of pension beneficiaries to be sent to individual commercial banks for payment. Officer X became the liaison point between the payments office and the commercial banks.

In and around July 2016, X tampered with the list from the payments office and added ghost names on the list. The ghost names were directly connected to X's personal bank

accounts and a joint account he held with his spouse. Other names were linked to his acquaintance, Mr. Y. The account details of the ghost names bore legitimate bank account details belonging to X and his acquaintance Y who has never worked in government.

X took advantage of the loopholes in the banks payments systems which only read and verified account numbers not account names to effect payments. From the ghost names, X syphoned huge sums from July 2016 to March 2018.

When the authorities discovered the scheme, X was arrested and charged with the offences of theft by a public servant and money laundering. In money laundering terms, X used the proceeds from the crime for living expenses, purchase a dwelling house, and two undeveloped residential plots.

2.1.1 Indicators and Red Flags

- KYC Information on Age: The suspected pension beneficiary is a young man whose age is way below the government retirement age.

- Third parties (ghost beneficiaries) transferring funds to the public officer: Legitimate pension funds credited in bank accounts of the suspect's relatives and associates who in turn were getting a commission and transferring the funds to the suspects account.

- Mismatch of information: Account names of the ghost pensioners not matching with the names at the bank though the account names were legitimate. The account names belonged to the suspect and his associates.

- Dubious amounts: Based on public information on the levels and expected public servant's salaries and pensions.

TYPOLOGY 3: Trade Based Money Laundering (TBML) - Collusion between Importers and Bank Officials to avoid customer identification requirements and allow illegal transactions

The FIA has observed that trade-based money laundering remains a major threat. Unlike in the previous report where legitimate businesses were used to illegally externalize foreign currency through import payments supported by fake MRA Form 12 documents, there is an emerging trend whereby importers and some financial Institutions personnel collude to avoid customer identification requirements and allow illegal transactions. Some importers have used fake business registration documents to open bank accounts. The fake business registration certificates enable the beneficial owners of the accounts to be hidden. The fictitious businesses made huge import payments.

In 2017, the FIA uncovered a scheme where foreign exchange transactions amounting to about USD $6.4 Million (MK4.7 Billion) had been conducted by fictitious businesses whose beneficial owners could not be identified. In addition, close to USD $6.8 Million (MK5 Billion) was externalized through transactions without supporting documents. This was made possible through collusion between the businesses involved and the employees of the financial institutions concerned.

Case Summary

Offence	Uttering of false documents, Money Laundering, Illegal externalization of foreign currency, tax evasion, corruption
Customer	Sole proprietors, Partnerships
Products	Wire transfers, cash deposits, cheque deposits
Indicators	False declarations, fake business registrations, frequent wire transfers, missing importation documents, sudden enrichment

.

