



Financial Crime & Money Laundering Risk Assessment

Solomon Islands
Financial Intelligence Unit (SIFIU)

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Introduction

Guided by the 40+9 Recommendations of the Financial Action Task Force (FATF), the Solomon Islands Government has established systems to prevent money laundering and the financing of terrorism. These systems include the creation of:

- *The Solomon Islands Financial Intelligence Unit (SIFIU)* – comprising the Head of SIFIU, a Compliance Officer and, more recently, a Financial Analyst on part-time secondment from the RSIP.
- *New sources of financial intelligence* – all banks are required by law to report suspicious transactions to the SIFIU. Since 2006, banks have reported over [x] Suspicious Transaction Reports. Assisted by SIFIU, banks are required to train staff to recognise and report suspicious transactions and to appoint a Money Laundering Compliance Officer (MLRO). Key new sources of financial intelligence to commence in 2009 include Western Union Money Transfer Service, and Customs and Immigration will commence monitoring and reporting currency movements across the border of \$50,000 or more in Solomon Islands Dollars (or foreign currency equivalent). Casinos will also be required to identify and report suspicious transactions in 2009.
- *An Anti-Money Laundering Committee* – comprising the Attorney-General (Chair), the Permanent Secretary of Finance, the Police Commissioner, and the Governor of the Central Bank of Solomon Islands (CBSI)
- *A Technical Working Group* – comprising representatives from RSIP, Immigration, Customs, CBSI, and the SIFIU.

Having created the basic infrastructure to prevent financial crime and money laundering, it is timely to improve the targeting of that infrastructure to detect and disrupt the most serious financial crimes harming the Solomon Islands. The purpose of this risk assessment is to improve the detection and disruption of serious financial crime by:

- *Identifying the major types of financial crime* generating funds to be laundered
- *Mapping the ‘money trail’* used to launder those funds – either in Solomon Islands or elsewhere
- *Educating banks and other financial service providers* about the major sources of financial crime, how to recognise transactions associated with such crimes, and to better understand the associated ‘money trails’.
- *Identifying priorities for further research* – particular types of risk require further research and analysis to improve detection and disruption of serious financial crime.

Methodology

Participants

The risk assessment workshop included delegates from the following organisations:

- Central Banks of Solomon Islands - including the Financial Institutions and Foreign Exchange Departments
- Director of Public Prosecutions
- Auditor General
- Royal Solomon Islands Police
- Solomon Islands Financial Intelligence Unit

Invitations were also extended to officials from Forestry, Fisheries, Customs and Immigration, but these agencies were not represented in this exercise. These agencies will have another opportunity to participate in a follow-up workshop to consider strategies to tackle identified higher financial crime risks.

Risk Assessment Process

Participants were formed into teams and they worked through a series of 5 questionnaires with rating scales (Attachment 1). The questionnaires covered the following questions:

- What are the main sources of money to be laundered in the Solomon Islands?
- The money trail - which are the higher priority banks and other financial services used to launder tainted funds?
- How much tainted money stays in Solomon Islands or goes offshore?
- Does Solomon Islands receive money from international sources to facilitate domestic crime?

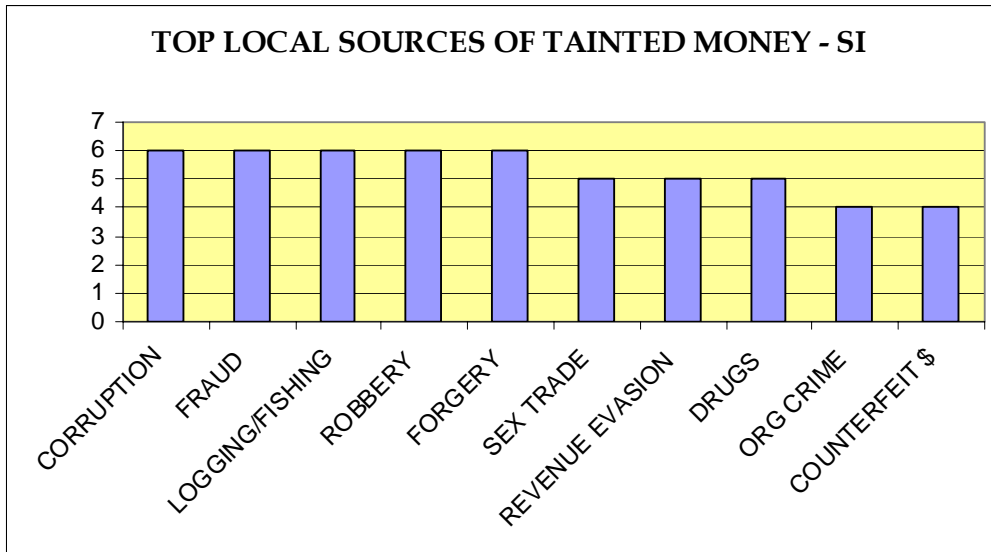
Teams reported their results and these were discussed as a group.

