



Dakar Sénégal

Masters Degree in Banking & Finance

Financial Markets and Corporate Finance

Bank Resilience to Money Laundering and Terrorism Financing: a Compliance-Based Approach

Submitted By:

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9th Graduating Class

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Research submitted in partial fulfilment of the requirements for the award of a Masters Degree in Banking & Finance (2009-2010).

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Dedication

This research work is dedicated to my humble mother Aminata Jaiteh and my father Muhammad Camara; may their souls rest in the highest heavens and to all my entire family and kinsmen. And to the kind David Stanley for his financial support during the course of the masters programme. His benevolence will never be forgotten.

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Abstract

Money Laundering and the Financing of Terrorism threaten the survival of the legitimate financial institutions and non-financial institutions. The criminal nature of these crimes and their consequences on the financial institutions especially the banks is ramifying. The risks posed by money laundering and terrorism financing to banks and other financial institutions include but not limited to reputational, legal, compliance, credit and liquidity. The negative impacts of money laundering and terrorism on national economies, the global economy and financial systems can be catastrophic. In order to guard against these menaces, international, regional and national instruments have been developed and implemented in various parts of the globe. Such instruments include the various UN Conventions and Resolutions, regional initiatives like the establishment of the Financial Action Task Force (FAFT) and various FAFT-style regional bodies, etcetera.

The fight against money laundering and terrorism financing is mainly anchored on two approaches namely the Compliance/Rule-Based Approach (**C/RBA**) or the Risk-Based Approach (**RBA**). In this research, we used the compliance-based approach to assess the compliance of the commercial banks in The Gambia to eight variables we identified, each comprising of critical elements in relation to the combating of money laundering and terrorism financing in line with national laws, rules and regulations and international best standards. The findings of the research indicate that the commercial banks are found to be partially compliant with national and international standards in fighting money laundering and the financing of terrorism. Thus, the banks are prone to be used by money launderers and terrorism financiers to perpetrate their acts unnoticed.

Notably, the banks' compliance to developing and implementing a robust AML/CFT compliance programme is low. Most of the banks have weak internal frameworks to deter, detect, monitor and report suspicious transactions. Only two banks use AML/CFT analytical tools. The AML/CFT risk assessment has not been effectively done by the banks especially in the areas of the use of Technology and Politically Exposed Persons to launder ill-gotten funds. In general the resilience of banks to money laundering and terrorism financing is relatively low.

Keywords

Customer Due Diligence (CDD)-is the measure taken by the reporting institutions (e.g. banks) to identify and verify the identity of their customers/clients in order to enable them to deter, detect, report suspicious activities as relating to money laundering and other related financial crimes.

Financial Intelligence Unit-this is a national centre for the receipt, collection, and analysis of financial information and make disclosures of relevant financial intelligence to appropriate agencies for action.

Money Laundering-this is the criminal practice of processing ill-gotten gains, or "dirty" money, through a series of transactions; in this way the funds are "cleaned" so that they appear to be proceeds from legal activities.

Mutual Evaluation-is an exercise conducted by specialised bodies assessing a country's compliance with international best standards (e.g. FAFT 40+9 Recommendations). At the end of the exercise the Mutual Evaluation Exercise (MER) is published which reasonably reflects the country's position in the fight against money laundering and terrorism financing.

Politically Exposed Persons (PEPs)-these are persons entrusted with public function, their family members and close associates. They are considered as a high risk customers for money laundering and terrorism financing.

Predicates crimes-these are crimes committed which generate funds for laundering and for the financing of terrorism. These crimes include corruption, tax fraud, drug trafficking, etc. There are twenty predicate crimes.

Suspicious Transaction Reports-these are reports filed by the reporting institutions on matters relating to suspicion on money laundering and terrorism financing activities.

Résumé

Blanchiment de l'argent et le Financement du Terrorisme menacent la survie des institutions financières et institutions non-financières légitimes. La nature criminelle de ces infractions et leurs conséquences sur les institutions financières surtout les banques se ramifient. Les risques posés par le blanchiment de l'argent et le financement du terrorisme aux banques et les autres institutions financières incluent mais n'ont pas limité à réputation, légal, crédit et liquidité. Les impacts négatifs de blanchiment de l'argent et le financement du terrorisme sur les économies nationales, l'économie globale et systèmes financiers peuvent être catastrophiques. Pour garder contre ces menaces, les instruments internationaux, régionaux et nationaux ont été développés et rendus effectif dans plusieurs parties du globe. Les tels instruments incluent les plusieurs Conventions ONU et Résolutions, initiatives régionales comme l'établissement du Groupe d'Action Financier (GAFI) et les organismes régionaux de type GAFI, etcetera.

La lutte contre blanchiment de l'argent et le financement du terrorisme sont ancré principalement à savoir sur deux approches : **Compliance/Rule-Based Approach (C/RBA)** ou **Risk-Based Approach (RBA)**. Dans cette recherche, nous avons utilisé le Risk-Based Approach (RBA) à évaluer la conformité des banques commerciales de la Gambie à huit variables que nous avons identifiées, comprenant chacune des éléments critiques par rapport à la lutte contre le blanchiment d'argent et le financement du terrorisme en conformité avec les lois nationales, règles et règlements et aux normes internationales. Les conclusions de la recherche montrent que les banques commerciales sont jugées partiellement conformes aux normes nationales et internationales dans la lutte contre le blanchiment d'argent et le financement du terrorisme. Donc, les banques sont enclines à être utilisé par les blanchisseurs de l'argent et les financiers du terrorisme pour perpétrer leurs actes inaperçu. Particulièrement, la conformité des banques à développer et rendre effectif une robuste AML/CFT programme est bas.

La plupart des banques ont des structures internes faibles pour dissuader, détecte, moniteur et rapport les transactions soupçonneuses. Seulement deux banques utilisent AML/CFT outils analytiques.

L'estimation des risques d'AML/CFT n'ont pas été faite efficacement surtout par les banques dans les régions de l'usage de Technologie et Personnes Politiquement Exposés pour blanchir des fonds mal acquis. En général la résilience de banques à blanchiment de l'argent et le financement du terrorisme sont relativement en bas.

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ABBREVIATIONS AND ACRONYMS

AML-Anti-Money Laundering

APG-Asian Pacific Group

BIS-Bank for International Settlement

CBG-Central Bank of The Gambia

CDD-Customer Due Diligence

CFAFT-Caribbean Financial Action Task Force

CFT-Counter Terrorism Financing

EAG-Euro Asian Group

ESAAMLG-East and Southern Africa Anti-Money Laundering Group

FAFT-Financial Action Task Force

FIU-Financial Intelligence Unit

GAFIUD- Grupo de Acción Financiera de Sudamérica

GIABA-Groupe Inter-gouvernemental d'Action contre le Blanchiment d'Argent en Afrique de l'Oeust

KYC-Know Your Customer/Client

MENAFAT-Middle East and Northern Africa Financial Action Task Force

MER-Mutual Evaluation Report

ML-Money Laundering

NCCTs -Non-Cooperative Countries and Territories

PEPs-Politically Exposed Persons

RBA-Risk-Based Approach

STRs-Suspicious Transactions Reports

TF-Terrorism Financing

UNODC-United Nations Office on Drug and Crime

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CHAPTER ONE

1.01: INTRODUCTION

The Gambia has not been left behind in the fight against Money Laundering, Terrorism Financing and Other related Financial Crimes. The country's effort against such crimes is anchored on international, regional and national initiatives and actions. At the international level, The Gambia has ratified major United Nations Conventions and Resolutions, notably the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention, 1988), the UN Convention Against Transnational Organised Crimes (Palermo Convention, 2000) and UN Resolution 1373. These two conventions and resolution serve as the bedrock for the global calls to fight against money laundering, terrorism financing and other crimes. All countries that are signatories to these conventions and resolutions are required to take the necessary steps to implement them at the national levels through the enactment of legislations.

The country's regional efforts are elucidated in its membership in regional organisations and structures; key among which is its contribution to the formation of GIABA (Groupe Inter-gouvernemental d'Action contre le Blanchiment d'argent en Afrique de l'Ouest) to fight money laundering and other crimes in the sub-region. GIABA among its mandates conducts Mutual Evaluation Assessments on countries' Anti-Money Laundering and Terrorism Financing (AML/CFT) Regimes.

At the national level, The Gambia enacted national legislations to fight money laundering and other financial crimes, this include the Money Laundering Act 2003 and the Anti-Terrorism Act 2002 which relates directly to the combating of money laundering, terrorism and terrorism financing. Other related acts include Drug Control Act 2003/Drug Control (Amendment) Act, 2005, Corruption/Criminal Code Cap 10 Vol. III Laws of The Gambia 1990, Trafficking in Persons Act, 2007, National Intelligence Agency Decree, 1999 and Economic Crimes, Decree 1994, etc.

The national success in fighting money laundering and terrorism financing is a reflection of the country's AML/CFT regime. The Gambia's AML/CFT regime like in other countries encompasses all the country stakeholders; these include but not limited to the law enforcement agencies such as the police, National Intelligence Agency, National Drug Enforcement Agency, Immigration, etc., financial supervisors such as the Central Bank and/or the Financial Intelligence Unit (FIU), the Judiciary, Gambia Revenue Authority, TANGO (the association of NGOs), Banker's Association, line ministries; amongst others.

GIABA conducted a Mutual Evaluation on The Gambia in April, 2008 to assess the country's compliance with the Financial Action Task Force (FAFT) 40 Recommendations on the fight against money laundering and 9 Special Recommendations on combating terrorism financing (commonly called FATF 40+9 Recommendations).

During the mutual evaluation exercise the assessors assessed The Gambia's Anti-money laundering and counter terrorism financing regime. At the adoption of the Mutual Evaluation Report in November, 2008, The Gambia was found to be partially compliant with 3 core recommendations, largely compliant with 1 core recommendation and non-compliant with 2 core recommendations. It was also found to be largely compliant with 4 key recommendations, partially compliant with 4 key recommendations and non-compliant with 2 key recommendations. Overall, The Gambia was rated partially compliant with recommendations 1-3, Non-compliant with recommendations 4-25, non-compliant with recommendations 26-34, partially compliant with recommendations 35-40 and non-compliant with the 9 special recommendations.

The Gambia's overall compliance with the FAFT 40+9 recommendations was found to be low. The country was asked to report to the Plenary in November 2009 on steps taken to rectify the short comings. The Gambia submitted its first follow-up report to the plenary in November 2009. The areas of improvement noted were the establishment of the Financial Intelligence Unit, review of the Money Laundering Act and Reporting of Suspicious Transactions. At the 2009 Plenary, the country was required to report back to the November 2010 plenary. It was generally, observed that a significant number of actions to be taken in rectifying the identified deficiencies appear to depend on the enactment of the pending AML Bill.

Thus, it was recommended for The Gambia to provide an estimated timeframe with definable action plan and deliverables by which it might be in position to conclude the pending actions as progress was expected after one year.

It was also recommended for The Gambia to provide documentary evidence on training programmes held for AML/CFT stakeholders, budget allocation to competent authorities, minutes of the inter-ministerial committee and on-site supervisions undertaken in relation to AML/CFT compliance function and revise the Guidelines on Customer Due Diligence in line with FAFT recommendations.

It is hoped that when the new AML/CFT Bill is enacted, all the deficiencies in the national law would be rectified. However, the implementation of the laws and the effectiveness of national measures should be of major concern to all stakeholders in the fight against money laundering and terrorism financing.

CHAPTER TWO: STUDY BACKGROUND

2.01: The Gambia Financial Industry

The Financial Industry in The Gambia comprises of Banks, Insurance Companies, Micro-Finance Institutions, Foreign Exchange Bureaux and Other Non-Bank Financial Institutions. Financial services are provided to all sectors of society; however, banking services are concentrated more in the urban centres.

2.02: Banking Sector

Modern banking in the Gambia dates back to 1886 with the establishment of the Government Savings Bank on the 1st of January. The first commercial bank which is Standard Chartered Bank Gambia Limited formerly called the Bank of British West Africa, and then later named Standard and Chartered Bank was established on the 8th of September 1902.

The Gambia has recently experienced a rapid surge in the number of commercial banks operating in the country. In 1999; there were only five banks operating in the country; this number has now risen to thirteen. Most of the banks are foreign owned banks, predominantly Nigerian Bank subsidiaries. The increased number of banks is due to the high level of profitability of the banking industry, low capital requirements, steady economic growth, peace and political stability and the desire to establish presence in the Gambia in anticipation of the West African Monetary Integration which is expected to start in December 2015.

2.03: Current Banking Industry Review

The banking sector consists of thirteen banks one of which is an Islamic Bank. According to the Monetary Policy Committee (MPC) report at the end of the first quarter, 2011, the total asset base of the banking industry stood at D17.7 billion with two banks holding 44% of total industry asset. Total loans and advances was D5.4 billion of which distributive trade accounts for 28.6% and other commercial accounts for 23.1%. The total industry deposits stood at D11.5 billion and two banks captured 48%. The total industry capital and reserves was D2.6 billion. It is important to note that the same two banks hold 44% of total industry asset and 48% of total industry deposits.

The industry made a net profit of D77 million for the first quarter 2011; however, three banks made net loss in the same period. The MPC report also stated that the banking industry is safe and sound with a capital adequacy ratio (CAR) of 49% compare to the BIS 8% and The Gambia recommended CAR of 10%; the Non-Performing Loans Ratio was 14%, an ROE and ROA of 1.74% and 3% respectively and liquidity ratio of 91.6%.

2.04: Non-Bank Financial Institutions

The non-bank financial institutions consist of the microfinance institutions, insurance institutions and foreign exchange bureaus.

The microfinance institutions provide financial services to the less advantage sector of the society across the country to promote savings and investments, economic growth and development and poverty alleviation. This sector controls about 2% of the financial system. Some of the microfinance institutions in the country include Gambia Women Finance Association (GAWFA), National Association of Cooperative Credit Unions in The Gambia (NACCUG), Reliance Financial Services and Village Savings and Credit Associations (VISACAs) which extent across the rural communities. Some banks also provide microfinance services such as Ecobank in collaboration with Reliance Financial Services.

The insurance sector comprises of the insurance companies, insurance brokers and the insurance agents which are all registered under the Insurance Association of The Gambia. The insurance services include non-life and Islamic insurance services.

The foreign exchange sector is made up of the commercial banks' foreign exchange units/departments, foreign exchange bureaus, registered hotels, and the informal black market exchange. The biggest volume of foreign exchange transactions are done through the special foreign exchange units/departments of the various commercial banks. The most widely traded currencies include the Euro, United States Dollar, British Pound Sterling and the CFA (currency of the West African Monetary Union-UMEOA).

One main concern of the foreign exchange activities in the country is the existence of large black market foreign operations. This activity was widely practiced in major street corners in the urban areas, towns and villages across the country and in major rural market centres.

In 2004, it became illegal for people to deal in foreign exchange activities in the street. All such exchanges were to be channelled through the registered foreign exchange bureaus. However, there are still some under cover foreign exchange dealers in major streets, towns, rural markets and even in local shops and by ordinary street hawkers.

