UPDATED MONEY LAUNDERING AND TERRORIST FINANCING (ML/TF) SECTORAL RISK ASSESSMENT FOR THE NON-BANKING FINANCIAL SECTOR

JULY 2023

NAMFISA
NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

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1. Definitions and acronyms

"administrative sanctions"	refers to enforcement actions stipulated under section 56(3) of the FIA.
"AIs and RIs"	Accountable and Reporting Institutions as described under Schedules 1 and 3 of the FIA.
"AML"	Anti-Money Laundering.
"AMLAC"	Anti-Money Laundering Advisory Council.
"AML/CFT/CPF"	Anti-Money Laundering, Combating terrorism, combating Proliferation Financing.
"AMLCOs"	Anti-Money Laundering Compliance Officers.
"AUM"	Assets Under Management.
"BIPA"	Business and Intellectual Properties Authority.
"CDD"	Customer Due Diligence.
"CMA"	Common Monetary Area.
"CTRs"	Cash Transaction Reports.
"CFT"	Counter Terrorist Financing.
"consequences"	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.

"CPF"	Counter Proliferation Financing.
"DPRK"	Democratic People's Republic of Korea.
"EDD"	Enhanced Customer Due Diligence.
"EFT"	Electronic Funds Transfers.
"ESAAMLG"	Eastern and Southern Africa Anti-Money Laundering Group.
"FATF"	Financial Action Task Force.
"FIA"	refers to the Financial Intelligence Act, 2012 (Act No. 13 of 2012) as amended.
"FIC"	means the Financial Intelligence Centre established by section 7(1) of FIA.
"JSE"	Johannesburg Stock Exchange.
"JCPOA"	Joint Comprehensive Plan of Action.
"IO"	Immediate Outcome.
"IRA"	Institutional Risk Assessment.
"KYC"	Know Your Customer.
"LISPs"	Linked Investment Services Providers.
"money laundering"	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.
"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).
NaSIA	Namibia Savings & Investment Association.
"NSX"	Namibia Stock Exchange.
"PACOTPAA"	Prevention and Combating of Terrorist and Proliferation Activities Act, No. 4 of 2014.
"PIPs"	Prominent Influential Person as defined in the Financial Intelligence Amendment Act, 6 of 2023.

“POCA” Prevention of Organized Crime Act, No. 29 of 2004.

“proliferation financing” means the provision of funds, assets or financial services, which are used, in whole or in part, for proliferation activity.

“risk” is defined as a function of threats, vulnerabilities and consequences.

“SARs” Suspicious Activity Reports.

“SIFI” Systematically important financial institution.

“SPVs” Special Purpose Vehicles.

“SRA” Sectoral Risk Assessment.

“STRs” Suspicious Transaction Reports.

“terrorist financing” 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.
"threat"	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.
"TF"	Terrorist Financing;
"PF"	Proliferation Financing;
"UIMs"	Unlimited Investment Managers.
"UNSC"	United Nations Security Council.
"vulnerabilities"	things that can be exploited by the threat or that may support or facilitate its activities.
"WMD"	Weapons of Mass Destruction.

2. Executive Summary

During 2021, NAMFISA conducted a Sectoral Risk Assessment (SRA) for the non-banking financial sector, which was updated during January – April 2023. The SRA covers industries under NAMFISA's purview, notably; a) Unit Trust Managers, b) Stockbrokers, c) Investment Managers, d) Linked Investment Service Providers, e) Long 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 in the sector, and design supervisory and regulatory interventions commensurate with the risks.

The SRA covered ML/TF 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 to address vulnerabilities. Furthermore, the SRA took into account the market share importance of AIs to measure the potential impact of ML/TF risks on the industries under consideration, and the non-banking financial sector at large.

In assessing vulnerabilities, NAMFISA considered data sourced from AIs 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 PIPs, as well as foreign clients from high risk countries;
- products/services and types such as capital market products and services, microloans, and long-term 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, focusing on clients and cross-border transactional activities.

In assessing the effectiveness of management controls, NAMFISA considered information availed by AIs and 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 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.

