

**MONEY LAUNDERING, TERRORIST FINANCING AND  
PROLIFERATION FINANCING (ML, TF AND PF) SECTORAL RISK  
ASSESSMENT FOR THE NON-BANKING FINANCIAL SECTOR UNDER  
NAMFISA'S SUPERVISION**

**2020**

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## 1. Definitions and acronyms

<b>“administrative sanctions”</b>	refers to enforcement actions stipulated under section 56(3) of the FIA.
<b>“AIs and RIs”</b>	Accountable and Reporting Institutions as described under Schedules 1 and 3 of the FIA.
<b>“AML”</b>	Anti-Money Laundering.
<b>“AMLAC”</b>	Anti-Money Laundering Advisory Council.
<b>“AML/CFT/CPF”</b>	Anti-Money Laundering, Combating terrorism, combating Proliferation Financing.
<b>“AMLCOs”</b>	Anti-Money Laundering Compliance Officers.
<b>“AUM”</b>	Assets Under Management.
<b>“BIPA”</b>	Business and Intellectual Properties Authority.
<b>“CDD”</b>	Customer Due Diligence.
<b>“CMA”</b>	Common Monetary Area.
<b>“CTRs”</b>	Cash Transaction Reports.
<b>“CFT”</b>	Counter Terrorist Financing.
<b>“consequences”</b>	the impact or harm that ML/TF/PF may cause and includes the effect of the underlying criminal and terrorist or proliferation activities on the financial systems and institutions as well as the economy and society at large.

<b>“CPF”</b>	Counter Proliferation Financing.
<b>“DPRK”</b>	Democratic People’s Republic of Korea.
<b>“EDD”</b>	Enhanced Customer Due Diligence.
<b>“EFT”</b>	Electronic Funds Transfers.
<b>“ESAAMLG”</b>	Eastern and Southern Africa Anti-Money Laundering Group.
<b>“FATF”</b>	Financial Action Task Force.
<b>“FIA”</b>	refers to the Financial Intelligence Act, 2012 (Act No. 13 of 2012) as amended.
<b>“FIC”</b>	means the Financial Intelligence Centre established by section 7(1) of FIA.
<b>“JSE”</b>	Johannesburg Stock Exchange.
<b>“JCPOA”</b>	Joint Comprehensive Plan of Action.
<b>“IRA”</b>	Institutional Risk Assessment.
<b>“KOMID”</b>	Korea Mining and Development Trading Corporation.
<b>“KYC”</b>	Know Your Customer.
<b>“LISPs”</b>	Linked Investment Services Providers.
<b>“money laundering”</b>	is defined as the act of a person who engages, directly or indirectly, in a transaction that involves proceeds of any unlawful activity acquires, possesses

or uses or removes from or brings into Namibia proceeds of an unlawful activity; or conceals, disguises or impedes the establishment of the true nature, origin, location, movement, disposition, title of, rights with respect to, or ownership of, proceeds of any unlawful activity; where - as may be inferred from objective factual circumstances, the person knows or has reason to believe, that the property is proceeds from any unlawful activity; or in respect of the conduct of a person, the person without reasonable excuse fails to take reasonable steps to ascertain whether or not the property is proceeds from any unlawful activity.

**“ML”**

Money Laundering.

**“MOP”**

Mansudae Overseas Projects.

**“NAMFISA”**

Namibia Financial Institutions Supervisory Authority established in terms of section 2 of the Namibia Financial Institutions Supervisory Authority Act, 2001 (Act No 3 of 2001).

**“NSX”**

Namibia Stock Exchange.

**“PACOTPA”**

Prevention and Combating of Terrorist and Proliferation Activities Act, No. 4 of 2014.

**“PEP”**

Politically exposed person as defined by FATF and FIC Guidance Note No. 1 of 2019.

**“POCA”**

Prevention of Organized Crime Act, No. 29 of 2004.



<b>“proliferation financing”</b>	means the provision of funds, assets or financial services, which are used, in whole or in part, for proliferation activity.
<b>“risk”</b>	is defined as a function of threats, vulnerabilities and consequences.
<b>“SARs”</b>	Suspicious Activity Reports.
<b>“SIFI”</b>	Systematically important financial institution.
<b>“SPVs”</b>	Special Purpose Vehicles.
<b>“SRA”</b>	Sectoral Risk Assessment.
<b>“STRs”</b>	Suspicious Transaction Reports.
<b>“terrorist financing”</b>	has the meaning ascribed to it by an Act of the Parliament of the Republic of Namibia which criminalizes the conduct of terrorist financing and includes acts which is aimed at directly or indirectly providing or collecting funds with the intention that such funds should be used, or with the knowledge that such funds are to be used, in full or in part, to carry out any act of terrorism as defined in the Organization for African Unity (OAU) Convention on the Prevention and Combating of Terrorism of 1999, irrespective of whether or not the funds are actually used for such purpose or to carry out such acts.

<b>“threat”</b>	is defined as a person or group of people, object or activity with the potential to cause harm to, for example, the State, society, the economy, etc.
<b>“TF”</b>	Terrorist Financing;
<b>“PF”</b>	Proliferation Financing;
<b>“UIMs”</b>	Unlimited Investment Managers.
<b>“UNSC”</b>	United Nations Security Council.
<b>“vulnerabilities”</b>	things that can be exploited by the threat or that may support or facilitate its activities.
<b>“WMD”</b>	Weapons of Mass Destruction.

## **2. Executive Summary**

NAMFISA conducted a Sectoral Risk Assessment (SRA) for the non-banking financial sector covering industries, notably; a) Unit Trust Managers, b) Stockbrokers, c) Investment Managers, d) Linked Investment Service Providers, e) Long term and Short-term Insurance, f) Unlisted Investment Managers & Special Purpose Vehicles, g) Micro-lending, and h) Friendly societies.

The objective of the SRA is to gain understanding of the manifestation of the risks of ML, TF and PF in the sector, and design supervisory and regulatory interventions commensurate with the risks.

The SRA covered ML, TF and PF vulnerabilities associated with clients, products/services, distribution channels, as well as geographical origin of clients and their businesses.

The SRA also covered the type and design of management controls put in place by AIs and RIs to address the vulnerabilities. Furthermore, the SRA took into account the market share importance of AIs and RIs to measure the potential impact of ML, TF and PF risks on the industries under consideration, and the non-banking financial sector at large.

In assessing vulnerabilities, NAMFISA considered data sourced from AIs and RIs by means of a questionnaire, taking into account –

- clients (natural or juristic) and the categories of clients such as high net worth, medium or low net worth, domestic and foreign PEPs, as well as foreign clients from high risk countries;
- products/services and types such as capital market products and services, microloans, and insurance products;

- distribution channels and types such as solicited, unsolicited, face-to-face, non-face-to-face, and third party payments; and
- jurisdiction/geographic and categories such as high, medium and low risk countries.

In assessing the effectiveness of management controls, NAMFISA considered the findings of both on-site and off-site inspections, taking into account the type and design of management controls at both institutional and industry levels.

The SRA also encompass a threat analysis based on statistical data and typologies from the FIC, as well as data on related cases investigated by the Namibian Police.

The below guiding documents were taken into account during the assessment:

- FATF guidelines on the risk based approach in the securities sector;
- FATF guidelines on the risk based approach in the life insurance sector; and
- FATF guidance on conducting a national risk assessment.

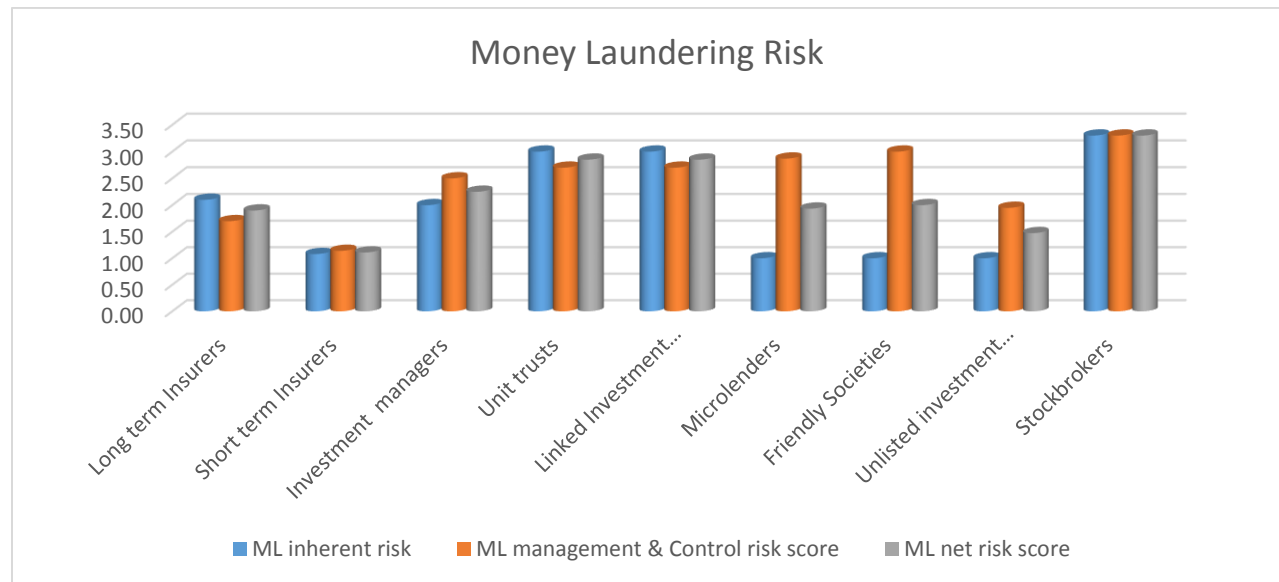
In terms of the FATF guidance on national risk assessment, jurisdictions are advised to assess the ML risk separately from TF risk, taking into account the different nature of these risks. In light of the aforesaid, NAMFISA assessed ML, TF and PF risks separately in order to understand how these risks manifest in the industries under consideration.

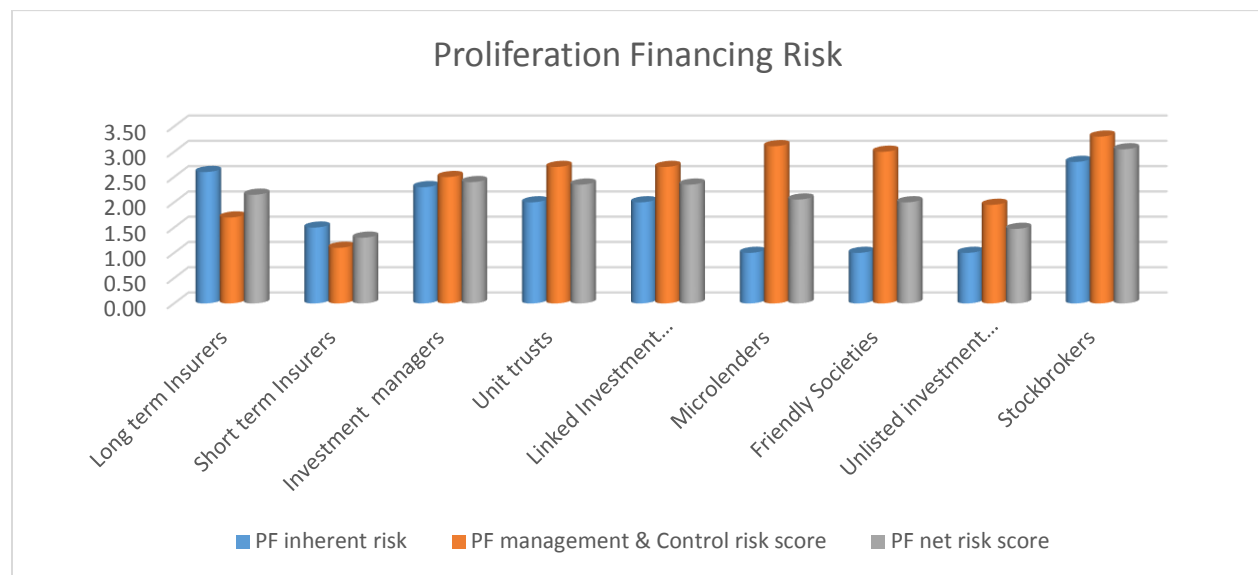
The ML, TF and PF risks were assessed and rated using a risk-rating tool designed for purposes of guiding risk-based supervision.

The table below presents a summary of ML, TF and PF inherent and residual risk rating in the industries under consideration

Industries	ML risk		TF risks		PF risks	
	Inherent risk rating	Residual risk rating	Inherent risk rating	Residual risk rating	Inherent risk rating	Residual risk rating
Unit Trust Managers	Medium-high	Medium-high	Medium-low	Medium-low	Medium-low	Medium-low
LISPs	Medium-high	Medium-high	Medium-low	Medium-low	Medium-low	Medium-low
Stockbrokers	Medium-high	Medium-high	Medium-low	Medium-low	Medium-low	Medium-low
Investment Managers	Medium-low	Medium-low	Medium-low	Medium-low	Medium-low	Medium-low
Top 52 Microlenders	Low	Medium-low	Low	Medium-low	Low	Medium-low
UIMs & SPVs	Low	Low	Low	Low	Low	Low
Friendly Societies	Low	Low	Medium-low	Medium-high	Low	Medium-low
Long-term Insurance	Medium-low	Medium-low	Medium-low	Medium-low	Medium-low	Medium-low
Short-term Insurance	Low	Low	Low	Low	Low	Low

The below is graphical demonstration of the level of ML, TF and PF risks in the non-banking financial sector under NAMFISA's supervision





**This SRA is relevant to the following key stakeholders in term of the roles they play in combating ML, TF and PF activities**

Audience	Relevance
Regulated Entities from the assessed sectors	To consider the SRA when preparing or updating Institutional Risk Assessments (IRAs)
FIC	To understand the manifestation of ML, TF and PF risks in the non-banking financial sector and provide risk-sensitive guidance on supervisory and regulatory activities.
Namibia Stock Exchange	To understand the manifestation of ML, TF and PF risks in the stockbroking community and apply risk-sensitive regulatory measures to ensure effective risk mitigation and management.
Relevant Associations	To understand the risks of ML, TF and PF posed by their members and their clients and apply the risk-based approach when representing the interests of

	their members in relation to AML/CFT/CPF obligations.
NAMFISA	To understand the threats, vulnerabilities and the impact thereof, in order to design supervisory and regulatory interventions commensurate with the risks.
Commercial Banks	To understand the level of ML, TF and PF risks posed by regulated entities who are clients of commercial banks and take appropriate measures commensurate with the risks.
The Central Bank/Exchange Control	To understand the risks exposure and take appropriate measures commensurate with the risks in relation to cross-border remittances.
All law enforcement agencies	To understand the risks exposure in each sector and prioritize crime prevention, detection, and investigation of proceeds or potential proceeds of unlawful activities and ensure preservation, confiscation and forfeiture of criminal assets.
The executive, legislature and judiciary	To ensure that national laws, Policies and Strategies are risk-sensitive, and enable the country to curb the scourges of ML, TF and PF effectively.
Business and Intellectual Property Authority (BIPA)	To understand the risks posed by legal persons and ensure that national measures on AML/CFT/CPF related to registration of legal persons are effectively implemented.
Anti-Money Laundering Advisory Council (AMLAC)	To understand the risk exposure and advise the Minister responsible for Finance on AML/CFT/CPF related matters, focusing on priority areas.



### 3. SRA methodology

NAMFISA sourced data from AIs and RIs by means of a questionnaire. Data collected relates to –

- a) type and category of clients and geographical origin;
- b) type of products/services;
- c) distribution channels; and
- d) Jurisdiction/geographical location of business operations.

Data on the type and design of management controls was extracted from on-site and off-site inspection reports produced either by NAMFISA or by the FIC. This includes –

- Institutional Risk Assessment (IRA);
- Customer Due Diligence (CDD) and Enhanced Customer Due Diligence (EDD);
- Recordkeeping controls;
- Reporting of Suspicious Transactions/Activities (STRs & SARs);
- Threshold based reporting/Cash Transactions above the determined threshold (CTRs);
- Staff training and awareness;
- Designation of AML Compliance Officers (AMLCOs);
- Independent audit on AML/CFT/CPF controls;
- On-going account and transaction monitoring; and
- Screening of clients against the UNSC sanctions lists.

Additionally, statistical data on market share importance of AIs and RIs under NAMFISA's supervision were considered in order to assess the impact should ML, TF and PF risks materialize including special consideration of the impact of systematically important financial institutions (SIFIs).

Data was populated on the risk-rating tool, which generated the risk ratings. The tool has the capacity to calculate the probability, likelihood, impact and the net-rating on the basis of the type and volume of data used. Furthermore, the tool has the capacity to aggregate institutional ratings to give the overall industry rating.