Case study 3.1

Providing false business documents to make transactions legitimate

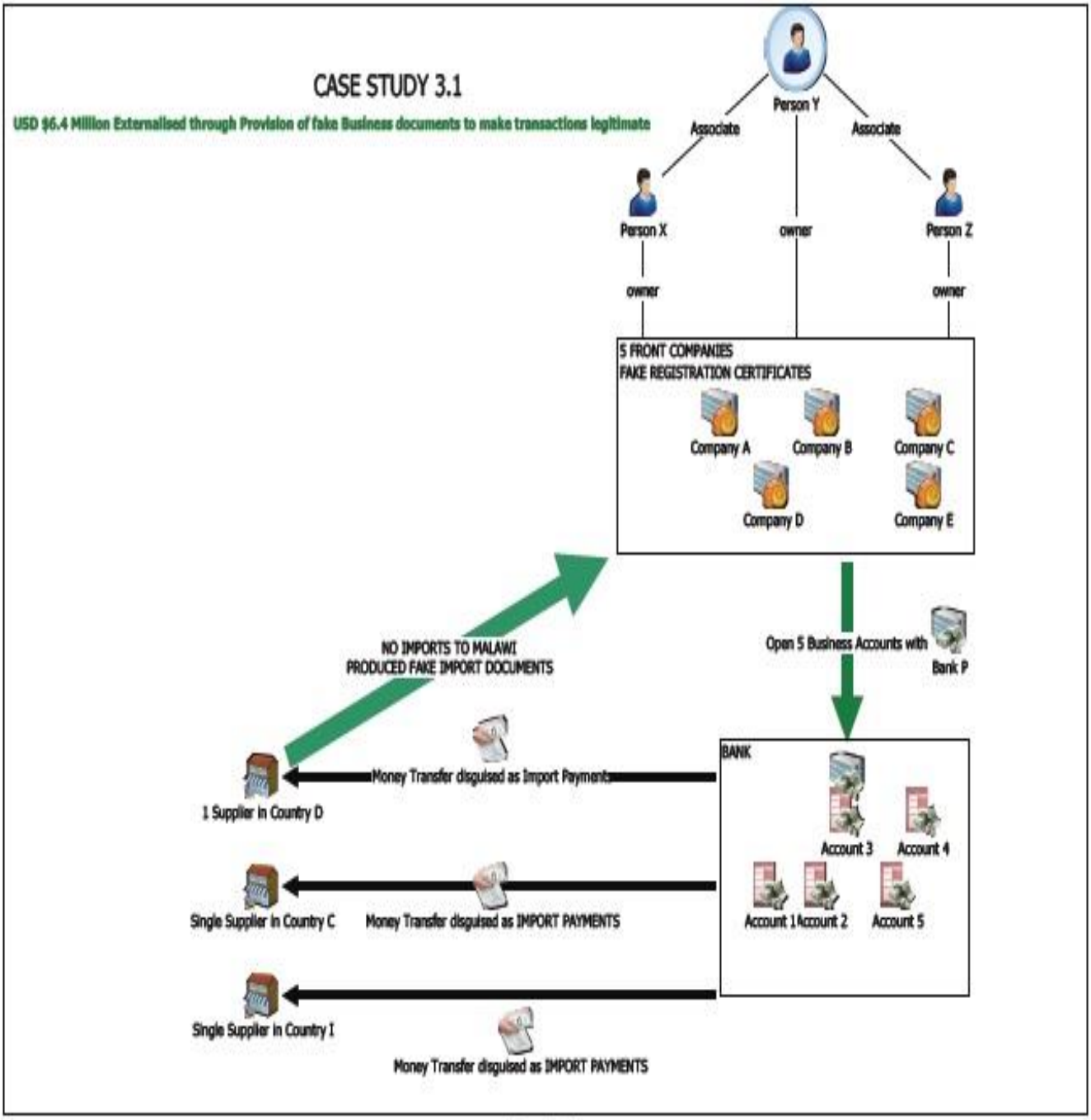
Between July and August, 2017, FIA carried out investigations on 4 Pakistan nationals who used 7 businesses to externalize USD $6.4 Million (MK4.7 Billion) to about 3 beneficiaries in United Arab Emirates, China and India in a period of 6 months (January to July, 2017). To make the transactions appear legitimate the foreign nationals provided false information. They provided false business registration certificates and made false declarations indicating that they were importing packaging machines.

The results of the investigations showed that business registration certificates for the business were fake, as they were not found in the database of the Registrar of Companies. The declarations showed importation of machines but no machines were imported.

The foreign nationals were arrested and are currently being tried in court for money laundering and contravention of Exchange Control regulations.

Indicators and Red Flags

- Frequent application of foreign currency for import payments.
- Use of false business licence certificates and import documents
- Use of one business premises by a number of businesses. (sharing same physical address)
- Type of business not commensurate with account turnover.