To set the scene for the team discussions, the Auditor-General delivered a presentation on the key results of a large number of financial audits, including the common types of major financial crime and associated systemic problems.

Results

What are the main sources of money to be laundered in the Solomon Islands?

Participants were asked to rate the FATF major predicate crimes for money laundering according to their likelihood of generating tainted money to be laundered. Table 1 below shows the teams’ combined conclusions.



Key points of team presentations and discussion are summarised below:

- *Corruption:* participants noted widespread misuse of official funds, or office, for private financial gain. Numerous Auditor-General reports found that corruption is facilitated by widespread non-compliance with financial legislation and regulations; officials acting outside their authority; serious breakdown in critical management, accounting and record keeping systems; proliferation of unauthorised government bank accounts (over 300); and conflicts of interest not being declared.
- *Fraud, forgery and revenue evasion:* millions of dollars are lost through fraud by government employees; officials using positions of influence to assist associates to receive benefits; lack of action to enforce revenue collection or to recover overpayments, with suspected criminal activity (eg. royalties diverted to private accounts). Concern about land allocations, the issuance of immigration passports and citizenship, and abuse of aviation revenue.
- *Environmental crime:* participants noted that illegal logging causes unsustainable deforestation, harms local communities, generates large sums to be laundered, and is a major driver of corruption. ‘Hundreds of millions’ has been lost in foregone forestry and fisheries revenue. Suspicion persists that foreign vessels are a platform for smuggling SI

wildlife to international markets (eg snakes and endangered parrots). Smuggling of SI dolphins for use in marine entertainment parks can be especially lucrative - fetching between \$800,000 - \$1.6m SBD each. Participants were also concerned by smuggling of SI war relics.

- *Counterfeit products and cash:* sales of counterfeit music and movies are common. Central Bank of Solomon Islands has repeatedly detected counterfeit SI \$50 and \$100 notes (eg. 2004, 2007 and 2008). CBSI has also detected counterfeit US dollars. There is suspicion that Asian logging vessels (particularly Malaysian) bring counterfeit currency into Solomon Islands to finance forestry operations.
- *Sexual exploitation:* concern was expressed about trafficking Asian women into Solomon Islands for prostitution, as allegedly occurs in neighbouring PNG. Important clientele were considered to be casino and nightclub patrons, and employees of logging and fishing industries. There are also reports of Solomon Islands women and girls entering prostitution in Honiara and in forestry camps.
- *Illicit drugs:* cannabis production and sale is common. There are suspicions that cannabis is also smuggled from PNG to Solomon Islands.