The risk-rating methodology used, include –

- a) **A universal risk matrix reflected below, which is a tool used to demonstrate the probable risks evaluated in terms of the likelihood or probability of the risk, and the rating allocation.**

		Impact			
		1.Low	2.Medium-low	3.Medium-High	4.High
Probability	1.Low	Low	Low	Medium-low	Medium - high
	2.Medium-low	Low	Medium-low	Medium-low	Medium-high
	3.Medium-high	Medium-low	Medium-low	Medium-high	High
	4.High	Medium-high	Medium-high	High	High

The table below gives a description of ratings

Risk rating	Interpretation
<b>Low risk</b>	<ul style="list-style-type: none"> <li>Risk occurrence is very unlikely which may cause insignificant or moderate damage; and</li> <li>Risk occurrence is unlikely which may cause insignificant damage.</li> </ul>

<b>Medium-low risk</b>	<ul style="list-style-type: none"> <li>• Risk occurrence is very unlikely which may cause relevant damage;</li> <li>• Risk occurrence is unlikely which may cause moderate or significant damage; and</li> <li>• Risk occurrence is likely, which may cause minor or moderate damage.</li> </ul>
<b>Medium-high risk</b>	<ul style="list-style-type: none"> <li>• Risk occurrence is very unlikely, which may cause highly relevant damage;</li> <li>• Risk occurrence is likely, which may cause relevant damage; and</li> <li>• Risk occurrence almost certain, which may cause insignificant or moderate damage.</li> </ul>
<b>High risk</b>	<ul style="list-style-type: none"> <li>• Risk occurrence likely which may cause highly relevant damage; and</li> <li>• Risk occurrence almost certain, which may cause relevant or highly relevant damage</li> </ul>

- b) The table below illustrates the risk elements and sub-elements that are considered in the SRA:

<b>Risk Elements</b>	<b>Sub-elements</b>
1. Clients	Natural or juristic, high net worth, medium or low net worth, domestic and foreign PEPs, foreign clients from high, medium or low risk countries.
2. Products	Capital market products/services, microloans, long-term and short-term insurance products.
3. Jurisdiction/geographic	High, medium and low risk countries.

## 4. Distribution channels

Solicited, unsolicited, face-to-face, non-face-to-face, and methods of payment.

- c) **Inherent risks/vulnerabilities are considered independent of management controls.**
- d) **The table below illustrates the weight allocated to the risk elements, taking into account their contribution to the aggregate risk ratings:**

<b>Risk element</b>	<b>Weight</b>
Clients	40%
Products/services	30%
Delivery channels	15%
Geographic	15%

- e) **The management controls are rated either strong, satisfactory, weak or non-existent, as reflected on the table below:**

<b>Controls</b>	<b>Description</b>
Strong internal Controls:	The policies and procedures adopted by an AI or RI are appropriate in terms of its size and complexity, and commensurate with the risks.
Satisfactory Controls	The policies and procedures adopted by an AI or RI enable the AI or RI to meet the minimum compliance requirements.

Weak controls	The policies and procedures are either unsatisfactory or the implementation of such policies and procedures is ineffective. There is need for improvement as the key risks have not been identified or assessed significantly.
Non-existent controls	AI or RI has no controls in place, or the controls are characterized by major shortcomings, which necessitate urgent corrective actions.

- f) The management control ratings fall under the quadrats of the below Matrix used to compute Residual/Net risk rating:

		STRONG (A)	SATISFACTORY (B)	WEAK (C)	NON-EXISTENT (D)
RISK	(1) LOW	LOW (1A)1	LOW (1A)1	MEDIUM-LOW (1C)2	MEDIUM – HIGH (1D)3
	(2) MEDIUM-LOW	LOW (1A)1	MEDIUM-LOW (2B)2	MEDIUM-LOW (2C)2	MEDIUM-HIGH (1D)3
	(3) MEDIUM-HIGH	MEDIUM-LOW (3A)2	MEDIUM-LOW (3B) 3	MEDIUM-HIGH (3C)3	HIGH (3D)4
	(4) HIGH	MEDIUM-HIGH (4A)3	MEDIUM-HIGH (4B)3	HIGH (4C)4	HIGH (4D)4

g) The residual/net risk ratings are described as per the table below:

Risk rating	Interpretation
<b>Low risk</b>	<ul style="list-style-type: none"> <li>• Inherent risk is low, with excellent controls or highly effective controls. The action requires minimal or no management oversight or moderate priority and degree of on-going active management and support.</li> <li>• Inherent risk is low with satisfactory controls, where action requires moderate priority and some degree of ongoing active management and support</li> </ul>
<b>Medium-low risk</b>	<ul style="list-style-type: none"> <li>• Inherent risk is low but poor effective controls in place, which requires a moderate or significant priority and fair effort of ongoing active management oversight and support.</li> <li>• Inherent risk is low but satisfactory effective controls in place requiring a relevant priority and fair effort of ongoing active management and support.</li> <li>• Inherent risk is slightly high but strong effective control in place requiring a moderate priority and a fair ongoing active management and support.</li> </ul>
<b>Medium-high risk</b>	<ul style="list-style-type: none"> <li>• Inherent risk is low but inexistence of controls requiring a high priority and a fair ongoing active management and support.</li> <li>• Inherent risk is slightly high but poor or satisfactory controls requiring a very high priority and a high level of ongoing active management and support.</li> </ul>

	<ul style="list-style-type: none"> <li>• Inherent risk is high but strong and effective controls in place requiring a relevant priority and high level of ongoing active management and support.</li> </ul>
<b>High risk</b>	<ul style="list-style-type: none"> <li>• Inherent risk is slightly high with no existent mitigating controls require a very high priority and a high level of ongoing active management and support.</li> <li>• Inherent risk is high with poor or inexistence-mitigating controls require an immediate priority and a significant effort of management oversight and support.</li> </ul>

The risks of ML, TF and PF are assessed separately. However, TF and PF risks share similar ratings due to the similarities in terms of the source and destination of funds, as well as the response measures/management controls required to mitigate these risks.

#### **4. ML, TF and PF risks in the Unit Trust Industry**

##### **4.1. Business model of a Unit Trust Scheme**

Unit Trust Schemes are registered and regulated in terms of the Unit Trusts Control Act, No. 54 of 1981, as amended. There are 17 registered Unit Trust Schemes in Namibia under the supervision of NAMFISA.

Unit Trust Schemes give indirect access to various financial products to individuals (non-institutional) or retail investors and corporate entities, pension funds, retirement funds, and state-owned enterprises (institutional investors) seeking to meet short and medium to long-term investment objectives.

An investor seeking to acquire shares in listed companies on the Namibia Stock Exchange (NSX) and other licensed exchanges, can do so indirectly by buying units in a Unit Trust Scheme holding listed company shares making up the portfolio. The transactions are usually of high volume (frequency of transactions) and value (can vary

from a debit order of N\$500 to deposits of millions of dollars) as some investors seemingly use unit trust accounts as an additional 'bank account' owing to its liquidity.

Unit Trust Schemes (or unit portfolios) are designed by investment professionals or fund managers according to investment objectives, time horizon, and the risk appetite of investors. Each fund or unit portfolio is a combination of financial assets or securities i.e. bonds, treasury bills, equities, preference shares, property shares, derivatives, etc.

In respect of the above, Unit Trust Schemes are a form of collective investment which can be both long-term and short-term investment saving. Investors and prospective investors may use any of the available banking channels to invest (i.e. Cash Deposits or Electronic Funds Transfers).

Although many investors in the Unit Trust Schemes are usually walk-in clients (face-to-face identification and interactions), Unit Trust Schemes also receive investment applications via internet (email or website). A prospective investor can obtain an investment application form from the website of the Unit Trust Scheme and complete such application form. After completing such application form, the prospective investor may submit his/her or its application online. The prospective investor can also transfer the initial investment amount or deposit cash into the bank account of the Unit Trust Manager whose bank details are indicated on the investment application form. This process is entirely non-face-to-face.

Disinvestments/redemptions can be made swiftly, normally within 48 hours, this makes Unit Trust products highly liquid. Disinvestments/redemptions are paid into the client's authorized bank account as designated by clients.

Third party payments (any redemption/payment made to any other bank account other than the bank account as designated by the investor) rarely occur but when they occur clear instructions from clients (such as trustees in a trust or similar arrangement) are



usually available and management approval is obtained. There are different types of Unit Trust Schemes, including but not limited to –

- international or global funds;
- real estate or property funds;
- balanced or stable funds;
- equity funds;
- Money market funds; and
- fixed-income (bond) funds.

#### **4.2. Manifestation of the ML risk in the Unit Trust Industry**

Investment in the Unit Trust Schemes exacerbate the potential risk of ML due to the likelihood of potential proceeds of crime being channeled through Unit Trust Schemes.

The ML red flags include –

- Money being “accidentally” deposited into a Unit Trust Scheme’s bank account;
- Investors’ unwillingness to disclose the source of funds (e.g. Sale of property, inheritance, business income);
- Transactions involving cash deposits or a request to be paid in cash;
- New or existing client who is reluctant or unable to provide information or documentation required in terms of KYC and/or the Regulations for client identification and verification purposes;
- Unusual or disadvantageous early redemptions;
- A withdrawal/repurchase request, which specifies a different bank account to that which is usually used by the client;
- Where the client keeps changing the bank account for withdrawals to be paid into;
- Where a client invests in a Unit Trust Scheme and terminates within three to six months or shorter period thereafter;

- Reluctance to provide the required information when giving account details, providing minimal or fictitious information or providing information that is difficult or expensive to verify;
- Request by a client for a mandate where the source of funds to be invested is unclear or not consistent with the client's apparent financial standing;
- In respect of corporate or trust clients, frequent turnover of shareholders, directors, trustees, or underlying beneficial owners; and
- The use of nominees other than in the normal course of fiduciary business.

#### **4.2.1. ML risk associated with different Unit Trust Schemes**

##### **a) International or Global Funds**

The global nature of this scheme and the complexity brought about by funds being placed in the foreign market is highly attractive to criminals or money launderers to launder their ill-gotten wealth.

Additionally, giving access to the products or securities across different asset categories in the international market exacerbate the risk of ML and renders the international or global funds vulnerable to abuse for purposes of ML.

However, a Unit Trust Scheme holds a Unit Trust account at a local commercial bank where transactions are conducted. Banks being AIs have compliance regimes in place to mitigate the risk of ML. Therefore, the inflow and outflow of funds are closely monitored to prevent proceeds of unlawful activities from being channeled through the banking sector. This reduces the ML risk exposure to the Unit Trust Scheme if the AML controls put in place by the banking sector are stringent and effective.

## **b) Real Estate or Property Funds**

This type of Unit Trust Scheme gives the investor access to the property market. The real estate industry is one of the industries that are highly attractive to criminals or money launderers to integrate the ill-gotten wealth into the real economy. Buying of real estates by criminals is a common trend to disguise the true origin of criminal funds. The potential to generate income through rental and re-selling of commercial and residential properties is an opportune scheme to disguise proceeds of unlawful activities.

Access to the property market may involve key players such as Real Estate Agents, Banks and Conveyancers who are AIs in terms of FIA. Ideally, if the AML controls put in place by AIs along the distribution channel are effective, the ML risk exposure to the Unit Trust Scheme would be greatly reduced.

## **c) Balanced or Stable Funds**

The Balanced or stable Funds allow for diversification whereby collective capital can be invested across different security classes. This creates an opportunity for capital from both lawful and unlawful sources to be comingled and collectively invested across different security classes. Equally so, the investment across different security classes creates an opportunity to obscure the audit trail. However, the involvement of another AI (the bank) at the beginning of the chain reduces the level of ML risk exposure to the Unit Trust Scheme.

## **d) Equity Funds**

Equity Funds create an opportunity for investors to invest for a longer period. This scheme is associated with high market risks. However, criminals do not concern themselves with the market risks. What is important to a criminal is the opportunity to hide proceeds of unlawful activities. It is vital to note that the longer period of maturity of investment may

not be attractive to most criminals, especially those who intend to redeem their investment in a shortest period of time.

**e) Money Market Funds**

The money market instruments under a Money Market Fund have a maturity period of less than twelve months. This is highly attractive to criminals or money launderers on the premise that they can redeem their investments in a shortest period of time. The idea is to hide the proceeds of crime and give the proceeds of crime a legitimate look by integrating such proceeds into the legal economy.

**f) Fixed-income (Bond) Funds**

Unit portfolios comprising of bonds, generally carry high market risks compared to money market funds. Again, the market risks associated with this scheme are of no concern to criminals or money launderers. It is worth noting that the intention of criminals or money launderers to invest in this scheme is to hide proceeds of unlawful activities by disguising the true origin. Even if the interest rate decreases and reduce the expected return, it is of insignificant concern to a criminal or money launderer. In other words, criminals or money launderers will still find the Fixed-Income (Bond) Fund attractive to hide their ill-gotten wealth.

**4.2.2. ML risk posed by Investors/clients**

Investors or clients can be classified into two main categories, namely; a) institutional and b) non-institutional (retail) investors.

An institutional investor is any entity that invests funds on behalf of its clients, customers, members, or shareholders. Examples are pension funds, insurance companies and medical aid funds.

Institutional investors pose a considerably lower ML risk due to the following reasons:

- a) Source of funds are relatively known, and usually in line with the nature of business;
- b) Investments are primarily made from and paid to authorized bank accounts; and
- c) Most institutional investors are subjected to regulatory oversight, and enhanced corporate governance procedures are applied upon investment and disinvestment.

Non-institutional investors (or retail investors), refers to any other investor that is not an institutional investor and typically invests in their own personal capacity through financial advisors and in smaller amounts than large institutional investors. Non-institutional investors are usually driven by personal goals, such as planning for retirement, saving up for their children's education, or financing a large purchase. Examples are individuals, trusts, private companies and corporations.

Non-institutional investors (mostly high net worth individuals<sup>1</sup> and Politically Exposed Persons “PEPs”) pose a high risk of ML due to the following reasons:

- a) Source of funds can be disguised;
- b) Funds used in investment may involve cash of which the source cannot be ascertained. This is heightened by the existing chance of paying cash into a bank account of a Unit Trust Scheme by investors. Cash from unlawful activities can be comingled with cash from lawful activities to obscure the audit trail.

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<sup>1</sup> High-net-worth individual (HNWI) is a term commonly used by segments of the financial services industry to designate persons whose investible assets exceed a given amount. Typically, these individuals are defined as holding financial assets (excluding their primary residence) with a value greater than US\$1 million (approximately N\$ 10 million – depending on exchange rate).

The table below provides details of the source of funds invested in the Unit Trust Industry.

Source	N\$ million	%
Pension funds	6,349	10%
Short-term insurance companies	803	1%
Long-term insurance companies	3,202	5%
Medical aid funds	407	1%
Other Unit trust schemes & LISPs	8,021	13%
Companies	22,918	36%
Natural persons	17,858	28%
Other (i.e. Trusts & NPOs)	3,455	6%
Total Assets	63,014	100%

Source: December 2018 Statistics

Sources of funds mentioned in the table above are expounded below.

#### a) Pension Funds

Pension funds are made up of employer and employee contributions accumulated during the working life of individuals. Therefore, Funds in a Pension Fund largely originate from legitimate sources, rendering Pension Funds relatively low risk in terms of ML.

#### b) Short-term insurance companies

Short-term insurance companies primarily derive their income from premiums collected from insurance policyholders. Short-term insurers are RIs in Namibia and have compliance regimes in place to mitigate the risk of ML.

**c) Long-term insurance companies**

Long-term insurance companies primarily derive their income from premiums collected from insurance policyholders. Long-term insurers are AIs in Namibia and have compliance regimes in place to mitigate the risk of ML.

**d) Medical Aid Funds**

Medical Aid Funds are made up of members' contributions collected mostly through payroll deduction of employee and employer-employee contributions to cover medical expenses. Therefore, funds held in Medical Aid Funds largely originate from legitimate sources, rendering Medical Aid Funds relatively low risk in terms of ML.

**e) Unit Trust Schemes**

Unit Trust Schemes involve pooled investments of Unit Trust Schemes. The source of funds of the underlying investments may be unknown, heightening the risk of ML. Unit Trust Schemes are AIs in Namibia and they are expected to have compliance regimes in place to mitigate the risk of ML.

**f) Companies/corporations**

These include state-owned enterprises, private companies and corporations with governance procedures in place established by law, which could reduce the risk of receiving potential proceeds of unlawful activities. Private companies and corporations are registered and regulated by the Business and Intellectual Property Authority (BIPA) where they have to disclose the nature of their business. Source of funds are relatively known, however there is a likelihood of potential proceeds of unlawful activities such as tax evasion, corruption and trade-based money laundering being invested and channeled

through Unit Trust Schemes. Corporate vehicles can be exploited or misused for ML purposes. They represent 36% of total investment, which is relatively high.

