# New Zealand National Risk Assessment 2010

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APG Typologies Workshop 2010 - Bangladesh

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# Key Points

- Need to understand what Risk Assessment is

- Foundation for future risk assessments and management

- A fusion of available material

- Identification of knowledge and intelligence gaps

- Agreement needs to be reached in relation to methodology

- Determining client expectation vital

# NZ National Risk Assessment

▪Risk assessment aids decision makers in prioritisation and resourcing

▪Provides timely and accurate information

▪Risk assessment can add to reputational credibility

▪Anticipate problems and limit consequences

# Sector Risk Assessments

| Reserve Bank | Internal Affairs | Securities Commission |
|---|---|---|
| Registered Banks<br>Non-Bank Deposit Takers<br>Life Insurers | Casinos<br>Money Remitters<br>Currency Exchanges<br>Debt Collection Agencies<br>Non-Deposit Taking Lenders<br>Factoring<br>Financial Leasing Agents<br>Non-Bank Credit Cards<br>Cash Transportation<br>Trust and Company Services | Brokers<br>Futures Dealers<br>Trustee Companies<br>Collective Investment Schemes<br>Financial Advisors<br>Issuers of Securities |

# Threat

## Threat is capability x intent

# Risk

## Risk is likelihood x consequence

# Risk Matrix

| Levels of Risk Matrix | | Consequence | | | | |
|---|---|---|---|---|---|---|
| | | Negligible | Minor | Moderate | Major | Severe |
| **Likelihood** | Rare | Low 1 | Low 2 | Medium 3 | Medium 4 | High 5 |
| | Unlikely | Low 2 | Low 4 | Medium 6 | Medium 8 | High 10 |
| | Possible | Low 3 | Medium 6 | High 9 | High 12 | High 15 |
| | Likely | Medium 4 | Medium 8 | High 12 | High 16 | Very High 20 |
| | Almost certain | Medium 5 | High 10 | High 15 | Very High 20 | Very High 25 |

# Risk Levels

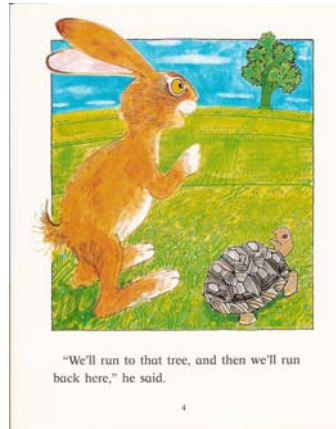| | |
|---|---|
| Very High | The level of impact indicates action required now. |
| High | The level of impact indicates action should be initiated as soon as possible. Monitor for any change. |
| Moderate | The level of impact indicates action should be initiated when resources are no longer required to address Very High of High levels. Monitor for any change |
| Low | The level of impact is considered acceptable at this point in time. Initiate action if resources no longer required to address Very High, High or Medium levels. Monitor for change. |

## 5 Steps of Risk Assessment
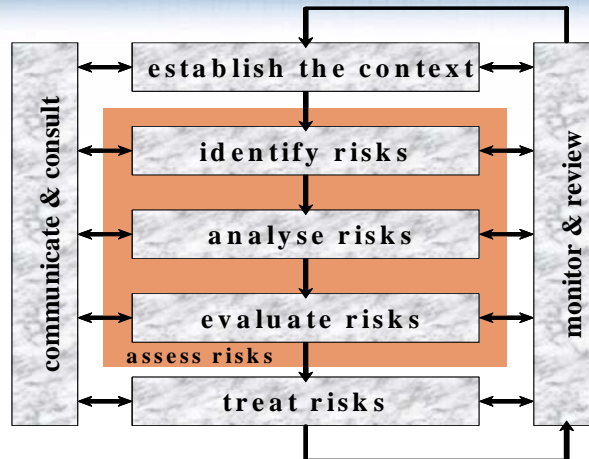


## Static vs. Dynamic Risk

- Risk can be both static and dynamic

- Static risk = things that do not change

- Dynamic risk = things that can change

- Historic static factors = a foundation for assessment of risk

- Dynamic risk = can be stable or acute

# Stable & Acute Dynamic Risk

- Stable dynamic risk = things that can change slowly

- Stable dynamic risk might occur over a period of months or years

- Acute dynamic risk = things that can change quickly

- Acute dynamic risk might occur over a period of a day or two weeks



"We'll run to that tree, and then we'll run back here," he said.

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# Nature and extent of money laundering

- Full nature and extent of money laundering (ML) is unknown

- ML prosecutions are low

- Perceptions continue that ML is complex

- ML investigations a lower priority although profile is increasing

- Estimated total cost to NZ vary in amounts
- Further work required

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# Nature and extent of terrorist financing

- Full nature and extent of terrorist financing (TF) is unknown

- There have been no TF convictions in New Zealand

- Information and intelligence holdings are limited

- New Zealand consider risk of TF as LOW

- Indicators and warnings still need to be developed

- Further work required

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# Money Laundering Crime Funnel

Predicate Offences

ML Related Prosecutions

ML Related Convictions

Sentences of Imprisonment
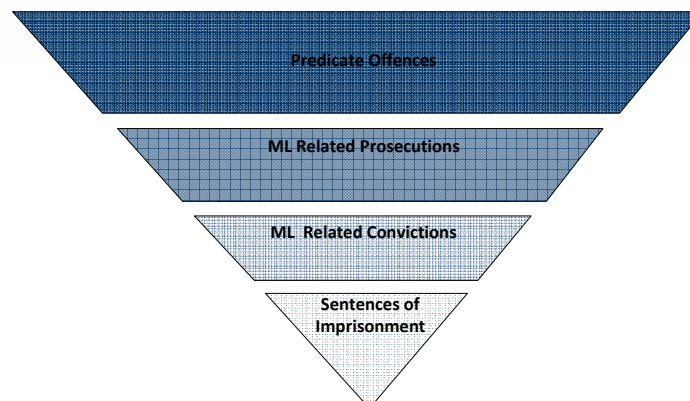
# Typology - General