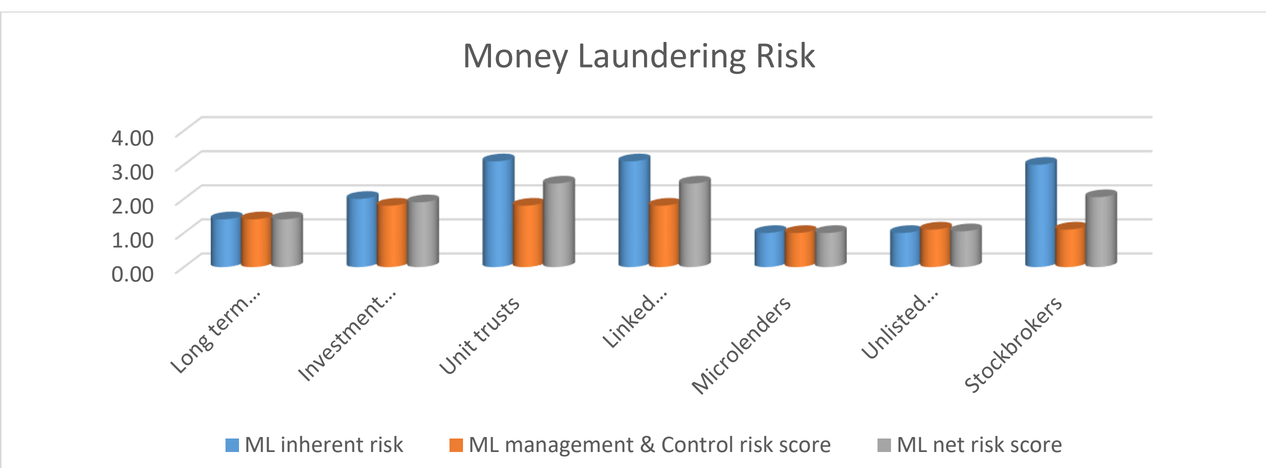
In terms of the FATF guidance on national risk assessment, jurisdictions are advised to assess the ML risk separately from TF risk, taking into account the different nature of these risks. In light of the aforesaid, NAMFISA assessed ML/TF risks separately in order to understand how these risks manifest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

The ML/ 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 and TF inherent, management controls and residual risk ratings in the industries under consideration:

Industries	ML risk			TF risks		
	Inherent risk rating	Management Control Rating	Residual risk rating	Inherent risk rating	Management Control Rating	Residual risk rating
Unit Trust Managers	Medium-high	Satisfactory	Medium-high	Low	Satisfactory	Low
LISPs	Medium-high	Satisfactory	Medium-high	Low	Satisfactory	Low
Stockbrokers	Medium-high	Strong	Medium-low	Low	Strong	Low
Investment Managers	Medium-low	Satisfactory	Medium-low	Low	Satisfactory	Low
Microlenders (Top 30)	Low	Strong	Low	Low	Strong	Low
UIMs & SPVs	Low	Strong	Low	Low	Strong	Low
Long-term Insurance	Low	Strong	Low	Low	Satisfactory	Low

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



3. SRA methodology

NAMFISA sourced data from AIs 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 the questionnaire deployed, and collated with data from on-site and off-site inspection reports where applicable. The management controls include –

- Institutional AML/CFT policies and procedures;
- Institutional Risk Assessments (IRA);
- Customer Due Diligence (CDD);
- Ongoing Customer Due Diligence;
- 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 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 risks materialized including special consideration of the impact of Systemically 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 average institutional ratings to give the overall industry rating. The risk-rating methodology consists of –

a) **The below universal risk matrix, which reflects the likelihood or probability of the risks, and the impact:**

		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 below description of ratings:

Risk rating	Interpretation
Low risk	• Risk occurrence is very unlikely which may cause insignificant or moderate damage; and • Risk occurrence is unlikely which may cause insignificant damage.
Medium-low risk	• Risk occurrence is very unlikely which may cause relevant damage; • Risk occurrence is unlikely which may cause moderate or significant damage; and • Risk occurrence is likely, which may cause minor or moderate damage.
Medium-high risk	• Risk occurrence is very unlikely, which may cause highly relevant damage; • Risk occurrence is likely, which may cause relevant damage; and • Risk occurrence almost certain, which may cause insignificant or moderate damage.
High risk	• Risk occurrence is likely which may cause highly relevant damage; and • Risk occurrence almost certain, which may cause relevant or highly relevant damage

b) **The below risk elements and sub-elements:**

Risk Elements	Sub-elements
1. Clients	Natural or juristic, high net worth, medium or low net worth, domestic and foreign PIPs, foreign clients from high, medium or low risk countries.
2. Products	Capital market products/services, microloans, long-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 considered independent of management controls.**

d) **The management controls and the description thereof;**

Controls	Description
Strong internal Controls:	The policies and procedures adopted by an AI are appropriate in terms of its size and complexity, and commensurate with the risks.
Satisfactory Controls	The policies and procedures adopted by an AI enable the AI 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 has no controls in place, or the controls are characterized by major shortcomings, which necessitate urgent corrective actions.

e) **The management control ratings for Residual/Net risk rating; and**

		CONTROLS			
		Strong(A)	**Satisfactory(B)**	**Weak (C)**	**Inexistent (D)**
RISK	**Low (1)**	Low (1A) 1	Low (1B) 1	Low (1B) 1	Low (1B) 1
	Medium-Low (2)	Low (1A) 1	Medium-Low (2B) 2	Medium-Low (2C) 2	Medium-Low (2C) 2
	Medium-High (3)	Medium-Low (3A) 2	Medium-High (3B) 3	Medium-High (3C) 3	Medium-High (3C) 3
	High (4)	Medium-High (4A) 3	Medium-High (4B) 3	High (4C) 4	High (4D) 4

f) **The interpretation of the residual/net risk ratings:**

Risk rating	Interpretation
Low risk	• 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.

