

National Anti-Money Laundering Council

Established under the Financial Transactions Reporting Act



ML/FT NRA

The Fiji Money Laundering and Financing of Terrorism National Risk Assessment (ML/FT NRA) has been prepared by the National Anti-Money Laundering Council (NAMLC) and is a significant outcome in Fiji's anti-money laundering and countering the financing of terrorism (AML/CFT) program. The ML/FT NRA is both timely and necessary in the development of Fiji's AML/CFT program.

Money laundering and terrorist financing are global issues and Fiji has a responsibility to ensure that it identifies and deters these activities and establishes and maintains an environment hostile to ML/FT. An essential and central component of that responsibility is the ML/FT NRA. The ML/FT NRA will also be of benefit to Fiji in meeting the global AML/CFT standards established by the Financial Action Task Force on Money Laundering (FATF) and reviewed in respect of Fiji by the Asia Pacific Group on Money Laundering (APG).

The ML/FT NRA is important to the Fijian Government, financial institutions and people of Fiji in understanding the risks Fiji may face from ML/FT, not only now, but also for the future. The ML/FT NRA provides a preliminary overview of the ML/FT issues affecting Fiji now, and importantly what the ML/FT risks may be in the coming years. It provides knowledge and understanding of ML/FT to inform the Government of Fiji to enable priority setting in our AML/CFT program. In addition, the ML/FT NRA represents an opportunity for government agencies and the private sector to better understand the ML/FT risks that they may encounter, and to be able to adapt their role in the Fiji AML/CFT program to those risks.

The ML/FT NRA not only identifies the ML/FT risks, but also provides a range of mitigating strategies, which are being implemented to minimise the identified ML/FT risks in the future.

The ML/FT NRA is not a static report, but will require ongoing monitoring, review and up-dating over the next 2 to 3 years of all the potential ML/FT risks identified in the ML/FT NRA. Additionally, the ML/FT NRA will be updated with any new ML/FT risks that are identified. A

further ML/FT NRA is expected to be conducted within 5 years. Consequently, this requires that effective communication and consultation between all stakeholders are in place that promote collaboration and intelligence sharing across agencies. Fiji must also ensure that its risk management plans remain up-to-date, relevant to objectives and that they are regularly reviewed and evaluated.

ML and FT are growing in sophistication and constantly involve new and advanced processes and technologies. In addition to obtaining funds from traditional crimes, money launderers and those persons and entities related to terrorism are now exploiting the internet and other technologies to target the community through activities such as online scams, cybercrime and the theft of personal identity information stored electronically. Both ML and FT are expanding their reach globally and infiltrating new markets, legitimate and illegitimate, in order to obtain funds and to increase their criminal opportunities. Both ML and FT work to conceal unlawfully derived profits and seek to intermingle those funds with legitimately earned money.



ML/FT diverts funds out of the legitimate economy and undermines the profitability of lawful businesses. ML/FT significantly affects countries, communities and individuals. It removes large amounts of money from the global and national economies that could otherwise be used to fund services, roads, hospitals and schools. This money is instead lining the pockets of criminals and its impact on the community is pervasive.

Fiji, positioned prominently in the South Pacific, is not immune to these processes of ML/FT. Those involved in ML/FT are constantly looking for new markets for their activities and Fiji, as the most developed economy in the South Pacific region could be a prime target for their activities.

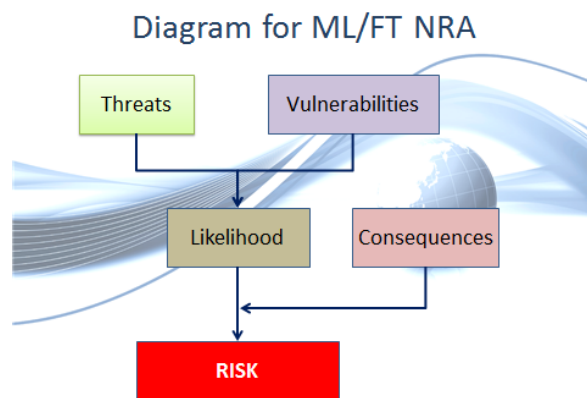


The Fiji ML/FT NRA was conducted between May 2014 and May 2015 on behalf of the **National AML Council** (NAMLC), the body responsible for oversight of Fiji’s Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) Program. The primary Fijian agencies responsible for the preparation of the NRA are formed into a Taskforce and include the Ministry of Justice (lead agency), Reserve Bank of Fiji (RBF), Fiji Financial Intelligence Unit (FIU), Office of the Director of Public Prosecutions (ODPP), Office of the Solicitor General, Fiji Police Force (FPF), Fiji Revenue and Customs Authority (FRCA), Department of Immigration, Fiji Independent Commission Against Corruption (FICAC), Ministry of Defence and Ministry of Foreign Affairs.