CASE STUDY 3.1
USD $6.4 Million Externalised through Provision of fake Business documents to make transactions legitimate
Person Y
Associate
Associate
Person X
owner
Person Z
owner
owner
5 FRONT COMPANIES
FAKE REGISTRATION CERTIFICATES
Company A
Company B
Company C
Company D
Company E
Open 5 Business Accounts with
Bank P
NO IMPORTS TO MALAWI
PRODUCED FAKE IMPORT DOCUMENTS
BANK
Money Transfer disguised as Import Payments
1 Supplier in Country D
Account 3
Account 4
Account 1
Account 2
Account 5
Single Supplier in Country C
Money Transfer disguised as IMPORT PAYMENTS
Single Supplier in Country I
Money Transfer disguised as IMPORT PAYMENTS

Case Study 3.2

Case Study 3.2- Collusion between importers and bank officials to allow illegal transactions

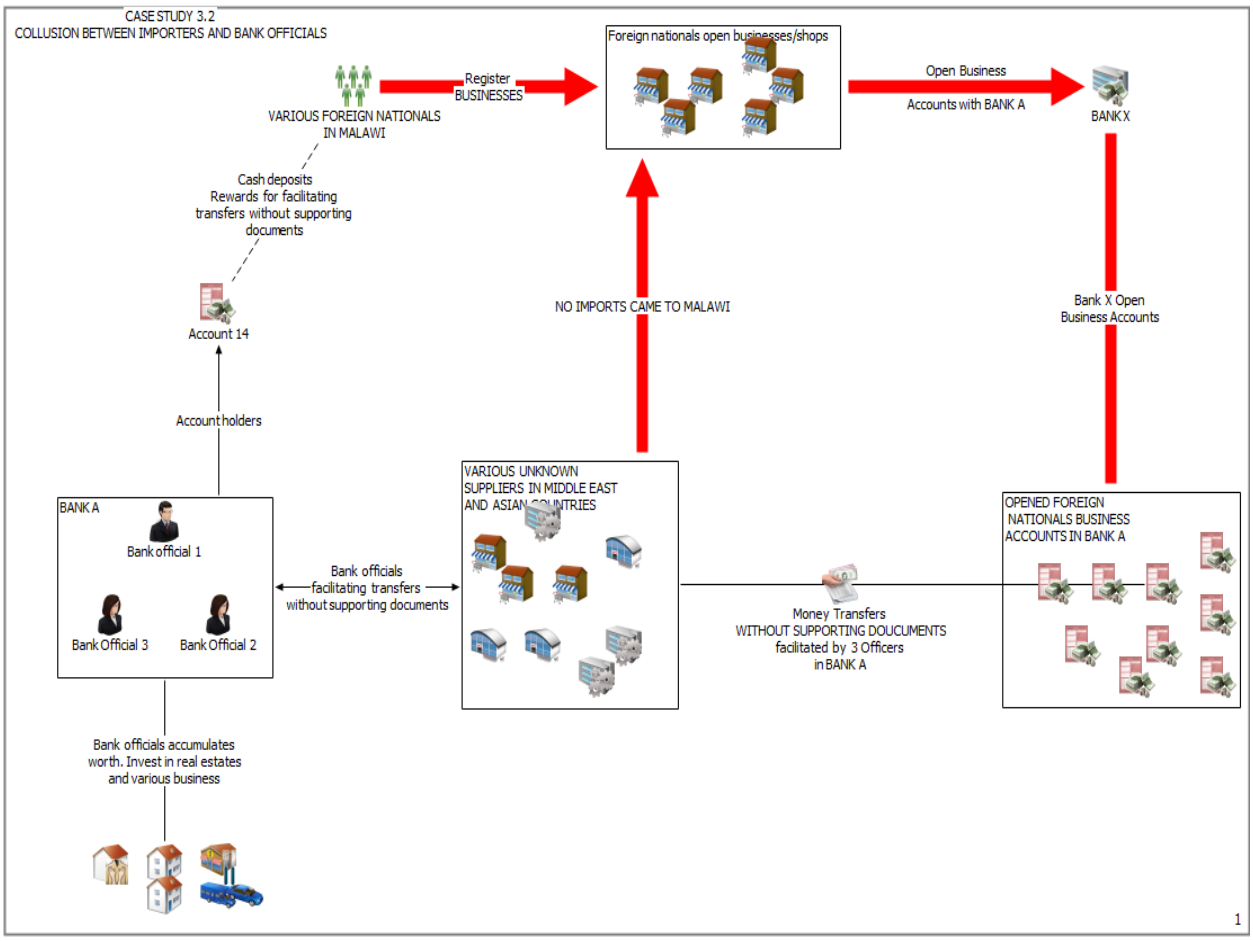
Around December, 2017, the Financial Intelligence Authority investigated over 10 businesses owned by Chinese nationals who together externalized USD $6.8 Million (MK5 Billion) in over 40 transactions in a period of 4 months (January to May, 2017) through financial institution X. The Authority further established that there were no documents supporting the international remittances and financial institution X stated that the documents were missing. The transactions were not reported to Reserve Bank of Malawi as required under the Foreign Exchange Regulations. Since there are no supporting documents it was not possible to ascertain the purpose of the transactions, the origin and ultimate destination of the funds and let alone the ultimate beneficiary. The investigations established that the transactions were conducted by at least three officers in the financial institution X.