	• Inherent risk is low with satisfactory controls, where action requires moderate priority and some degree of ongoing active management and support
Medium-low risk	• 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. • Inherent risk is low but satisfactory effective controls in place requiring a relevant priority and fair effort of ongoing active management and support. • Inherent risk is slightly high but strong effective control in place requiring a moderate priority and a fair ongoing active management and support.
Medium-high risk	• Inherent risk is low but inexistence of controls requiring a high priority and a fair ongoing active management and support. • 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. • Inherent risk is high but strong and effective controls in place requiring a relevant priority and high level of ongoing active management and support.
High risk	• 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. • Inherent risk is high with poor or inexistence-mitigating controls require an immediate priority and a significant effort of management oversight and support.

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4. ML/TF 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 20 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 and value.

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, 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).

Unit Trust Schemes may receive investment applications via internet (email or online application). 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. This process is entirely non-face-to-face.

Disinvestments/redemptions can be made swiftly, normally within 48 hours. Disinvestments/redemptions are paid into the client's authorized bank account as designated by clients.

A typology study conducted by NAMFISA in collaboration with NaSIA in 2023 revealed that third-party payments are made in exceptional cases when clear instructions from clients are available and with management approval[1]. 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;

[1] TYPOLOGY STUDY ON THIRD-PARTY PAYMENTS CONDUCTED BY NAMFISA IN COLLABORATION WITH NASIA – MAY 2023

- 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 exacerbates 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 where 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 start 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 purpose is to hide the proceeds of crime and make it appear legitimate through integration into the legal economy.

f) Fixed-income (Bond) Funds

Unit portfolios comprising of bonds are generally carrying 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/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:

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 (mostly high net worth individuals and Politically Exposed Persons "PIPs") 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.

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

Source	**N$ billion**	**%**
Companies	26,7	33.8%
Natural persons	21,1	26.7%

Pension funds	9,7	12.3%
Other Unit trust schemes	8,1	10.3%
Long-term insurance companies	6,96	8.8%
Others (i.e. Trusts & NPOs)	5,1	6.4%
Short-term insurance companies	0.79	1%
Medical aid funds	0.63	0.8%
Total Assets	**79,1**	100%

Source: December 2022 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 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 have stringent measures inherent in their business to guard against fraud. These measures are indirectly adequate in preventing ML in the short-term insurance industry.

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 deductions 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 and beneficial owners. 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 33.8% of total investment, which is relatively high.

g) Natural persons

These are individual clients (including high net wealth individuals and domestic/foreign PIPs). They represent 26.7% of the total investment. There is an equal chance that their wealth originates 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 exacerbates 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 via banking channels, 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 per Unit Trust Management Company or market size of each Unit Trust Company depicts the magnitude of vulnerability and market importance of the individual Unit Trust Scheme.

The industry summary sheet below illustrates the inherent ML risk ratings for the Unit Trust Industry

Total funds under management	N$ 79,129 billion
Industry ML Inherent Risk Rating	**Medium-High**

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 originate from either legitimate or illegitimate sources.

The fact that there are no known active terrorist organizations, or affiliates in Namibia does not necessarily mean 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.

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 PIPs invest in the Unit Trust Scheme.

There are no active terrorist organizations in Namibia. Namibia's prior NRA outcomes maintain that the absence of domestic terrorist activities renders local TF risks almost non-existent. TF risks however arise with cross border or foreign jurisdiction considerations given trade relations and other factors which result in remittance of funds and other items from Namibia. Cross-border transactions and payment are not prevalent in the Unit Trust industry.

In terms of the 2021 National Risk Assessment (NRA), the overall national TF risk was assessed a Low. Although the overall national TF risk is Low, detailed analysis in the NRA suggests that an area of concern could be cross border threats from persons (within Namibia) that may be sympathetic to terrorist groups or related ideologies beyond the borders of Namibia. In terms of sectors which are most vulnerable to TF, faith-based organizations and related activities are more exposed to potential abuse.

Historically, the Southern African region has not had active terrorist activities. This has changed over the last decade, with recent attacks in Mozambique being classified by the international community as terrorism. Inherently, these attacks have escalated TF risks of neighboring countries that enjoy trade and similar relations with Mozambique, Namibia included.

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.