**g) Natural persons**

These are individual clients (including high net wealth individuals and domestic PEPs). They represent 28% of the total investment. There is an equal chance that their wealth originate from both lawful and unlawful activities. Funds from lawful and unlawful activities can be comingled and invested collectively, thus posing a potential risk of ML.

**h) Trusts**

Trusts are susceptible for ML abuse as they may be used in a complex corporate structure designed to disguise or conceal source of funds. ML risk posed by trusts is high.

**4.2.3. ML risk associated with the distribution channels of a Unit Trust Scheme**

Investment funds are channeled through a trust account of a Unit Trust Scheme as either cash or Electronic Funds Transfer (EFT). In terms of EFT payments, funds are transferred from an existing bank account held at a commercial bank. Therefore, the ML risk exposure to a Unit Trust Scheme may not be high due to AML controls put in place by commercial banks to monitor EFT payments.

Cash injection of investment funds into a trust account of a Unit Trust Scheme exacerbate the risk of ML. However, due to AML controls put in place by commercial banks, the ML risk exposure to a Unit Trust Scheme may not be high.

At on-boarding stage, investors/clients are required to designate a bank account in their name to which redeemed investment is paid upon disinvestment.



An investor can invest directly or through an intermediary. The use of intermediaries renders the investment channel vulnerable and open for exploitation by criminals or money launderers. Some intermediaries may be based in geographical areas where there are weak controls, or such intermediaries are not regulated for ML purposes.

The non-face-to-face on-boarding of clients (investors) due to the use of online platforms renders identification and verification of clients' information difficult, thus heightening the potential risk of ML. Accordingly, a prospective investor can submit an investment application form online. Furthermore, account servicing, including investment instructions, may be given via non-face to face mediums such as email, which also renders the distribution channel vulnerable to abuse for ML activities.

#### **4.2.4 Geographical area of operations and origin of clients/investors and their businesses**

Larger Unit Trust Schemes that are usually related to or owned by commercial banks attract relatively more foreign investors when compared to smaller Unit Trust Schemes not related to or owned by commercial banks. Foreign investors pose relatively a high ML risk as it may be difficult to verify their source of wealth or income.

Unit Trust Schemes have investors who originate from or reside in more than 60 jurisdictions including high-risk or non-cooperative jurisdictions as determined by FATF. These clients may demand for redemption of investments or payments into foreign accounts, leading to cross border transactions. The ML risk is therefore high in respect of foreign investors.

However, the majority of investors in the Unit Trust Schemes are local investors who may pose a relatively lower ML risk as it may be easier to verify their source of wealth or income.

#### 4.2.5. Value of assets under management per Unit Trust Management Companies

The value of assets under management by Unit Trust Management Companies or market size depicts the magnitude of vulnerability and Unit Trust sector. Total assets under management amounts to N\$ 63 billion.

The overall inherent ML risk rating for the Unit Trust industry is illustrated below:

Industry Inherent Risk Rating	Medium-High	3.0
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#### 4.3 Manifestation of TF risk in the Unit Trust Industry

TF risk centers around **raising, moving, storing or using in or through** a jurisdiction, terrorist funds in the form of legitimate or illegitimate funds or other assets.

The fact that there are no known active terrorist organizations, or affiliates in Namibia does not necessarily means that TF risk is low. Jurisdictions that have not recorded incidences of terrorist attacks can still face TF risks. Terrorists or financiers of terrorism are attracted to countries with economic and political stability, but with weak financial systems where they can raise and move terrorist funds to conflict zones where the acts of terrorism are perpetrated, or to destinations where terrorist targets are located.

Therefore, terrorist or financiers of terrorism may exploit the vulnerabilities in the Unit Trust Schemes to raise, store and move terrorist funds. The TF Red flags associated with Unit Trust Schemes include –

- Investors from jurisdictions/areas identified by credible sources as providing funding or support for terrorist activities or that have designated terrorist organizations operating within them invest in Unit Trust Schemes in Namibia;

- Funds generated by a business originated from high-risk countries/territories;
- Redeemed investment channeled to nominated accounts in high-risk countries/territories or where terrorism is rife;
- Countries identified by credible sources as having significant levels of organized crime, corruption, or other criminal activity, including source or transit countries for illegal drugs, human trafficking and smuggling and illegal gambling;
- Investment funds received or paid to countries subject to sanctions, embargoes or similar measures issued by international organizations such as the United Nations Organization; and
- Investment funds received or paid to Countries identified by credible sources as having weak governance, law enforcement, and regulatory regimes, including countries identified by the FATF statements as having weak AML/CFT regimes, and for which financial institutions should give special attention to business relationships and transactions<sup>2</sup>.

#### 4.3.1 TF risk posed by Investors or clients

Institutional investors pose a considerably low TF risk as most institutional investors are subjected to regulatory supervision and oversight, and enhanced corporate governance procedures are applied upon investment and disinvestment.

Non-institutional investors such as high net worth individuals who originate or have links to high-risk or non-cooperative jurisdictions pose significant TF risk. State sponsored terrorism is also a possibility when foreign PEPs invest in the Unit Trust Scheme.

**Pension Funds** are relatively low risk in terms of TF. This is attributed to the nature of business and the purpose that Pension Funds are serving. Pensions Funds are duly exempted from the national obligations to combat ML, TF and PF.

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<sup>2</sup> <https://www.fatf-gafi.org/countries/#other-monitored-jurisdictions>  
<https://www.fatf-gafi.org/countries/#high-risk>

**Short-term insurance companies.** The assessment of TF in respect of Short-term insurance companies proved to be low TF risk as reflected under the manifestation of TF risk in the Short-term insurance industry. Therefore, clients who are Short-term insurers pose low TF risk to the Unit Trust Schemes.

**Long-term Insurance companies.** Similarly, Long-term insurers pose a relatively low risk of TF as per the assessment of TF against the business model of Long-term insurance business. The assessment of TF associated with Long-term insurers is included in the section of this report on the manifestation of TF in the Long-term insurance industry. As such Long-term insurers pose low risk of TF to the Unit Trust Schemes when they invest in Unit Trust Schemes.

**Medical Aid Funds** are low risk in terms of TF. This is attributed to the nature of their business and the purpose they serve. Medical Aid Funds are exempted from national obligations to combat ML, TF and PF.

**Unit Trust Schemes.** The source of funds of the underlying investments may be unknown. Unit Trust Schemes involved in cross border transactions, are exposed to the risk of TF. However, there are no indications of funds received from or transferred to high-risk jurisdictions, rendering the risk of TF posed by Unit Trust Schemes low.

**Companies/corporations** can be used as vehicles to generate terrorist funds. There is a growing threat worldwide involving the creation of front companies/corporations to raise terrorist funds. However, there are no cases or indicators of front companies established in Namibia or invested funds/assets in the Unit Trust Schemes. The TF risk posed by this type of clients is relatively low.

**Natural persons** are non-institutional investors such as individuals, high net worth individuals who originate or have links to high-risk jurisdictions or conflict zones and, foreign PEPs. They pose significant TF risk.

**NPOs** are susceptible for TF misuse and abuse as they may be used by terrorists and terrorist organizations to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations. The risk of TF posed by NPOs in Namibia is moderate.

#### **4.3.2 TF risk associated with the distribution channels of Unit Trust Schemes**

At the on-boarding stage, investors/clients are required to designate a bank account in their name to which redeemed investment is paid upon disinvestment. TF risk increases significantly if the investor holds or designates a foreign bank account or demands that disinvestments be paid to a designated foreign bank account in a high-risk or non-cooperative jurisdiction.

An investor can invest directly or through an intermediary. Ability to transact in securities products via an intermediary may provide a relative degree of anonymity<sup>3</sup>. This renders the investment channel vulnerable and open to exploitation for TF purposes. Some intermediaries may be based in geographical areas where there are weak controls, or such intermediaries are not regulated for TF purposes.

The non-face-to-face on-boarding of clients (investors) due to the use of online platforms renders identification and verification of investors difficult, thus heightening the potential risk of TF. Accordingly, a prospective investor can submit an investment application form online. Furthermore, account servicing, including investment instructions, may be given via non-face to face mediums such as email, which also renders the distribution channel

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<sup>3</sup> FATF GUIDANCE FOR A RISK-BASED APPROACH – SECURITIES SECTOR

vulnerable to abuse for TF activities. The risk of TF associated with the distribution channel is moderate.

#### **4.3.3 Geographical area of operations and origin of clients/investors and their businesses**

Foreign investors who originate or have links to high-risk jurisdictions and conflict zones pose relatively high TF risk.

Nevertheless, the majority of investors in Unit Trust Schemes are local investors who are posing a relatively lower TF risk.

**The overall inherent TF risk rating for the Unit Trust Industry is illustrated below:**

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>2.0</b>
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#### **4.4. Manifestation of PF risk in the Unit Trust Scheme**

Similar to the TF risk, PF risk has an international dimension. The UNSCR 1718 (2006) and UNSCR 2231(2015) were issued under chapter 7 of the UN Charter against the Democratic People's Republic of Korea (DPRK) and the Islamic Republic of Iran (Iran), and all countries are expected to domestically implement these resolutions.

DPRK is well-known globally for its nuclear program, which necessitated the UN targeted financial sanctions to compel DPRK to abandon its nuclear program. All pre-existing contracts entered into with companies/individuals of DPRK origin prior to listing/designation by the UN must be terminated immediately, and all funds/assets held by or on behalf of designated individuals or entities must be frozen without delay.

In respect of Iran, the Joint Comprehensive Plan of Action (JCPOA) terminated the previous provisions of resolutions relating to Iran and WMD proliferation, including UNSCR 1737 (2006), 1747 (2007), 1803(2008) and 1929(2010), but retained some

individuals and entities designated pursuant to these resolutions and also established new specific restrictions including a number of other measures.

In Namibia, there is a threat of front companies established by individuals of DPRK origin that are targeting the construction industry in order to raise funds in furtherance of DPRK's nuclear program. They also enter into joint ventures with local companies to hide their true identity and motives. This requires intensive investigation by law enforcement agencies to determine the links.

These entities/individuals may invest income generated through construction into a Unit Trust Scheme in order to generate funds for proliferation activities. Upon redemption, funds may be paid into a nominated account in PDRK, or elsewhere beyond the Namibia borders. Funds can also be withdrawn as cash from the nominated account and couriered or smuggled out of the country to unknown destinations.

Nevertheless, there are no cases or indicators of exploitation of the Unit Trust Industry in Namibia for PF purposes.

**The overall PF risk rating for the Unit Trust Industry is illustrated below:**

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>2.0</b>
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#### **4.5 Overview of AML/CFT/CPF management controls**

There are significant control weaknesses in the Unit Trust Industry characterized by:

- Poorly resourced compliance functions not commensurate with level of risk and size of business operations;
- weak CDD and EDD controls;
- weak account and transaction monitoring;

- poor recordkeeping;
- absence of institutional risk assessment and management processes;
- ineffective or weak independent review of management controls; and
- non-existent or ineffective screening of clients against the UNSC sanctions lists in order to freeze without delay funds or assets held by or on behalf of individuals or entities on the sanctions lists.

However, the majority of Unit Trust Schemes have policies in place, and they have designated compliance officers to oversee implementation of policies and procedures. Some Unit Trust Schemes have record of staff training and awareness.

The below illustrates the ML/TF/PF management control ratings for the Unit Trust Industry

	ML Management Control Risk Rating	TF Management Control Risk Rating	PF Management Control Risk Rating
Industry Control ratings	3.0	3.0	3.0
	Weak Controls	Weak Controls	Weak Controls

The ML/TF/PF residual/net risk ratings for the Unit Trust Industry are reflected on the table below:

	ML Net Risk Rating	TF Net Risk Rating	PF Net Risk Rating
Industry Net/Residual/Net Risk Rating	3.0	2.0	2.0
	Medium-High	Medium-low	Medium-low

#### 4.6 Typologies

The below is an illustration of the real cases of ML in the Unit Trust Industry



<b>Year</b>	<b>Summarized Facts of the case</b>
<b>2016</b>	<i>An individual suspected of having deposited amounts of money (N\$ 9 million) into a unit trust account of which the source or origin of the money could not be established and suspected to be proceeds of fraud and tax evasion.</i>
<b>2015</b>	<i>An individual who is a former employee of a Diamond Mining company had his bank and investment accounts and motor vehicles forfeited to the state, after losing an appeal in the Supreme Court. The individual made cash deposits into two bank accounts and a Unit Trust account and had bought a property valued at N\$480 412 in cash. At the time, he was earning a monthly salary of N\$9 500. The money invested was declared to the tax authorities.</i>

The above is a demonstration of how Unit Trust Schemes can be abused for purposes of ML in Namibia.

## **5. ML and TF/PF risks in the LISPs sector**

### **5.1. Business Model of a LISP**

Linked Investment Service Providers (LISPs) are registered in terms of Section 4(1)(f) of the Stock Exchanges Control Act, 1985 (Act No. 1 of 1985) (“the Act”). Currently, there are 4 registered LISPs under the supervision of NAMFISA.

A LISP is a financial institution that packages investments of different companies, distributes and administers a broad range of unit trust based investments with the primary purpose of providing the investor with access from a single point of view, to various investment products.

A LISP can be compared to a “financial supermarket” that offers investors a wide choice of investments under one roof. A LISP buys and sells units in collective investment schemes on the clients’ instruction, either directly or via a life product.

While some LISPs deal with clients directly, the complexity of some product structures and investment options may require the investment advice of an expert to properly structure a long-term solution.

If an investor invests directly (i.e. not through a LISP) into the investments offered by a number of management companies, the investor has to manage the investments themselves. It can be cumbersome and expensive to switch between investments, because the investor has to sell out of the offerings of one company and then buy into those of another company once the proceeds from the original investments have been paid into the investor’s bank account.

Most LISPs require a minimum lump sum investment or monthly payments for recurring investors. The typical fees charged by a LISP may include initial fees and annual fees of the collective investment schemes, as well as the LISP’s initial and annual administration fee and the financial adviser’s fees.

LISP platforms are specifically suited for clients wanting to invest larger sums of money and who would like to diversify across a range of investment options and Investment Managers.

## **5.2. Manifestation of ML, TF and PF risks in the LISP industry**

The ML, TF and PF vulnerabilities are similar to the ML, TF and PF vulnerabilities associated with the Unit Trust Industry and Long-term insurance (retirement savings products). Therefore, the risk ratings are similar to ML, TF and PF ratings under the Unit Trust Schemes. Similarly, the management controls ratings and the residual/net risk ratings are similar to those of the Unit Trust Schemes.

Investment in the LISPs exacerbate the potential risk of ML due to the likelihood of potential proceeds of crime being channeled through LISPs. The ML red flags include –

- Unwillingness to disclose the source of funds (e.g. Sale of property, inheritance, business income);
- Transactions involving cash deposits or requesting payment in cash;
- New or existing client who is reluctant or unable to provide information or documentation required in terms of KYC and/or the Regulations for client identification and verification purposes;
- Unusual or disadvantageous early redemptions;
- A withdrawal/repurchase request, which specifies a different bank account to that which is usually used by the client;
- Where the client keeps changing the bank account for withdrawals to be paid into;
- Where a client invests in a LISP and terminates within three to six months or shorter period thereafter;
- Reluctance to provide the required information when giving account details, providing minimal or fictitious information or providing information that is difficult or expensive to verify;
- Request by a client for a mandate where the source of funds to be invested is unclear or not consistent with the client's apparent financial standing;
- In respect of corporate or trust clients, frequent turnover of shareholders, directors, trustees, or underlying beneficial owners; and
- The use of nominees other than in the normal course of fiduciary business.

### **5.2.1 ML risk posed by Investors/clients**

Investors or clients can be classified into two main categories, namely; a) institutional and b) non-institutional investors.

Institutional investors pose a considerably lower ML risk due to the following reasons:

- c) Source of funds are relatively known, and usually in line with the nature of business;
- d) Investments are primarily made from and paid to authorized bank accounts; and
- c) Most institutional investors are subjected to regulatory oversight, and enhanced corporate governance procedures are applied upon investment and disinvestment.

Non-institutional investors (mostly high net worth individuals and Politically Exposed Persons “PEPs”) pose a high risk of ML due to the following reasons:

- a) Source of funds can be disguised;
- b) Funds used in investment may involve cash of which the source cannot be ascertained. This is heightened by the existing chance of paying cash into a bank account of a LISP by investors. Cash from unlawful activities can be comingled with cash from lawful activities to obscure the audit trail.