Further investigations show that during the period of conducting the transactions officer Y who was one of the officers who conducted the transactions had suspicious huge cash deposits in his account suspected to be from the importers whom the officer connived with to externalize funds without supporting documentation. For example, in the period January to March 2017 officer X made cash deposit into his account amounting to about MK140,000,000. This was also the period when the funds were externalized without supporting documents. The cash deposits were not commensurate with officer X known sources of funds. Officer X eventually stopped working with the financial institution. Comparatively, three months after stopping work (April-June, 2017) officer X only had MK3,000,000 in cash deposits. The significant drop in cash deposits may explain that the huge cash deposits during the period of employment may have been bribes for facilitating international transfers without supporting documents.

Indicators and Red Flags

- Frequent application of foreign currency for import payments.
- Collusion between customer and bank official to facilitate illegal transactions
- Lack of supporting documents for foreign exchange transactions
- Foreign exchange transactions not reported to RBM as per reqquiremnt
- Sudden enrichment by bank official (unexplained wealth)

CHART CASE STUDY 3.2



TYPOLOGY 4: Insurance: Disinvestments of insurance policies which do not make economic sense

The FIA has uncovered a trend whereby customers deliberately refuse to meet identification requirements forcing insurance companies to cancel policies. When such funds are reimbursed by the insurance company (by Cheque for example) the customer will have successfully obscured the link between the crime and the generated funds. It is under these circumstances that the customer moves the funds from the beneficiary bank to other financial institutions purportedly as clean funds.