There are a notable number of money transfers services which include internal local transfers and across border transfers. The internal local transfers involve sending of funds from one location to another in local currency. Some banks and microfinance institutions provide such services. The cross border transfers consist of bank wire transfers and specialised money transmitter service providers. This includes the bank wire transfers (SWIFT), Money Gram, Money Express, RIA and Western Union Money Transfer.

2.05: Financial Supervision in The Gambia

In order to have a sound, vibrant and healthy financial system, the Central Bank of The Gambia acting through the various national legislations supervises all the bank and non-bank financial institutions. Such national legislations include the Central Bank Act 2009, Banking Act 2009, Microfinance Act, Insurance Act, and Foreign Bureau Act. Acting on its powers, the Central Bank also issues Rules, Directives and Guidelines to regulate the actors in the financial system. Some of these include the Licensing Guideline and Management, Services Agreement Guideline (Guideline 9) and the Customer Due Diligence Guideline. The bank also conducts on-site and off-site examinations and prudential visits on banks and non-bank financial institutions. Ensuing sanctions follow for banks that failed to adhere to regulations.

2.06: PROBLEM STATEMENT

Money Laundering is the conversion and transfer of ill gotten property in order to disguise the true source of the property for the benefit of the money launderer. The principal aim of money launderers is to gain a profit.

Money Laundering is a derivative crime as such a crime must be committed first before funds could be laundered. The crime that perpetrates a money laundering activity is called a predicate crime. The Financial Action Task Force (FAFT) the recognised international standard setter for the fight against Money Laundering and other financial crimes produced a list of 20 predicate crimes linked to money laundering. Some of the predicate crimes include corruption, bribery, organised crime and racketeering, fraud, drug trafficking, etc.

The financing of terrorism involves making funds available to terrorists and or terrorist groups to perpetrate the acts of terrorism. The source of funds for money laundering activities comes from criminal activities while the source of funds for the financing of terrorism comes from both illegitimate and legitimate sources. One of the most ramifying acts of terrorism was the 11th September, 2001 attack on the World Trade Centre in New York.

It is worth noting that terrorist bombings have ravaged several cities and places around the world. On the 7th of August 1998 an almost simultaneous US embassy bombings carried out in Dar es Salam, Tanzania, and Nairobi, Kenya killing hundreds of people and injuring scores of others.

In West Africa, the activities of terrorism are beginning to surface in countries like Nigeria, Mali and Mauritania. In Nigeria for instance, the Bonka Haram (Western Education is a sin) has intensified its efforts with some attacks on police and civilians. Mali and Mauritania battle out with Al-Qaida in Islamic Maghreb.

There have not been any terrorist attacks in The Gambia and none was launched from the country, however, it is not immune to being use by the financiers of terrorists to make funding available to terrorists and terrorist groups in the other parts of the world.

The Commercial banks in the Gambia are vulnerable and will remain vulnerable to being used for the purpose of money laundering and terrorism financing. In the Gambia, the commercial banks provide the majority of the financial products and services to the people.

In order to prevent the criminals from having access to the financial system, the commercial banks should comply with the FAFT recommendations and other internationally recognised best practices such as the BIS Customer Due Diligence requirements and the Wolfsberg Principles and with national laws, rules and regulations.

The financial institutions play a leading role of intermediation and in facilitating the proper functioning of the global payment system. The money launderers and the financiers of terrorism heavily rely on the world financial system to move funds worldwide aimed at enabling them to carry out their illegal activities.

Some banks in various parts of the world had suffered and some will still suffer reputational, financial, operational and legal consequences posed by money laundering and terrorism financing.

2.07: OBJECTIVE OF THE STUDY

The overall objective of the study seeks to assess the Anti-Money Laundering and Countering the Financing of Terrorism Regimes of Commercial Banks in The Gambia.

The specific objectives include to;

- i. assess the implementation level of the relevant FAFT 40+9 recommendations and national laws, rules and regulations in relation to the prevention, detection, monitoring and reporting of suspicious transactions by the commercial banks,
- ii. determine the compliance level and risk rate the commercial banks' AML/CFT Regime based on identified 8 variables and
- iii. make recommendations on actions to be taken in adopting a robust Anti-Money Laundering and Countering the Financing of Terrorism Regime for Financial Institutions in the country.

2.08: JUSTIFICATION OF THE STUDY

It is difficult to estimate the amount of funds laundered in the world; however it is believed to range between 2-5%(IMF) of the World's GDP; that is about USD1.3 to USD 3.3 trillion. According to John Walker (1999) the total funds laundered worldwide is estimated at USD2.85 trillion.

According to the World Bank Development Indicators 2010, the formal GDP for West Africa was USD263 billion and the informal economy accounted for 60-70% of the formal economy. The nature and size of the informal economy could compound the amounts of money laundered annually in West Africa which is expected to be higher than the 2-5% world figures.

"The threat of money laundering and the financing of terrorism are of significant concern in West Africa" (GIABA Report May 2010). This is as a result of the size of the informal economy through which money laundering activities could be carried out making it difficult to fight. The financial systems are not well developed with heavy reliance on cash as a means of payment for goods and services. Due to the nature of the porous borders, weak institutional structures, weak anti-money laundering regimes, low level of education, high level of poverty, the prevalence of predicate crimes to money laundering such as bribery and corruption make the West African countries very vulnerable to money laundering risks.

Due to the strong fight against the predicate crimes like drug producing countries in Central and Southern America, the drug traffickers in these countries have turn to West Africa as transit points to lucrative markets in Europe. This is due to strategic position of West African countries to the drug markets. According to the United Nation Office on Drug and Crime (UNODC), there has been dramatic increase in the flow of illicit drugs into West Africa, in particular cocaine from Latin America. In October 2007, 33 tonnes of cocaine with an estimated value of €2.2 billion or US\$2.7 billion were seized in West Africa in the 30 months prior to October 2007. Most of the seizures are accidental seizures by European vessels; the amount of drug passing through the region could be outrageous.

The financial institutions such as the commercial banks provide wide array of products and services for their customers. Such products and services include, savings accounts, current accounts, on-line banking, letters of credits, foreign exchange, and hosts of others to varying categories of customers, from retail, consumer, corporate to private banking customers. The availability of the array of products and services in financial institutions could also serve as an avenue for money launderers and financiers of terrorism to carry out their acts.

The money launderers and those financing terrorism use the financial institutions like the banks to facilitate the execution of their objectives. Most customers use banks to carry out legitimate transactions. However, the money launderers and other criminals use the financial system to facilitate their illegal activities. The generally accepted principle in the fight against money laundering and the financing of terrorism is to deprive the criminals from having access to the means by which they perpetrate their crimes.

In order to prevent the criminals having access to banking services to carry out their activities, the commercial banks should have a robust anti-money laundering and combating the financing of terrorism regime.

Financial institutions in The Gambia like elsewhere in West Africa are prone to be used for money laundering and the financing of terrorism purposes. National efforts have been step up to combat money laundering and the financing of terrorism; this included the enactment of the Money Laundering Act 2003 and the Anti-Terrorism Act 2002. The Central Bank Act 2009, Banking Act 2009 and other laws have been put in place to protect the integrity and the soundness of the financial system in The Gambia. The Financial Intelligence Unit (FIU) have been established and housed in the Central Bank of The Gambia. The commercial banks have started reporting suspicious transactions to the FIU; plans are underway to extend the reporting requirements to all financial institutions and Designated Non-Financial Businesses and Professions.

Considering the fact that the GIABA's MER 2008 states that the The Gambia's overall level of compliance with the 40+9 recommendations is low and most specifically the country is found to be non-compliant with recommendations 4-25 (which relates to the preventive measures) and special recommendations i-ix (which relates to the financing of terrorism). The financial institutions may be viewed by financial institutions and other businesses in the world as operating in a country with low level of anti-money laundering and counter terrorism financing regime which may have cost implications in the form of extra risk premium charges. And aware of the fact that a non-compliance with national laws and regulatory guidelines on the part of the financial institutions could result to fines and sanctions as in the case of the Riggs Bank in Washington, ABN, AMRO Bank N.V, etc.

It is therefore justifiable to conduct an analysis of the AML/CFT regime of the commercial banks in the country to assess their level of implementation of international standards and national laws and regulations with a bid to preventing the criminals having access to the financial system, monitoring, detecting and reporting suspicious activities for the overall objective of achieving a sound and a vibrant financial system.

2.09: SCOPE OF THE STUDY

Money Laundering and Terrorism Financing Activities cut across all Financial Institutions and Non-Designate Financial Businesses and Professions; however the scope of our study is limited to only commercial banks.

It assess the commercial's anti-money laundering and counter terrorism financing regime; ranging from customer due diligence, customer acceptance policy, customer identification procedure, corresponding banking relationship, politically expose persons, use of technology, suspicious transaction reporting, record keeping requirements, AML/CFT programme and risk assessment, AML/CFT training and awareness to compliance and audit, etc. The study covers all the 13 commercial banks operating in the country.

2.10: LIMITATION OF THE STUDY

The research was constrained by time, money, limited literature on the subject matter and lack of material resources. The research was entirely self-financed.

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CHAPTER THREE: INITIATIVES FOR COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM

3.01: Introduction

In this chapter we first of all give a general background on money laundering and terrorism financing. This is followed by a review of the international and regional efforts in combating the menace of money laundering and terrorism financing.

There are various definitions of money laundering; it is generally defined as a process of concealing the origin of illegally generated funds. Some of these definitions are highlighted below:

According to the United Nations Conventions (1988) and (2000), Money Laundering is defined as: "the conversion or transfer of property, knowing that such property is derived from any offence or offences or from an act of participation in such offence or offences, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such offence or offences to evade the legal consequences of his actions".

The Financial Action Task Force (FATF) defines Money Laundering as: "the conversion or transfer of property (i.e. money, goods, commodities, etc) knowing that such property is derived from a criminal offence, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such crime to evade the legal consequences of such actions". It is the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to or ownership of property knowing that such property is derived from criminal offence.

3.02: Stages of Money Laundering

Money laundering is the criminal practice of processing ill-gotten gains, or "dirty" money, through a series of transactions; in this way the funds are "cleaned" so that they appear to be proceeds from legal activities. Money laundering generally does not involve currency at every stage of the laundering process. Although money laundering is a diverse and often complex process, it basically involves three independent stages that can occur simultaneously:

Placement- The first and most vulnerable stage of laundering money is placement. The goal is to introduce the unlawful proceeds into the financial system without attracting the attention of financial institutions or law enforcement. Placement techniques include structuring currency deposits in amounts to evade reporting requirements or commingling currency deposits of legal and illegal enterprises. An example may include: dividing large amounts of currency into less-conspicuous smaller sums that are deposited directly into a bank account, depositing a refund check from a cancelled vacation package or insurance policy, or purchasing a series of monetary instruments (e.g., cashier's checks or money orders) that are then collected and deposited into accounts at another location or financial institution. Refer to Appendix G ("Structuring") for additional guidance.

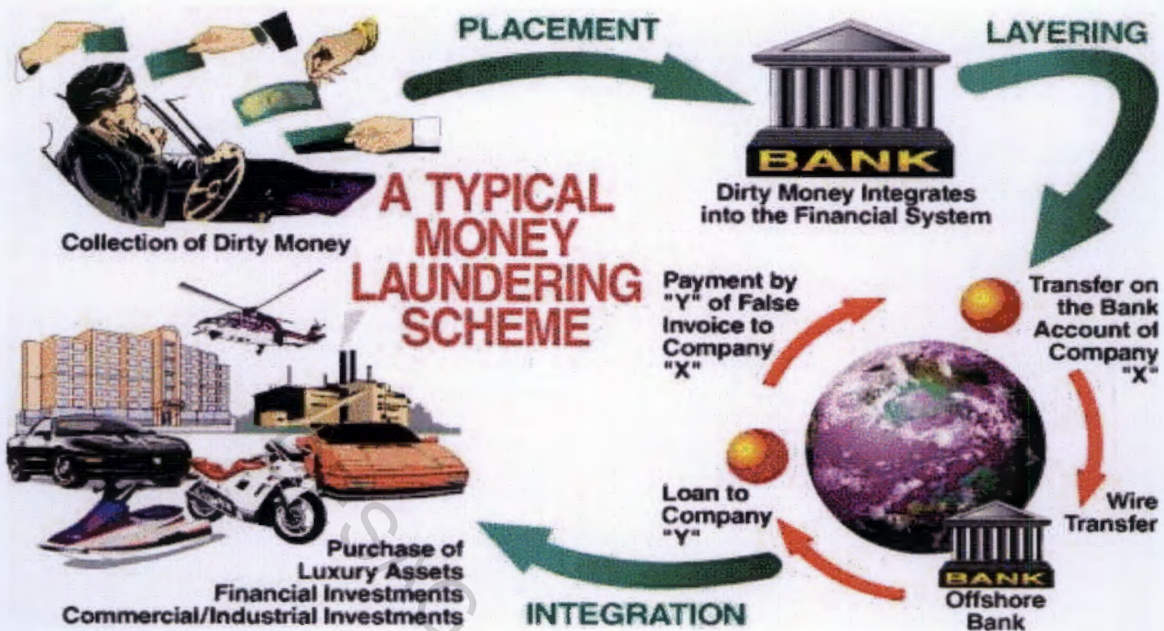
Layering- The second stage of the money laundering process is layering, which involves moving funds around the financial system, often in a complex series of transactions to create confusion and complicate the paper trail. Examples of layering include exchanging monetary instruments for larger or smaller amounts, or wiring or transferring funds to and through numerous accounts in one or more financial institutions.

Integration- The ultimate goal of the money laundering process is integration. Once the funds are in the financial system and insulated through the layering stage, the integration stage is used to create the appearance of legality through additional transactions.

These transactions further shield the criminal from a recorded connection to the funds by providing a plausible explanation for the source of the funds. Examples include the purchase and resale of real estate, investment securities, foreign trusts, or other assets.

The stages of money laundering are depicted in the diagram below:

Figure 1.0: Stages of money laundering process



Source: Asian Development Bank's Regional Technical Assistance No. 5967: *Countering Money Laundering in the Asian and Pacific Region*.

3.03: Sources of laundered money/property

According to FAFT Strategic Surveillance Survey 2009, illicit funds laundered through the financial system come from a variety of sources. The sources from criminal proceeds are said to come from the designated predicate offences of the FAFT Recommendations. The source of money laundering is from the commission of a crime which generate the illicit funds such a crime is called a predicate offence. The major sources of laundered funds are from white collar crimes such as tax evasion, fraud, corporate crimes, embezzlement and intellectual property crimes.

The other major source is the drug related crimes. An emerging source is the internet-based frauds and internet technologies. Other sources include smuggling of goods and contraband, corruption and bribery, embezzlement of public funds, etc.

3.04: Methods of money laundering

Money launderers use numerous techniques to launder their dirty funds, such techniques include: using nominees, structuring and smurfing, asset purchase with bulk cash, exchange transactions, currency smuggling, gambling, casinos, black-market peso exchange, etc.

According to the UN International Convention (1999) for the Suppression of Financing of Terrorism, the primary objective of terrorism is "to intimidate a population, or to compel a government or an international organisation to do or abstain from doing and act. There is no universally accepted definition due to significant political, religious and national implications that differ from country to country.