### **5.2.2 ML risk associated with the distribution channels of a LISP**

Investment funds are channeled through an account of a LISP, Unit Trust Scheme or Long-term Insurer as either cash or Electronic Funds Transfer (EFT). In terms of EFT payments, funds are transferred from an existing bank account held at a commercial bank. Therefore, the ML risk exposure to a LISP may not be high due to AML controls put in place by commercial banks to monitor EFT payments.

Cash injection of investment funds into a trust account of a LISP or Unit Trust Scheme exacerbate the risk of ML. However, due to AML controls put in place by commercial banks, the ML risk exposure to a LISP may not be high.

At on-boarding stage, investors/clients are required to designate a bank account in their name to which redeemed investment is paid upon disinvestment.

An investor usually invests through an intermediary. The use of intermediaries render the investment channel vulnerable and open for exploitation by criminals or money launderers. Some intermediaries may be based in geographical areas where there are weak controls, or such intermediaries are not regulated for ML purposes.

The non-face-to-face on-boarding of clients (investors) due to the use of online platforms renders identification and verification of clients information difficult, thus heightening the potential risk of ML. Accordingly, a prospective investor can submit an investment application form online. Furthermore, account servicing, including investment instructions, may be given via non-face to face mediums such as email, which also renders the distribution channel vulnerable to abuse for ML activities.

### **5.2.3 Geographical area of operations and origin of clients/investors and their businesses**

LISPs are usually related to large financial groups (i.e. Unit Trust Schemes, Long-term insurers, commercial banks) who attract foreign investors. Foreign investors pose relatively a high ML risk as it may be difficult to verify their source of wealth or income.

LISPs have investors who originate from or reside in more than 20 jurisdictions. These clients may demand for redemption of investments or payments into foreign accounts, leading to cross border transactions (via the banking system). The ML risk is therefore high in respect of foreign investors.

The majority of investors in LISPs are local investors who may pose a relatively lower ML risk as it may be easier to verify their source of wealth or income.

The below illustrates the overall inherent ML risk rating for the LISP Industry

Industry Inherent Risk Rating	Medium-High	3.0
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### 5.3 Manifestation of TF risk in the LISP Industry

TF risk centers around **raising, moving, storing** or **using in** or **through** a jurisdiction, terrorist funds in the form of legitimate or illegitimate funds or other assets.

The fact that there are no known active terrorist organizations, or affiliates in Namibia does not necessarily means that TF risk is low. Jurisdictions that have not recorded incidences of terrorist attacks can still face TF risks. Terrorists or financiers of terrorism are attracted to countries with economic and political stability, but with weak financial systems where they can raise and move terrorist funds to conflict zones where the acts of terrorism are perpetrated, or to destinations where terrorist targets are located.

Therefore, terrorist or financiers of terrorism may exploit the vulnerabilities in the LISPs Industry to raise, store and move terrorist funds. The TF Red flags associated with LISPs include –

- Investors from jurisdictions/areas identified by credible sources as providing funding or support for terrorist activities or that have designated terrorist organizations operating within them invest in LISPs in Namibia;
- Funds generated by a business originated from high-risk countries/territories;
- Redeemed investment channeled to nominated accounts in high-risk countries/territories or where terrorism is rife;
- Countries identified by credible sources as having significant levels of organized crime, corruption, or other criminal activity, including source or transit countries for illegal drugs, human trafficking and smuggling and illegal gambling;

- Investment funds received or paid to countries subject to sanctions, embargoes or similar measures issued by international organizations such as the United Nations Organization; and
- Investment funds received or paid to Countries identified by credible sources as having weak governance, law enforcement, and regulatory regimes, including countries identified by the FATF statements as having weak AML/CFT regimes, and for which financial institutions should give special attention to business relationships and transactions.

### **5.3.1 TF risk posed by Investors or clients**

Institutional investors pose a considerably low TF risk as most institutional investors are subjected to regulatory supervision and oversight, and enhanced corporate governance procedures are applied upon investment and disinvestment.

Non-institutional investors such as high net worth individuals who originate or have links to high-risk or non-cooperative jurisdictions or conflict zones pose significant TF risk. State sponsored terrorism is also a possibility when foreign PEPs invest in the LISPs.

**NPOs** are susceptible to TF misuse and abuse as they may be used by terrorists and terrorist organizations to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations. The risk of TF posed by NPOs in Namibia is moderate.

### **5.3.2 TF risk associated with the distribution channels of LISPs**

At the on-boarding stage, investors/clients are required to designate a bank account in their name to which redeemed investment is paid upon disinvestment. TF risk increases significantly if the investor holds or designates a foreign bank account or demands that disinvestments be paid to a designated foreign bank account in a high-risk or non-cooperative jurisdiction.

An investor usually invest through an intermediary. Ability to transact in securities products via an intermediary may provide a relative degree of anonymity<sup>4</sup>. This renders the investment channel vulnerable and open to exploitation for TF purposes. Some intermediaries may be based in geographical areas where there are weak controls, or such intermediaries are not regulated for TF purposes.

The non-face-to-face on-boarding of clients (investors) due to the use of online platforms renders identification and verification of investors difficult, thus heightening the potential risk of TF. Accordingly, a prospective investor can submit an investment application form online. Furthermore, account servicing, including investment instructions, may be given via non-face to face mediums such as email, which also renders the distribution channel vulnerable to abuse for TF activities. The risk of TF associated with the distribution channel is moderate.

### **5.3.3 Geographical area of operations and origin of clients/investors and their businesses**

Foreign investors who originate or have links to high-risk jurisdictions and conflict zones pose relatively high TF risk.

Nevertheless, the majority of investors in LISPs are local investors who are posing a relatively lower TF risk.

**The below illustrates the inherent TF risk rating for the LISP Industry**

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>2.0</b>
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<sup>4</sup> FATF GUIDANCE FOR A RISK-BASED APPROACH – SECURITIES SECTOR



#### 5.4. Manifestation of PF risk in the LISP Industry

Similar to the TF risk, PF risk has an international dimension. The UNSCR 1718 (2006) and UNSCR 2231(2015) were issued under chapter 7 of the UN Charter against the Democratic People's Republic of Korea (DPRK) and the Islamic Republic of Iran (Iran), and all countries are expected to domestically implement these resolutions.

DPRK is well-known globally for its nuclear program, which necessitated the UN targeted financial sanctions to compel DPRK to abandon its nuclear program. All pre-existing contracts entered into with companies/individuals of DPRK origin prior to listing/designation by the UN must be terminated immediately, and all funds/assets held by or on behalf of designated individuals or entities must be frozen without delay.

In respect of Iran, the Joint Comprehensive Plan of Action (JCPOA) terminated the previous provisions of resolutions relating to Iran and WMD proliferation, including UNSCR 1737 (2006), 1747 (2007), 1803(2008) and 1929(2010), but retained some individuals and entities designated pursuant to these resolutions and also established new specific restrictions including a number of other measures.

In Namibia, there is a threat of front companies established by individuals of DPRK origin that are targeting the construction industry in order to raise funds in furtherance of DPRK's nuclear program. They also enter into joint ventures with local companies to hide their true identity and motives. This requires intensive investigation by law enforcement agencies to uncover the links.

These entities/individuals may invest income generated through construction into a bank account of a LISP in order to generate funds for proliferation activities. Upon redemption, funds may be paid into a nominated account in PDRK, or elsewhere beyond the Namibia borders. Funds can also be withdrawn as cash from the nominated account and couriered or smuggled out of the country to unknown destinations.

Nevertheless, there are no cases or indicators of exploitation of the LISPs Industry in Namibia for PF purposes.

The below illustrates the overall inherent PF risk rating for the LISP Industry

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>2.0</b>
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## 5.5 Overview of AML/CFT/CPF management controls

There are significant control weaknesses in the LISPs Industry characterized by:

- weak CDD and EDD controls;
- weak account and transaction monitoring;
- poor recordkeeping;
- absence of risk management processes;
- ineffective or weak independent review of management controls; and
- non-existent or ineffective screening of clients against the UNSC sanctions lists in order to freeze without delay funds or assets held by or on behalf of individuals or entities on the sanctions lists.

However, all LISPs have policies in place, and they have designated compliance officers to oversee implementation of policies and procedures.

The table below illustrates the ML/TF/PF management controls rating for the LISP Industry

	<b>ML Management Control Risk Rating</b>	<b>TF Management Control Risk Rating</b>	<b>PF Management Control Risk Rating</b>
<b>Industry Controls Rating</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
	<b>Weak Controls</b>	<b>Weak Controls</b>	<b>Weak Controls</b>

The ML/TF/PF residual/net risk ratings for the LISP industry are reflected on the table below:

	ML Net Risk Rating	TF Net Risk Rating	PF Net Risk Rating
Industry Net/Residual/Net Risk Rating	3.0	2.0	2.0
	Medium-High	Medium-low	Medium-low

## 6. ML, TF and PF risks in the Investment Management Industry

### 6.1. Business model of an Investment Manager

Investment Managers are registered and regulated in terms of the Stock Exchanges Control Act, No. 1 of 1985, as amended and the Financial Intelligence Act (Act No.13 of 2012). Currently, there are 27 registered Investment Managers in Namibia under NAMFISA's supervision.

An Investment Manager administers or holds in safe custody on behalf of any other person, any investments in listed securities or any investment of which listed securities form part.

Investment Managers have one overriding goal, which is to substantially grow its client's portfolio. Investment Managers, as part of portfolio management services, give access to investments in either equity (listed), bonds or more liquid investments such as call investments. Investments or assets may be invested locally, regionally or offshore depending on applicable regulations.

Clients of an investment manager includes institutional investors (i.e. pension funds, medical aid funds, insurance companies, unit trust management companies), state-

owned enterprises or funds, trusts, natural persons (wealthy or high net worth individuals) and corporate companies seeking to meet medium to long-term investment objectives.

The investment management industry has very low transaction volumes but of high values (usually hundreds of millions and billions of assets under management). New accounts are normally not opened through client walk-ins but by formal presentation of investment plans/strategies. On average, an Investment manager will only have between 1 to 10 investors. For this reason, there are many licensed investment managers without investors/mandates or assets to manage.

Intermediaries such as financial services advisors and relationship/wealth managers may place assets of high net worth individuals and trusts with investment managers, although this is not widespread in the Investment management industry.

The buying and selling of listed securities are transacted on a regulated stock exchange and an Investment Manager makes use of a registered stock-broker to buy and sell securities for and on behalf of a client. The typical fees charged by an Investment Manager are annual management fees and portfolio performance related fees.

Assets or funds can be invested in any market across the world in listed securities (stock exchanges) depending on the mandate or applicable laws. Investment are normally made with a long-term objective to substantially grow the assets or portfolio.

It is worth noting that there is a common set-up in the capital markets sector whereby related entities register as both Investment managers and Unit Trust managers. The Unit Trust scheme is used as a vehicle to collect funds or assets, which are managed by the related Investment management company.

#### **6.1.1. Manifestation of the ML risk in the Investment Management industry**

ML risk associated with investment management services manifest if investment funds (assets) under management originate from crime or illegal activities. The illicit funds may

be transferred into custodian accounts by supposed investors. The ML red flags associated with Investment Managers include –

- Investors' unwillingness to disclose the source of funds (e.g. Sale of property, business income).
- New or existing client who is reluctant or unable to provide information or documentation required in terms of KYC and/or the Regulations for client identification and verification purposes. Request by a client for a mandate where the source of funds to be invested is unclear or not consistent with the client's apparent financial standing.
- In respect of corporate or trust clients, frequent turnover of shareholders, directors, trustees, or underlying beneficial owners.
- The use of nominees other than in the normal course of fiduciary business.
- Investors from high-risk jurisdictions open accounts (e.g., countries designated by FATF as high-risk jurisdictions and non-cooperative countries and territories).
- Funds are generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from higher-risk countries (e.g., countries designated by FATF as high-risk jurisdictions and non-cooperative countries and territories).
- The stated occupation of the customer is not commensurate with the type or level of activity.
- Regarding nonprofit or charitable organizations, financial transactions occur for which there appears to be no logical economic purpose or in which there appears to be no link between the stated activity of the organization and the transactions.
- Funds are sent or received via international transfers from or to high-risk jurisdictions.

#### **6.1.2. ML risk associated with Clients/investors**

Investors or clients can be classified into two main categories, namely; a) institutional and b) non-institutional investors. It is important to highlight that a great majority (almost all) clients in the Investment Management sector are institutional clients.

Institutional investors pose a considerably lower ML risk due to the following reasons:

- e) Source of funds are relatively known, and usually in line with the nature of business;
- f) Investments are primarily made from and paid to authorized bank accounts; and
- c) Most institutional investors are subjected to regulatory oversight, and enhanced corporate governance procedures are applied upon investment and disinvestment.

Non-institutional investors (mostly high net worth individuals and PEPs) pose a high risk of ML due to the following reasons:

- a) Source of funds can be disguised;
- b) Funds used in investment may involve cash of which the source cannot be ascertained. This is heightened by the existing chance of paying cash into a bank account of an Investment Manager or Unit Trust Scheme (where investment could originate) by investors. Cash from unlawful activities can be comingled with cash from lawful activities to obscure the audit trail.

**The table below provides details of the source of funds invested in the Investment Management Industry.**

Source	N\$ million	%
Pension funds	81,742	49.8%
Short-term insurance companies	542	0.33%
Long-term insurance companies	26,607	16.2%
Medical aid funds	495	0.3%
Unit trust schemes	46,971	28.6%
Companies	2,843	1.7%
Natural persons	458	0.28%

Other (i.e. Trusts & NPOs)	4,494	2.7%
Total Assets	164,152	100%

Source: December 2018 Statistics

The sources of funds mentioned in the table above are expounded below.

#### a) Pension Funds

Pension funds are made up of employer and employee contributions accumulated during the working life of individuals. Therefore, Funds in a Pension Fund largely originate from legitimate sources, rendering Pension Funds relatively low risk clients in terms of ML. Pension funds represent nearly half of the total assets under management by Investment Managers.

#### b) Short-term insurance companies

Short-term insurance companies derive their income from premiums collected from insurance policyholders. Short-term insurers are RIs in Namibia and have compliance regimes in place to mitigate the risk of ML. Therefore, when Short-term insurers invest with investment managers they are considered to pose a considerable low risk of ML.

#### c) Long-term insurance companies

Long-term insurance companies derive their income from premiums collected from insurance policyholders. Long-term insurers are AIs in Namibia and have compliance regimes in place to mitigate the risk of ML. Therefore, the risk posed by Long-term insurers as clients is considered low.

#### d) Medical Aid Funds

Medical Aid Funds are made up of members' contributions collected mostly through payroll deduction of employee and employer-employee contributions to cover medical

expenses. Therefore, funds held in Medical Aid Funds largely originate from legitimate sources, rendering Medical Aid Funds relatively low risk in terms of ML.

#### **e) Unit Trust Schemes**

Unit Trust Schemes involve pooled investments of Unit Trust Schemes. The source of funds of the underlying investments may be unknown, heightening the risk of ML. Unit Trust Schemes are AIs in Namibia and they are expected to have compliance regimes in place to mitigate the risk of ML. Therefore, when Unit Trust Schemes invest with investment managers, they pose a considerable low risk of ML.

#### **f) Companies/corporations**

Private companies and corporations are registered and regulated by the Business and Intellectual Property Authority (BIPA) where they have to disclose the nature of their business. Source of funds are relatively known, however there is a likelihood of potential proceeds of unlawful activities such as tax evasion, corruption and trade-based money laundering being invested and channeled through investment managers. Corporate vehicles can be exploited or misused for ML purposes. In respect of the aforesaid, they pose moderate risk of ML.

#### **g) Natural persons**

These are individual clients (including high net wealth individuals and domestic PEPs). They represent only less than 1% of the total assets under management by Investment Managers. There is an equal chance that their wealth originate from both lawful and unlawful activities. Funds from lawful and unlawful activities can be comingled and invested collectively, thus posing a potential risk of ML.



## **h) Trusts**

Trusts are susceptible to ML abuse as they may be used in a complex corporate structure designed to disguise or conceal source of funds. A trust when investing with investment managers is posing a considerable high ML risk.

### **6.1.3. ML risk associated with the Distribution channel**

When funds (assets) under management are channeled through a Unit Trust Scheme, the ML risk exposure to Investment Managers is minimal for the reason that Unit Trust Schemes being AIs in terms of FIA have ML risk mitigating measures in place. In other words, management of funds (assets) from Unit Trust Schemes may reduce the ML risk exposure to Investment Managers.

Intermediaries such as financial services advisors and relationship/wealth managers may place assets of high net worth individuals and trusts with Investment Managers, although this is not widespread in the Investment Management industry.