Fiji has the basis of a very good AML/CFT program. All necessary legislation has been introduced, AML/CFT supervisors are operational, cases have been investigated and a number of ML cases have been before the courts and penalties applied. It is now imperative to ensure that the Fijian AML/CFT program continues to be effective and all ML/FT risks are identified and where possible addressed appropriately.

The NRA has identified a range of threats and vulnerabilities that may make the program susceptible to ML/FT now and in the future

The Fiji ML/FT NRA has been conducted by the Fijian authorities to identify the **threats, vulnerabilities and consequences** of ML/FT that may be apparent now or possibly may arise in the future. **The NRA determines the level of ML/FT risk and prioritises those risks for mitigating action.** The mitigating strategies outlined in the NRA should be considered and implemented, with those that require urgent action being implemented without delay.



The NRA sets out to identify the highest ML/FT risks requiring the most immediate mitigating strategies.

The highest priority need for action results from a combination of the highest level risks and the highest level vulnerabilities, combined with the greatest likely consequences of those ML/FT risks.

The NRA has drawn on the best available data and information obtained through interviews, workshops, data from government agencies and from the financial institutions, media reports and other public sources. This information was used to assess the ML/FT risk in and through Fiji using the standard risk management approach of identifying and evaluating the threats, systemic weaknesses and the possible consequences to Fiji should those ML/FT risks eventuate.

The NRA has also referenced the *Guidance on National Money Laundering and Terrorism Financing Risk Assessments* published by the **Financial Action Task Force** on money laundering (FATF) in February 2013, the Asia Pacific Group on money laundering (APG) Strategic Implementation Planning (SIP) framework for NRAs, and a range of the completed NRA’s of other countries, particularly from the Asia/Pacific region.

A number of assumptions are applied in determining the risk of ML and FT in and through Fiji. First, that the higher the value of funds laundered, the greater the threat for ML. Second, for FT the value of funds derived from predicate offences may be at a much lower level for both domestic FT and the financing of offshore terrorism, and possibly the threat level will be higher at much lower funds values. Third, FT may only involve licit funds, or the comingling of licit and illicit funds, but most likely generates funds from the same types of predicate crimes that feed the ML process.

Consequently, the approach taken in identifying the major ML threats in and through Fiji, now and in the short term future, are the significant amounts of funds derived from predicate crimes and therefore available for ML/FT. The funds with the highest level risk to possible ML/FT in and through Fiji result from **illicit drug** related offences and **tax evasion** including income tax evasion, VAT fraud and duty evasion have been identified as the most significant generators of illicit funds in Fiji.

Drug related offences have traditionally been at a very low level in Fiji. Domestic use is now seen to be increasing, primarily due to the cultivation and manufacture of illicit drugs, and recently, some small domestic seizures of imported hard drugs have emerged in the domestic market. In recent years, a small number of investigations have identified Fiji as a transshipment point for illicit drugs bound for other countries. It is likely that transshipments of drugs would be associated with illicit capital flows through Fiji, at least in small values, such as shore party facilitation payments.

Fraud on the government in the form of tax evasion is very evident in Fiji, has resulted in a range of cases before the courts and reports on the various types of tax evasion have appeared in the media. Tax evasion in Fiji includes income tax evasion, Value Added Tax (VAT) fraud and evasion of duties and licence fees.

Illicit funds resulting from deception, misappropriation, cybercrime, theft, bribery and corruption and the illicit cross border movement of currency are other potential ML/FT threats. Trade based money laundering, although not considered to be significant in Fiji in terms of illicit values identified, is also rated as a potential ML/FT threat based on global concerns.

Although **financing of terrorism has not been identified in Fiji**, it is possible that financing of terrorism threats may derive from all of these illicit activities regardless of the value, or from legitimate funds, consequently the likelihood of FT will be very dependent on the level of

the vulnerabilities or weaknesses in Fiji's systems and institutions. Because of the current situation with regard to widespread terrorism and terrorist activities globally, financing of terrorism is generally considered within the domestic and regional context to rate low as a potential threat for Fiji in the future, but will need to be watched closely into the future.