3.05: Sources of terrorism financing

The sources of terrorism financing is be legitimate or illegitimate or either of them. Such sources include, financial crime for example financial fraud, trafficking in narcotics, cigarettes, weapons, human beings or diamonds, fund raising/donations, charities, not-for-profit organisations, small cash-intensive businesses, etc.

3.06: International Initiatives

The international community notably the United Nations has taken giant steps for the fight against money laundering and terrorism financing. The main UN instruments include the United Nations Convention Against the illicit Traffic in Narcotic Drugs and Psychotropic Substances commonly called the 1988, Vienna Convention, United Nations Convention for the Suppression of the Financing of Terrorism, 1999, United Nations Convention Against International Organise Crime Palermo 2000 and the United Nations Resolution 1373.

3.07: United Nation Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna, 1988)

The 1988 Vienna Convention became the first international instrument for the fight against money laundering and the suppression of the financing of terrorism. This convention was developed to prevent drug traffickers and depriving them from financial gains and movement.

Its scope was extended to include control measures to prevent money laundering and facilitate the tracing, freezing and confiscation of proceeds from drug trafficking. It is divided into 34 Articles.

This convention laid the foundation for the fight against money laundering and terrorism financing. It directly attacks the illicit drug organisations and the profits they generate. In the FAFT recommendations, illicit drug traffic is a predicate crime of money laundering which is thought to generate millions of US Dollars annually. It requires member states who are signatories to the convention to adopt measures as may be necessary to adopt domestic laws to criminalise traffic in illicit drugs and psychotropic substances. It also calls on member states to adopt measures as may be necessary to facilitate confiscation of proceeds derived from offences established in accordance with article 3 of the convention and that the party shall not decline to act on the ground of bank secrecy laws.

The domesticated national laws are required to be consistent with the convention. This would set requirements for all the players in the fight against drug offences and money laundering. For instance financial institutions should cooperate in terms of confiscation of the proceeds from crimes. The bank secrecy laws should not compromise proper customer identification and verification which may facilitate money laundering.

3.08: UNITED NATIONS CONVENTION FOR THE SUPPRESSION OF THE FINANCING OF TERRORISM (1999)

This convention consists of 28 articles. It clearly stipulates the requirements of member states for the fight against terrorism financing. It clearly spelt out the offence of terrorism financing as an "act of providing or collecting funds with a view to carrying out a terrorist act, and the funds in question can be of any type and have a legal origin". The offence of terrorism financing can be committed by the "originators", their accomplices and other contributors. It defined terrorist action as "any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature and context, is to intimidate a population or to compel a government or an international organisation to do or abstain from doing any act".

Article 2 specifies that for an offence of terrorism financing to exist, it is not necessary for the funds to have been used; it suffices that the funds have been collected for the purpose of committing a terrorist act. Article 4 requires states to set up an effective system to suppress the financing of terrorism.

Article 5 commits the States Party to the convention to domesticate in their national laws the liability of legal entities engaged in terrorism financing. In article 8, states are also required to adopt the measures necessary for the identification, freezing, seizure, confiscation, of target funds, which funds can be used to compensate the victims of offences and their families.

Article 18(1b) is of great interest to this research; it clearly states that measures be put in place requiring financial institutions and other professions involved in financial transactions to utilise the most efficient measures available for the identification of their usual or occasional customers, as well as customers in whose interest accounts are opened, and to pay special attention to unusual or suspicious transactions and report transactions suspected of stemming from a criminal activity. Article 18 (bii) requires states to require the financial institutions, when necessary, take measures to verify the legal existence and structure of the customer by obtaining, either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity.

Other articles relate to international cooperation in freezing, seizing and confiscation of terrorist funds.

Financial institutions as in the case of our research should have the necessary preventive, monitoring and reporting measures in place in dealing with terrorist funds or funds meant to carry out terrorist acts as stipulated in national legislations.

3.09: UNITED NATIONS CONVENTION AGAINST INTERNATIONAL ORGANISED CRIME (PALERMO 2000)

This is commonly called the Palermo Convention 2000. It contains 41 Articles. It is the first instrument of criminal law designed to combat the phenomenon of transnational organised crime. It included other protocols on the treatment of individuals, trafficking in migrants over land, air and sea and the illegal manufacture and trafficking in firearms.

The convention requires the implementation of comprehensive domestic regulatory and supervisory regime for banks and non-banks financial institutions and other bodies prone to money laundering which would enable deterring and detecting money laundering.

This would require comprehensive customer identification, record-keeping and reporting suspicious transactions. It also calls for the establishment of a Financial Intelligence Unit which will serve as a national centre for the collection, analysis and dissemination of information regarding potential money laundering.

3.10: Other International Efforts

3.11: United Nations Office on Drug and Crime (UNODC- Vienna)

This was established in 2002 by unifying the United Nations International Drug Control Programme and the Centre for International Crime Prevention. This body is a global leader in the fight against illicit drugs and international crime and implements the United Nations lead programme on terrorism.

The Law Enforcement, Organised Crime and Anti-Money Laundering Unit of the UNODC implements the Global Programme against Money Laundering, Proceeds of Crime and the Financing of Terrorism; through the mandate stipulated in the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances Vienna 1988. With the adoption of the Political Declaration and measures for countering money laundering in 1998 by General Assembly, the unit's mandate was strengthened. This broadened its scope to cover all serious crime not just drug-related offences.

The Global Programme aims to strengthen the ability of member states to implement measures against money laundering and the financing of terrorism and assist them in detecting, seizing and confiscating illicit proceeds, as required pursuant to United Nations instruments and other globally accepted standards, by providing relevant and appropriate technical them in detecting, seizing and confiscating illicit proceeds, as required pursuant to United Nations instruments and other globally accepted standards, by providing relevant and appropriate technical assistance upon request.

3.12: Bank for International Settlement

The BIS has been taking a leading role in formulating standards for the effective banking and financial supervision and prudential regulatory standards. In relation to the combating money laundering and terrorism financing the Know Your Customer (KYC) principles are seen as very paramount indeed. The KYC has been contained in the Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering issued in 1999, The Core Principles for Effective Banking Supervision issued in 1997, the 1999 Core Principles Methodology and the Customer Due Diligence for banks issued in 2001. The BIS advises all banks to "have in place adequate policies, practices and procedures that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, by criminal elements".

In designing a KYC standards by banks, Basel recommends the consideration of some key elements which include; Customer Acceptance Policy, Customer Identification, On-going monitoring of high risk accounts and risk management.

For an effective Bank supervision, BIS also issued standards to that effect which include; the Basel 1 Capital Accord, published in 1988 and Basel 2 International Convergence of Capital Measurement and Capital Standards, 2004 revised and now Basel 3 underway.

3.13: Financial Action Task Force (FATF, 1989)

FATF is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering and terrorism financing. It sets the 40 Recommendations which are minimum standards to combat money laundering and the 9 Special Recommendations to fight the financing of terrorism; this is otherwise called the 40+9 recommendations. These recommendations are anchored round the legal system, preventive measures, institutional measures, and international cooperation.

Though FAFT was initially formed by the G7 its efforts to fight money laundering and terrorism financing, it has since then transcended those national boundaries and gained recognition as a worldwide standard. The recommendations are internationally recognised as the world standards for the fight against money laundering and the financing of terrorism.

3.14: Egmont Group

This was established in 1995 as information association of FIUs. The name was derived from the location of the first meeting held at Egmont-Aureberg Palace in Brussels. It is now internationally organisation with more than 100 member FIUs worldwide. The group has an established Egmont Committee and five working groups which include; Operational, Training, IT, Legal and Outreached Working Groups.

The Egmont Group provides forum for FIUs to improve support to their respective national anti-money laundering programmes. This include expanding and systematizing the exchange of financial intelligence information, improving the expertise and capabilities of FIU personnel, and fostering better communication among the FIUs through application of technology.

3.15: Regional Initiatives

The African Continent has taken giant steps to fight money laundering and terrorism financing through the creation of various FAFT-style regional bodies aimed at fighting the menace.

These regional bodies include the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), Middle East and Northern Africa Financial Action Task Force (MENAFATF), etc.

GIABA is a FAFT-style regional body established for the fight money laundering, terrorism financing, drug trafficking, and other related crimes in West Africa. The objectives of GIABA include among others to protect the national economies and the financial and banking system of member states against abuse, and the laundering of proceeds of crime and the financing of terrorism; to improve measures and intensify efforts to combat money laundering and terrorist financing in West Africa and strengthen co-operation amongst its members.

It also provides training and technical assistance to member states to help them have in place a strong regime against money laundering and terrorism financing and other crimes. It provides substantive training programmes to all stakeholders in the combating money laundering and terrorism financing.

GIABA conducts Mutual Evaluation (ME) on countries in West Africa to assess their compliance to anti-money laundering and combating terrorism financing activities standards based on the 40+9 recommendations. Other FAFT-style regional bodies are established in different regions in to combat the menace of money laundering and terrorism financing and other related predicate crimes. These include the Pacific Group on Money Laundering (APG), Financial Action Task Force on Money Laundering in Southern America (GAFIUD), Caribbean Financial Action Task Force (CFATF) and the Eurasian Group (EAG), etc.

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CHAPTER FOUR: LITERATURE REVIEW

4.01: Introduction

For the purpose of gathering literature for this research, this chapter on literature review is organised into four sections. This first one is a general overview on the volume of global money laundering, the second is on the Compliance/Rule Based Approach in combating money laundering and terrorism financing, the third is on the Risk-Based Approach (RBA) in combating money laundering and terrorism financing and forth is the conclusion. The first section takes a look at the literature on the volume of global money laundering and terrorism financing sighting the magnitude of the problem. The fight against money laundering and terrorism financing is anchored on the two broad approaches called the Compliance/Rule Based Approach and the Risk-Based Approach. Literature on these approaches is discussed in section two and three. Emphasis is laid on the Compliance/Rule Based Approach as this relates directly to the research.

Money Laundering is said to have originated from the activities of the gangster Al Capone who laundered ill-gotten gains through laundrettes to construct the pretence of a legitimate income (van Duyne, 2003, p. 73). The first known legislation in the world for the fight against Money Laundering was the Money Laundering Control Act 1986 of the United States of America. The scope of this menace was closely linked to criminals dealing in drugs as evidenced in the various UN Conventions especially the Vienna, 1988. Notwithstanding the fact that the fight against money laundering was initially based on the fight against criminals dealing in drugs, however, the scope has been expanded to include illegal activities that generate illicit funds for laundering. This is manifested by the various UN Conventions and Resolutions such as the Palermo Convention 2000 and UN resolution 1373. The FAFT 20 predicate offences of money laundering are internationally accepted as crimes which could generate funds for laundering purposes. Thus, the sources of illicit funds is necessarily confined to drug dealers, women traffickers or mafia killer people who are seen to have tattoos on them but also relates to people who are nicely dressed involved in white collar crime Brigitte Unger 2006.

Such people include bankers, lawyers, notary publics, financial advisors, real estate agents, businessmen and construction magnates. This is further highlighted by Johnston and Abbot (2005) who pointed out that AML objectives go well “beyond just combating drug dealers, terrorists and organised criminals”. With the increased terrorists activities, anti-money laundering efforts now incorporates terrorism financing as in the UN Convention for the Suppression of Terrorist Financing 1999 and UN Resolution 1373.

The volume money laundering in the world estimated by various researchers has rendered itself to more debate regarding the reliability of such estimates. Tanzi and Quick, IMF (1996, 1997) puts global money laundering at 2-5% of world GDP. The first researcher to take a macro estimate of the global money laundering is John Walker. He estimated that the global volume of funds laundered annually is USD2.85 trillion, Walker (1999). In 2007 he estimated that USD3 trillion is laundered annually since 2000 (Walker 2007) and that business fraud exceeds illicit drugs as a source of laundered funds. Schneider and Windischbauer (2006) estimated that USD1.03 billion from drug crime business was laundered globally in 2005.

Unger et al (2005) used a revised Walker model to estimate money laundering in the Netherlands. Their search shows that the USD8 to USD14.8 billion criminal money is laundered as opposed to Walker model which states the figure at USD18 billion. They also stated that USD30 billion are laundered in or through Netherlands per year. She concluded that while trying to reproduce Walker estimations, she believe that he used more of as she puts it “tacit knowledge” and “feeling” to calibrate his model. Schneider et al (2006) also concluded that since the IMF and the Walker models cannot be reproduced, then their estimates are scientifically doubtful. This same thought was shared by Donato Masciandaro and Raffaell Barone (2008). Peter Reuter (2007) also claimed that neither on the national nor on the global level, credible estimates of the volume of laundered funds available. He claimed that the vagueness of such estimates is as a result of both disagreements over how to conceptualise money laundering as well as weaknesses in the techniques used to quantify it. He is very sceptical of the aggregate estimates and on any attempt to estimate organised crime and money laundering, either for a single country or for the world.

Some authors supported the Walker approach such include Brigitte Unger (2007, 2006) who strongly defends the pioneer work of John Walker. She claimed that it is possible to create a framework to measure money laundering per country and worldwide. He used Tinbergen's old gravity model to give a full theoretical understanding of the Walker model. The gravity model principally says that the export flows from country *i* to country *j* depend on the GDP of both exporting and importing countries and the distance between them. She argued that most of the literature on money laundering is pure speculation and that one source refers to other sources, without much empirical solid backup.

We are with the strong believed that this argument will continue so long as a clear definition of money laundering remains unresolved.

The Compliance/Rule-Based Approach was first adopted by regulators/supervisors, reporting institutions and the law enforcement agencies to combat money laundering and terrorism financing. In this approach, standard rules (one size fits all) are set which are applicable in all situations. It is the foundation for the fight against money laundering and terrorism financing. The national legislations, AML/CFT supervision and compliance, national AML/CFT regimes, etc set standards with the aim of combating the menace.

In this approach, there are specified conditions and actions; once a condition is met then a corresponding action is taken. As Ross and Hannan, 2007 postulated; one main problem of this approach is in the set-up. How are the criteria defined and how often such criteria are reviewed? One major problem is that the reporting institutions may report transactions for the sake of reporting just because the rule said so. This may increase the number of suspicious transaction reports but which may not help in developing meaning from such reports. The question that arises is how true these reports are.

AS in Takat, 2007, the punishment scheme also has some short-comings, the fines levied based on "false negative" that is for not reporting transactions which are prosecuted as money laundering operations later; on the other hand, the reporting institutions are not fined for "false positive" that is for reporting legal transactions as if they were money laundering affaires. The first anti-money laundering law was passed in the United States of America in 1986 called the Money Laundering Control Act. In this very beginning, the anti-money laundering regulations were based on observance of rules.

The world renowned AML/CFT standard setter, FAFT came up the 40+9 recommendations. Countries are urged to implement these recommendations. The FAFT Mutual Evaluation Report (MER) on various countries goes on to test the compliance levels of these countries to the recommendations which is largely based on the compliance/rule-based approach. The MER assigns ratings to each recommendation reflecting its level of implementation. Countries that are found non-compliant are urged to take the necessary steps to fully implement the FAFT recommendations. Some countries are even put in the FAFT list of Non-Cooperative Countries and Territories (NCCTs).

At regional levels, the FAFT-style regional bodies also conduct similar assessments to assess the compliance level with the FAFT 40+9 recommendations. For example in West Africa GIABA conducts the Mutual Evaluation Reports on member countries.