Account servicing, including investment instructions, are normally made in writing supported by resolutions from authorized persons. Meetings with investors to discuss portfolio performance is a norm hence there is face-to-face interactions in the course of business relationships.

### **6.1.4 ML risk associated with Geographical operation of Investment Managers and the origin of clients/investors**

Foreign investors inherently pose a high ML risk as it may be difficult to verify source of wealth, particularly when the investor is based in jurisdictions with weak or non-existent AML controls. This puts a strain on the due diligence processes as a result of jurisdictional barriers.

**The overall inherent ML risk rating for the Investment Management Industry is illustrated here below:**

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>2.0</b>
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## **6.2. Manifestation of TF risks in the Investment Management Industry**

Investment Managers may invest assets under management in local, regional or offshore markets depending on applicable regulations (limitations) or investment mandate terms. This internationality aspect renders Investment Managers vulnerable to abuse for TF as terrorist funds may be raised and moved to foreign destinations where needed for TF activities. TF red flags in the Investment Management Industry include –

- Unwillingness to disclose the source of funds (e.g. Sale of property, business income);
- new or existing client who is reluctant or unable to disclose information or documentation required in terms of KYC and/or the Regulations for client identification and verification purposes;
- Request by a client for a mandate where the source of funds to be invested is unclear or not consistent with the client's apparent financial standing;
- In respect of corporate or trust clients, frequent turnover of shareholders, directors, trustees, or underlying beneficial owners;
- The use of nominees other than in the normal course of fiduciary business;
- Investors from high-risk jurisdictions open accounts (e.g., countries designated by FATF as high-risk jurisdictions and non-cooperative countries and territories);
- Funds are generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from high-risk countries (e.g., countries designated by FATF as high-risk jurisdictions and non-cooperative countries and territories);

- The stated occupation of the customer is not commensurate with the type or level of activity;
- Regarding nonprofit or charitable organizations, financial transactions occur for which there appears to be no logical economic purpose or in which there appears to be no link between the stated activity of the organization and the transactions;
- Funds are sent or received via international transfers from or to high-risk jurisdictions.

### 6.2.1 TF risk associated with clients/investors

Institutional investors pose a considerably low TF risk as most institutional investors are subjected to regulatory oversight and enhanced corporate governance procedures upon investment and disinvestment.

Non-institutional investors such as high net worth individuals who originate or have links to high-risk or non-cooperative jurisdictions pose significant TF risk. State sponsored terrorism is also a possibility when foreign PEPs from high risk jurisdictions invest with investment managers.

**Pension Funds** are relatively low risk in terms of TF. This is attributed to the nature of business and the purpose Pension Funds are serving. Pensions Funds are fully exempted from the national obligations to combat ML, TF and PF.

**Short-term insurance companies.** The assessment of TF in respect of Short-term insurance companies proved a low TF risk as reflected under the manifestation of TF risk in the Short-term insurance industry. Therefore, clients who are Short-term insurers pose a low TF risk to investment managers.

**Long-term Insurance companies.** Similarly, Long-term insurers pose a relatively low risk of TF as per the assessment of TF against the business model of Long-term

insurance business. In that Long-term insurers pose a low risk of TF to investment managers.

**Medical Aid Funds** are low risk in terms of TF. This is attributed to the nature of their business and the purpose they serve. Medical Aid Funds pose low TF risk to investment managers.

**Unit Trust Schemes.** The source of funds of the underlying investments may be unknown. Unit Trust Schemes may be involved in cross border transactions, which exposes them to the risk of TF. However, no indicators of funds/assets received from high risk jurisdictions. The risk of TF posed by Unit Trust Schemes is considered low.

**Companies/corporations** can be used as vehicles to generate terrorist funds. There is a growing threat worldwide involving the creation of front companies/corporations to raise terrorist funds. However, there are no cases or indicators of front companies established in Namibia. Furthermore, no terrorist funds/assets under management by investment managers. The TF risk posed by companies/corporations to investment managers is thus low.

**Natural persons** are non-institutional investors such as individuals, high net worth individuals who originate or have links to high-risk jurisdictions or conflict zones and foreign PEPs pose significant TF risk.

**NPOs** are susceptible to TF misuse and abuse. NPOs can be used by terrorists and terrorist organizations to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations. The risk of TF posed by NPOs in Namibia is low.

### 6.2.2. TF risk associated with Geographical allocation of funds

In determining and assessing TF risk in the Investment Management Industry, the destination of assets (funds) under management or how and where funds are invested plays a significant role.

TF risks in the Investment Management Industry is considered low as assets are not invested in high-risk jurisdictions or jurisdictions with strategic deficiencies as listed by FATF.

The table below provides details on the geographical placement of funds (assets) under management by Investment Managers in Namibia.

Geographic allocation of assets	N\$ millions	Percentage
Namibia	82,716	50.4%
Common Monetary Area	55,891	34.1%
Africa	3,327	2%
Offshore	22,217	13.5%
Total Asset allocation	164,152	100%

*Source: December 2018 Statistics*

From the above table, it is worth noting that about 50% of investment funds (assets) under management is invested locally. About 34% of the funds under management are invested or placed in the Common Monetary Area (CMA) which is a monetary union consisting of trade partners such as Eswatini, Lesotho, Namibia and South Africa. The majority of assets placed in the CMA are invested in South Africa. These assets are invested in securities listed on the Johannesburg Stock Exchange, which is the largest stock exchange in the region and Africa.

**South Africa** is a member of both FATF and ESAAMLG, as such, it is subject to monitoring and evaluation by both ESAAMLG and FATF for compliance with international obligations on combating TF, amongst others. South Africa is not one of the jurisdictions

listed by FATF as non-cooperative jurisdictions with weak or non-extent CFT controls. Therefore, TF risk is considered low.

**Eswatini** is also a member of ESAAMLG, which is subject to monitoring and evaluation by both ESAAMLG and FATF for compliance with international obligations on combating TF, amongst others. Eswatini is not one of the jurisdictions listed by FATF as non-cooperative jurisdictions with weak or non-extent controls. Therefore, the risk of TF is considered to be relatively low.

Similarly, **Lesotho** is a member of ESAAMLG, and it is subject to monitoring and evaluation by both ESAAMLG and FATF for compliance with international obligations on AML/CFT/CPF. Lesotho is not one of the jurisdictions identified by FATF as non-cooperative jurisdictions with weak or non-extent CFT controls, hence the low risk of TF.

Regarding the 14% of funds (assets) invested offshore and 2% invested in other African markets, these funds (assets) are invested in listed securities on markets such as the London Stock Exchange (United Kingdom “UK”) and the Dow Jones Exchanges (United States of America “USA”). Both the UK and USA are FATF members and therefore have in place CFT controls and systems. Furthermore the UK and USA are not jurisdictions listed by FATF as non-cooperative jurisdictions with weak or non-existent CFT controls.

The above demonstrates that funds (assets) from this industry are not invested/placed in in high risk or non-cooperative jurisdictions. It is worth noting that assets may only be invested in securities (on a stock exchange) through stockbrokers. The Investment Managers Industry does not offer investment redemptions or withdrawals in cash. Therefore, TF risk is considered low.

The table below depicts the inherent TF risk rating in the Investment Management Industry

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>1.5</b>
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### 6.3. Manifestation of PF risk in the Investment Management Industry

Entities/individuals of DPRK origin may invest their funds with Investment Managers in order to generate funds for proliferation activities. Upon redemption, funds may be paid into a nominated account in DPRK or elsewhere. However, there are no known cases or indicators of potential abuse of the Investment Management Industry for purposes of proliferation activities.

The table below depicts the inherent PF rating for the Investment Management Industry

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>1.5</b>
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### 6.4. Overview of the type and design of AML/CFT/CPF management controls

Generally, there are significant control weaknesses in the Investment Managers Industry characterized by:

- weak CDD and EDD controls;
- weak account and transaction monitoring;
- absence of risk management processes;
- ineffective or weak independent review of management controls; and

- non-existent or ineffective screening of clients against the UNSC sanctions lists in order to freeze without delay funds or assets held by or on behalf of individuals or entities on the sanctions lists.

However, the majority of Investment Managers have AML policies in place. They have designated compliance officers to oversee the implementation of management controls. These however are met with poor implementation mechanisms, rendering the AML/CFT/CPF risk mitigating processes ineffective.

There are no cases to demonstrate the likelihood of materialization of ML, TF and PF risks in the Investment Managers Industry.

The below table illustrates ML, TF and PF management control ratings

	ML Management Control Risk Rating	TF Management Control Risk Rating	PF Management Control Risk Rating
Industry Control Ratings	2.7	2.7	2.7
	Weak Controls	Weak Controls	Weak Controls

The below table illustrates the ML, TF and PF residual/net risk ratings

	ML Net Risk Rating	TF Net Risk Rating	PF Net Risk Rating
Industry Net/Residual Risk Rating	2.0	2.0	2.0
	Medium-Low	Medium-Low	Medium-Low

No cases to demonstrate the likelihood of the ML, TF and PF risk materialization in the Investment Management Industry.



## **7. ML, TF and PF risks in the Stockbrokers Industry**

### **7.1. Business Model of a Stockbroker**

A registered Stockbroker is a member of the Namibian Stock Exchange (NSX) in terms of the Stock Exchanges Control Act, 1985 (Act No. 1 of 1985). Stockbrokers are regulated in terms of the Stock Exchanges Control Act, No. 1 of 1985 as amended; NSX rules and regulations; and the Financial Intelligence Act (Act No.13 of 2012). Currently, there are 4 registered Stockbrokers in Namibia.

A stockbroker is a market professional who buys or sells shares on behalf of clients at a stock exchange for a brokerage commission. To buy and sell securities on the NSX, an investor need to open a discretionary or non-discretionary brokerage account with a registered stockbroker. Other services offered by stockbrokers are client advisory services, custody of assets, bond and treasury bills dealing, sponsoring and managing of client assets.

### **7.2. Manifestation of ML risk in the Stockbrokers Industry**

Product offerings are vast, and many are complex, with some devised for sale to the public and others tailored to the needs of a single purchaser. Some of the features that have long characterized the industry, including its speed in executing transactions, its global reach, and its adaptability, can make it attractive to criminals or money launderers.

ML in the Stockbrokers industry occurs primarily at the layering and integration stages. The industry evolves rapidly and it is global in nature. The ease of speedy cross border transactions makes it more and more vulnerable to abuse for ML.

Securities consist of both physical equity and debt securities that do not necessarily require that the owner be registered with an issuer or a transfer agent, leaving a relative degree of anonymity. The transfer of securities can be as simple as handing the security over to a new owner.

The anonymity and ease transferability of securities presents a significant ML vulnerability. Illicit assets can be placed in the stockbroking industry through the purchase of securities. Once a security has been issued, criminals or money launderers can hold these securities or transfer them to an intended recipient without necessarily having to use facilities that would record a transaction, or where CDD obligations are fulfilled. The ML red flags in the Stockbroking Industry include –

- Unwillingness to disclose the source of funds;
- Transactions involving cash deposits or a request to be paid in cash;
- New or existing client who is reluctant or unable to provide information or documentation required in terms of KYC and/or the Regulations for client identification and verification purposes;
- Instructions to buy or sell securities even when market conditions are unfavorable for either buying or selling;
- Clients' source of funds to be invested is unclear or not consistent with the client's apparent financial standing;
- In respect of corporate or trust clients, frequent turnover of shareholders, directors, trustees, or underlying beneficial owners; and
- The use of nominees other than in the normal course of fiduciary business;
- Changing share ownership in order to transfer wealth across borders;
- Opening multiple accounts or nominee accounts;
- Using brokerage accounts as long-term depository accounts for funds;
- Effecting transactions involving nominees or third parties;
- Engaging in market manipulation; and
- Engaging in boiler room operations.

Some of the products such as the securities present a greater risk of ML due to a relative degree of anonymity. Criminals or money launderers are highly attracted to products that give them a fair deal of anonymity in order to conceal their identity.

### **7.2.1 ML risk associated with clients/investors**

The majority of Stockbrokers' clients are natural persons who are high net-worth individuals including domestic PEPs whom inherently pose a high risk of ML. There is a greater chance that their wealth may originate from both lawful and unlawful activities, thus posing a potential risk of ML. The below are other categories of Stockbrokers' clients:

#### **Trusts**

Trusts are susceptible to ML abuse as they may be used in a complex corporate structure designed to disguise or conceal source of funds. ML risk posed by trusts is medium-high. Section 5 of FIA requires the Master of High Court to collect information on the founder, beneficiaries, beneficial owners, and every trustee of a Trust. This is also one of the measures supporting the risk mitigating mechanisms to reduce the risk of ML posed by Trusts.

#### **Companies/corporations**

These include state-owned enterprises, private companies and corporations with governance procedures in place established by law, which could reduce the risk of receiving potential proceeds of unlawful activities.

### **7.2.2 ML risk associated with products of stockbrokers**

Some of the products such as the securities present a greater risk of ML due to a relative degree of anonymity. Criminals or money launderers are highly attracted to products that give them a fair deal of anonymity in order to conceal their identity.

### **7.2.3. ML risk associated with the distribution channels of Stockbrokers**

ML in the Stockbrokers industry occurs primarily at the layering and integration stages and the use of cash is minimal and thus pose a lower risk of ML. Investment funds are wire transferred into a Stockbroker's account held at a commercial bank, which reduces the risk exposure because EFTs are closely monitored by banks to detect proceeds of crime. Domestic EFTs above the threshold amount of N\$ 99 999.99 are reportable to the FIC for further scrutiny, while all cross border EFTs irrespective of the amount are reportable to the FIC, which further reduces the risk of ML.

Upon disinvestment investors/clients are required to designate a bank account in their name to which redeemed investment is paid. The use of intermediaries renders the investment channel vulnerable and open for exploitation by criminals or money launderers. Some intermediaries may be based in geographical areas where there are weak controls, or where such intermediaries are not regulated for ML purposes.

The non-face-to-face on-boarding of clients (investors) due to the use of online platforms renders identification and verification of clients' information difficult, thus heightening the potential risk of ML. Furthermore, account servicing, including investment instructions, may be given via non-face to face mediums such as email, which also renders the distribution channel vulnerable to abuse for ML activities.

### **7.2.4. Geographical area of operations and origin of clients/investors and their businesses**

The majority of investment originated from Namibia, with a few from beyond the Namibian borders notably; South Africa, Zimbabwe, Germany, Belgium, and New Zealand. These are not countries with weak AML controls. However, the global nature renders the Stockbrokers Industry vulnerable to abuse for ML, thus posing a relatively high risk of ML.

The below depicts the overall inherent ML risk rating for the Stockbrokers Industry

<b>Industry Inherent Risk Rating</b>	<b>Medium-High</b>	<b>3.00</b>
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### 7.3. Manifestation of TF risk in the Stockbrokers Industry

The involvement of intermediaries in the distribution channel renders the Stockbrokers Industry vulnerable to abuse for TF purposes. Some of the intermediaries may be based in jurisdictions that are considered high-risk and due to jurisdictional barriers, identification and monitoring may prove difficult, leaving potential and ML activities undetected.

Additionally, the non-face-to-face contact between the investors and stockbrokers in the selling and buying of securities, and the relative degree of anonymity as well as easy transferability of securities are some of the significant TF vulnerabilities of stockbrokers.

However, there are no known cases or indicators of TF abuse of the stockbrokers to gauge the likelihood of the TF risk materializing in the stockbrokers industry. The TF red flags associated with Stockbrokers include –

- Customer resides in or whose primary source of income originates from high-risk jurisdictions;
- Customer resides in countries considered to be uncooperative in providing beneficial ownership information;
- Customer acts on behalf of a third party and is either unwilling or unable to provide consistent information and complete documentation thereon;
- Customer has a non-transparent ownership structure;
- Customers have sanction exposure directly or through associates;

### **7.3.1 TF risk associated with clients/investors**

Institutional investors pose a considerably low TF risk as most institutional investors are subjected to regulatory oversight and enhanced corporate governance procedures upon investment and disinvestment.

Non-institutional investors such as high net worth individuals who originate or have links to high-risk or non-cooperative jurisdictions pose significant TF risk. State sponsored terrorism is also a possibility when foreign PEPs invest with Stockbrokers.

NPOs are susceptible to abuse or misuse for TF purposes. NPOs can be used by terrorists and terrorist organizations to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations. The risk of TF posed by NPOs in Namibia is low.

### **7.3.2 TF risk associated with the distribution channels of Stockbrokers**

TF risk increases significantly if the investor holds or designates a foreign bank account or demands that disinvestments be paid to a designated foreign bank account in a high-risk or non-cooperative jurisdiction.