Fiji has one of the most developed economies in the South Pacific region. The economy of Fiji is gradually moving from a cash based economy to being more reliant on electronic transactions. However, cash is still a significant component of the economy, particularly involving the smaller financial services entities. The movement of funds, both **cash and electronic wire transfers** that originate from offshore has also been identified as a concern as a potential enabler for ML/FT to occur in and through Fiji. Although there is limited information available in Fiji on the source of illicit transnational flows of funds into and through Fiji, it is possible that overseas money launderers may have used Fiji's financial institutions to move and attempt to hide illicit funds. Transnational illicit funds resulting from overseas corruption, drug trafficking and other crimes, and also potentially the financing of terrorism, may be finding its way into Fiji.

Fiji's relatively diverse financial sector creates a number of vulnerabilities which can lead to the escalation of ML/FT. The **commercial banks** are considered to be very highly vulnerable to ML/FT. The sectors that were found to be less, but still highly vulnerable were licenced **foreign exchange dealers, and safe custody facilities**. Several other sectors were also found to be of a medium or low level of vulnerability.

There has been a high level of cross party **political will** to ensure that significant legislative reform has recently been carried out in Fiji and that ML/FT are addressed as a priority. Although the ML/FT related laws are generally adequate, some amendment is still required to strengthen the AML/CFT program. The AML/CFT legislation provides agencies with largely adequate powers to detect and deter ML/FT, however full implementation of those powers is essential and technical and human resources must be maintained to ensure the effectiveness of the legislation and to minimise the ML/FT risks.

Although most Fijian agencies have a good level of technical resources such as computers and software to assist them in their AML/CFT program, some agencies require **further technologies** to ensure the overall AML/CFT program is effective. The transactional reporting component of the program is very good, and

the FIU has an adequate degree of analytical capacity to support the intelligence value of the reports, and consequently ML/FT is being identified. However, this could be further enhanced to ensure a higher level of identification of ML/FT activity.

Border controls use a range of physical and electronic surveillance resources and a number of persons failing to declare border currency movements have been identified and prosecuted. However, the system has limited effectiveness in detecting the movement of cash into and out of Fiji particularly at the seaports. With a large number of cruise ships and other shipping visitations, the limited ability of authorities to ensure that illicit cash and monetary instruments are not being brought into and taken out of the country, in particular by “transit” tourists and crews of other vessels, is a concern.

AML/CFT coordination is generally good. The formal framework, such as Memorandum of Understanding (MOU), are largely in place and a range of task forces and other coordinating groups are established and operating. However, it is important to ensure that the range of task forces and groups are effective and not overly onerous on agencies.

A significant portion of the ML/FT risks are borne by the Fijian banking sector with regard to illicit cash and electronic funds. The Reserve Bank of Fiji is the highest capacity supervisor which goes some way to mitigate the risk in the financial sector. Nonetheless, the overall risk to the sector, particularly the risk of transnational laundering remains very high.

All of Fiji’s financial services are facilitated by modern communications and a relatively open economy. While the openness to international funds is a key aspect to Fiji’s strategy for economic growth, this openness also creates a higher likelihood of the services being used to facilitate ML/FT through illicit funds flows.

Vulnerabilities within, inter alia, money transmission services and money changer businesses create channels for placement and movement of cash proceeds. Although there is a growing use of electronic financial technologies, there is still a high level of risk that cash proceeds will be carried into Fiji to be layered through these channels. Similarly, the risk that proceeds of crime from domestic and overseas offenders will be layered through real estate deals is also particularly high.

Based on the NRA, Fiji is not considered to have a significant ML/FT risk. It must however implement the identified strategies to ensure that ML/FT does not escalate in the higher risk areas, that any new ML/FT risks are identified at an early stage and that mitigating strategies are implemented to minimise the level of that ML/FT risk.

There are four areas of urgent concern to the Fiji AML/CFT program. Strategies have been identified for each of these areas of risk. Immediate attention to these issues will assist to minimise the most significant ML/FT risks identified in the NRA. Those areas of concern are:

- **Cash economy**
- **Supervision of financial institutions**
- **Technical resources**
- **Financing of Terrorism (due to high risk globally)**

The NRA, the first for Fiji, is very broad, outlines the high level of ML/FT risks and is consequently a foundation for the development of a more complete assessment of ML/FT risk over the next few years. To develop a more thorough NRA, additional statistical and other data will need to be collected and analysed. The information and statistics that will be required, need to be identified and collection of that information should commence immediately.

The NRA must be reviewed over the coming 12 months, updated and amended as required and a further NRA should be conducted within the next 2 to 5 years.