Similar approach is also taken by the regulatory institutions at national level to assess the AML/CFT regimes of reporting institutions. On-site examinations are conducted on the reporting institutions to test their level of compliance with set rules. Ensuing sanctions follow if such institutions fail to apply to apply the rules. At the level of the reporting institutions they also develop AML/CFT programme to curb the menace of money laundering and terrorism financing.

The available empirical research on the compliance of financial institutions to the anti-money laundering and counter terrorism financing is very few compared to enormous research done on the market, credit, liquidity and operational risks. Financial institutions are widely examined based on the CAMELS (Capital, Asset, Management, Earnings, Liquidity and Sensitivity) uniform ratings. The anti-money laundering and the counter terrorism financing compliance ratings are mostly done by assessing the entire country's AML/CFT regime in relation to the implementation of the 40+9 recommendations. Countries are rated compliant, largely compliant, partially compliant, or non-compliant. The rating assigned to each country reflects the level of compliance with the FAFT 40+9 recommendations taking into account the essential elements of the various recommendations.

Our approach makes use of the relevant recommendations which applies to measures to be implemented by only the financial institutions for AML/CFT compliance as in our methodology in the preceding chapter five.

The processes and procedures for assigning such ratings are detailed in the FAFT Methodology for Assessing Compliance with FAFT 40+9 Recommendations 2004, updated in 2009 and in the FAFT Handbook for countries and assessors 2009. The FAFT Mutual Evaluation Report takes a qualitative approach to assessing countries regarding the extent for putting measures in place in line with the minimum international AML/CFT standards. All the essential criteria of the 40+9 recommendations are assessed by experts in the various areas of the recommendations. Some recommendations are weighted 2 meaning that they have double weight as compare to those weighed 1.

If one is to deduce a score from the Mutual Evaluation Report, then a country can be scored based on the FAFT or FAFT-style regional bodies' score which will earn a maximum score of 192 and the lowest being 0. A country with a score of 192 would mean that the country has complied with all the 40+9 recommendations to the highest standard possible; while a score of 0 would mean that the country has not even taken any step towards AML/CFT.

Arnone and Padoan (2006) assessed the compliance of seven countries (Australia, Belgium, France, Ireland, Italy, Sweden and Switzerland) with the 40+9 recommendations. They concluded that France is the most compliant and Australia the least compliant. Ferwerda and Bosma (2006) assessed the compliance of twelve countries with the 40+9 recommendations. They adopted a score range of 0 to 5 for each of the recommendations. Each of the recommendations was scored per country. Going by their methodology, each country could score a maximum of 200 and a minimum of 0. Their results indicated that France score 174 points out of 200 indicating a percentage score of 87% and was rated the most compliant among the twelve countries. It was followed by Germany at 86.5% and the least compliant was Australia at 51.5%. One problem with this methodology is that all the recommendations are weighted equally. This is in conflict with the FAFT methodology in which some recommendations attract a weighting of 2 while others 1 reflecting the degree of importance of each recommendation. Their study did not rate the financial institutions separately but just followed the 40+9 recommendations as put forward by FAFT. Their results also indicated

that weak compliance with recommendations 33, 23, 22, 5, 16, 6, 24, and 7 of which recommendations 5, 6, 7, 22 and 23 are of relevance for our research.

The assessment of countries for compliance with the 40+9 recommendations is conducted by FAFT, FAFT-style regional bodies example GIABA, ESMAAGL, APG, etc.), IMF and the World Bank. This has resulted to varying differences in assessment quality, content, layout and even across institutions and countries, making it very difficult to make a sensible cross-country comparisons and analysis; Arnone and Padoan (2007). They tried to assess the detailed assessment conducted on twenty countries for the 40 recommendations. In their methodology, they divided the countries into three zones; these are Europe, Western Hemisphere and East Asia and Pacific. They adopted the following ratings; Compliant (C), Largely compliant (LC), Partially Compliant (PC), Non-compliant (NC) and Not Applicable (NA). They then mapped the assessment into 4-valued measures, NA=0, PC=1, LC=2 and C=3. Taking the highest score of 3, France had the best score in Europe at 2.77 while Sweden and Iceland at the bottom with 1.68 and 1.59 respectively. It was interesting that Guatemala scored the highest in all the three zones with a score of 2.83 far above USA 2.05. In the East Asia and Pacific, Australia scored 1.60 while Sri Lanka scored 0.93 at the bottom. The research results also showed that preventive measures for financial institutions and Designated Non-financial Businesses and Professions (Recommendations 4-25) has large deficiencies. These recommendations are 55% of the entire framework of the 40 recommendations. The global average score for these countries was 1.96 (65%). It is difficult to point out the compliance levels of only the financial institutions since this study covers all the 40 recommendations and it did not assess the countries for compliance with the 9 special recommendations. In their analysis of 23 assessment reports for the quality of AML/CFT reports, they found out that 50% of the reports are of good quality, however, a large share of the remaining reports show a substantial amount of material deficiencies. According to them, description/analysis sections of these reports shows that 43% of the reports are of good quality, 42% has material deficiencies and 15% serious deficiencies. On the quality of the recommendations in the reports, they noted that 52% of them are of good quality, 28% have material deficiencies and 14% has serious deficiencies. They also came to a conclusion that 47% of the ratings are of good quality, 29% has material deficiencies and 20% serious deficiencies.

Though they did not specifically rate financial institutions for AML/CFT compliance, they clearly stated that the issues relating to preventive measures by financial institutions which has to do with customer due diligence and record-keeping (R. 5, 6, 7, 8, and 12) has weak compliance level which needs to be strengthened. Our research which focuses on only the financial institutions intends to deeply analyse the compliance level of the commercial bank's AML/CFT compliance with relevant FAFT 40+9 recommendations. We take a micro approach as opposed to the macro approach of Arnone and Padoan.

The combating of money laundering and terrorism financing has attracted interest of financial experts which has resulted to development and deployment of various vendor models to assist financial institutions and other reporting entities to fight ML and TF. Prominent among the vendor providers is the Promontory Financial Group which developed RADAR; this software is use for conducting compliance risk assessments across an entire financial holding using a uniform methodology.

It also developed the AML Atlas™ which conducts geographic risk assessment and rates countries according to their risk of money laundering and terrorism financing. The score which is available for over 200 jurisdictions is generated by Promontory methodology.

The en.SafeWatch Profiling is developed by EastNets, it is a web-based application based on standard databases and platforms, it is built on an open architecture and is easily integrated with any banking application for data capture. It serves as the central data processing, trend analysis and suspicious behaviour identification engine to identify suspicious activity. It does customer and account profiling, risk score management and peer group analysis, KYC controls and case management and reporting. SAA Plug-in is also developed by EastNets.

Other vendor models include Thomson Reuters AML solutions, I-sight anti-money laundering (AML) software, iWay, etc. Some AML software developers include; SDG Software and InfraSoftTech which are both Indian software firms. Metavante which is based in the US also provides Risk and Compliance Solutions.

The goAML software is widely used by Financial Intelligence Units to help them in their analysis.

For the Risk-Based Approach, FAFT, 2007, stated that the “Financial Institution (reporting institutions) should adopt a risk management process to identify and manage money laundering risks in a flexible and less predictable way, using their judgement, knowledge and expertise to develop the appropriate AML model for their particular organisation, structure and business activity”. FAFT recognised the fact that money launderers have deep knowledge of detection risks and they would take extreme measures to hide their financial activities. Therefore, countries and reporting institutions should adopt a risk-based approach so that resources can be tailored according to the risk. RBA would entail identification and assessing risk and then aligning resources to monitor and manage the risks. This could be done both at national and institutional levels. This approach would help in better risk management of risks and cost-benefits and efforts are focused on real identified risks.

The Risk-Based Approach (RBA) has attracted the attention of the academics and professionals in the fight against money laundering and terrorism financing. It is in contrast with the traditional compliance/rule-based approach, in that the reporting institutions are allowed to design and implement AML/CFT programmes. The RBA starts with risk assessment of the various risk factors which include; customer, products/services, geographic/jurisdiction risks. The combating of money laundering and terrorism financing efforts are then aligned to the identified risk level. This approach assists in the better allocation of resources to combat this menace on the part of the regulators and the regulated and/or the reporting institutions.

The compliance-based approach is found to be inefficient since the money launderers can easily learn the rules and employ methods to circumvent them. This has resulted to the designing and implementation of a more proactive approach, the Risk-Based Approach as discussed below.

In the risk-based approach, the reporting institutions are given greater role in the design and implementing AML/CFT programmes instead of just complying with the rules set by regulators in the rule-based approach.

It can be argued that the risk-based approach would make it more difficult for the money launderers and terrorism financiers to perpetrate their acts. The fight against money laundering and terrorism financing cannot be successful without the full cooperation of the state actors and the non-state actors. The state on one hand is charged with the responsibility of legislating and implementing anti-money laundering and counter terrorism financing laws and the non-state actors on the other hand are tasked with the responsibility of adhering to laws, rules and regulations and implement combating money laundering and terrorism financing programmes to protect their institutions from the menace. The unique position of the state and its defined objectives and that of the non-state actors has resulted to a principal (state), agent (non-state actors) relationship. As documented in Pierre Kopp (1995), there is information asymmetry between the state herein called the principal and the financial sector herein referred to as the non-state actors. The financial sector has a comprehensive data on the illegal activities. Thus, there is a need for collaboration for a successful fight against money laundering and terrorism financing or a resulting failure from lack of cooperation. In Thomas (2001), he stated that financial institutions should cooperate in conscious way as effective cooperation leads to a reduction in money laundering activities.

The traditional rule-based approach though had contributed significantly in curbing the menace of money laundering and terrorism financing; however, its effectiveness has raised so many questions. AS in Pieth and Aiolfi (2003) in the USA, KPMG (2003), Gold and Levi (1994) in the UK, it is evidenced that the ruled-based approach has resulted to an outflow of useless anti-money laundering information. Takatz (2007) in the US and Costa (2008) in Italy evidenced that increased in the number of Suspicious Transactions Reports (STRs) by the financial institutions has resulted to a declining number of STRs to start money laundering investigations and prosecution. The question that arises is the how many of the STRs are true? True, in a sense that which actually are money laundering or terrorism financing operations. Thus, the effectiveness of the rule-based approach should be tied to the number of STRs which resulted to investigation, prosecution and conviction.

This is further reiterated by Reuter and Truman (2004) and Takatz (2007) when they claimed that the rule-based approach in the AML framework produced insufficient information to fight and prevent the money laundering phenomenon.

Some researchers have conducted research on the principal-agent relationship as a result of information asymmetry between the regulators and the reporting institutions. The state has interest in protecting institutions operating in its jurisdiction and promotes the general welfare of its citizens and non-citizens alike. It is aware of the dangers posed by the money laundering and terrorism financing in terms of social, economic, political and other reputational consequences. On the other hand the reporting institutions such as the financial institutions want to make profit and ultimately maximise shareholder wealth. If the reporting institutions are to be given greater responsibility to design and implement an AML/CFT programme, then what will motivate them to put in place a robust programme? This has led to an incentive problem on the part of both the state actors and the reporting institutions.

The principal-agent relationship has been well documented in relation to regulation. In Loeb and Magnt (1979) who on asymmetric information model stated that conditions should be placed that will induce the reveal of information. This was further researched by Baron and Myerson (1982) who concluded that payment of subsidy to firms would give them the incentive to report truthful private information to the regulators. There are further researches in the incentive regulations as in Lewis and Sappington (1998), Laffont and Tirole ((1993), Laffont and Martimort (2002), Pellegrina and Masciandaro (2005).

Regulators have developed methods in monitoring AML/CFT compliance in their jurisdictions. AUSTRAC (Australian Transaction Reports and Analysis Centre) for instance developed a compliance risk scoring method for the reporting entities in Australia to enable it to prioritise its supervisory efforts in its risk-based supervision approach. This scoring method is called the Compliance Risk Exposure Scoring Tool (CREST).

It is used to assess the inherent risk, control measures, residual risk, and AML/CFT impact and risk prioritisation map which is done for an individual regulated entity or peer group of regulated entities.

The inherent risk score is determined first; this is followed by the determination of the internal control score which is used to discount the inherent risk to arrive at the residual risk. The residual risk level is now used to score the AML/CFT impact; which is combined with the residual risk to determine the risk priority rating which grouped as low, medium, low and minimum. The risk priority rating helps AUSTRAC to allocate supervisory resources to the level of risk. The reporting institutions that show high risk are given more attention than those of low risk level.

Though it may be argued that money laundering and terrorism financing prevention, detection, monitoring and reporting is part of the wider prudential risk management especially operational risk management of financial institutions; it is worth taking into consideration the far reaching reputational, legal, operational and concentration risk posed AML/CFT deficiencies.

Thus, as in the well the thought out methods used to rate banks as in the CAMEL rating and the rating of countries' AML/CFT regimes by FATF² and FAFT-style regional bodies such as GIABA, ESAAMLG, etc; similar efforts as those adopted by the AUSTRAC which developed CREST to risk rate the compliance level of reporting institutions and of the effort of this research to develop a compliance rating for financial institutions in The Gambia should be seen as a way forward in deterring ,detecting and monitoring and reporting suspicious transactions for money laundering and terrorism financing purposes.

CHAPTER FIVE: STUDY METHODOLOGY

5.01: Introduction

The approach to this study takes a similar methodology used by FAFT in its mutual evaluation methodology. FAFT methodology which is adopted by GIABA in its conduct of the mutual evaluation process of the Anti-Money Laundering and Countering the Financing of Terrorism Regimes of member countries assesses the country's compliance with the 40+9 recommendations. For each recommendation, the assessment covers essential criteria which are evaluated and rated compliant (scored 0), largely compliant (scored 1), partially compliant (scored 2), non-compliant (scored 3), and not applicable (scored 0). These scores are called based weight for the purpose of computing the final FAFT/GIABA country AML/CFT score.

Some FAFT recommendations are deemed more important thus carry double weight 2 compared to those that are less important weighted 1; these are called factor-weights. This is noted in the UK Joint Money Laundering Steering Group's document "Equivalent Jurisdictions".

The final FAFT/GIABA country score can be computed by multiplying the base-weight by the factor-weight for each recommendation and summing the results as shown in the formula:

$$\text{FATF/FSRB Raw Score} = (\text{BaseWeight1} * \text{FactorWeight1}) + (\text{BaseWeight2} * \text{FactorWeight2}) + (\dots) + (\text{BaseWeightSR9} * \text{FactorWeightSR9})$$

Based on this formula, the minimum country score for each country is 0 and the maximum is 192. Lower score means a more compliant country to the FAFT 40+9 recommendations and probably the less risky the country to the menace of money laundering and other financial crimes. On the other hand, higher scores imply a less compliant country to the FAFT 40+9 recommendations and most likely prone to the threat of money laundering and other financial crimes. It is important to note that the FATF/FSRB Country Score is only calculated when the based weight is first calculated which actually shows the level of compliance for each recommendation.

In trying to realise the research objectives, a detailed questionnaire (see appendix I) is prepared to collect primary data from the participating commercial banks. The responses gathered from the questionnaires are analysed to provide answers to the research objectives.