Ability to transact in securities products via an intermediary may provide a relative degree of anonymity<sup>5</sup>. This renders the investment channel vulnerable and open to exploitation for TF purposes. Some intermediaries may be based in geographical areas where there are weak controls, or such intermediaries are not regulated for TF purposes.

The non-face-to-face on-boarding of clients (investors) due to the use of online platforms renders identification and verification of investors difficult, thus heightening the potential risk of TF. Furthermore, account servicing, including investment instructions, may be

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<sup>5</sup> FATF GUIDANCE FOR A RISK-BASED APPROACH – SECURITIES SECTOR

given via non-face to face mediums such as email, which also renders the distribution channel vulnerable to abuse for TF activities. The risk of TF associated with the distribution channel is moderate.

### 7.3.3 TF risk associated with the products

Some of the products such as the securities present a greater risk of TF due to a relative degree of anonymity. Financiers of terrorism are highly attracted to products that are giving them a fair deal of anonymity in order to conceal their identity and true intentions. This renders the risk of TF moderate.

### 7.3.4 Geographical area of operations and origin of clients/investors and their businesses

Foreign investors who originate or have links to high-risk jurisdictions and conflict zones pose relatively high TF risk.

Nevertheless, the majority of investors in Stockbrokers are local investors with a few from across the border but these jurisdictions are not high-risk jurisdictions, thus posing a low risk of TF.

The below depicts the overall inherent TF risk rating for the Stockbrokers Industry

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>2.00</b>
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### 7.4. Manifestation of PF risk in the stockbrokers industry

Internationality aspect raises concerns that funds (assets) may be raised and used for PF activities. The non-face-to-face contact between investors and stockbrokers in the selling

and buying of securities, and the relative degree of anonymity as well as easy transferability of securities render the stockbrokers vulnerable for TF.

Entities/individuals involved directly or indirectly in proliferation activities may invest funds with the assistance of a stockbroker in order to raise more funds for purposes of proliferation activities. Upon redemption, funds may be paid into a nominated account, which could be an account in DPRK, heightening the risk of PF. However, there are no known cases or indicators of potential abuse of the stockbrokers for purposes of proliferation activities.

**The below is the overall inherent PF risk rating for the stockbrokers industry**

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>2.00</b>
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#### **7.5. Overview of AML/CFT/CPF management controls in the Stockbrokers industry**

There are significant control weaknesses in the Stockbrokers industry characterized by:

- weak CDD and EDD controls;
- weak account and transaction monitoring;
- weak record-keeping;
- inadequate staff training;
- absence of risk management processes;
- ineffective or weak independent review of management controls; and
- ineffective screening of clients against the UNSC sanctions lists in order to freeze without delay funds or assets held by or on behalf of individuals or entities on the sanctions lists.

However, some Stockbrokers have policies in place, and they have designated compliance officers to oversee implementation of policies and procedures.



The below illustrates AML/CFT/CPF management control ratings for the Stockbrokers Industry

	Overall ML Management Control Risk Rating	Overall TF Management Control Risk Rating	Overall PF Management Control Risk Rating
Industry Controls Rating	3.3	3.3	3.3
	Weak controls	Weak controls	Weak controls

The table below illustrates the ML, TF and PF residual/net risk ratings for the Stockbrokers Industry

	Overall ML Net Risk Rating	Overall TF Net Risk Rating	Overall PF Net Risk Rating
Industry Net/Residual Risk Rating	3.3	2.0	2.0
	Medium-High	Medium-Low	Medium-Low

## 8. ML, TF and PF risks in the UIMs and Special Purpose Vehicles (SPVs) industries

### 8.1. Business model of UIMs and SPVs

Unlisted investments are pension fund mandatory investments in companies not listed on any stock exchange as prescribed in Regulation 13 of the Regulations issued under the Pensions Fund Act, No. 24 of 1956 (the Regulations). These are investments that take the form of a prescribed equity or debt capital in a company incorporated in Namibia, but exclude assets such as credit balances, bonds including debentures (issued by

Government, Local Authorities, Regional Councils, State Owned Enterprise and corporates) and property.

Unlisted investments have arrived as major components that create alternative asset classes for investments of pension funds' assets. Regulation 13(5) compels Pension funds to invest a minimum of 1.75% and a maximum of 3.5% of the market value of its total assets in unlisted investments.

Pension Funds must invest in unlisted investment through a Special Purpose Vehicle (SPV) and may not directly or indirectly, invest in any Unlisted Investment Manager (UIM).

Both the UIMs and SPVs are licensed and supervised by NAMFISA and registered in terms of regulations 18 and 28 of the Regulations. The funds under the unlisted investment portfolio are held in legal vehicles called SPVs, which are either in the form of trusts, public or private companies and the SPV's objective is to solely hold unlisted investments on behalf of the investors.

The UIM, which is the Fund Manager, is appointed to provide investment management and administrative services to the Fund. UIMs are compelled by law to, at all times; co-invest a minimum of 1% of the contributed capital in the SPV on the same terms and conditions as applicable to all investors. The UIM raises funds from investors (pension funds and or other co-investors) for purposes of investing in portfolio companies in Namibia.

Once investors commit capital to the SPV, these funds, which are known as committed capital, are then allocated to the Fund Manager based on a draw down principle. The SPV invests that money into portfolio companies with high growth potential in accordance with the investment plan approved by the Registrar.

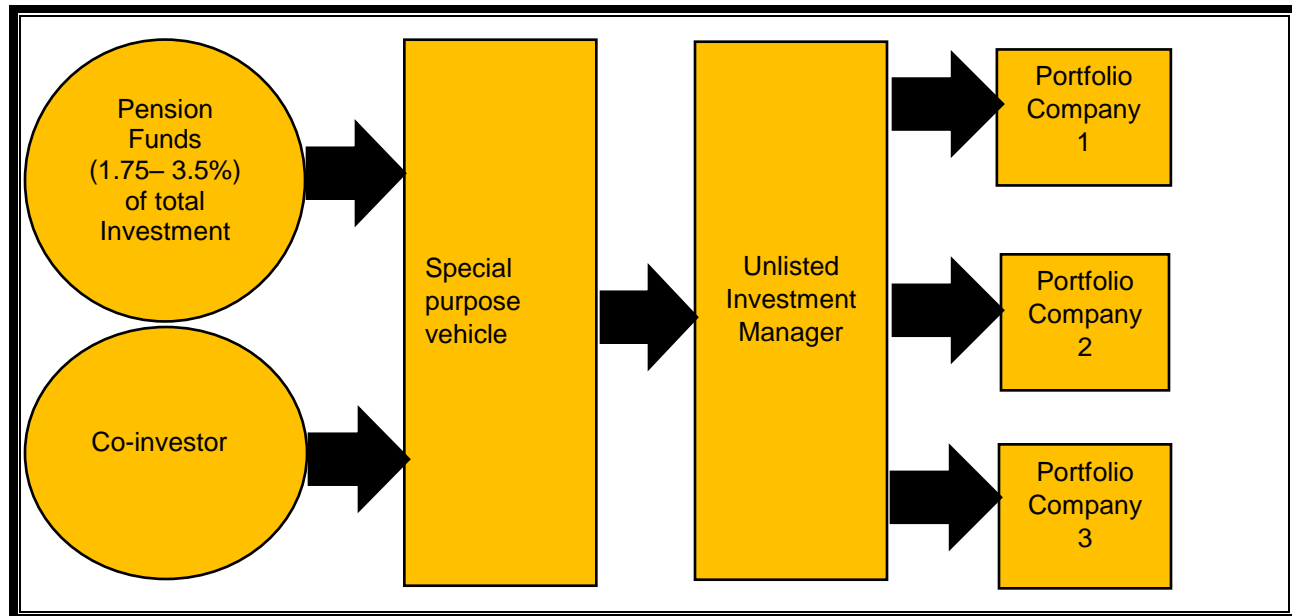
The Fund Manager is tasked with the responsibility of sourcing and screening investment opportunities, conducting rigorous due diligence on potential portfolio investment companies, making investment decisions not inconsistent with the investment plan and

actively managing the Fund. The UIM charges management fees for the services rendered to the SPV.

All in all, investors aim to earn higher rates of returns through access to diversified portfolios sourced and managed by the Fund Manager. The Fund has a limited investment period, usually ranging between 5 to 10 years.

The diagram below reflects how the funds flow from the investor to various portfolio companies.

### Flow of Investment Funds



## 8.2. Manifestation of ML risk in the SPVs and UIMs Industry

Looking at the investment scheme under the unlisted investment sector described above, the involved funds largely originate from known sources, such as Pension Funds. In respect of Pension Funds, employers make contributions into a pool of funds set aside for employees' future benefit.

Therefore, in the event funds originated Pension Funds, such funds are from known legitimate sources and the pension benefits are paid out to the members or beneficiaries. In terms of the FIA, Pension Funds do not present the risk of ML. A co-investor into the SPV may comprise natural or juristic persons that may involve funds that originate from unknown sources other than Pension Funds.

The below illustrates the overall inherent ML risk rating for the UIMs Industry

<b>Industry Inherent Risk Rating</b>	<b>Low</b>	<b>0.68</b>
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### 8.3. Manifestation of TF risk in the UIMs Industry

It is a known fact that terrorist funds originate from both lawful and unlawful sources, but considering the business model of UIMs, there is a very minimal chance to raise funds through UIMs for terrorist financing purposes. Management fees paid to UIMs are mostly utilized to pay for administrative expenses such as salaries, directors fees, rent, general office upkeep and for operational expenses such as due diligence, legal fees and deal sourcing. The management fee is in most cases absorbed by the aforementioned fees which leaves very little for non-core activities. Experience has also shown that in most instances, the management fee itself is not sufficient to carry the costs of the UIM. However, as earlier indicated, the risk will remain, albeit very low.

It is also important to highlight that as per Regulation 13 of the Pension Funds Act, committed capital is only drawn down from the pension funds and or other co-investors when the UIM finds investable projects which have been approved by the board of the SPV. The board of the SPV must have a majority of independent directors who are not affiliated directly or indirectly, to the UIM. This arrangement of majority independence also limits conflicts of interest and or collusion, which will in most likelihood prevent instances of TF.

Investments in portfolio companies are mostly long-term in nature with dividend payments not certain in the short-term, unless in cases where the UIM is providing debt capital. Also, dividend payments must be made in accordance with the approved Investment Plan. Someone hoping to invest in portfolio companies for the purpose of TF, will most

likely be discouraged to do so as the Regulation 13 framework will not be suitable for this purpose.

Nevertheless, there are no known cases of this nature involving the UIMs Industry, and no known terrorist networks operate in Namibia. All in all the risk of TF is considered low as illustrated in the table below:

**The below illustrates the overall inherent TF risk rating for the UIMs Industry**

<b>Industry Inherent Risk Rating</b>	<b>Low</b>	<b>0.27</b>
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#### **8.4. Manifestation of PF risk in the UIMs Industry**

Similarly, to what was explained in paragraph 8.3 above, the risk of PF in the UIM industry is very minimal. The framework, although not water-tight, will most probably discourage potential PF from this industry. SPVs invest in portfolio companies which already exist and where ownership is in most instances well established. The possibility of investing in a portfolio company that has an aim to enhance terrorist activities is however not remote, but this responsibility will have to lie with the board of the SPV to ensure that all necessary due diligence is done before approval is done. Also, if this has to happen, it would be beyond NAMFISA's regulatory ambit as the Authority does not have control over portfolio companies and how they utilize their proceeds.

In another instance, an investor of DPRK origin may invest funds with the SPVs using the route of co-investors. The co-investor could provide an upfront payment or funds upon draw down request and thereafter, decide to disinvest. The disinvestment in this regard will be paid in a nominated account, which could be an account in a foreign jurisdiction. Nevertheless, this possibility is minimal, rendering the PF risk considerably low in the UIMs Industry.

Below is an illustration of the overall PF risk rating for the UIMs Industry

Industry Inherent Risk Rating	Low	0.27
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#### 8.5. Overview of AML/CFT/CPF management controls in the UIMs Industry

- weak CDD and EDD controls;
- weak account and transaction monitoring;
- absence of risk management processes;
- ineffective or weak independent review of management controls; and
- Ineffective screening of clients against the UNSC sanctions lists in order to freeze without delay funds or assets held by or on behalf of individuals or entities on the sanctions lists.

The below illustration is the AML/CFT/CPF management control ratings for the UIMs Industry

	Overall ML Management and Control Risk Ratings	Overall TF Management and Control Risk Ratings	Overall PF Management and Control Risk Ratings
Industry Control Ratings	0.45	0.41	0.41
	Strong	Strong	Strong

The ML, TF and PF residual/net risk ratings for the UIMs industry are reflected on below

	Overall ML Net Risk Rating	Overall TF Net Risk Rating	Overall PF Net Risk Rating
Industry Net/Residual Risk Rating	0.68	0.41	0.41
	Low	Low	Low

## 9. ML, TF and PF risks in the Long-term Insurance sector

### 9.1. Business model of insurance<sup>6</sup>

Long-term insurers are registered in terms of the Long-term Insurance Act, 1998 (Act No. 5 of 1998), as amended. There are 16 Long-term insurers registered and supervised by NAMFISA. The term insurance generally describes any measure taken for protection against risk(s). In an insurance contract (“Contract”), one party, (the insured) pays a specified amount of money, called a premium to another party (the insurer).

The insurer, in turn agrees to pay-out the insured for specific future losses. The losses covered are listed in the Contract, and the Contract is called an insurance policy. The recipient of any proceeds from the policy is called the beneficiary. The beneficiary can be the insured person or other person(s) designated by the insured.

In an insurance business there are insurance agents and brokers who, on behalf of one or more insurance companies (insurers) sells business insurance policies or performs any act relating to the issuing of policies or the collection of premiums in respect of such insurance businesses, but does not include an employee of an insurer, unless such employee is paid purely on a commission basis.

It should be noted that an insurance agent primarily acts on behalf of a single Insurer, and may also be referred to as “tied” agent. Insurance brokers primarily act on behalf of the customer and deemed “independent” of the Insurer whose products they are selling.

<sup>6</sup> IAIS – Guidance paper on anti-money laundering and combating the financing of terrorism. 07 October 2004.



The classes of long-term insurance business in respect of which an insurer may be registered to carry on business in Namibia are –

- Disability insurance business;
- Fund insurance business;
- Funeral insurance business;
- Health insurance business;
- Life insurance business; and
- Sinking Fund insurance business.<sup>7</sup>

An insurance product is primarily designed to financially protect the policyholder and its related third parties against the risk of an uncertain future event.<sup>8</sup> Some insurers however also offer Alternative Risk Transfer (ART) policies, which is risk protection outside of the traditional models of an insurance.

These policies are often sold through intermediaries. Long Term Insurance policies may also be sold online. This option is a non-face-to-face interaction with the customer by the insurer or its agent<sup>9</sup>.

**9.2.** Moreover, life insurance products can also be bought as investment or saving vehicles. The investment or savings feature may include the options for full and/or partial withdrawals at any time. Long Term Insurance policies are available to both natural and legal persons. **Manifestation of ML in the Long-term Insurance business**

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<sup>7</sup> This means a contract, other than a **life policy**, in terms of which a person, in return for a premium, undertakes to provide one or more sums of money on a fixed or determinable future date as a policy benefits, and includes a reinsurance policy in respect of such a contract.

<sup>8</sup> FATF “Guidance for Risk Based – Life Insurance Sector”

<sup>9</sup> Ibis

Life insurance industry may be used for money laundering purposes, considering the category of clients, products, distribution channels and geographical location. One of the factors that may exacerbate the ML risk is the involvement of intermediaries and non-face-to-face onboarding of clients. The ML red flags include:

- Policyholder and/or beneficiary of the contract may be legal entities whose structures makes it difficult to identify beneficial owner(s) i.e. the natural persons;
- Where the Policyholder's transactional activities are inconsistent with his/her risk profile;
- Customers may be reluctant to provide identification information when purchasing a product, or provides minimal or seemingly fictitious information;
- Insurer is made aware of a change in beneficiary only when the claim is made; and
- Policyholders may make unusual or excessive premium payments.

#### **9.2.1. ML risk associated with Clients/policyholders/beneficiaries**

A Policyholder may use funds originating from unlawful activities to pay a premium. The possibility of making excessive premium payments presents the opportunity to bring proceeds of unlawful activities into the non-banking financial system through a long-term insurance policy.

The difficulty in identifying beneficial owners of a legal entity in a long-term insurance business relationship presents the risk of dealing with beneficial owners who are criminals and the source of funds used to pay premiums may originate from unlawful activities.