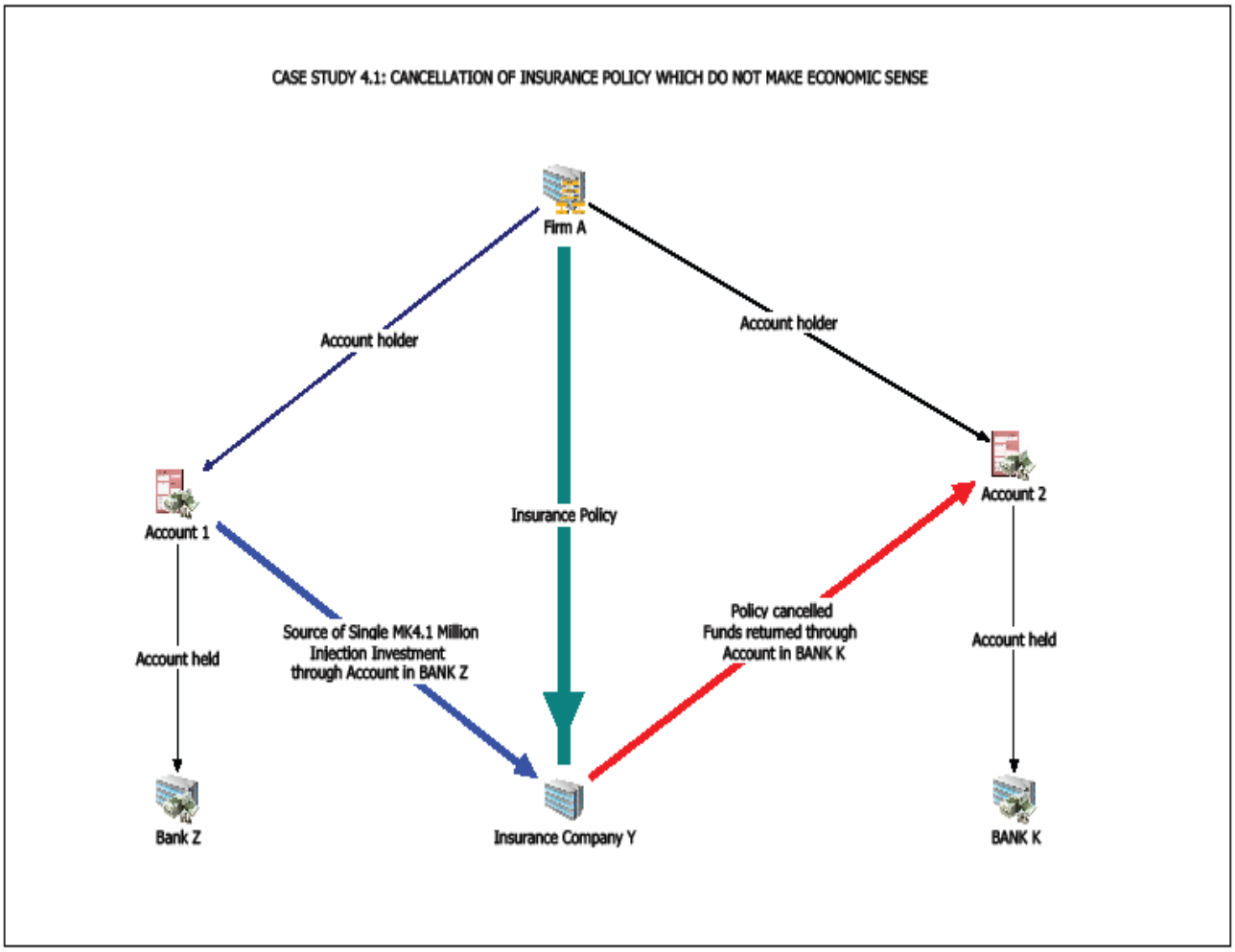
CASE STUDY 4.1

Cancellation of Policy after refusal to meet KYC requirements and requesting return of premium to credited to an account different from the original account

In 2017 officers of Firm A made a premium injection of MK4.1 million in insurance Company Y on behalf of their firm. The investment was made through 2 cheques from the firm's account in Bank Z. After about two months the Insurance Company Y requested additional KYC documents from the Firm A. The KYC documents requested included audited financial reports and instruction of signing arrangement. However, on receipt of the request Firm A wrote Insurance Company Y advising of cancellation of the policy and that the invested funds be returned. Further instruction was that the funds be returned through another Firm A account in Bank K despite the funds coming from its account in Bank Z. The cancellation of the policy with return of premium to a different account was highly likely made to launder funds.

Indicators and Red Flags

- Customer reluctance to fulfil KYC requirements.
- Customer cancellation of policy regardless of penalty
- Customer insistence to use a different account to received proceeds from early cancellation of policy


CASE STUDY 4.1: CANCELLATION OF INSURANCE POLICY WHICH DO NOT MAKE ECONOMIC SENSE
Firm A
Account holder
Account holder
Account 1
Insurance Policy
Account 2
Account held
Source of Single MK4.1 Million
Injection Investment
through Account in BANK Z
Policy cancelled
Funds returned through
Account in BANK K
Account held
Bank Z
Insurance Company Y
BANK K
Page 1 of 1