The questionnaire covers eight variables for this research drawn from the FAFT 40+9 recommendations, BIS (2001) Customer Due Diligence, Money Laundering Act 2003 of The Gambia and Anti-Terrorism Act 2002 of The Gambia which we think are directly related to the AML/CFT regime of a commercial bank. The variables are divided into primary variables (PV) and secondary variables (SV). The PVs identified are weighted 2 adopted from the standard used by FAFT for the core recommendations and the SVs are weighted 1 also adopted as per the FAFT key recommendation. The weights assigned are as per the UK Joint Money Laundering Steering Group's document "Equivalent Jurisdictions" recommendation.

There are four primary variables which are Customer Due Diligence (CDD) for natural and legal persons, Record Keeping Requirement, Suspicious Transaction Reporting and Politically Exposed Persons (PEPS). The secondary variables are also four in number which are AML/CFT Programme, Wire Transfers (national and cross border), Use of Technology and Correspondent Banking. The primary and secondary variables are not arranged in the questionnaire in order of importance, instead they are randomly arranged to avoid bias on the part of the compliance officer completing the questionnaire.

For each of the variables we identified critical elements. Variable 1 is on Customer Due Diligence is divided into three sections with 22 critical elements. Variable 2 is on AML/CFT Programme is divided into 5 sections consisting of 23 critical elements. Variable 3 is on Record Keeping Requirement, it contains 6 critical elements. Variable 4 is on Suspicious Transaction Reporting, it contains 7 critical elements, the fifth variable is on Wire Transfer (domestic and cross border), it has 5 critical elements; the sixth variable is on Politically Exposed Persons which contains 7 critical elements. Variable 7 is on the Use of Technology which consist 4 critical elements and finally variable 8 which is on Correspondent Banking has 7 critical elements. The critical elements are well thought of and generally encompass core issues relating to each variable.

In the questionnaire, each variable is assessed based on the extent of implementation of the critical elements. The level of implementation of each critical element is scored by the compliance officer based on a score range 0 to 4 with distinctive interpretation of each score as follows: Score 0 means the critical element Not Implemented, 1 means the critical element is Minimally Implemented, 2 means that the critical element is Partially Implemented, 3 the critical element is Largely Implemented and 4 means it is Fully Implemented.

Each of the questionnaires is hand delivered to the head of compliance of each of the thirteen commercial banks operating in the country. The head of the compliance unit/department rates each of the critical elements on the scale 0 to 4 taking into consideration the level of implementation for her/his institution. The researcher also helps to clarify any issue the compliance officer may have; however care is taken to avoid influencing the decision of the compliance officer. Non-structured questions are also asked to give an insight to the entire AML/CFT regime of each financial institution at the point of filling and/or collecting the questionnaire.

For data protection purpose, no name of the participating commercial bank is mention; instead each bank is given a letter code which follows the English alphabet such as Bank A, Bank B, Bank C; etc. The individual banks are analysed separately and the total industry is also analysed based on the answers provided for each critical elements of each variable.

In analysing the data obtained in the questionnaire as provided by each bank, the total possible score for each variable is computed. To get the percentage score for each variable for a particular bank, the total variable score is divided by the total possible score all multiplied by 100. This is illustrated below:

$$CPSV1BA = [(V1SBA/TPSV1) * BWV1] * 100$$

CPSV1BA: Compliance Percentage Score for Variable **1** for Bank **A**

V1SBA: Variable **1** Score for Bank **A**

TPSV1: Total Possible Score for Variable **1**

BWV1: Base Weight for Variable **1**

For example, the total possible score for variable 1 is 176, to calculate a percentage score for a bank, the bank's score is divided by the total possible score which then is multiplied by 100 to get the Compliance Score of that variable for that bank. It is important to note that the score for each variable is multiplied by the based weight; 1 for the secondary variables and 2 for the primary variables.

To compute the average compliance percentage score for a particular bank. We repeat the illustration above for all the eight variables to get the average score which is the divided by the total possible score all multiply by 100. This is illustrated below:

$$ACPSBA = \frac{[(V1SBA/TPSV1)*BWV1 + (V2SBA/TPSV2)*BWV2 + \dots + (V8SBA/TPSV8)*BWV8]}{TPS} * 100$$

ACSBA: Average Compliance Percentage Score for Bank A

TPS: Total Possible Score

According to our model, the lowest possible score is 0 and the highest is 492.

The total industry compliance percentage score for each variable is computed as illustrated below:

$$TIACPSV1 = (TISV1/TIAPSV1) * 100$$

TIACPSV1: Total Industry Average Compliance Percentage Score for Variable 1

TISV1: Total Industry Score for Variable 1

TIAPSV1: Total Industry Average Possible Score for Variable 1

We also compute the total industry grand percentage compliance score as illustrated below:

$$TIGPCS = \frac{(TPSV1 + TPSV2 + TPSV3 + \dots + TPSV8)}{TIAPS} * 100$$

TIGPCS: Total Industry Grand Percentage Compliance Score

TPSV1: Total Percentage Score for Variable 1

TIAPS: Total Industry Average Possible Score

The percentage scores are converted to compliance scores which range from 0 to 10. The compliance ratings are further divided into five categories namely: Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Minimally Compliant (MC) and Non-Compliant (NC).

Based on the rating level, the banks are also assigned a risk rating in a reverse order that is, the higher the compliance level the lower the risk of money laundering and terrorism financing in that bank. The risk levels are classified into Low Risk, Minimum Risk, Moderate Risk, High Risk and Highly Risky.

A desk review of the AML/CFT compliance as pertains to The Gambia is conducted for a general understanding of the country's AML/CFT regime with more emphasis on the banking industry.

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CHAPTER SIX: PRESENTATION AND ANALYSIS OF DATA

6.01: Introduction

In this research, 12 out of the 13 commercial banks operating in The Gambia are assessed. One bank did not submit the questionnaire thus, excluded from the research. The respondent rate therefore stood at about 92% which is a very good representation of the total number of banks. The research is anchored on eight variables to analyse the Anti-Money Laundering and Counter Terrorism Financing Regimes of the commercial banks operating in The Gambia. These variables are divided into two categories namely primary and the secondary variables.

These variables are drawn from the FAFT 40+9 Recommendations, Bank for International Settlement's Customer Due Diligence (CDD) measures and the Money Laundering Act 2003 of The Gambia and the Anti-Terrorism Act 2002 of The Gambia. A comprehensive questionnaire containing the 8 variables and the critical elements was developed and presented to all the heads of compliance in participating banks for completion.

In this chapter, the data obtained from the questionnaire is analysed in three parts, each part tries to find answers to the research objectives. The first part is on the analysis of the level of implementation of the critical elements for variable, part two is on the bank AML/CFT compliance scoring and rating:

6.02: Variable Analysis-Level of Implementation

Each bank's level of implementation of the critical elements is assessed based on a scoring scale 0 to 4 as interpreted in the table below.

From the analysis of the various questionnaires collected from the banks, the percentage score for each of the variable per bank and for the entire industry is calculated. Based on formula as stated in the methodology, the total possible score for all the variables is 492.

The bank score is divided by the total possible score multiply by 100 to arrive at the percentage score which reflects the level of implementation of the variable by each bank. For the purposes of this analysis each variable is analysed for each bank and for the banking industry too.

Table 1.0: Score Scale Interpretation

% Score Range	Compliance Rating	Interpretation
95-100	Implemented (I)	The FI has fully implemented the critical elements for each variable
89-94	Largely Implemented (LI)	The FI has implemented the critical elements for each variable with minor deficiencies.
79-88	Partially Implemented (PI)	The FI has complied in implementing the critical elements for each variable but with substantial deficiencies.
69-78	Minimally Implemented (MI)	The FI did not take enough necessary steps to implement the critical elements for each variable.
68 and below	Not-Implemented (NI)	There are major short comings in the implementation of the critical elements for each variable on the part of the FI.

6.03: Variable 1-Customer Due Diligence (CDD)

Customer due diligence is key in the fight against money laundering and terrorism financing. This is clearly spelt out in FAFT Recommendation 5. The Bank for International Settlement (BIS) also issued a Customer Due Diligence Guidelines for Banks in 2001. The CDD plays an important role in customer identification and verification and assists in transaction monitoring and the reporting of suspicious transactions for money laundering and terrorism financing purpose. An institution of a strong CDD measure should be a concern for the various reporting institution in any jurisdiction.

The findings of the research show that, the level of implementation of the Customer Due Diligence for the entire banking industry stood at 85%. Most of the banks scored above 80%; however, one bank scored as low as 55%. It is important to note that most of the banks scores are very low regarding one of the critical elements and that is the extent to which the banks check customer name against the OFAC list, UN Sanction list, HM Treasury Sanctions lists or Jurisdiction with low AML/CFT Compliance.

The percentage score depicts that the commercial banks' CDD implementation measures are not very adequate. This may hamper the efforts of detecting, preventing and reporting of money laundering and/or terrorism financing activities in the country. The failure to put in place a comprehensive and robust CDD measures would expose them to business and regulatory risks.

6.04: Variable 2-AML/CFT Programme

Reporting institutions for money laundering and terrorism financing prevention, monitoring, reporting and control are required to implement a functional AML/CFT Programme. An AML/CFT Programme would include AML/CFT risk assessment, designing and implementing good internal policies, procedures & controls. It should specify the appointment of compliance officer, staff training and awareness and AML/CFT audit. A good AML/CFT Programme would help the banks to better deal with money laundering and terrorism financing issues.

The research shows that the level of implementation of the AML/CFT programme is at 70%. The scores for the various components of the AML/CFT Programme are low with risk assessments for AML/CFT scoring 71% implementation level, internal policies, procedures and controls at 81%, compliance officer issues at 82%, staff training at 66% and AML/CFT Audit at 70%. With deficiencies especially staff training, the bank's success to fight the menace would be difficult to achieve. The issues relating to the banks' effectiveness in combating money laundering and terrorism financing is seriously questionable.

Only three banks scored above 90%. Generally the level of implementation of this variable is low. The level of staff training on AML/CFT is inadequate and few banks audit the work of the compliance officer. Since few banks carry out audit on compliance, senior management oversight of the audit function is very low. However, all banks have appointed compliance officers some of whom double as internal auditors; this is an added burden on internal auditors putting into question their efficiency and effectiveness in carrying out both internal audit and compliance functions.

The low implementation level of AML/CFT programme in banks could leave the money laundering and terrorism financing activities going undetected.

6.05: Variable 3-Recording Keeping Requirement

Customer Record Keeping plays an important role in the fight against money laundering and terrorism financing. It allows for a reconstruction of transactions the bank has with its customers. In order to unveil money laundering and terrorism financing activities in banks, the audit trail should be established. Without a proper record keeping of customer details and transactions, it would be difficult to trace the illegal activities. The Financial Intelligence Unit relies on customer and transaction records to help them analyse suspicious transactions reports to produce intelligence reports. The efforts of the law enforcement agencies and the judiciary in the fight against money laundering and terrorism financing activities can use records kept by the banks to carry out their work in relation to investigation, freezing, seizure, confiscation and prosecution and conviction. This is articulated in FAFT Recommendation 10 as applies to financial institutions.

The Money Laundering Act 2003 of The Gambia requires the financial institutions to keep records.

For the purpose of this research, this variable (record keeping requirement) contains critical elements which include record keeping for customer identification purpose, transactions record keeping, review of customer records and updates. Most of the banks have fully implemented this variable with some of the banks having some minor deficiencies. The industry percentage score for the implementation level of this variable is at 88%.

6.06: Variable 4-Suspicious Transaction Reporting

Suspicious Transaction Reporting is very crucial in the fight against money laundering and terrorism financing. It is a requirement in the Money Laundering Act 2003 of The Gambia for the reporting institutions which includes banks to report any suspicious transactions of their customers after forming a reasonable basis for suspicion to the Financial Intelligence Unit (FIU). Such reports and with the collection of further information by the FIU are analysed and the intelligence findings are forwarded to the law enforcement agencies for further investigation.

The reporting institutions and the Money Laundering Compliance/Reporting Officers in the reporting institutions are protected by law for the disclosures of customer information to the competent authority after having made the reports in good faith. However, tipping-off by the reporting institution or its staff is punishable by law.

The results from the twelve banks show that the level of implementation of the suspicious transactions reporting is at 94%; this reflects a high implementation level of the critical elements of this variable for the reporting of suspicious transactions. This high percentage score implies that the steps taken by the commercial banks regarding the reporting of suspicious transactions is very high. However, the basis for forming suspicion is inadequately addressed as AML/CFT training is low. The low level of the application of technology in detecting suspicious activities is low, thus, the commercial banks' efficiency and effectiveness is largely questionable.

6.07: Variable 5-Wire Transfers (Domestic and Cross Border)

Money launderers and those who finance terrorism find it very convenient to carry out their activities by taking advantage of the inter-connectivity of the global financial systems through which billions of funds flow across national boundaries. Commercial banks in The Gambia play important role in facilitating international trade for their customers. In playing this intermediary role, they carry out transactions on behalf of their customers which are ordinarily supposed to be legitimate transactions. However, criminals also make use of the international payment system to under their illegal activities. At the layering and integration stages of the money laundering process, the money launderers employ the simplest to most sophisticated systems to make their ill-gotten funds look legal.

The commercial banks in The Gambia are not therefore immune to the threat pose by money launderers and terrorism financing in using wire transfers both domestic and international to perpetrate their acts. Thus, the need to implement systems and processes to curb the threat pose by the use of wire transfers for money laundering and terrorism financing purposes.

The implementation of measures for wire transfers is high at 91% for the industry. The banks take the necessary measures to identify and verify the identity of customers for wire transfers (domestic and cross border). Customer identification and verification for money value transfers services on behalf of service providers such as Western Union, Money Gram and others is also high. However, Bank A scored 55% while Bank C scored 65% depicting a low level of implementation in those banks. Though the level of implementation is high, however, it is difficult to know if the banks are efficient enough to detect money laundering or terrorism financing facilitated by wire transfer systems since the level of staff awareness to fight the menace is very low.

6.08: Variable 6-Politically Exposed Persons (PEPs)

Though the concept on PEPs was initially for foreign political figures, the concept has since then included the domestic politically exposed persons. This category of people is thought to be a major threat to the combating of money laundering and terrorism financing.

Thus, in order to successfully fight this menace the commercial banks should take the necessary steps to identify and verify the identity, sources and destination of funds and continuously monitor the transaction activities of both domestic and foreign politically exposed persons and their associates.

The industry level of implementation of the critical elements percentage score is 76%; this reflects a minimal implementation level. Some banks scored higher than the industry average such as bank B, E, K and L scoring 100%. This implies that these banks take into consideration all the critical elements as relating to politically exposed persons to the highest level. However, bank A and J level of implementation of this variable is very low scoring only 36%. This is to say that such banks risk being used by politically exposed persons to launder money and/or finance terrorists and/or terrorist organisations. This further exposes the banks to both business and regulatory risks. Most of the banks do not check the customer names against the list of politically exposed persons from either domestic open sources and/or international sources. And since most of the banks do not identify and verify the identity of PEPs and their associates, they also barely check if the PEP's status has changed or if existing customers have graduated to a PEP status, thus, the risk to doing business with PEPs and their associates without being noticed is very high.