### **9.2.2. ML risk associated with long-term insurance products**

The product design and features may be attractive to criminals to hide their proceeds of unlawful activities. If a life product allows payment of premiums from third parties<sup>10</sup> or excessive payment of premiums, including cash payments, such product is vulnerable to abuse for ML purposes.

Generally a cash value policy<sup>11</sup> makes it possible for a withdrawal while the policyholder is alive. This is one of the product features that encourage criminals or money launderers to enter into life insurance contracts and withdraw while alive. Criminals' motive is to conceal their ill-gotten money, and where a product presents a chance to conceal and access the proceeds, it presents a vulnerability that can be exploited by criminals or money launderers.

However, life products such as pure risk products whereby the benefit is only payable at the occurrence of an agreed insured event i.e. when death (demise) has occurred are considered low risk in terms of ML. These products are not attractive to criminals since they do not present the chance for a criminal to reap the benefit while alive.

### **9.2.3 ML risk associated with the Distribution Channel of Long-term insurance business**

Identification and risk profiling of Policyholders may be a challenge when clients are solicited through insurance brokers. Currently, in Namibia, insurance brokers are not treated as independent AIs or RIs, making it discretionary to comply with the national AML combating measures. Policyholders who are solicited through insurance brokers are not always subjected to intensive scrutiny at on-boarding. This presents a chance to on-board criminals who will introduce proceeds of unlawful activities into the financial system through payment of premiums.

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<sup>10</sup> When the Policyholder and the person paying the premiums are different.

<sup>11</sup> A savings policy within the context of long-term insurance with the option to withdraw.

Clients may also become Policyholders of a Long term insurance product via non-face to face interaction with the Insurer. Currently, the use of this delivery challenge is not common amongst long-term insurers compared to Short term insurers. Consequently, the non-face to face delivery challenge should be considered and inherently increases the ML risk.

If a criminal has the intention to award a benefit to his/her dependents, he/she may enter into a life insurance contract and nominate beneficiaries who are his/her dependents to receive the benefits after his/her death. The premiums are then paid using proceeds of unlawful activities.

These premiums are paid into an account held at a commercial bank. Bank accounts are subject to constant monitoring by the banks to prevent proceeds of unlawful activities from entering the financial system. Therefore, all inflows and outflows of funds are monitored to ascertain the source and destination. If control put in place by commercial banks are stringent, it may discourage criminals from investing in life products, and as such, reducing the risk of ML.

#### **9.2.4. ML risk associated with the Geographical location of insurers, clients and beneficiaries**

The clientele of Life insurers in Namibia consist of Namibian inhabitants. Claims are also paid into bank accounts held with local banks. Namibia is not considered a high-risk jurisdiction in terms of ML. Therefore, the risk ML associated with geographical location is relatively low.

**The below is the overall inherent ML risk rating for the Long-term Insurance industry**

<b>Industry Inherent Rating</b>	<b>Medium-Low</b>	<b>2.1</b>
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### 9.3 Manifestation of TF risk in the Long-term insurance

A beneficiary of a life policy can be a natural person, business, trust or charity organization and any other juristic person. According to FATF guidance reports, Charity organizations are considered inherently vulnerable to abuse for raising terrorist funds.

A beneficiary of a life policy can be a person based in a high-risk jurisdiction or conflict zone. In other words, a policyholder who is a sympathizer or affiliate of a terrorist group or network may award the benefits of a life policy to another affiliate or financier of terrorism in a conflict zone or jurisdiction where terrorism is rife.

If a life policyholder is a sympathizer of a terrorist group or network, chances are that such life policyholder may designate a Charity Organization or Trust set up for purposes of disguising terrorist funding as a beneficiary in order to receive the benefit of a life policy upon the death of a policyholder. TF red flags include –

- Transactions in which policies are cancelled shortly after premiums have been paid, resulting in the return of premiums, unless the life insurer is furnished with plausible reasons for the cancellation, especially where policy premiums have been paid in cash;
- Transactions that are not commensurate with the customer's apparent financial means, for example, where customers without reasonable financial standing purchase large single premium policies for a large assured sum;
- When a person receives funds from a religious or charitable organization and utilizes the funds for purchasing a life policy with cash value and surrenders it within a relatively short period;
- When Policyholders or beneficiaries originating from countries subject to sanctions, embargoes or similar measures;

- Payments may regularly be received from third parties that have no apparent relationship with the policyholder; and

### **9.3.1 TF risk associated with Clients/policyholders/beneficiaries**

A sympathizer or affiliate of terrorism may buy a life policy with a high-insured amount and award the benefit of that policy to a Charity Organization or Trust setup to disguise terrorist funding as a beneficiary of the policy. Upon the death of a policyholder, the insured amount is paid out to the charity or Trust nominated as a beneficiary.

The high level of concealment of terrorist links poses a challenge to ascertain whether a potential policyholder or beneficiary is linked to a terrorist group or network. It is a challenge to ascertain such links if the sympathizer is not on the sanctions lists.

It is worth noting that all cross border transactions are reportable to the FIC by the banks, and are subject to close monitoring to ascertain the destination and ensure that payments are not made to terrorists and their networks. This control mechanism discourages the financiers of terrorism. Overall, TF risk is considered low.

### **9.3.2 TF risk associated with the Long-term Insurance products**

The features of a life policy, notably; the cash value (i.e. the withdrawal option while the policyholder is alive) and the possible nomination of anybody as a beneficiary of a life policy to receive the insured amount renders a life policy vulnerable to abuse for terrorist financing. However, taking into account that the insurers do not conduct cross-border transactions mitigates and renders the products a low risk in terms of TF.

### **9.3.3 TF risk associated with the Distribution Channel of a Long-term Insurer**

Identification and risk profiling of Policyholders may be a challenge when clients are solicited through insurance brokers, as they are considered neither an AI nor RI. This poses the risk of on-boarding a terrorist financier or person listed on the UNSCR sanctions

lists due to lack of controls. Similarly, it is the case when non-face to face on-boarding is done.

Moreover, It is likely that the insured amount can be paid out to a beneficiary who could be a natural person, Charity Organization or Trust affiliated with terrorism activities based in a conflict zone or jurisdiction where terrorism is rife.

However, the proceeds from the benefit can only be deposited into the beneficiary's local Namibian bank account normally in the form of EFTs. The EFTs are subject to scrutiny by the banks and before doing any cross border transactions. This reduces the risk of TF rendering the distribution channel less vulnerable.

#### 9.3.4 TF risk associated with the Geographical location of a Long-term insurer

A policyholder from savings and a beneficiary from a life policy may be a natural or legal person from a high-risk jurisdiction or conflict zone where terrorism is rife.

The policyholder and the beneficiary could raise, move and use the proceeds received from the benefit payout to fund terrorism.

However, insurers are not legally authorized to **move** funds across borders, as they are required to make benefit payments into the designated local bank account of the identified policyholder or beneficiary. This reduces the TF risk.

**The below illustrates the overall inherent TF risk rating for the Long-term insurance industry**

Industry Inherent Risk Rating	Medium-Low	1.9
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#### 9.4 Manifestation of PF in the Long-term insurance industry

Individuals/entities of DPRK origin who are linked to proliferation activities may buy long-term insurance products. Beneficiaries could be persons or businesses in DPRK who are involved in proliferation activities. The product features, distribution channels as described under the TF section may attract entities/individuals involved in proliferation activities to buy life products.

The below illustrates the overall inherent PF ratings in the Long-term insurance industry

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>1.9</b>
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#### 9.5 Overview of AML/CFT/PF management controls

The common control weaknesses are:

- weak EDD controls;
- absence of risk management processes;
- ineffective or weak independent review of management controls;
- inadequate staff training on AML/CFT/CPF obligations; and
- ineffective screening of clients against the UNSC sanctions lists in order to freeze without delay funds or assets held by or on behalf of individuals or entities on the sanctions lists.

Nevertheless, the majority of Long-term insurers have AML/CTF/CPF policies in place. They have designated compliance officers to oversee the implementation of management controls. Some of the Long-term insurers have good record-keeping processes.



The table below illustrates the AML/CFT/CPF management control ratings in the Long-term Insurance industry

	Overall ML Management Control Risk Rating	Overall TF Management Control Risk Rating	Overall PF Management Control Risk Rating
Industry Control Ratings	1.7	1.7	1.7
	Satisfactory controls	Satisfactory controls	Satisfactory Controls

The ML, TF and PF residual/net ratings in the Long-term Insurance industry are illustrated below:

	Overall ML Net Risk Rating	Overall TF Net Risk Rating	Overall PF Net Risk Rating
Industry Net/Residual Risk Rating	1.9	1.8	1.8
	Medium-Low	Medium-Low	Medium-Low

It is worth noting that the ML vulnerabilities are not only in respect of paying premiums with proceeds of unlawful activities. The vulnerabilities also include the possibility of other financial related crimes such as fraud perpetrated against the Long-term Insurer. Fraud and all other crimes of benefit are predicate offences of ML.

## 10. ML, TF and PF risks in the Short-term Insurance Industry

### 10.1. Business model of a Short-term Insurance Business

Short-term Insurers are registered in terms of the Short-Term Insurance Act, 1998 (Act No. 4 of 1998) as amended. There are currently sixteen (16) short-term insurers and one (1) re-insurer registered in Namibia. Short-term insurance is generally aimed at protecting

the insured against losses, which may result from unforeseen events such as accidents; crime; floods; fires or illness.

In Namibia, the classes of short-term insurance business include:

- Fire insurance;
- Marine insurance;
- Aviation Insurance;
- Vehicle insurance;
- Guarantee insurance;
- Personal insurance; as well as
- Miscellaneous insurance policies that cover personal accidents, sickness, legal, credit, goods in transit, damage to property, railway rolling stock and expropriation and confiscation of property.

Short term insurance products are primarily designed to protect policyholders or related third parties against the risk of loss or damage of an uncertain event. Some insurers also offer Alternative Risk Transfer (ART) policies, i.e self-insurance in respect of any of the aforementioned classes of short-term insurance.

Short-term insurance policies can be individual or group policies. Beneficiaries of insurance policies may be the policyholder or another nominated natural/legal. Short-term insurers may only issue, 'Domestic Policies' which means policies issued in Namibia and which are payable in Namibia in the currency of Namibia.

Short-term insurance policies are often sold through intermediaries like agents and brokers who, on behalf of one or more insurance companies (insurers) sells business insurance policies or performs any act relating to the issuing of policies or the collection of premiums in respect of such insurance businesses, but does not include an employee of an insurer, unless such employee is paid purely on a commission basis. Some short-

term insurance products may also be sold online with no face-to-face interaction with the customer.

## **10.2. Manifestation of ML risk in the Short-term industry**

It is generally considered that short-term insurance products are not sufficiently flexible to be the first vehicle of choice for ML/TF/PF. However, due to the variety of services and investment vehicles offered by insurers, they have been used to conceal the source of money.

The sector's vulnerability generally depends on factors such as the complexity and terms of the insurance contract, the nature of clients, products and services, distribution channels, methods of payment and the applicable contract law. ML red flags associated with the Short-term Insurance business include –

- Policyholder and/or beneficiary of the contract may be legal entities whose structures make it difficult to identify beneficial owners;
- Insurance policies with premiums that exceed the client's apparent means;
- Reluctance to provide identification information when purchasing a short-term insurance product;
- Policyholders may make unusual or excessive premium payments;
- Overpayment of premiums on insurance policies with the expectation that the insurance company will refund the overpayment immediately; and
- Early termination of products, especially products with upfront lump sum premiums, at a loss.

The short-term insurance sector's vulnerabilities also include the possibility of other financial related crimes perpetrated against the sector. Fraud through false claims present a significant threat to the industry. Criminals or money launderers may purchase insurance products with illicit funds, then through arson or other means cause bogus claims to recover part of their investment.

### **10.2.1. ML risk associated with Clients/policyholders/beneficiaries**

Clients who are legal persons or legal arrangements with complex ownership and control structures pose a challenge to a Short-term insurer to identify and risk profile beneficial owners.

Criminals may buy Short-term insurance products with the intention to defraud the Short-term insurer through bogus claims. This is evident from the high number of STRs/SARs filed by Short-term insurers with the FIC. Fraud is a predicate offence for money laundering. However, due to the type and design of inherent controls implemented at claim stage by insurers, it is almost impossible for criminals to succeed in this regard.

### **10.2.2. ML risk associated with Short-term insurance products**

Short-term products that allow the policyholder to pay a lump sum single premium present the risk of ML. ART Short-term products accept high value once-off deposits, which renders these products vulnerable and highly attractive to criminals and money launderers. Products with “cooling off” periods which provide clients the option to cancel policies and claim refunds of paid premiums also presents the risk of ML as criminals or money launderers find these products attractive to be used as vehicles to launder the ill-gotten money.

### **10.2.3. ML risk associated with the Distribution Channel(s) of short-term Insurer**

Non-face-to-face on-boarding of clients causes impediment of CDD processes.

The involvement of insurance brokers may also pose an ML risk as effective CDD may be undermined as brokers are not subject to compliance with FIA. The ML risk is aggravated when brokers are also allowed to receive premiums on behalf of the insurer. Although insurers through accreditation of insurance brokers require insurance brokers

to fully implement compliance measures (designed by Insurers), insurance brokers still do not effectively implement such measures, exposing insurers to the risk of ML.

If the premium can be paid by means of cash into the insurers account, it presents the risk of ML. However, if premiums are paid by means of EFT from the client's account to the insurers account, such EFT is subject to scrutiny by the banks where the source and destination accounts are held which may to some extent reduce the risk of ML. Funds are to be introduced first into the client's account before wire transferred into the insurers account. At the placement stage, banks have measures in place to establish the source of funds, which reduces the ML risk exposure to the insurer.

In other words, the risk exposure to the Short-term insurer is lesser compared to the banks. Therefore, the ML risk is considered low.

#### **10.2.4. ML risk associated with the Geographical location of an Insurer**

Clients who originated from high-risk or non-cooperative jurisdictions where corruption and other financial crimes are common, present the risk of money laundering. The clientele of insurers in Namibia consist primarily of Namibian inhabitants. Insurance claims may only be paid in Namibia in the currency of Namibia. Claims are also paid into bank accounts held with local banks. Namibia is not considered a high-risk jurisdiction in terms of ML. Therefore, the risk ML associated with geographical location is relatively low.

The below illustrates the overall inherent ML risk rating for the Short-term Insurance industry

<b>Industry Inherent Risk Rating</b>	<b>Low</b>	<b>1.08</b>
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### **10.2.5. Manifestation of TF risk in the Short-term insurance industry**

Due to the nature of modern day TF financing, which involve low value transactions that may appear as normal patterns of transacting and that involve funding from legitimate as well as illicit sources, it may be extremely difficult for a short term insurer to detect terrorist financing as such. The only time that the institution may clearly be able to identify terrorist financing is when a known terrorist or terrorist organization is a client or beneficiary of its products/services. TF red flags associated with the Short-term insurance business include:

- Where insured or beneficiary originates from a high-risk non-cooperative jurisdictions or conflict zone.
- Where insured or beneficiaries are from countries subject to sanctions, embargoes or similar measures issued by international organizations such as the United Nations Organization; and
- Where insured or beneficiaries are from countries/areas identified by credible sources as providing funding or support for terrorist activities or that have designated terrorist organizations operating within them;
- Where insured or beneficiaries are from countries identified by credible sources as having weak governance, law enforcement, and regulatory regimes, including countries identified by FATF statements as having weak AML/CFT regimes, and for which financial institutions should give special attention to business relationships and transactions.

### **10.2.6. TF risk associated with Clients/policyholders/beneficiaries**

The possibility of having beneficiaries from high-risk and non-cooperative jurisdictions or jurisdictions subject to UNSCR sanctions pose the risk of TF. There is also a risk that a policy holder/beneficiary after taking out the insurance product but before claim stage, may be placed on the UNSCR sanctions list.

**10.2.7. TF risk associated with Short-term insurance Products**

The existing chance of selling Short-term insurance products to clients originating from high-risk jurisdictions renders these products vulnerable to abuse for TF purposes.

**10.2.8. TF risk associated with the Distribution Channel of a Short-term insurer**

Identification and risk profiling of policyholders may be a challenge when clients are solicited through insurance intermediaries. In Namibia, insurance intermediaries are not treated as independent AIs or RIs, making it discretionary to comply with the national AML combating measures. Policyholders who are solicited through insurance intermediaries are not always subjected to intensive scrutiny at on-boarding particularly screening against UNSCR lists.

**10.2.9. TF risk associated with Geographical location**

Customers, beneficiaries, and related third parties who originate or are linked to high-risk and non-cooperative jurisdictions pose the risk of TF. Therefore, on-boarding clients who originated from the aforementioned jurisdictions creates an opportunity to avail financial products and services to terrorists or their affiliates, which undermines the object of targeted financial sanctions.