It must be stated that Fiji has the basis of a very good AML/CFT program. All necessary legislation has been introduced, AML/CFT supervisors are operational, cases have been investigated and a number of ML cases have been before the courts and penalties applied. It is now imperative to ensure that the Fijian AML/CFT program continues to be effective and all ML/FT risks are identified and where possible addressed appropriately.

The Fiji ML/FT NRA was conducted between May 2014 and May 2015 on behalf of the National AML Council.

For enquiries regarding the Fiji ML/FT NRA Report, please contact:
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Fiji NRA – Summary Sheet

The assessment of most significant criminal activities that produce illicit funds available for laundering in and through Fiji are:

Predicate Crime Evident in Fiji	Ranking
Drugs (Import; Transshipment; Cultivation; Manufacture)	Very Large
Fraud – Income Tax Evasion; VAT fraud; Duty evasion	Very Large
Deception	Medium
Misappropriation	Medium
Cybercrime (Abuse of technologies)	Medium
Theft	Medium
Offshore offences	Medium
Corruption	Medium
Illicit cross border currency movements	Medium
Trade based	Medium
Financing of Terrorism	Low

The assessment of vulnerabilities that may assist or facilitate ML/FT in Fiji are:

Vulnerability	Sub-vulnerability	Vulnerability Rating
Political	Political Will	Low
	Legislation	Low
Capacity and Institutional	Human Resources - Expertise	Low
	Human Resources – Staff availability	Medium
	Technical Resources	High
	Infrastructure	Medium
	Coordination	Medium
Economic and Geographic	Geographic	High
	Population	Low
	Industry	Medium
	Imports and Exports	Medium
	Revenue	Medium
	Foreign Investment	Medium
	Cash Economy	Very High
Legal and Judicial		Low
Technology		High

Other areas of concern for Fiji to domestic and transnational illicit funds flows are:

Other areas of concern	Vulnerability Rating
Charities/NPOs	High
Companies	High

The assessment of vulnerability ratings for financial institutions to domestic and transnational illicit funds flows are:

“Financial Institution”	Vulnerability Rating
Banks	Very High
Credit Unions	Medium
Micro-finance institutions	Low
Money Lending - Credit Institutions (Finance companies)	Medium
Life Insurance	Medium
General insurance	Very Low
Insurance Brokers	Low
Financial leasing	Low
Foreign Exchange Dealers	High
Money Changers	Medium
Money transmission Services	Medium
Securities exchange	Very Low
Stock Brokers	Low
Credit cards and debit cards issuers	Medium
Issuers of financial guarantees	Low
Investment/Safe Custody	High
Trading in money market instruments	Low
Portfolio management	Low
Superannuation funds management	Low
Unit Trusts - Trustees and managers	Low
Trust or company service providers	Low

The assessment of vulnerability ratings for the designated non-financial businesses and professions (DNFBP) sector to domestic and transnational illicit funds flows are:

DNFBP	Vulnerability Rating
Legal Practitioner	Medium
Accountant	Medium
Real Estate Agent	High
Pawnbroker	Medium
Bullion Dealer – Gold Export	Low
Collection of money	Medium
Gaming	Medium
Bookmaker	Medium
Art, Antique, Precious Metals and Jewellery Dealers	Medium
Travel Agency	Medium
Dealers in high value assets (Cars, aircraft, vessels)	Medium

Summary of the highest priority ML/FT Risks, that is those rated as Very High in the risk priority list for illicit drug related activities and tax evasion, and those rated as high for the financing of terrorism.

Illicit Drug related activities	Tax Evasion	Financing of Terrorism
Technical Resources	Technical Resources	Technical Resources
Geographic	Geographic	Geographic
Cash Economy	Cash Economy	Cash Economy
Technologies	Technologies	Technologies
Commercial Banks	Commercial Banks	Commercial Banks
Restricted Foreign Exchange Dealers	Restricted Foreign Exchange Dealers	Restricted Foreign Exchange Dealers
Investment/ Safe Custody	Investment/ Safe Custody	Investment/ Safe Custody
Real Estate Agents	Real Estate Agents	Real Estate Agents
Charities/NPOs	Charities/NPOs	Charities/NPOs
Companies	Companies	Companies

Mitigating Strategies

There are four areas of urgent concern to the Fiji AML/CFT program. Immediate attention to these issues will assist to minimize the most significant ML/FT risks identified in the NRA. Those areas of concern are:	Cash economy
	Supervision of “financial institutions”
	Technical Resources
	Financing of Terrorism (due to high risk globally)