- Typologies change and adapt
- Drug offending most common predicate offence
- Retail banks generate most Suspicious Transaction Reports (STRS) followed by money remitters and casinos
- Wire transfers generate the most STRs

# Typology - General

- Definitions based on the Asia Pacific Group typologies
- Adapted in keeping with the New Zealand environment
- Use of multiple typologies appears common
- TF typology shares many characteristics with ML typology but overall TF risk is assessed as low

## Typology Risk - Current

▪FIU assessed highest risk typology currently is the purchase of valuable assets (property, vehicles) and commodities (precious metals, gems)

▪The next highest risk typology is wire transfers by money remitters

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## Typology Risk – Next 12 months

▪FIU assessed highest risk typology if it increases in the next 12 months is wire transfers by money remitters

▪The next highest risk typologies are the purchase of valuable commodities/assets, the use of shell companies, the use of nominees/trusts/third parties and trade based money laundering

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# Case Study -Organised Crime

- Operation ACACIA
- Methamphetamine predicate offence
- Organised Crime
- Money laundering
- Foreign Exchange
- Money Remitters



# Case Study - Shell Company

'NZ linked to suspected arms smuggling.'

*Dominion Post, 15 December 2009*

## Summary of Impact & Risk

| Typology | Current Impact | Likelihood of increase | Consequence of increase | Assessed Risk |
|---|---|---|---|---|
| Wire transfers - Remitters | Severe | Almost Certain | Major | Very High 20 |
| Purchase valuable commodities | Severe | Likely | Major | High 16 |
| Purchase of valuable assets | Severe | Likely | Major | High 16 |
| Shell companies | Major | Likely | Major | High 16 |
| Nominees, Trusts, 3rd parties etc. | Major | Likely | Major | High 16 |
| Trade based money laundering | Moderate | Likely | Major | High 16 |
| Cancel credits or overpayments | Major | Almost Certain | Moderate | High 15 |
| Electronic Transfers | Major | Almost Certain | Moderate | High 15 |
| Co-mingling | Major | Almost Certain | Moderate | High 15 |
| Gatekeepers, Professional Services | Major | Almost Certain | Moderate | High 15 |
| Cash Deposits | Major | Almost Certain | Moderate | High 15 |
| Smurfing | Major | Likely | Moderate | High 12 |
| Credit Cards, Cheques etc. | Moderate | Likely | Moderate | High 12 |
| Cash Couriers | Moderate | Likely | Moderate | High 12 |
| Structuring | Major | Almost Certain | Minor | High 10 |
| Abuse of non-profit organisations | Minor | Possible | Moderate | High 9 |
| Investment in capital market | Major | Possible | Moderate | High 9 |
| Other payment technologies | Moderate | Possible | Moderate | High 9 |
| Underground banking etc. | UNKNOWN | Possible | Minor | Medium 6 |
| Trusted Insider/Corruption | Minor | Unlikely | Moderate | Medium 6 |
| Cash exchanges | Moderate | Possible | Minor | Medium 6 |
| Currency Conversion | Minor | Possible | Minor | Medium 6 |

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## Forecast and Trends

- Technology and evolving typologies creating **dynamic** risk
- Criminals adapting faster than law enforcement can innovate
- Lack of resources and limited capability

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# Forecast and Trends

- Lack of focus on fraud predicate offending by law enforcement and Courts

- Continued information and intelligence gaps

- Greater focus on organised crime could mean more demand for AML measures



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# Potential Vulnerabilities

- Over reliance on Customer Due Diligence

- Identity theft and fraud

- Untested legislation/processes and poor precedents

- Defensive reporting

- New and adapted technology

- Countries with weak AML/CFT measures

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# Potential Vulnerabilities

- Organised crime expansion especially Asian organised crime

- Continued profitable illicit drug market

- Capability and capacity of law enforcement

- Cash intensive  areas of continued concern

- Confusion over new legislation

- Continued intelligence and information gaps



# Law Enforcement - NZ

- New legislation

- Role of Financial Crime Group

  ➢ Financial Intelligence Group

  ➢ Asset Recovery units

- Proactive targeting of criminals

using financial data

- NZ Customs initiatives

# Quarterly Typology Report

- Ongoing 3 monthly key element in producing the annual National Risk Assessment

- Provision of ML/TF indicators and warnings

- Reporting on financial crime intelligence products

- Identification of emerging typologies, trends and risks

- Assist in focusing resources

- Contribute to the updating of policies and procedures

# Early Conclusions

- Existing and future AML/CFT measures need to be properly applied to avoid poor legal decision

- Prioritisation for limited resources is required through agreed methods

- Asset Recovery Units will be in demand

- Greater focus on identity theft and fraud

- Focus on cash intensive industry

# Early Conclusions

▪Raising profile of ML in connection with organised crime

▪Illicit drug trade continues to dominate ML environment

▪Cash based activity attractive to organised crime

▪Focus on Asian organised crime





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# Lessons learned

▪Determine client needs and expectation from outset

▪Need to educate client and partner agencies on risk

▪Need to consider both static and dynamic risk

▪Combination of good data and professional judgment best way to assess risk

# Lessons learned

- Early/ongoing communication essential for law enforcement and Sectors

- Someone has to take the lead

- The first version will always be more time consuming than planned for

- Methodology should meet demands of environment

- Separation of the AML/CFT reporting

# Its all about the money…

# Questions?

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