CASE STUDY 4.2

Early redemption of insurance policy used to launder funds

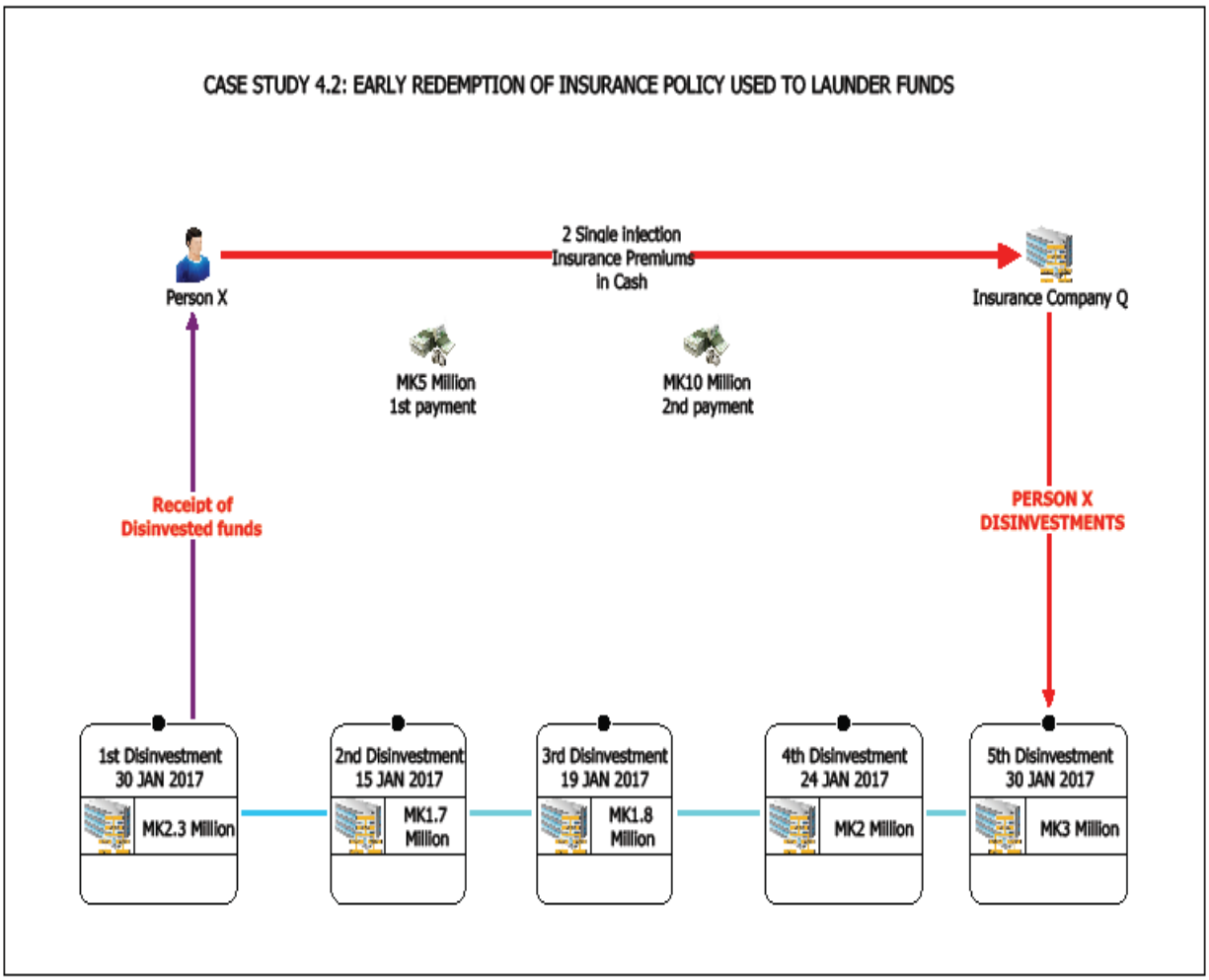
Early redemption as an indicator of money laundering happens when a potential customer is more interested in cancellation terms than benefits of the policy. The customer buys a policy with illicit funds and then informs the insurance company that he has changed his mind and cancelled the policy agreeing to pay the penalty. The customer redeems the seemingly clean cheque from the insurer.