6.09: Variable 7: Use of technology

The money launderers and terrorist financiers have continued to employ sophisticated techniques to launder their funds. This has also posed new challenges to governments/lawmakers, regulator/supervisors, reporting entities and law enforcement agencies. The local and global financial systems increasingly rely on technology facilitate business. In order for the commercial banks to successfully fight the menace, they had to invest in new technologies to face the challenge of the increasing sophistication of the techniques used by the criminals. Some professionals have developed vendor models for financial institutions and some regulators are now using GoAML to aid their analytical processes. For banks to succeed in fighting money laundering and terrorism financing, there is an urgent need to implement technology to help them detect, monitor and report suspicious activities to the Financial Intelligence Unit.

The implementation level of the critical elements is generally low with an industry score of 53%. This depicts that the commercial banks in The Gambia do not adequately use technology in their efforts to combat money laundering and terrorism financing. Only three banks use AML/CFT software to monitor customer transactions. The remaining nine banks only rely on their bank operation systems.

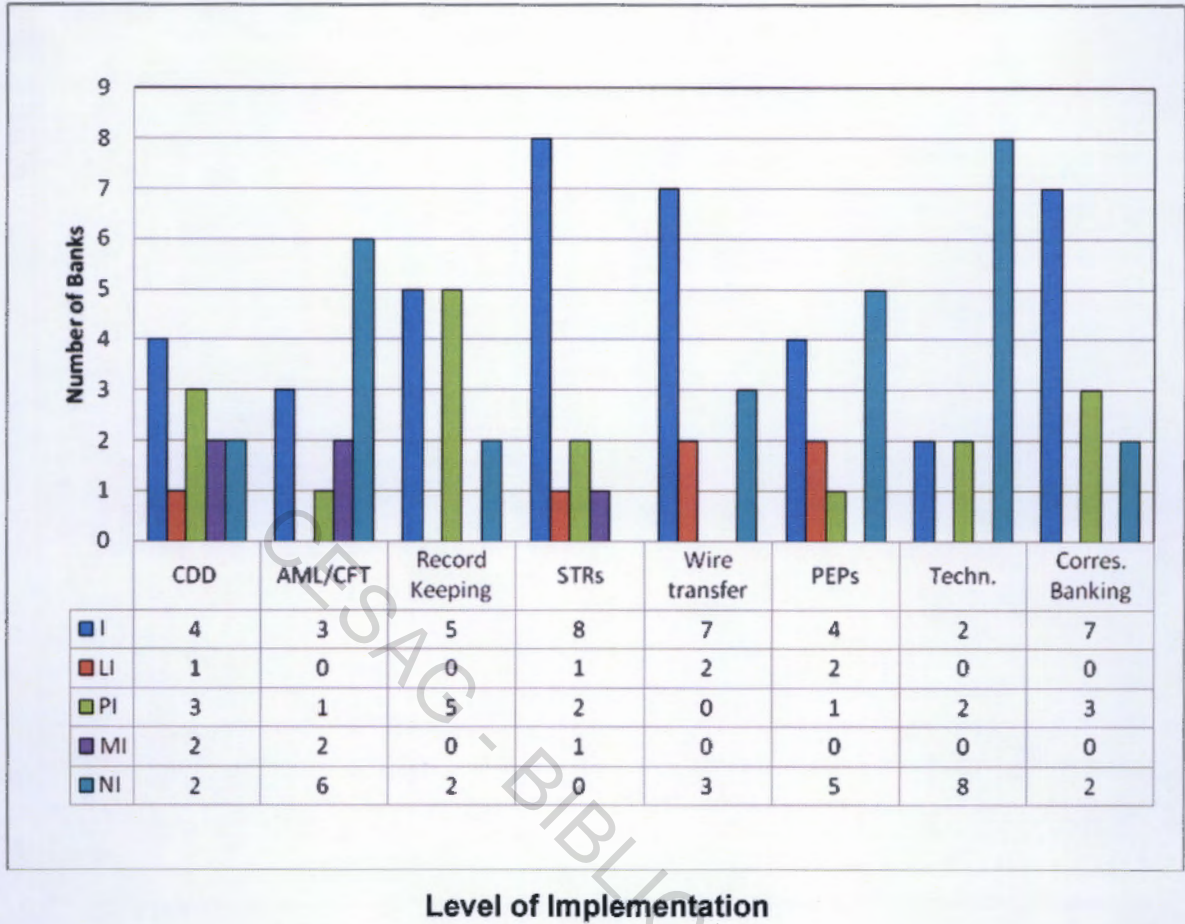
Due to the high volume of transaction taking place in the banks, it would be almost impossible to monitor considerable number of customer transactions. Most of the banks do not assess the risk of money laundering and terrorism posed by products and services provided electronically and on the internet. The internal policies, procedures and processes are not adequate enough to mitigate money laundering and terrorism financing threats. The lack of the application of technology in the fight against the menace serves as an opportunity for the criminals to perpetrate their acts. Thus, the banking industry is highly vulnerable to being used by money launderers and those financing terrorism.

6.10: Variable 8: Correspondent Banking

Banks all over the world like commercial banks in The Gambia facilitate international trade on behalf of its customers. All the commercial banks in the country deal with correspondent banks in various jurisdictions to satisfy their customer needs for international trade. It is FAFT requirement for financial institutions to gather sufficient information about a respondent bank and the nature of its business, its reputation, the quality of the supervisory regime in its jurisdiction and whether it has adequate internal controls to reduce the risk posed by money laundering and terrorism financing. Enhanced Due Diligence is required if a respondent bank is found having lapses in its efforts to fight the menace. It will also help the banks to observe appropriate measures in dealing with customers requesting for services in the jurisdictions of the respondent banks.

The overall industry percentage score for this variable is 90%. This implies that the banks take adequate AML/CFT measures in dealing with correspondent banks. However, two banks scored as low as 39%, reflecting a very low level of implementation of the critical elements for this variable. This exposes such banks to the risk of being used to conduct criminal activities, which will in turn expose them to business and regulatory risks. The figure below shows the level of implementation of all the variables.

Figure 1.1: Summary of implementation level of the variables



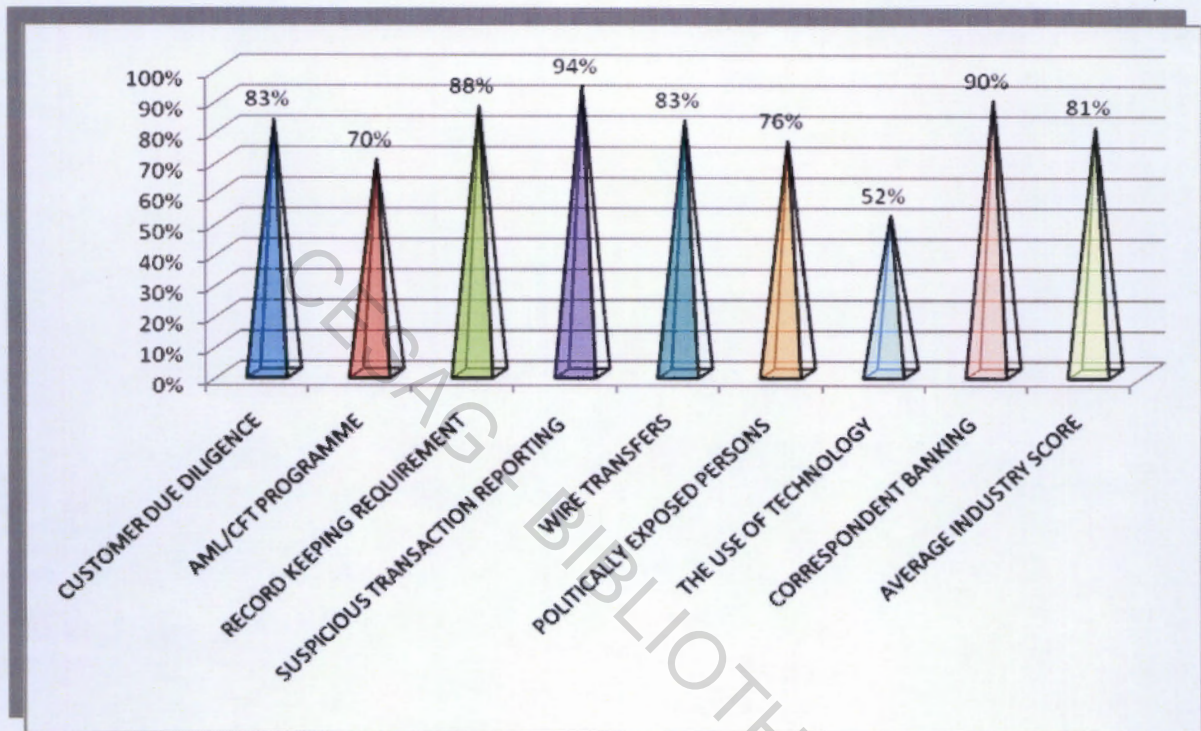
6.11: Total Industry Variable Implementation

The industry level of implementation of the variables percentage score is 81%. This reflects an inadequate implementation level of the variables, thus the commercial banks are in a weak position in fighting money laundering and terrorism financing. Some of the variables level of implementation is high such as the Suspicious Transaction Reporting and Correspondent Banking. Measures to be taken for customer due diligence, record keeping and wire transfers are moderately implemented. Politically Exposed Persons and AML/CFT programme level of implementation is low while the use of technology in combating the menace is very low.

Generally, the commercial banks have not adequate measures to implement the variables which when fully implemented will go a long way in reducing the threat posed by money launderers and those financing terrorism.

Since the level of implementation of these variables is not adequate, the banks are in a weak position to enforce national laws, rules and regulations and international standards to combat money laundering and terrorism financing. The table below shows the industry level of implementation of the variables.

Figure 1.2: Industry implementation level



6.12: Bank AML/CFT compliance scoring

After computing the percentage level of implementation of the eight variables discussed above; the percentage scores are converted to a 10 score points. A 5 risk rating category is developed depicting the level of compliance of the bank to the eight identified variables. These ratings are Compliant (C), Largely Compliant (LC) Partially Compliant (PC), Minimally Compliant (MC) and Non-Compliant (NC). The higher the level of implementation of the variables, the lower the risk of the commercial banks being used for money laundering and terrorism financing and vice versa.

In executing their intermediary functions, commercial banks are faced with market, operational/transactional, credit and liquidity risks. The stronger a bank is in managing these risks, the better for its overall performance.

The risk pose by money laundering and terrorism financing include compliance/legal, reputational, operational/transaction, strategic and credit concentration and liquidity risks. The more efforts the commercial banks employ to implement the variables identified for this research, the better it can reduce such risks posed by the money laundering and terrorism financing.

The table below shows the score range, compliance level and risk rating categories. The dark green colour represents low risk, light green stands for minimum risk, yellow represents moderate risk, red for high risk and dark red for highly risky.

Table 1.1: Bank Rating Score and Risk

SCORE RANGE	RATING	RISK LEVEL
9.50-10.00	COMPLIANT (C)	Low Risk
8.90-9.40	LARGELY COMPLIANT (LC)	Minimum Risk
7.90-8.80	PARTIALLY COMPLIANT (PC)	Moderate Risk
6.90-7.80	MINIMALLY COMPLIANT (MC)	High Risk
Below 6.8	NON-COMPLIANT (NC)	Highly Risky

The overall banking industry is rated Partially Compliant (PC) to the critical elements of the eight variables. For the customer Due Diligence requirements 4 banks are found compliant (C), 1 is Largely Compliant (LC), 3 Partially Compliant (PC), 2 Minimally Compliant (MC) and 2 Non-Compliant (NC). This variable is rated Partially Compliant (PC), thus falling under Moderate Risk category.

For the variable on AML/CFT Programme, 3 banks are found Compliant (C), 1 Partially Compliant (PC), 2 Minimally compliant (MC), and 6 are Non-Compliant (NC). This variable is rated Minimally Compliant (MC) for the banking industry, thus, categorised as High Risk. This reflects the risk of money laundering and terrorism financing in the commercial banks due to the weak nature of the banks' AML/CFT Programme in combating the menace. It is important to note that half of the banks studied are Non-Compliant to the AML/CFT Programme; therefore, the risk could be higher due to the threat of systemic risks which could affect the banks in the industry.

The banks are found to be Partially Compliant (PC) with the Record Keeping Requirements in combating the menace. The results show that 5 banks are found Compliant (C), 5 are Partially Compliant (PC) and 2 are Non-compliant (NC). The entire banking industry is rated Partially Compliant (PC). Therefore, the risk rating is moderate for the banking industry.

The Reporting of Suspicious Transactions is found to be Largely Compliant (LC) for the banking industry, depicting a low risk level. In fact 8 banks are Compliant (C) to this variable with low risk level, while 1 bank is Largely Compliant (LC) with minimum risk, 2 are found Partially Compliant (PC) with moderate risk category and 1 bank is Minimally Compliant (MC), thus at high risk. Though the compliance level to this variable is high, the low non-compliance rating to the use of technology could seriously hinder the banks' efforts in fighting the menace as such the risk level could be higher than the minimum.

For the use of wire transfer both domestic and cross boarder transfers to carry out money laundering and terrorism financing pose a threat to banks; however, the study shows that the commercial banks are largely compliant.

Thus, indicating a minimum risk of money laundering and terrorism financing taking place. The results also shows that 7 banks are Compliant (C), 2 are Largely Compliant (LC) and 3 are found Non-Compliant (NC).

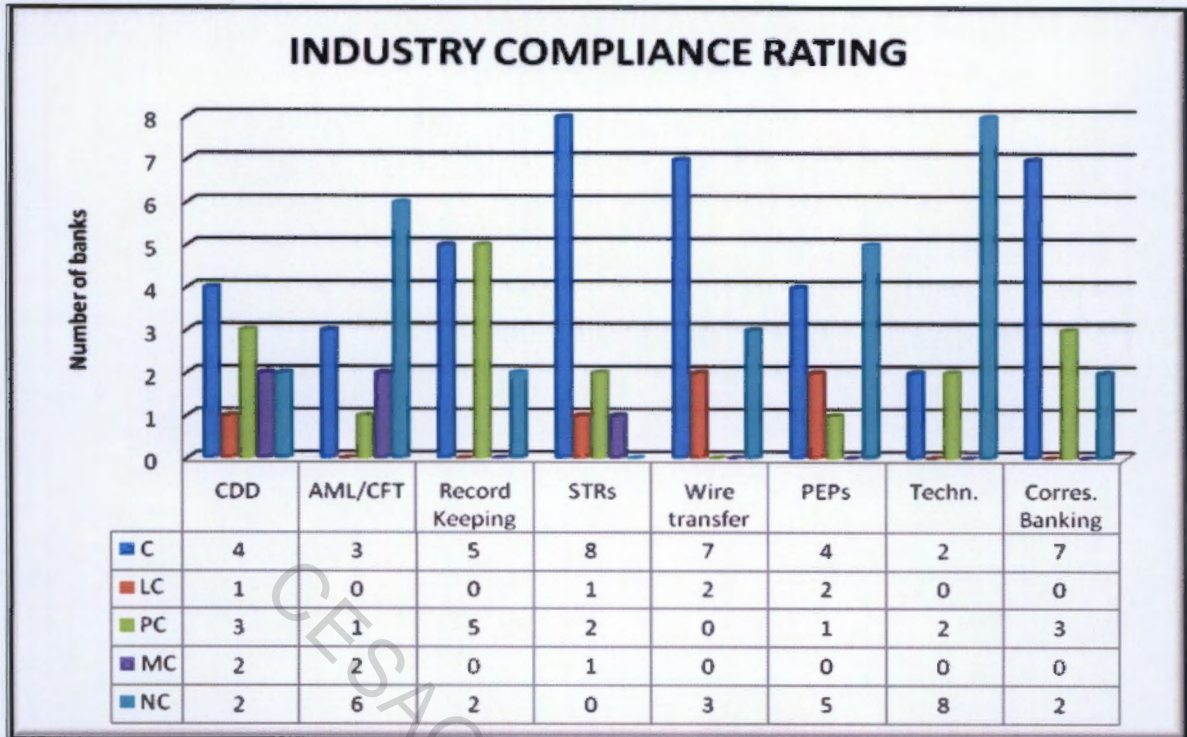
The overall banking industry is found to be Minimally Compliant (MC) with implementing the critical variables against the use Politically Exposed Persons for money laundering and terrorism financing. This attracts high risk of the banks being by PEPs for criminal activities. It also shows that 4 banks are Compliant (C), 2 are Largely Compliant (LC), 1 is found Partially Compliant (PC), and 5 are Non-Compliant (NC). The high number of banks found non-compliant is a serious cause for concern.