Short-term insurance companies. The assessment of TF in respect of Shot-term insurance companies in 2021 proved to be low. 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.

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 client 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 PIPs. They pose significant TF risk. There are no active terrorist organizations in Namibia. TF risk is low as per the NRA.

NPOs, especially faith-based organizations (FBOs) are susceptible for TF misuse and abuse, especially the ones involved in the cross-border remittance of funds, 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. While NPOs inherently pose considerable TF risk, the fact that there are no active terrorist organizations in Namibia lowers TF risk. In terms of the NRA, the overall TF threat rating is Low while the national TF combatting effectiveness is rated as High.

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[2]. 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. This is not the case in Namibia, intermediaries in the Unit Trust industry require licensing from supervisors and are subject to supervision. All intermediaries are based in Namibia which is not a high-risk jurisdiction for TF.

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. In 2023, there was only one major Unit Trust manager that offered a complete online onboarding service but almost all Unit Trust managers offered account services including investment instructions via email or online portals. This is consistent with the trend of reverting to online platforms especially after the effects of the COVID-19 pandemic.

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, many investors in Unit Trust Schemes are local investors who are posing a relatively lower TF risk.

[2] FATF GUIDANCE FOR A RISK-BASED APPROACH – SECURITIES SECTOR

The industry summary sheet below shows the inherent TF risk rating

Total funds under management	N$ 79,129 billion
Industry TF Inherent Risk Rating	**Low**

4.5 Overview of AML/CFT/CPF management controls

There are satisfactory controls in the Unit Trust Industry characterized by:

- satisfactory CDD and EDD controls;
- satisfactory account and transaction monitoring;
- satisfactory recordkeeping; and
- largely effective 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 majority of Unit Trust Managers have robust compliance policies in place, and they have designated compliance officers to oversee the implementation of policies and procedures. The majority of Unit Trust Managers have active programs for staff training and awareness.

The table below illustrates the ML/TF management controls ratings for the Unit Trust Industry:

Industry Overall AML Controls Rating	**Satisfactory**
Industry Overall CFT Controls Rating	**Satisfactory**

4.6 Typologies

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

Year	Summarized Facts of the case
2016	**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.**
2015	**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$9 500. The money invested was declared to the tax authorities.**
2020	**Evidence filed in the high court by the Anti-Corruption Commission as part of the bail hearing of some of the individuals implicated in the Fishrot scandal indicated that funds believed to be proceeds of corruption have been transferred to and held in unit trust accounts which demonstrated that unit trusts may have been abused for money laundering purposes. The suspected funds transferred to unit trust amounted to at least N$ 23 million. The so-called Fishrot case is still pending and has not been finalized.**
2022	**In August 2022, 2 (two) accused persons who are employees of a pension fund defrauded their employer of over N$ 17 million of pension funds.** **Investigations uncovered a host of fraudulent activities dating back as far as 2018 involving payments made to several bank accounts that do**

	not belong to the pension fund members or annuitants. It has been established that the culprits forged bank letters confirming account details and had used these letters to have bank account numbers entered into the employer's payment system. About N$17,7 million had been paid into 46 bank accounts. **Court papers revealed that an asset preservation and forfeiture case was lodged by the Prosecutor General ("PG") in terms of the Prevention of Organized Crime Act (POCA) under case number HC-MD-CIV-MOT-POCA-2022/00411. The court order obtained confirms that PG was able to secure a preservation order in respect of two Unit Trust accounts and one bank account where the proceeds were deposited.**

The above is a demonstration of how Unit Trust Schemes can be used 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.

Once units are bought, the LISP holds these units in bulk accounts. These bulk accounts may be either in the name of a client or in the name of an independent custodian depending on the product. The LISP never owns the units that it buys. The investor is the beneficial owner in the case of a direct investment, otherwise they are owned by the retirement fund or insurer, depending on the 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) in 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. Typically, LISPs target wealthy or high net worth individuals.

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. The below is a list of LISPs registered in Namibia.

The total funds under management in the LISP industry amounted to N$ 14,979 billion as at 31 December 2022.

5.2. Manifestation of ML/TF risks in the LISP industry

The ML/TF vulnerabilities are similar to the ML/TF vulnerabilities associated with the Unit Trust Industry and Long-term insurance (retirement savings products). Therefore, the risk ratings are similar to ML/TF 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 exacerbates 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 Prominent Influential Persons "PIPs") pose a high risk of ML due to the following reasons:

a) Source of funds can be disguised; and

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 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.

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) and attract foreign investors. Foreign investors pose a relatively 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 redemption of investments or payments into foreign accounts, leading to cross-border transactions. The ML risk is therefore high in respect of foreign investors.