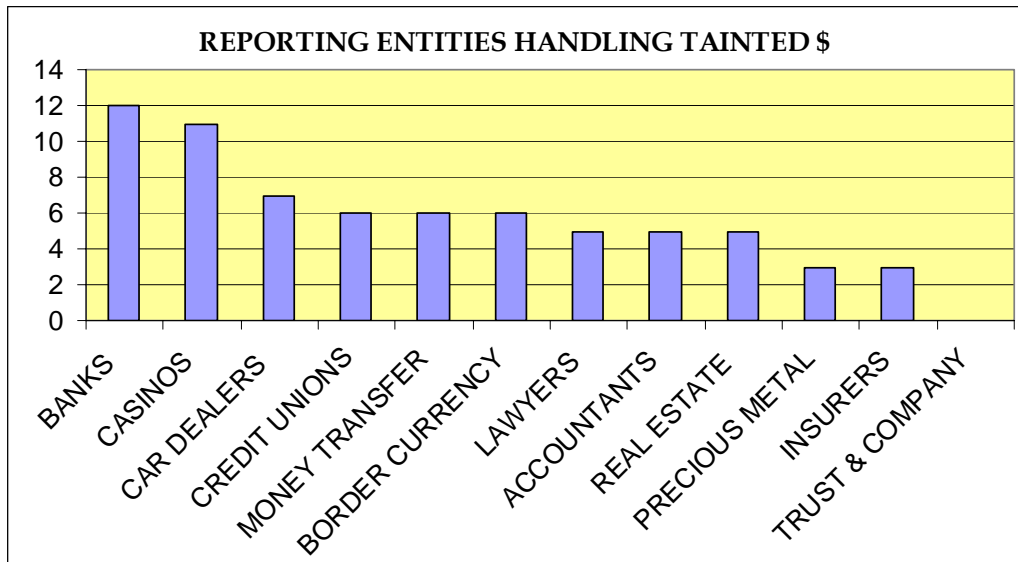
Priorities to improve targeting and collection of financial intelligence

- *Improve bank monitoring of higher risk customers & industries:* educate bank staff to pay particular attention to accounts associated with:
 - Members of Parliament & senior government officials - especially those associated with forestry, fisheries, land allocation, issuance of immigration passports and citizenship, and all kinds of royalty & revenue collection
 - Logging & fishing companies & casinos
- *Banks to ensure they have proper authority to open government accounts:* accounts should not be opened unless there is a letter from a relevant senior official (eg. CFO or Permanent Secretary) specifying the purpose of the account, anticipated cash flows, and authorised signatories. The authenticity of the letter should be verified independently (eg via phone contact with signatory). Banks should also be encouraged to monitor government accounts to identify inappropriate transfers to private or international accounts, and to suggest closure or consolidation of dormant or duplicative government accounts (ANZ is believed to hold the majority of SIG accounts).
- *Border currency monitoring* - Border officials should pay particular attention to passengers carrying \$SD50,000 or more (or foreign currency equivalent) and who are associated with the higher risk customers and industries noted above (MPs & senior officials, forestry, fisheries and

casinos). Border officials must also be alert to the potential for counterfeit currency movements.

The tainted money trail - which are the higher priority banks and financial services?

Participants were asked to consider where money from the top 7 crime types (corruption, fraud and forgery, logging and fishing, robbery, sexual exploitation and revenue evasion) may be spent, invested or transferred after the crime. Table 2 below ranks participants’ beliefs about the organisations most likely to handle tainted money from those offences.