The industry compliance to the use of technology in combating money laundering and terrorism financing is found Non-Compliant (NC). Only 2 banks are found Compliant (C), 2 are Partially Compliant (PC) and 8 are found Non-Compliant (NC). This indicates a highly risky risk level. The money launderers and those financing terrorism could therefore easily take advantage of the deficits to carry out their illegal activities. This variable is the only one found non-compliant.

The variable on correspondent banking is found Largely Compliant (LC) for the banking industry. 7 banks are Compliant (C), 3 are Partially Compliant (PC) and 2 are Non-Compliant (NC), thus rated minimum risk.

In summary, the banking industry is found Largely Compliant (LC) with only 1 out of the 4 Primary Variables, rated Partially Compliant (PC) with 2 and Minimally Compliant with 1. It is also found to be Largely Compliant (LC) with 2, Minimally Compliant (MC) with 1 and Non-Compliant with 1 of the 4 Secondary Variables. The level of compliance rating with the primary variables is higher than that of the secondary variables. Notwithstanding this, the overall level of compliance rating for the industry is rated Partially Compliant (PC) which corresponds to a moderate risk level. The figure below shows a summary of the compliance rating for the eight variables.

Figure 1.3: Summary of Compliance Rating



Compliance Ratings

The table below shows the compliance rating for each of the variables and the factors underlying the ratings.

Table 1.2: Summary of variable rating

Variable Name	Rating	Factors Affecting Rating
Customer Due Diligence	PC	<p>Majority of banks do not check OFAC, UN Sanction Lists and others for customer (natural & legal) identification and verification purposes. Few banks collect information on the types of products/services the customer expects to utilise, and the expected account turnover.</p> <p>Appropriate CDD measures are not taken to ascertain if non-resident customers' jurisdictions have sufficiently complied with FAFT</p>

		<p>Recommendations.</p> <p>Banks do not adequately identify and verify the ownership structure of legal customers nor are the ownership structures to verify any changes.</p>
<p>AML/CFT programme</p>	<p>MC</p>	<p>Products/services, customer, country/geographic, business/customer risks are not adequately assessed for AML/CFT threats.</p> <p>AML/CFT impact risk assessment is not adequate.</p> <p>AML/CFT risk mitigation is low.</p> <p>New and old staffs are not well screened for AML/CFT threat.</p> <p>AML/CFT compliance is not sufficiently instituted in staff appraisal.</p> <p>Staff training in AML/CFT matters is low thus low staff knowledge in AML/CFT matters.</p> <p>Most banks have their heads of internal audit doubling as heads of compliance thus no proper audit is done on the work of the compliance officers.</p> <p>To management oversight for AML/CFT matters is low.</p>
<p>Record Keeping Requirement</p>	<p>PC</p>	<p>Records customers and their transactions are well kept.</p> <p>Customer records reviews for correctness and completeness is low.</p>

<p>Suspicious Transaction Reporting</p>	<p>LC</p>	<p>Banks report suspicious transaction reports to the competent authorities.</p> <p>Banks have not started reporting large cash transaction reports.</p> <p>Banks do not report cross border transaction reports.</p> <p>Adequate measures are taken to avoid tipping-off.</p>
<p>Wire Transfers: Domestic & Cross Border</p>	<p>LC</p>	<p>Banks adequately collect ordering and beneficiary customer information for domestic and cross border wire transfers.</p> <p>Risks of MF/TF through wire transfers are not adequately assessed.</p> <p>Banks carry out customer (ordering & beneficiary) identification and verification for wire transfers sent or received from money value transfer services providers such as Western Union, Money Gram, Money Express, etc.</p>
<p>Politically Exposed Persons</p>	<p>MC</p>	<p>Banks do not adequately find out if a new customer is PEP or whether old customers turn to PEPS.</p> <p>Banks do not sufficiently verify the sources of funds of PEPS.</p> <p>The identification and verification of spouses, children, partners, associates, relatives of PEPS is low.</p> <p>Enhanced Due Diligence is not carried out for PEPs that pose serious ML/TF threats.</p>

Use of Technology	NC	<p>Risk assessment of the threat posed by the use of technology for ML/CF is not adequate.</p> <p>Few banks use AML/CFT Software.</p> <p>Bank policies to mitigate risk the threat posed by technology are not adequate.</p>
Correspondent Banking	LC	<p>Banks adequately do appropriate CDD measures before entering into correspondent banking relationship.</p> <p>Senior management oversight is adequately instituted.</p> <p>Banks do not enter into business relationship with shell banks.</p>

6.13: Summary of Bank AML/CFT Compliance Rating

The table below shows the compliance rating of each of the eight variables for each bank and the entire banking industry. Two banks are rated compliant thus the risk of these banks being used to facilitate financial crimes is low. Two other banks are rated largely compliant exhibiting a minimum risk of money laundering and terrorism financing taking place in such banks. Three banks are partially compliant indicating a moderate risk of money laundering and terrorism financing in these banks. Three and two banks are rated minimally and non-compliant; therefore the threat of money laundering and terrorism financing is high and highly risky respectively.

The entire banking industry compliance to the eight variables is rated partially compliant. This indicates that the banks have generally taken steps to implement the variables with some substantial deficiencies.

Table 1.3: Summary of Compliance Rating

RATING	No. OF BANKS	RISK
COMPLIANT	2	Low Risk
COMPLIANT		Low Risk
LARGELY COMPLIANT	2	Minimum Risk
LARGELY COMPLIANT		Minimum Risk
PARTIALLY COMPLIANT	3	Moderate Risk
PARTIALLY COMPLIANT		Moderate Risk
PARTIALLY COMPLIANT		Moderate Risk
MINIMALLY COMPLIANT	3	High Risk
MINIMALLY COMPLIANT		High Risk
MINIMALLY COMPLIANT		High Risk
NON-COMPLIANT	2	Highly Risky
NON-COMPLIANT		Highly Risky

CHAPTER SEVEN: CONCLUSION AND RECOMMENDATION

7.01: CONCLUSION

Money Laundering and Terrorism Financing are major threats to the survival of the world financial system. Recognising the threat pose by two menaces, international, regional and national efforts have been stepped up to face up to the challenges. Financial institutions especially banks in some parts of the world suffered from financial and reputational damages for non-compliance with the rules and regulations in relation their inadequate efforts to deter, detect, monitor and report suspected money laundering and terrorism financing activities. In The Gambia, there has not been case of bank fines for non-compliance with anti-money laundering and terrorism financing regulations. However, with the increasing capacity and institutional build-ups to fight the menace, banks will soon face regulatory sanctions for non-compliance with national laws, regulations and guidance and internationally recommended standards.

In this paper we tried to assess the compliance of commercial banks in The Gambia to the national and international standards in the fight against money laundering and terrorism financing. We identified eight variables each containing critical elements which when fully implemented by the commercial banks would help to combat money laundering and terrorism financing. We assess the implementation level of the critical elements for each variable and for the banking industry. We also rated the compliance level of each variable per bank and for the banking industry.

Our findings show that the AML/CFT Regime of commercial banks in The Gambia is not robust enough to fight against money laundering and terrorism financing. The industry implementation level of the eight variables indicated that the commercial banks have partially implemented the critical elements for each variable with substantial deficiencies. The compliance rating of the banks to the eight variables is rated partially compliant. Thus, the risk of the banks being used for money laundering and terrorism financing risk is moderate. However, due to the low level of implementation and low compliance of the banks to some important variables, there is a potential threat of money laundering and terrorism financing taking place through the commercial banks.

Some of the variables which show low level of implementation and compliance to the variables include AML/CFT Programme, the Use of Technology and Politically Exposed Persons. The non-compliance of the banks in taking measures to prevent the use of technology to aid money laundering and terrorism financing poses a threat to banks especially for the electronically delivered products and the internet banking. The use of politically exposed persons and their associates for money laundering and terrorism financing exhibits a real threat since the industry level of implementation of the critical elements and the industry is low. The partial compliance of the banking industry to the eight variables reflects that the banks have not adequately implemented the variables for the fight against money laundering and terrorism financing.

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7.02: RECOMMENDATION

The following recommendations are expected to contribute to the realisation of a robust anti-money laundering and counter terrorism financing regime of The Gambia. It also gives insight to the possibility of a micro assessment of the reporting institutions.

- i. **AML/CFT compliance assessments-** the national competent authorities should assess reporting entities using similar methodology in this research. This could be separated into Financial Institutions and Designated Non-Financial Businesses and Professions. This would enable them to better understand the compliance of such institutions to the national and international standards.
- ii. **National Risk Assessment-**the supervisory authority of the reporting institutions should assess the risk of money laundering and terrorism financing in the country.
- iii. **Risk-Based Approach (RBA)** - this should be encouraged for both supervisors and reporting institutions.
- iv. **Financial Intelligence Unit (FIU)**-this unit should be made more functional and operationally independent of the Central Bank operations. Capacity in terms of human and material resources should be made available for the full functioning of the FIU.
- v. **AML/CFT Examination-** the supervisory authority in collaboration with the Financial Intelligence Unit and other competent authorities should develop an examination manual incorporating both on-site and off-site AML/CFT examination. And proper procedures should be followed in the examination process.
- vi. **Training and awareness-** this should be done at all stakeholders level; be it private or public.
- vii. **Resources-**adequate resources should be invested in AML/CFT analytical software to enable transactions monitoring in the financing institutions for any suspicious activity.

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QUESTIONNAIRE

VARIABLES AND CRITICAL ELEMENTS	SCORE RANGE 0-4 (4 being the highest possible score)				
	0	1	2	3	4
(1) CUSTOMER DUE DILIGENCE					
<i>i. Customer Identification & Verification (NATURAL PERSON: residents & non-residents)-before account opening (CRITICAL ELEMENTS a-f)</i>					
a) To what extent does the FI considers ID Card, Passport, Driving licence, Voter card, TIN, Birth certificate, Utility bills, Alien ID, Work Permit, Foreign Passport and ID, address, referees, passport size photo, etc. to identify a customer					
b) To what degree does the FI collect information regarding the expected activity in the account?					
c) To what extent does the FI check customer name against the OFAC list, UN Sanction list, Jurisdiction with low AML/CFT Compliance, HM Treasury, etc.					
d) To what extent does the FI collect information on the various products and services the customer is expecting to utilise?					
e) To what extent does the FI take measures to get pending documents in case of a waiver?					
f) To what degree does the FI verify the authenticity of the documents presented; are those opening the account separated from those approving it?	0	1	2	3	4
<i>ii. Customer Identification & Verification (LEGAL PERSON: Sole Proprietorship, Companies, Clubs/Societies, Non-Profit Organisations, State Corporation, Government Agencies, Foreign Missions, Letter of Consent, Trust Companies)-before account opening(CRITICAL ELEMENTS a-g)</i>					
a) To what extent does the FI considers Certificate of incorporation, partnership deed, Memorandum and Articles of Association, current registration, reference, valid IDS of signatories, proof of address, reference, beneficiary/trustees, etc. information-for trust companies TIN, to identify legal persons and arrangements					
b) To what extent does the FI check customer name against the OFAC list, UN Sanction list, Jurisdiction with low AML/CFT Compliance, HM Treasury					
c) To what extent does the FI collect information on the various products and services the customer is expecting to utilise and the expected activity in the account					

d) To what extent does the FI identify and verify the identity of the beneficiaries, member interest, management interest					
e) To what degree does the FI identify and verify the identity of an occasional customer as in 1,2, above					
f) To what extent does the FI mitigate against the risk involved in third-party verification					
g) To what degree does the FI verify the authenticity of the documents presented; are those opening the account separated from those approving it?					
iii. Customer/Transaction Monitoring-Natural & Legal Persons (CRITICAL ELEMENTS a-i)					
a) To what level does the FI carry out continuous CDD measures					
b) To what degree does the FI conduct Enhanced Due Diligence on the basis of Money Laundering or Terrorism Financing suspicion					
c) To what extent does the FI conduct Enhanced Due Diligence if the Transaction is above D200,000 for individuals					
d) To what extent does the FI conduct Enhanced Due Diligence if the Transaction is above D2 million for corporations?					
e) To what degree are CDD measures enhanced if the customer activity changes from the purpose for which the account was opened?					
f) To what level does the FI do CDD if it is in doubt about the authenticity of the customer's identity?					
g) To what extent does the FI verify a change in the composition of the beneficial owners of legal entities or other arrangements?					
h) To what extent does FI carry out CDD/EDD for large unusual, complex transactions?					
i) What degree does the FI carry out CDD for customers from jurisdiction known to have insufficiently implemented the FAFT Recommendations?					
(2) AML/CFT PROGRAMME					
i. AML/CFT Risk Assessment(CRITICAL ELEMENTS a-f)					
a) The FI conducts comprehensive business risk (its own) assessment to determine ML/TF threat.					
b) The FI performs comprehensive business risk (its customer) assessment to determine ML/TF threat.					
c) The FI carries out comprehensive products & services risk assessment for ML/TF threat.					