Most 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 industry summary sheet below illustrates the inherent ML risk ratings for the LISP industry:

Total Funds Under Management	**N$ 14,979 billion**
Industry ML Inherent Risk Rating	**Medium-High**

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 PIPs 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. While NPOs inherently pose considerable TF risk, the fact that there are no active terrorist organizations in Namibia lowers TF risk. In terms of the NRA, the overall TF threat rating is Low while the national TF combatting effectiveness is rated as High.

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 invests through an intermediary. Ability to transact in securities products via an intermediary may provide a relative degree of anonymity[3]. 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.

[3] FATF GUIDANCE FOR A RISK-BASED APPROACH – SECURITIES SECTOR

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 industry summary sheet below illustrates the inherent TF risk ratings for the LISP industry:

Total Funds Under Management	**N$ 14,979 billion**
Industry Inherent Risk Rating	**Low**

5.5 Overview of AML/CFT/CPF management controls

There are satisfactory controls in the LISPs industry characterized by:

- satisfactory CDD and EDD controls;
- satisfactory account and transaction monitoring;
- satisfactory recordkeeping; and
- effective 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.

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

The table below illustrates the ML/TF management controls ratings for the LISP industry:

Industry Overall AML Controls Rating	**Satisfactory**
Industry Overall CFT Controls Rating	**Satisfactory**

6. ML/TF risks in the Investment Managers 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). There are 33 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 their 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 vary from institutional investors (i.e. pension funds, medical aid funds, insurance companies, unit trust management companies, state-owned enterprises, 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. New accounts are normally not opened through client walk-ins or face-to-face interactions. On average, an investment manager will only have between 1 to10 investors or mandates. 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 stockbroker 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. Investments 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

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 originate from legitimate sources, rendering Pension Funds relatively low risk clients in terms of ML.

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 must disclose the nature of their business. Sources 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 PIPs). They represent less than 1% of total investment. There is a greater chance that their wealth originates 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 sources of funds. A Trust when investing with investment managers poses 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 since 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 done in writing supported by resolutions from authorized persons. Meetings with investors to discuss portfolio performance is a norm hence there are 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 because of jurisdictional barriers.

The industry summary sheet below illustrates the ML inherent risk ratings:

Total Assets Under Management	**N$ 209,72 billion**
Industry ML Inherent Risk Rating	**Medium-Low**

It is normal in the investment management industry for an Investment Manager to exist for a few years without securing an investment mandate or have no assets under management.

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; and
- 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 PIPs invest with investment managers.

There are no active terrorist organizations in Namibia. Namibia’s prior NRA outcomes maintain that the absence of domestic terrorist activities renders local TF risks almost non-existent. TF risks however arise with cross border or foreign jurisdiction considerations given trade relations and other factors which result in remittance of funds and other items from Namibia.

In terms of the 2021 National Risk Assessment (NRA), the overall national TF risk was assessed a Low. Although the overall national TF risk is Low, detailed analysis in the NRA suggests that an area of concern could be cross border threats from persons (within Namibia) that may be sympathetic to terrorist groups or related ideologies beyond the borders of Namibia. In terms of sectors which are most vulnerable to TF, faith-based organizations and related activities are more exposed to potential abuse.

Historically, the Southern African region has not had active terrorist activities. This has changed over the last decade, with recent attacks in Mozambique being classified by the international community as terrorism. Inherently, these attacks have escalated TF risks of neighboring countries that enjoy trade and similar relations with Mozambique, Namibia included.

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 duly exempted from the national obligations to combat ML, TF and PF.

Short-term insurance companies. The assessment of TF in respect of Shot-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 are 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 PIPs pose significant TF risk. There are no active terrorist organizations in Namibia. Namibia's prior NRA outcomes maintain that the absence of domestic terrorist activities renders local TF risks almost non-existent. TF risks however arise with cross border or foreign jurisdiction considerations given trade relations and other factors which result in remittance of funds and other items from Namibia. Despite this, national TF risk is rated as Low.

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. While NPOs inherently pose considerable TF risk, the fact that there are no active terrorist organizations in Namibia lowers TF risk. In terms of the NRA, the overall TF threat rating is Low while the national TF combatting effectiveness is rated as High.