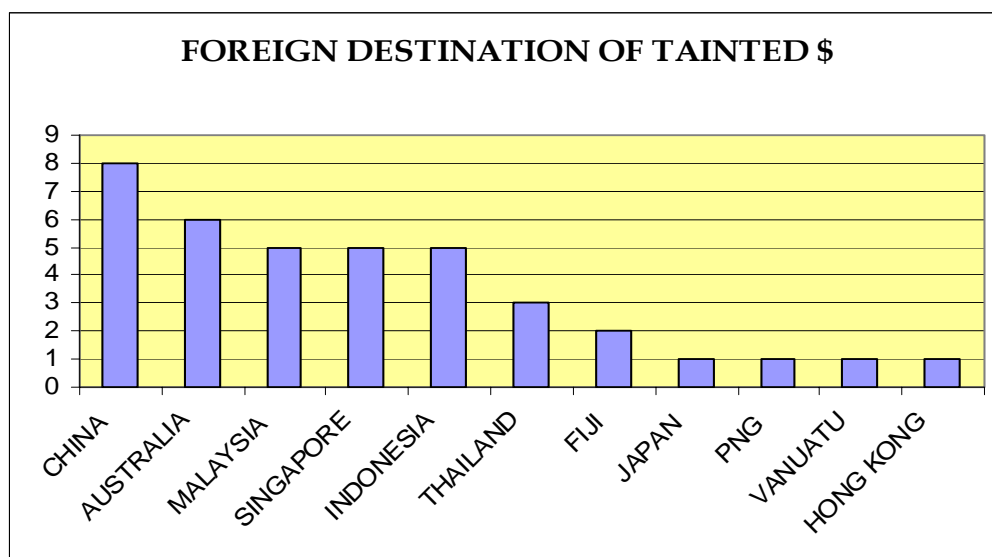


Priorities to improve targeting and collection of financial intelligence

- *Establish monitoring and reporting systems in casinos, car dealers, credit unions, and money transfer services:* arrangements are already in place for banks to improve and fulfil their monitoring and reporting systems. Plans are in place to bring casinos and money transfer services into the monitoring and reporting system in 2009. However, car dealers and credit unions should also be brought into the reporting regime as a priority. Once these entities are brought into the system, lawyers and accountants should be the next priority, and so on to include lower priority entities.

What are the foreign destinations of tainted money?

Participants were asked to consider how much money from the top 7 crime types (corruption, fraud and forgery, logging and fishing, robbery, sexual exploitation and revenue evasion) stays in Solomon Island and how much goes to other countries. Of the money that is suspected of being transferred to foreign countries, [Table 3](#) below shows participants' beliefs about the most likely destinations.



Priorities to improve targeting, collection & exchange of financial intelligence

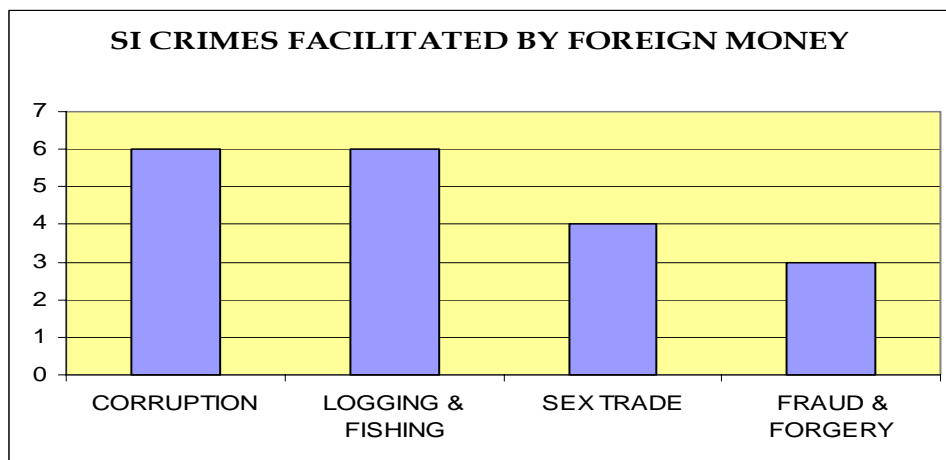
- *Educate banks and money transfer services to monitor transfer of funds to higher risk countries* – to meet their anti-money laundering obligations, tellers and money laundering risk managers should clarify the purpose of larger electronic funds transfers to higher risk destinations, particularly Australia, China, Malaysia, Singapore and Indonesia.
- *Improve sharing of financial intelligence* – Solomon Islands Financial Intelligence Unit should establish information exchange arrangements with the higher risk destinations noted above. The most effective way to do this is for SIFIU to establish information sharing MOUs with higher risk destination countries, and eventually become a member of the Egmont Group of Financial Intelligence Units. Egmont members enjoy mutual secure access to the financial intelligence of over 100 countries.
- *Border currency monitoring* – Border officials should pay particular attention to passengers or crew carrying \$SD50,000 or more (or foreign currency equivalent) and whose passports show a history of travel to Australia, China, Malaysia, Singapore and Indonesia. Such border currency scrutiny will become more important if banks fulfil their obligations to question the purpose of larger electronic funds transfers to

those higher risk countries (thereby creating greater incentive to smuggle tainted money in cash, travellers cheques or other bearer negotiable instruments).