In December, 2016, Person X made two premium injections of MK15 Million with Insurance Company Q. Both payments were in cash. The reasons for investment were not indicated. The proof of source of funds was suspicious though indicated as sale of property.

In January, 2017 only after about a month X started disinvesting the funds. First disinvestment on 5 January, 2017-MK2.3 Million-reason was to invest in business. Second disinvestment on 15 January, 2017-MK1.7 Million-reason investment in business. Third disinvestment on 19 January, 2017-MK1.8 Million-reason was again investment in business. Fourth disinvestment on 24 January, 2017-MK2 Million-reason for maintenance of business house and last disinvestment on 30 January, 2017-MK3 Million-reason was to pay household expenses. The early redemption and the manner in which it was done raised suspicion that the initial investment was made to to launder funds which could been proceeds of crime. X was later discovered to be connected to the plunder of public funds.

Indicators and Red Flags

- Customer disinvestment of investment within a short period of time.
- Large cash deposits as investment (source of funds unverified).
- Customer willing to pay penalties for early policy cancellation.
- Customer purportedly disinvesting a long term investment to pay for regular expenses.


CASE STUDY 4.2: EARLY REDEMPTION OF INSURANCE POLICY USED TO LAUNDER FUNDS
Person X
2 Single Injection Insurance Premiums in Cash
Insurance Company Q
MK5 Million 1st payment
MK10 Million 2nd payment
Receipt of Disinvested funds
PERSON X DISINVESTMENTS
1st Disinvestment 30 JAN 2017
MK2.3 Million
2nd Disinvestment 15 JAN 2017
MK1.7 Million
3rd Disinvestment 19 JAN 2017
MK1.8 Million
4th Disinvestment 24 JAN 2017
MK2 Million
5th Disinvestment 30 JAN 2017
MK3 Million

Page 1 of 1

Typology 5: Concealing Beneficial Ownership of Bank Account.

Case Study 5.1

S was a senior official of a financial institution and purportedly assisted his domestic worker to open a bank account. The domestic worker, K, was to become an unknowing victim of a money laundering scheme.

The scheme worked in a very simple manner where S had recommended to his domestic worker to open the account to receive and access his monthly wages and possibly save some money for a rainy day. S then took control of the account and fraudulently diverted millions of kwachas from the financial institution's (his employers) accounts to K's account which he had assumed control after having registered internet banking and other remote services on the account. S would then transfer the funds into his account.

Between 2016 and 2017, the subject S transferred MK29 Million into K's account. The deposits were followed by immediate transfer into his own account. It is believed that some of the funds were invested in real estate and other movable assets. Additional information revealed that S transferred some funds into an investment vehicle at one of the investments companies. S was already a subject in FIA's database from his dealings with the bank and the investment companies. The suspect was arrested, and the case is currently being handled by one of the LEAs.

Indicators and Red Flags

- Customer receiving funds transfers from unrelated parties.
- Sudden and unexplained enrichment by an official
- Simplified or low KYC account transacting above threshold
- Use of non-face to face products and services

TYPOLOGY 6: Use of falsified financial account/statements, shell companies, and company structures

Case Study 6.1

An agricultural commodities company CM was registered in Malawi 2010. The company was involved in the buying, processing and exporting of commodity H.

The shareholding for the company was in shares split between two families. Peculiar to the shareholding structure, is that the principals, M and Y deliberately distanced themselves from ownership and control. Their roles were loosely connected to the company dealings.

The company had been applying seasonal facilities from different financial institutions since 2012 using false or fraudulent financial statements. The company defrauded five commercial banks; the total amount swindled by the company for the period 2013 to 2016 was about US$15 million. The loans were purportedly obtained to buy/assist farmers to produce cotton at a large scale.