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 risk 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$ billions	Percentage
Namibia	114	54.2%
Common Monetary Area	68	32.5%

Africa	0.84	0.4%
Offshore	27	12.9%
Total Asset allocation	**210**	**100%**

Source: December 2022 Statistics

From the above table, it is worth noting that only 54.2% of investment funds (assets) under management is invested locally. About 32.5% of the funds under management are invested or placed in markets 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 ESAAMLG, and 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 has recently been added as one of the jurisdictions listed by FATF as jurisdictions under increased monitoring that are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. Despite this, South Africa is not a jurisdiction, or a region known to have active terrorist organizations, in addition, The necessary enhanced measures and special attention measures will be adopted. Therefore, TF risk is still 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 12.9% of funds (assets) invested offshore and 0.4% 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 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 industry summary sheet below illustrates the inherent TF risk ratings:

Total assets under management	**N$ 209,72 billion**
Industry TF Inherent Risk Rating	**Low**

6.4. Overview of the type and design of AML/CFT management controls

Generally, there are satisfactory controls in the Investment Managers Industry characterized by:

- satisfactory CDD and EDD controls;
- satisfactory account and transaction monitoring;

- robust risk management processes; and
- effective mechanisms for 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 majority of Investment Managers have AML compliance policies in place. They have designated compliance officers to oversee the implementation of management controls.

The below is an illustration of the real cases of ML in the Investment Management Industry:

Year	Summarized Facts of the case
2022	**In August 2022, 2 (two) accused persons who are employees of a pension fund defrauded their employer of over N$ 17 million of pension funds.** **Investigations uncovered a host of fraudulent activities dating back as far as 2018 involving payments made to several bank accounts that do not belong to the pension fund members or annuitants. It has been established that the culprits forged bank letters confirming account details and had used these letters to have bank account numbers entered into the employer's payment system. About N$17,7 million had been paid into 46 bank accounts.** **Court papers revealed that an asset preservation and forfeiture case was lodged by the Prosecutor General ("PG") in terms of the Prevention of Organized Crime Act (POCA) under case number HC-MD-CIV-MOT-POCA-2022/00411. The court order obtained confirms that PG was able**

	to secure a preservation order in respect of two Unit Trust accounts and one bank account where the proceeds were deposited.

The above is a demonstration of how the Investment Management industry can be used for purposes of ML in Namibia.

The below table illustrates ML/TF management controls ratings:

Industry Overall AML Controls Rating	**Satisfactory**
Industry Overall CFT Controls Rating	**Satisfactory**

7. ML/TF 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 offer financial services such as buying and selling of stocks and other securities on behalf of natural and juristic persons on the NSX and the Johannesburg Stock Exchange (JSE) at a fee or commission.

A stockbroker is engaged in stockbroking on the NSX and JSE and the target market is made up of natural and juristic persons. Stockbrokers invest funds from Investments and Pension Annuities through unit trusts, money market and equities. This is done through equity trading, dealing and sponsoring; money market instruments; managing institutional clients' investments; wealth management for retail and institutional client.

Stockbroking on the NSX local index is done through Transfer Secretaries in terms of section 147 of the Companies Act 28 of 2004. Stockbroking on the NSX dual listed index is done through the Share Trading Transactions Totally Electronic (STRATE) platform.

Stockbrokers also provide corporate advice for listings and sponsor listings of listed companies. Stockbrokers are also engaged in the Drawing of Wills for natural clients and acting as corporate Trustee for trusts.

Fees charged by Stockbrokers typically include Brokerage fees, Management fees charged for trade.

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.

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;
- 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 PIPs who 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 sources 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 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;
- Nigeria;
- Zimbabwe;
- Germany;
- Belgium;
- Tanzania
- United Kingdom;
- Switzerland;
- France;
- United States of America;
- Canada;
- China;
- Japan; and
- New Zealand.

These are not countries with weak AML controls, except for South Africa and Nigeria who have been grey listed by FATF. However, the global nature renders the Stockbrokers industry vulnerable to abuse for ML, thus posing a relatively high risk of ML.

The table below depicts the inherent ML risk ratings for the Stockbrokers industry:

Industry ML Inherent Risk Ratings	**Medium-High**

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; and
- Customers haves 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 PIPs invest with Stockbrokers.

NPOs, especially faith-based organizations (FBOs) are susceptible to TF misuse and abuse, especially the ones involved in the cross-border remittance of funds 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. While NPOs inherently pose considerable TF risk, the fact that there are no active terrorist organizations in Namibia lowers TF risk. In terms of the NRA, the overall TF threat rating is Low while the national TF combatting effectiveness is rated as High.

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[4]. This renders the investment channel vulnerable and open to exploitation

[4] FATF GUIDANCE FOR A RISK-BASED APPROACH – SECURITIES SECTOR

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 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 give 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, 99% 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 for TF.

The table below depicts the inherent TF risk ratings for the Stockbrokers industry:

Industry TF Inherent Risk Rating	**Medium-Low**

7.5. Overview of AML/CFT management controls in the Stockbrokers industry

Overall, the Stockbrokers industry implemented strong controls to mitigate ML/TF risks, however some controls need improvement and these relate to:

- Inadequate ML/TF risk assessment;
- Inadequate CDD and EDD controls;
- ineffective account and transaction monitoring;
- inadequate staff training; 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 well designed policies in place, and they have designated compliance officers to oversee implementation of policies and procedures.