- *Promote subregional cooperation against environmental crime* – Solomon Islands, PNG and Indonesia, for example, have serious problems with illegal logging conducted by a similar set of companies. A shared and deeper understanding of the financial operations of these companies would improve the capacity of each country to detect suspicious transactions and to disrupt the financing of illegal logging. Similar benefits may accrue from a regional approach to understanding and disrupting the financing of illegal fishing.

Does Solomon Islands receive money from international sources to facilitate domestic crime?

Participants were asked to identify crimes in Solomon Islands that are facilitated by funds from other countries. The chart below ranks crimes according to their propensity to be driven by foreign money.



Priorities to improve targeting and collection of financial intelligence

- *Corruption, illegal logging & fishing:* as noted above, opportunities for foreign funds to facilitate corruption include attempts to influence the granting of work permits, visas, decisions on revenue or duty collection, and granting resource extraction licences. Foreign logging entities are reputedly a source of finance for some political interests. For these reasons financial institutions should pay particular attention to incoming wire transfers and local deposits into accounts associated with members of Parliament & senior government officials. Incoming transfers (TTs) from Australia, China, Malaysia, Singapore and Indonesia deserve particular scrutiny.

- *Sexual exploitation*: employees of logging and fishing industries were identified as frequent clients of sex workers, and this activity is suspected of being associated with the gaming industry, logging camps and visiting ships. Given the small scale of individual financial transactions with sex workers, it is unlikely that financial intelligence systems would detect such transactions. However, to the extent that women are trafficked into Solomon Islands for sex work, any inappropriate payments from the granting of work permits and visas may be detected if financial institutions identify suspicious deposits into the accounts of government officials.

Summary of Recommendations

- *Improve bank monitoring of higher risk customers & industries*: educate bank & financial institution staff to pay particular attention to accounts associated with:
 - Members of Parliament & senior government officials – especially those associated with forestry, fisheries, land allocation, issuance of immigration passports and citizenship, and royalty & revenue collection
 - Logging & fishing companies
 - Electronic funds transfers between SI and Australia, China, Malaysia, Singapore and Indonesia.
- *Banks to ensure they have proper authority to open government accounts & consider closure or consolidation of dormant or duplicative government accounts.*
- *Establish financial monitoring and reporting systems in casinos, car dealers, credit unions, and money transfer services*
- *Improve sharing of financial intelligence* – Solomon Islands Financial Intelligence Unit should establish information exchange arrangements with the FIUs of Australia, other Melanesian countries, China, Malaysia, Singapore and Indonesia.
- *Promote subregional cooperation against environmental crime* – Solomon Islands, PNG and Indonesia, for example, have serious problems with illegal logging conducted by a similar set of companies.
- *Border currency monitoring* – Border officials should pay particular attention to passengers carrying \$SD50,000 or more (or foreign currency equivalent) and who are: (i) associated with the higher risk customers and industries (eg. MPs & senior officials & people associated with forestry & fisheries industries), or (ii) have a history of travel to Australia, China, Malaysia, Singapore and Indonesia. Other important monitoring priorities include human trafficking – especially for the sex trade, and the potential for counterfeit currency movements & smuggling of wildlife and war relics.

Association between crime types and foreign countries.

Crime	Associated Country				
<i>Corruption</i>		China	Malaysia & other Asia ¹	PNG & Fiji	
<i>Corruption reducing SI export revenue</i>		China	Malaysia & other Asia		
<i>Counterfeit Currency</i>		China			South Africa
<i>Human Trafficking & Prostitution</i>		China	Asia		
<i>Theft of bank drafts & travellers cheques</i>					South Africa
<i>Financial Scams</i>				PNG	Nigeria
<i>Drug Trafficking</i>	Australia			PNG & Fiji	
<i>Counterfeit Products</i>		China			
<i>Smuggling of wildlife & war relics</i>	Australia		Asia		

¹ Singapore, Indonesia, Thailand