The defrauded banks were presented with different financial statements for the same years. The statements demonstrated a healthy company and were used to obtain the loans. Despite receiving the loans, the company did not use the money for the intended purpose. Some of the funds were kited within the banking sector in a Ponzi Scheme to clear other loan that had fallen due. Some funds were transferred outside the jurisdiction through a number of ways including *hawala*.

Stocks for H seed, and commodity H were used as collateral for the loans. A collateral manager (company) was contracted to take care of commodity H and produce period reports on commodity H seed bought, processed and sold. It is believed that the collateral manager conspired with CM to defraud the financial institutions with false quantities of commodity H bought and produced. The falsified reports were much higher than the actual quantities bought. It is however not known at what level the collateral manager was involved in the fraud.

After the loans were drawn down, they were deposited into the company's various bank accounts with different banks. These deposits were followed by huge cash withdrawals. It is believed that that the money was illegally externalized through to Dubai, India, Pakistan and other countries. One of the directors, Y, a suspect in the case, also travelled extensively to the said jurisdictions among others.

Additionally, some of the money was layered into different banks accounts for CM, and other related companies. Thereafter some transfers were made to Hong Kong and Singapore. These payments were made but there is no proof that any goods were brought in Malawi or services rendered as a result of these transfers.

Some alleged exports were traced to a company in United Arab Emirates. A search of the company and owners led to an individual from the Eastern Europe with a background of money laundering using similar techniques of obtaining loans and fleeing. Further the company with a similar name to CM was established by Y in one of the financial centers in Europe.

The following a joint investigation several people were arrested and are currently on bail. Suspects are currently in court for $ 5 million they defrauded one of the financial institutions.

Indicators and Red Flags

- Obscure company ownership and control. The persons of interest created a layer of anonymity on how they operated the company. Their names were appearing as owners of the business but were signatory to the company bank account.
- Unverified financial statements. Use of falsified financial accounts to dupe banks that the company was healthy
- Large loans not commensurate with known business. The loans obtained did not match the numbers in proceeds of exports
- Lack of use of credit reference agencies
- Use of dubious email addresses for instructions and confirmation of payments from other jurisdictions.

Section E

RECOMMEDATIONS

This section sets out a number of recommendations that Malawi should follow in order to prevent, combat money laundering and ultimately take away proceeds of crime from criminals.

1. Understanding risk.
   Malawi undertook a review of its National Risk Assessment between November 2017 and June 2018. The report has highlighted areas that are prone to generating proceeds that are subsequently laundered in the financial system. The report further recommends that stakeholders should conduct sectoral or self-risk assessments in view of the highlighted typologies. This will ensure that stakeholders understand risks and are able to employ effective mitigating measures. For example, relevant government departments and reporting institutions can focus its mitigating measures on their vulnerable areas.

2. Use of FIA's intelligence Capabilities
   LEAs are encouraged to make use of the FIA to obtain information of cases that fall under their purview. FIA has powers to postpone transactions (freeze accounts) and apply other provisional measures that can be useful to LEAs. FIAs financial analysis is an effective approach to complement investigations into predicate crimes. i.e. LEAs can make use of the FIA to conduct parallel financial investigations.

3. Increased and efficient access to beneficial ownership information by authorities and stakeholders
   Use of fake or false business certificates to open account has shown loopholes that are being exploited by criminals. It is therefore imperative that stakeholders such as reporting entities and authorities including the FIA should have direct access to the beneficial owner information for companies in order to avoid the financial system being used by criminals.
   Registered companies are expected to file returns such as financial statements to the Registrar of Companies. This information coupled with the use of Credit Reference Bureau can mitigate loses incurred through loan kiting among other vices.

4. Use of Media

   Financial institutions stand to benefit from use of publicly available information particularly from them media to screen out undesirable elements on their books. More often than not, media outlets have been instrumental in publicizing financial crime when authorities

have made arrests or there are ongoing cases in the courts. This information can prove useful in profiling persons of interest as well as gathering information for Suspicious Transaction Reporting.