Table below illustrates AML/CFT management controls ratings for the Stockbrokers industry:

Industry Overall AML Controls Rating	**Strong**
Industry Overall CFT Controls Rating	**Strong**

The table below illustrates the ML/ TF residual/net risk ratings for the Stockbrokers industry:

Industry Overall ML Residual Risk Rating	**Medium-low**
Industry Overall TF Residual Risk Rating	**Low**

8. ML/TF 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 investments 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.

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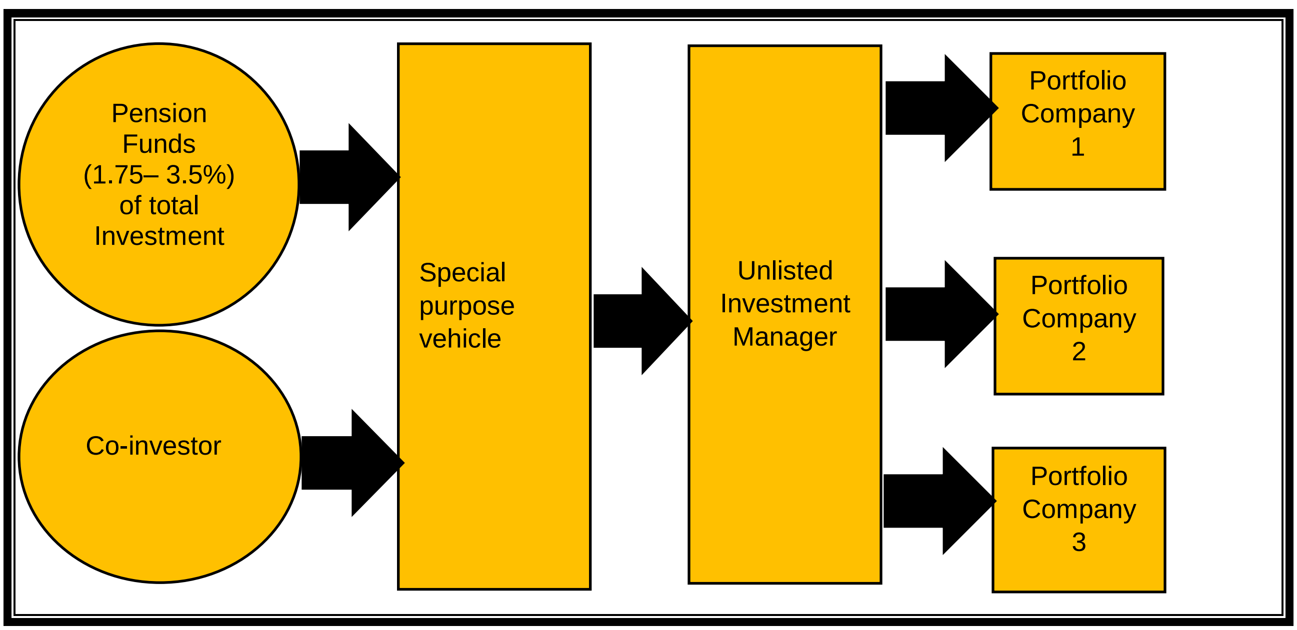
The Fund Manager is tasked with the responsibility of sourcing and screening investment opportunities, conducting rigorous due diligence on potential portfolio investment companies, making investment decisions not inconsistent with the investment plan and actively managing the Fund. The UIM charges management 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 originate from Pension Funds, such funds are from known legitimate sources and the pension benefits are paid out to the members or beneficiaries. Pension Funds do not present the risk of ML in Namibia. A co-investor in the SPV may comprise natural or juristic persons that may involve funds that originate from unknown sources other than Pension Funds. However, currently these co-investors other than Pension Funds make up a small percentage of committed funds.

The table below illustrates the ML inherent ratings for the UIMs industry:

Industry ML Inherent Risk Rating	**Low**

8.3. Manifestation of TF risk in the UIMs and SPVs 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 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. Additionally, 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 from doing 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:

Industry TF Inherent Risk Rating	**Low**

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 table below illustrates AML/CFT/CPF management controls ratings for the UIMs industry:

Industry Overall AML Controls Rating	**Strong**
Industry Overall CFT Controls Rating	**Strong**

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

Industry Overall ML Residual Risk Rating	**Low**
Industry Overall TF Residual Risk Rating	**Low**

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

9.1. Business model of insurance[5]

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 describes any measure taken for protection against risk(s). In an insurance 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

[5] IAIS – Guidance paper on anti-money laundering and combating the financing of terrorism. 07 October 2004.