**Below is an illustration of the overall TF rating in the Short-term Insurance Industry**

<b>Industry Inherent Risk Rating</b>	<b>Low</b>	<b>1.2</b>
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**10.3. Manifestation of PF in the Short-term Insurance Industry**

Individuals/entities of DPRK origin who are linked to proliferation activities may buy Short-term insurance products, giving them access to financial products and services. The

product features, distribution channels as described under the TF section may attract entities/individuals involved in proliferation activities to buy life products.

**Below is an illustration of PF rating in the Short-term insurance industry**

<b>Industry Inherent Risk Rating</b>	<b>Medium-Low</b>	<b>1.2</b>
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#### **10.4. Overview of AML/CFT/CPF management controls in the Short-term Insurance Industry**

Due to the nature of short-term insurance business, KYC and CDD controls for policyholders in the sector is generally good. Insurers conduct initial profiling of policyholders and claim assessments before payouts.

The common control weaknesses in the Short-term Insurance Industry include –

- Poor understanding of ML, TF and PF risks;
- Poor CDD on beneficiaries;
- inadequate staff training on ML, TF and PF combating measures;
- inadequate training and sensitization of AML/CFT/CPF measures for Brokers; and
- ineffective screening of clients against the UNSC sanctions lists in order to freeze without delay funds or assets held by or on behalf of individuals or entities on the sanctions lists.



The table below illustrates the AML/CFT/CPF management control ratings in the Short-term Insurance Industry

	Overall ML Management Control Risk Rating	Overall TF Management Control Risk Rating	Overall PF Management Control Risk Rating
Industry Controls Rating	1.1	1.1	1.1
	Strong Controls	Strong controls	Strong Controls

The ML, TF and PF residual/net risk rating in the Short-term Insurance Industry are illustrated on the table below

	Overall ML Net Risk Rating	Overall TF Net Risk Rating	Overall PF Net Risk Rating
Industry Net/Residual Risk Rating	1.11	1.1	1.1
	Low	Low	Low

## 11. ML, TF and PF risks in the Microlending Industry

### 11.1. Business model of a microlender

Micro-lending businesses mainly provide unsecured short-term loans to consumers who are full time employed (salaried clients). The microlender is generally not concerned about individual clients' purpose of borrowing. They will grant loans to any employed consumer as long as such a person qualifies for the loan after credit worthiness test is performed.

In Namibia, a general distinction is made between two types of microlenders. These are payday lenders and term-lenders. The main distinction between payday lenders and term-lenders is based on the maximum finance charges allowed as well as the repayment periods.

A micro loan is a product that is attractive to consumers who need cash without waiting for a long period in that, a micro loan can be granted in as fast as a few hours from applying for it.

The most common type of micro loan has a repayment period of 30 days and due to the fact that the finance charges are so high for these types of loans, the consumers tend to immediately take a loan for the same amount at the same time of repaying the loan which makes a payday loan have similar characteristics as a recurring overdraft facility offered by banks.

Microlenders have inherent controls in place in terms of customer identification. The nature of the business is such that customer identification and verification of documents is one of the inherent requirements owing to credit risk. Similarly, obtaining of information pertaining to the source of income and proof thereof for verification (in the form of pay slips and bank statements), employment details and credit history are all inherent requirements for a micro loan.

Payday lenders generally grant loans that must be repaid within a minimum of 30 days and maximum 5 months of receiving the loan as agreed upon by the lender and the consumer, at a once of finance charge which may not exceed 30% of the loan amount disbursed to the consumer.

Term lenders on the other hand may grant loans repayable within a minimum of 6 months and maximum of 60 months, which attract an annual finance charge, which may not exceed twice the prevailing prime rate as determined by the Bank of Namibia.

Before the Microlending Act, 2018 (Act No. 7 of 2018) was promulgated, pay day lenders used to retain the debit cards of borrowers and withdraw the repayments of loans themselves at the agreed repayment date. This practice was criminalized by the Microlending Act. Other methods used for collecting repayments by payday lenders are cash payments, electronic funds transfer (EFT) payments via internet banking and debit orders to banks via the available payment system infrastructure and payment systems. Salary deductions are not commonly used by payday lenders as most employers do not want to agree to salary deductions of payday loans.

Term lenders largely give loans to borrowers whose employers are willing to enter into agreements for the installments on the loans to be deducted from their employees' salaries (payroll deduction/deduction at source). These employers are mostly the Government, State Owned Enterprises and other large corporates. Some Term lenders may also collect installments via cash payments, electronic funds transfer (EFT) payments via internet banking and debit orders to banks via the third party payment systems in addition to salary deductions.

There is no minimum amount prescribed to be borrowed, but the maximum amount that a microlender is allowed to disburse is N\$ 100 000.00 at the maximum allowed finance charges for microlenders set at the prime rate times 2 per annum. However, a microlender may disburse any amount exceeding N\$ 100 000.00, but then such loans must be reported to NAMFISA as loans in terms of the Usury Act at the prescribed rates, i.e. the prime rate times 1.6 per annum.

## **11.2. Manifestation of ML risk in the Micro-lending Industry**

Microlenders are vulnerable to abuse for money laundering purposes. Criminals or money launderers may borrow money from a microlender and repay the loan using proceeds of unlawful activities. The purpose of doing this is to clean the ill-gotten money under the disguise of a micro loan. Some of the red flags in the Micro-lending industry include –

- A customer uses unusual or suspicious identification documents that cannot be readily verified;
- A customer's home or cell phone or business telephone is disconnected;
- The customer's background differs from that which would be expected on the basis of his or her business/employment activities;
- A customer makes frequent or large transactions and has no record of past or present employment;
- A borrower repays the loan much earlier than the due date, especially for term loans, while his/her financial profile does not correlate with the sudden down payment of a high outstanding balance;
- A borrower prefers to repay the loan by cash and where the microlender does not agree with cash payments such borrower in any case settle the loan in cash even before or on the due date; and
- Borrower is very vague in explaining the source of funds for cash payments or settlement of large outstanding balances with cash or third party payments.

#### **11.2.1. ML risk associated with Clients/borrowers**

The clients/borrowers are individuals who are salary earners permanently employed. Microlenders may take on borrowers who are not salary earners, but whose source of income is derived from small and medium sized business activities, although it is not very likely to happen.

#### **11.2.2. ML risk associated with micro loans and term loans**

A micro loan is usually paid out in cash to the borrower. When the borrower repays the loan, such payment may be in cash, thus presenting the risk of ML. It is almost impossible to route cash transactions because there is usually no trail as far as the source is concerned. The fact that a possibility exists for comingling of cash from lawful and unlawful sources, renders a micro loan vulnerable for abuse for ML.

In instances where a micro loan or term loan is disbursed in the form of a bank transfer to the borrowers nominated account, repayment is also made in the form of bank transfer from the borrowers account where the loan amount was paid in. This is usually the account where the borrower's salary is paid by the borrower's employer. Cash repayments are also acceptable in this regard.

In terms of loans disbursed and repayments deducted from bank accounts, banks being accountable institutions in Namibia have compliance regimes in place to mitigate the risk of ML. Therefore, the inflow and outflow of funds are closely monitored to prevent proceeds of unlawful activities from being channeled through the banking sector, which serves as secondary defense for such transactions. This reduces the ML risk exposure to the microlenders if AML controls put in place by the banking sector are stringent and effective.

### **11.2.3. ML risk associated with the Distribution channel of a microlender**

Majority of clients are serviced face-to-face at on-boarding stage and are required to submit proof of identification, source of income (pay slips and bank statements) every three months and update addresses in instances where the client receives recurring loans until the business relationship terminates. However, as technology evolves, some microlenders may have systems in place for prospective borrowers to complete the loan applications and scan and email all supporting documents without physically going to the premises of the microlender. The prospective borrower may then only visit the microlender's premises to sign the loan agreement. Such method may be classified as non-face-to-face transactions which may render it difficult for verifying of identities and other relevant CDD information.

Some microlenders, more specifically the pay-day lenders, may have clients who prefer to receive their loans in cash and repay in cash. The element of disbursing loans and receiving repayments in cash is considered risky in terms of ML.

#### 11.2.4. ML risk associated with the Geographical location of a microlender

Microlenders only disburse loans within the Namibian borders. Microlenders are not engaged in cross border transactions, thus the risk of ML is relatively low. There is no chance of receiving proceeds of unlawful activities from jurisdictions that are considered high-risk in terms of ML.

The below illustrates the overall inherent ML risk rating for the micro-lending industry

Industry Inherent Risk Rating	Low	1.0
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#### 11.3. Manifestation of TF risk in the micro-lending industry

Microlenders are usually not attractive to terrorists or financiers of terrorism. However, there are possible red flags that signal terrorist financing. These include –

- Unexplained connections with and movement of monies between other jurisdictions;
- The client's bank where loan should be paid is not local to where the client is living; and
- Requests to make payment of the loan amount to a third party.

##### 11.3.1 TF risk associated with Clients/Borrowers

The client base mainly consists of individuals who are permanently employed salary earners. There may be sympathizers of terrorist affiliates amongst salary earners who may use a microlender for purposes of terrorist financing by requesting that a loan be

disbursed to a third party who may be involved in terrorist activities. Some microlenders, more specifically the pay-day lenders, may have clients who prefer to receive their loans in cash and also repay in cash. It is very difficult to follow the trail of cash; thus, the possibility exists that cash loans may be used for TF purposes.

It is worth noting that to date there has not been any reported TF cases in Namibia and no evidence of extremists, jihadists' movements active in Namibia. As such, TF risk is considered low.

#### **11.3.2. TF risk associated with Micro loans and Term loans**

The micro loan which may be disbursed in the form of cash, as well as repaid in cash is vulnerable to abuse for TF purposes. This is because it leaves no trail as to the destination of the funds. Similarly, a micro loan or term loan which is disbursed to a third party presents the risk of TF. Such loan is vulnerable to abuse for TF purposes.

#### **11.3.3. TF risk associated with the Distribution channel of a microlender**

Disbursed loans are either paid as cash to the borrower or transferred into the borrower's nominated bank account. Repayment of disbursed loans can also be in the form of cash or wire transferred into the lender's bank account. The involvement of cash renders the channel vulnerable to abuse for TF. In the same vein, the possibility of paying the loan amount to a third party presents the vulnerability that can be exploited by the financiers of terrorism.

#### **11.3.4. TF risk associated with Geographical location**

Microlenders only disburse loans within the borders of Namibia, and as such, they are not engaged in cross border disbursement of loans. This means that all their clients are local clients and there is no risk of disbursing loans to jurisdictions that are considered high-risk or non-cooperative as listed by the FATF. Therefore, the risk of TF is relatively low.

The below illustrates the overall inherent TF risk rating for the micro-lending industry

Industry Inherent Risk Rating	Low	1.0
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#### 11.3.5. Manifestation of PF risk in the micro-lending industry

The fact that loans are not disbursed to clients residing in foreign countries renders the risk of PF very low in the microlending industry.

The below is an illustration of the overall inherent PF risk rating for the micro-lending industry:

Industry Inherent Risk Rating	Low	1.0
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#### 11.3.6. Overview of ML, TF and PF management controls

Inherently, microlenders have strong management controls designed according to the nature of their business, which makes identification and verification of client's data very easy for microlenders. The weaknesses identified as far as implementation of ML, TF and PF combating measures are concerned include the following –

- Lack of risk management processes;
- Inadequate staff training on ML, TF and PF combating measures;
- Inadequate transaction monitoring;
- Inadequate audit review of ML, TF and PF management controls; and
- Failure to screen clients against the UNSC sanctions lists.



The below table illustrates the overall net risk rating of ML, TF and PF risks for the micro-lending industry

	Overall ML Inherent Risk Rating	Overall ML Management and Control Effectiveness Rating	Overall ML Net Risk Rating	Overall TF/PF Inherent Risk Rating	Overall TF/PF Management and Control Effectiveness Rating	Overall TF/PF Net Risk Rating
Industry Net/Residual Risk Rating	1.0	2.87	1.94	1.0	2.87	2.06

## 12 ML, TF and PF risks in the Friendly Societies sector

### 12.1. Business model of Friendly Societies

Friendly Societies are financial institutions licensed by NAMFISA in terms of the Friendly Societies Act, 1956 (Act No. 25 of 1956). Friendly Societies are benevolent NPOs, who exist to provide benefits to their members in terms of section 2 of the Friendly Societies Act, 1956 (Act No. 25 of 1956). Currently, there is only one (1) Friendly Society registered and under the supervision of NAMFISA.

The membership is restricted to a member of the church and his/her beneficiaries. No payment is made directly to the members but to service providers. There is no cash option for payments to members and there is also no refunds for members who ceased to be members.

### 12.2. Manifestation of the ML risk

The members' monthly contributions are relatively small amounts. The fact that contributions are made in the form of cash presents the opportunity of proceeds of unlawful activities to be placed in the financial system. The fact that the values of these contributions are low, it renders the risk of ML low. The common ML red flags associated with Friendly Societies include –

- Members are from high-risk jurisdictions (e.g., countries designated by FATF as high-risk jurisdictions and non-cooperative countries and territories);
- Funds are generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from higher-risk countries (e.g., countries designated by FATF as high-risk jurisdictions and non-cooperative countries and territories); and

**The below table illustrates ML risk rating for the Friendly Societies Industry**

<b>Overall Inherent Risk Rating</b>	<b>1.0</b>	<b>Low</b>
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#### **12.2.1. Manifestation of TF risks in the Friendly Societies Industry**

NPOs are generally vulnerable to abuse for purposes of terrorism. Their modus operandi, which involves charity work, volunteering, fundraising events, members' contribution, amongst others, presents the potential abuse for TF purposes. Some of the common red flags include –

- Members are from high-risk jurisdictions (e.g., countries designated by FATF as high-risk jurisdictions and non-cooperative countries and territories);
- Funds are generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from higher-risk countries (e.g., countries designated by FATF as high-risk jurisdictions and non-cooperative countries and territories);
- Regarding nonprofit or charitable organizations, financial transactions occur for which there appears to be no logical economic purpose or in which there appears to be no link between the stated activity of the organization and the transactions.

Although the current practice is that a Friendly Society is not involved in cross border transactions, it reduces the risk of TF. However, it is worth noting that there is an informal money transfer known as Hawala, which is known worldwide and elevates the risk of TF. This however has not been detected in Namibia.

**The below table illustrates TF risk rating for the Friendly Societies Industry**

<b>Overall Inherent Risk Rating</b>	<b>1.0</b>	<b>Low</b>
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## 12.2. PF risk in the Friendly Societies Industry

The risk of PF in the Friendly Societies Industry is almost non-existent on the ground that there are no incentives in this industry to attract entities/individuals involved in proliferation activities. Therefore, PF risk is low in this Industry.

**The below table illustrates PF risk rating for the Friendly Societies Industry**

<b>Overall Inherent Risk Rating</b>	<b>1.0</b>	<b>Low</b>
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## 12.4. Overview of AML/CFT/CPF Management controls in the Friendly Societies Industry

The only active Friendly Society, has weaknesses relating to implementation of AML/CFT obligations, because it has not fully implemented AML/CFT controls as required in terms of FIA. This resulted in the following residual/net risk.

**The table below reflects the AML/CFT/CPF management control ratings and residual risk ratings**

	ML Risk Rating		TF Risk Rating	
<b>Overall Inherent Risk Rating</b>	<b>1.0</b>	<b>Low</b>	<b>1.0</b>	<b>Low</b>
<b>Overall Management and Control Risk Rating</b>	<b>3.0</b>	<b>Poor</b>	<b>3.0</b>	<b>Poor</b>
<b>Overall Net/Residual Risk Rating</b>	<b>2.0</b>	<b>Medium-Low</b>	<b>2.0</b>	<b>Medium-Low</b>

### 13. Conclusion

The SRA articulates the ML, TF, PF risk posed by AIs and RIs. The SRA was conducted to ensure that NAMFISA will have the necessary understanding of the manifestation of the risks of ML, TF and PF in the non-banking financial sector and the controls put in place by AIs and RIs to mitigate these risks.

The SRA informs NAMFISA's AML/CFT/CPF risk-based supervision, taking into account the materiality of AIs and RIs in terms of market share and interconnectedness of AIs and RIs that are posing systemic risks. This places NAMFISA in an advantageous position to design its supervisory and monitoring interventions that are risk responsive in order to ensure effective mitigation of the risks of ML, TF and PF in the non-banking financial sector.

The SRA will be reviewed annually to ensure that its content is current and informs the supervisory and monitoring interventions required to ensure effective mitigation of ML, TF and PF risks in the non-banking financial sector on an on-going basis.