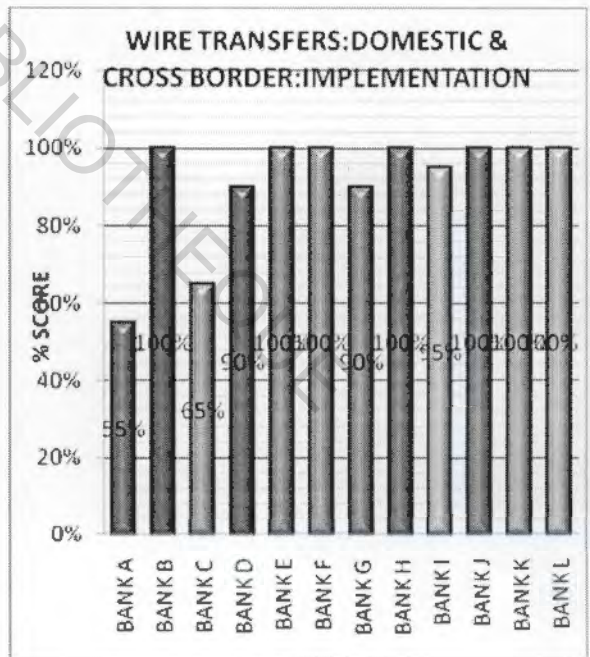
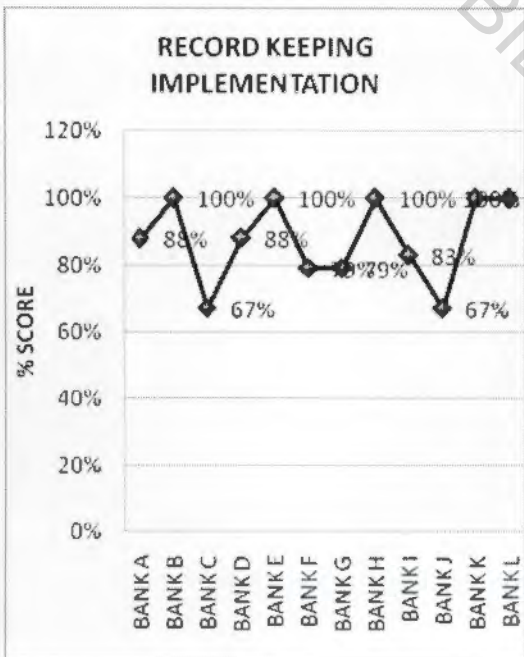
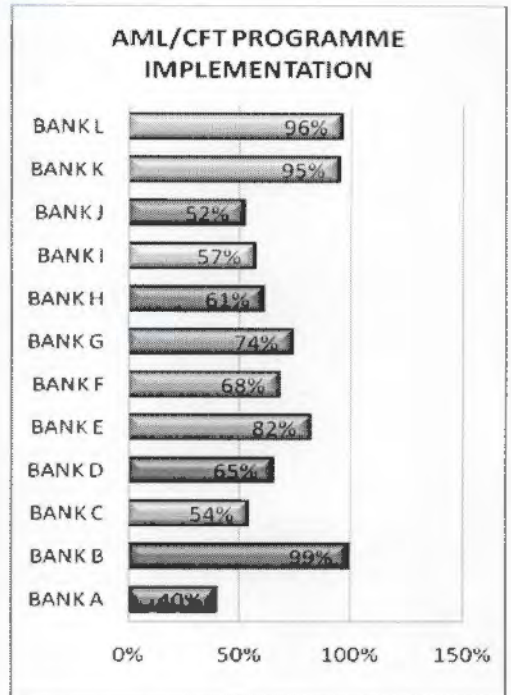
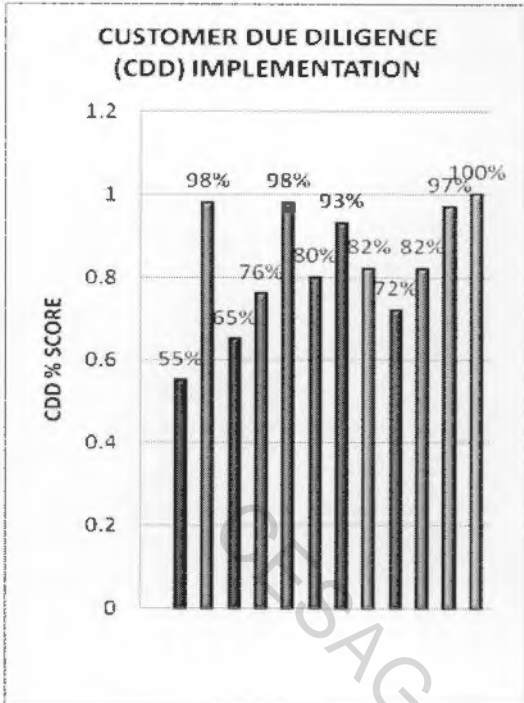
d) The FI conducts comprehensive country/ geographic risk assessment for ML/TF threat.					
e) To what scope does the FI carry out ML/TF impact assessment?					
f) Does the FI have a comprehensive risk profiles/categories for products/services, customer/business and country/geographic risks levels and risk matrix and migration?					
g) To what extent does the FI mitigate against products/services, customer/business and country/geographic risks?					
ii. Internal Policies, Procedures & Controls(CRITICAL ELEMENTS a-c)					
a) To what extent does the FI have a well written internal policies, procedures, rules & controls (to include: risk assessment, risk mitigation, continuous monitoring, staff training/screening, AML/CFT reporting lines, independent AML/CFT audit, AML/CFT manual dissemination to staff, etc.)					
b) To what degree does the FI institute a comprehensive Customer Acceptance Policy, Customer Identification and Monitoring Techniques in place?					
c) To what extent is the FI's AML/CFT policies in compliant with national/International regulations/standards in freezing, seizing, confiscating and forfeiture of terrorists funds					
iii. Compliance Officer (CRITICAL ELEMENTS a-d)					
a) The Compliance Officer is appointed at senior management level					
b) To what extent is the Compliance Officer independent in executing his/her functions					
c) To what degree is the Compliance Officer trained & knowledgeable in AML/CFT Matters					
d) To what degree is the senior management oversight in AML/CFT compliance and management					
iv. Staff Training and Awareness(CRITICAL ELEMENTS a-e)					
a) To what extent are new staff trained on Money Laundering & Financing of Terrorism					
b) To what extent are old staff (customer interface, Marketing, Operation staff, Risk Management, etc.) trained on Money Laundering and Financing of Terrorism?					
c) To what extent are staff screened for Money Laundering and Financing of Terrorism?					
d) To what level is the AML/CFT staff compliance instituted in staff appraisal?					
e) To degree is the frequency of staff training for AML/CTF adequate?					

v. AML/CFT Audit(CRITICAL ELEMENTS a-d)					
a) To what coverage does the FI conduct compliance audit on the work of the Compliance Department?					
b) To what degree is the compliance work separate from the internal audit?					
c) To what extent does the compliance audit report oversight by top management?					
d) To what frequency does the FI conduct AML/CFT audit (<i>yearly, bi-annually: recommended</i>)					
(3) RECORD KEEPING REQUIREMENT(CRITICAL ELEMENTS a-f)					
a) The FI keeps customer documentations for at least five years.					
b) The FI keeps account opening information for at least five years.					
c) The FI keeps records of each transaction including wire transfers for at least five years from the date of the transaction.					
d) FI makes sure all customer and transaction records are available to competent authorities in a timely manner.					
e) In the case of numbered accounts maintained by the FI for a customer for private banking purpose; to what degree does the FI maintain detail records of the identity of the customer?					
f) The FI adequately reviews customer records for update and completeness.					
(4) SUSPICIOUS TRANSACTION REPORTING (CRITICAL ELEMENTS a-g)					
a) The FI reports suspicious transactions to competent authorities (FIU) for Money Laundering purpose.					
b) The FI reports suspicious transactions to competent authorities as regards terrorism financing.					
c) FI reports attempted ML/TF regardless of the amount involved.					
d) To what extent has the FI complied with the suspicious transaction reporting requirements of the Central Bank of The Gambia?					
e) To what degree are the management and staff of the FI protected by Law for reporting suspicious transactions?					
f) To what degree is the confidentiality of the suspicious transaction reporting process respected?					
g) To what extent are measures taken to avoid tipping-off?					

(5) WIRE TRANSFERS: DOMESTIC & CROSS BORDER (CRITICAL ELEMENTS a-e)					
a)	To what extent does the FI collect originator (ordering customer) information (name, address, purpose of the transaction, address, business type, identity) for cross border wire transfer?				
b)	To what degree does the FI collect originator (ordering customer) information (name, address, purpose of the transaction, address, business type, identity) for domestic wire transfer?				
c)	To what extent does the beneficiary FI conduct CDD for wire transfers (domestic/cross border) with incomplete ordering and/or beneficiary customer information?				
d)	To what degree does the FI mitigate the risk of wire transfers being used to perpetrate Money Laundering and Terrorism Financing?				
e)	To what degree does the FI identify the beneficiary of money transfer through Western Union, Money Gram, Money Express and other specialised money transfers-national/international?				
6) POLITICALLY EXPOSED PERSONS (CRITICAL ELEMENTS: a-g)					
a)	To what extent does the FI verify the identity of a new customer or the beneficial owner for PEPs (domestic or foreign) identification purpose?				
b)	To what degree does the FI check names of PEPs (domestic or foreign) against PEPs lists?				
c)	To what extent does the FI identify and verify the spouses, partner, children, parents and close associates of PEPs (domestic or foreign)?				
d)	To what level does the FI verify if a customer/beneficial has graduated to PEPs (domestic or foreign) or no longer PEPs?				
e)	To what degree does the FI verify the sources of funds of PEPs (domestic or foreign)?				
f)	Senior Management Approve entering into a relationship with PEPs (domestic or foreign).				
g)	To what extent does the FI conduct Enhanced Due Diligence on PEPs (domestic or foreign)?				
(7) THE USE OF TECHNOLOGY (CRITICAL ELEMENTS: a-d)					
a)	To what extent does the FI do AML/CFT risk assessment of technology use in its business e.g. E-banking, Internet Banking, Value/Store Card, ATM, VISA, etc.?				

b) To what degree does the FI carry out customer identification and verification in the case of non-face-to customers?					
c) To what extent does the FI utilise AML/CFT Software to assess the risk posed by technology?					
d) To what degree are the FI policies robust enough to mitigate the threat pose by technology for Money Laundering and Financing of Terrorism?					
(8) CORRESPONDENT BANKING (CRITICAL ELEMENTS a-f)					
a) The FI conducts appropriate CDD measures before entering a correspondent bank relationship.					
a) The FI satisfies itself of the AML/CFT regime of the respondent bank and county (<i>Regulatory and Supervisory</i>).					
b) FI does not establish a business relationship with Shell banks and or its beneficiaries and or its affiliates.					
c) FI obtains Senior Management approval before entering into a bank correspondent relationship.					
d) In the case of pay through accounts, the FI takes required CDD measures.					
e) The FI provides adequate response to respondent bank for CDD purposes.					
f) The FI use publicly available information to verify the nature of business of the correspondent.					

PERCENTAGE SCORES



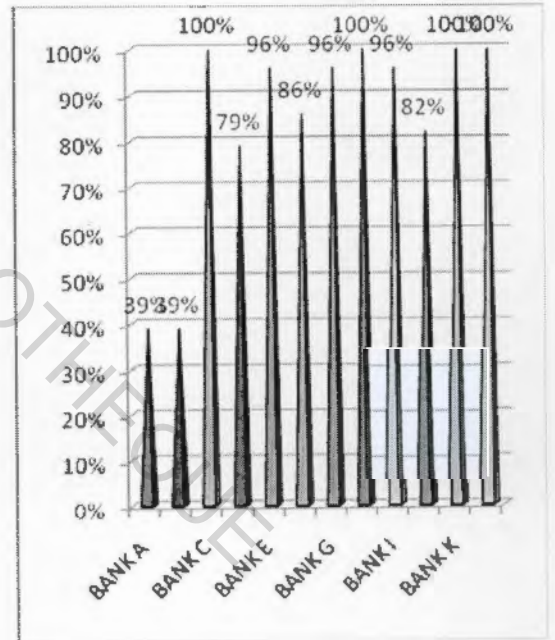
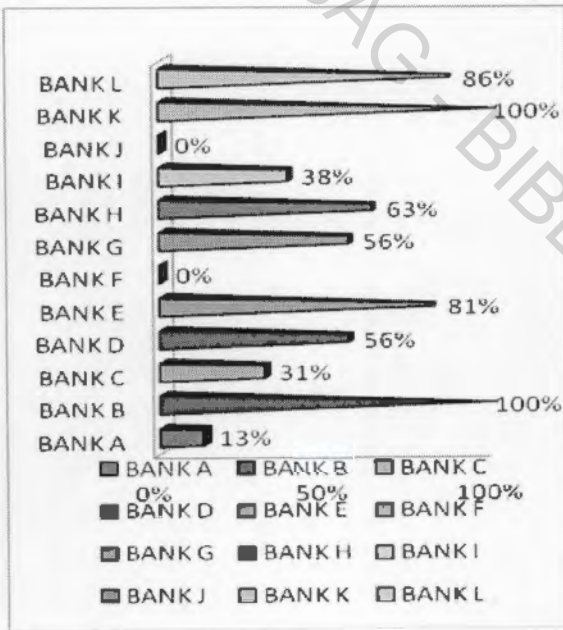
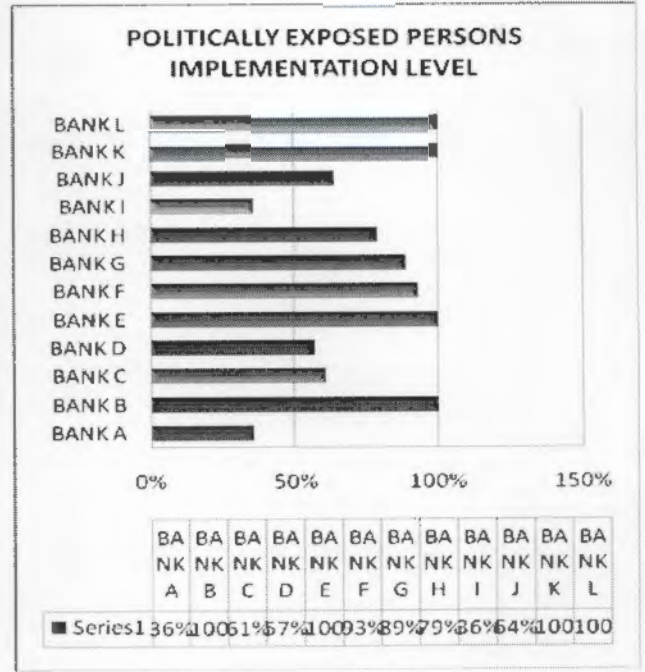
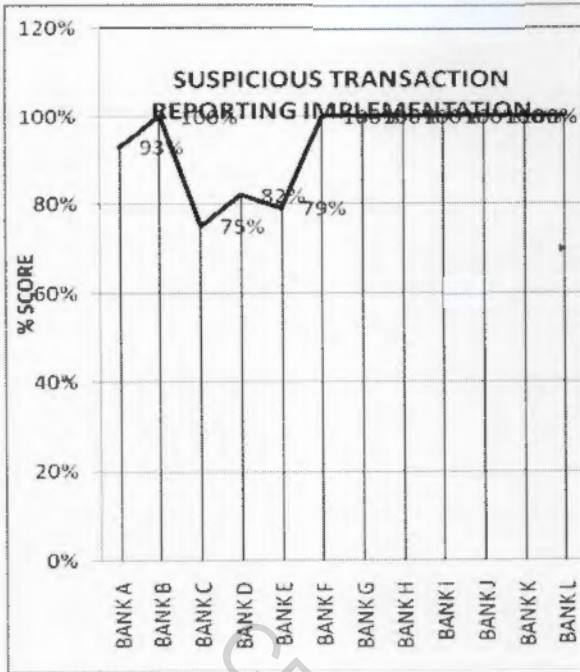


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