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 is an insurance agent 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. In addition, insurance businesses also make use of insurance brokers, who on behalf of any other person negotiates insurance business other than reinsurance business with one or more insurers but does not include an insurance agent or an employee of an insurer unless the remuneration of that employee comprises commission.

The agent is the link between the insurance companies and the public. Their role is to market, promote and advise on insurance products. 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.

An insurance product is primarily designed to financially protect the policyholder and its related third parties against the risk of an uncertain future event.[6]

[6] FATF "Guidance for Risk Based – Life Insurance Sector"

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. [7]

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 or surrenders at any time. Long Term Insurance policies can be individual policies or group polices (i.e. companies).

9.2. Manifestation of ML in the Long-term Insurance business

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 third parties, whereby the policyholder differs from the insured person or the beneficiary. 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);
- Policyholder and/or beneficiary of the contract may be legal entities with nominee shareholders and/or shares in bearer form;
- Occupation with a low average income and the policy may have high on-going deposits;
- 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;
- Policyholders may make unusual or excessive premium payments; and
- Premiums may be paid through accounts held with financial institutions established in jurisdictions where AML controls are weak or non-existent.

[7] Ibis

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 or excessive payment of premiums, including cash payments, such product is vulnerable to abuse for ML purposes.

A cash value policy 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 whereby the benefit is only payable 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 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. This presents a chance to on-board criminals who will introduce proceeds of unlawful activities into the financial system through payment of premiums.

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. This control by commercial banks discourages criminals from investing in life products, and as such, the risk of ML is relatively low.

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

The clientele of Life insurers in Namibia primarily consists of Namibian inhabitants. Namibia is not considered a high-risk jurisdiction in terms of ML. Therefore, the risk ML associated with geographical location is relatively low.

The industry sheet below reflects the inherent ML risk ratings for the Long-term Insurance industry:

Total Assets	**NAD 68,757 billion**
Industry ML Inherent Rating	**Low**

9.3 Manifestation of TF risk in the Long-term insurance

A beneficiary of a life policy can be a person, business, Trust or charity organization. Charity organizations are 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
- Death claim payments may be received by a beneficiary residing in a high-risk country due to terrorism.

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 named 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. All in all, 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, the level of controls involved discourages financiers of terrorism, thus rendering the product low risk in terms of TF.

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

It is likely that the insured amount can be paid out to a beneficiary who could be a charity or Trust, or person based in a conflict zone or jurisdiction where terrorism is rife. This means the insured amount can be paid across the border.

However, these payments are made in the form of EFTs from a bank account of the insurer to the bank account of a beneficiary. EFTs are subject to scrutiny by the banks. This reduces the risk of TF greatly, rendering the distribution channel less vulnerable.

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

If the beneficiary of a life policy is situated in a high-risk jurisdiction or conflict zone, the payout may be used to fund terrorism.

The below industry sheet illustrates the TF risk ratings:

Industry TF Inherent Rating	**Low**

9.4 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;
- 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 controls ratings for the Long-term Insurance industry:

Industry AML/CFT Control Rating	**Satisfactory**

The ML and TF residual/net ratings for the Long-term Insurance Industry are illustrated on the table below:

Industry ML Residual Risk Rating	**Low**
Industry TF Residual Risk Rating	**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.

11. ML/TF 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 if 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 since 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 due to credit risk. Similarly, obtaining 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.

In the past before the new Microlending Act, 2018 (Act No. 7 of 2018) was promulgated, pay day lenders used to retain the ATM 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 third-party 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. These employers are mostly the Government, State Owned Enterprises and other big private firms. 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
- The 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.

Should microlenders take on borrowers whose source of income is business activities, it may elevate the risk of ML since there is a possibility of comingling of funds from lawful and unlawful activities, especially when repayments are done on a cash basis. Some clients may opt to repay their loans in cash, which may elevate the risk of ML since there is usually no trail for cash.

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 borrower's 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.

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. 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 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 to verify identities and other relevant CDD information.

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 table illustrates inherent ML risk ratings for each microlender:

Total Loan Disbursements (Jan-Dec 2022)	**NAD 3,530 billion**
Industry ML Inherent Risk Rating	**Low**

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 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 a 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 table illustrates TF inherent risk ratings for the micro-lending industry:

Total Loan Disbursements (Jan-Dec 2022)	**NAD 3,530 billion**
Industry TF Inherent Risk Rating	**Low**

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.

11.3.6. Overview of ML/TF 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;
- Failure to report suspicious transaction and activities to the FIC;
- Inadequate audit review of ML, TF and PF management controls; and
- Failure to screen clients against the UNSC sanctions lists.

Industry AML/CFT Control Rating	**Satisfactory**

The below table illustrates overall residual risk ratings of ML/TF risks for the micro-lending industry:

Industry ML Residual Risk Rating	**Low**
Industry TF Residual Risk Rating	**Low**