



Lumley – Your  
Edge

Symposium:

Fraud & Money  
Laundering

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# Fraud in NZ

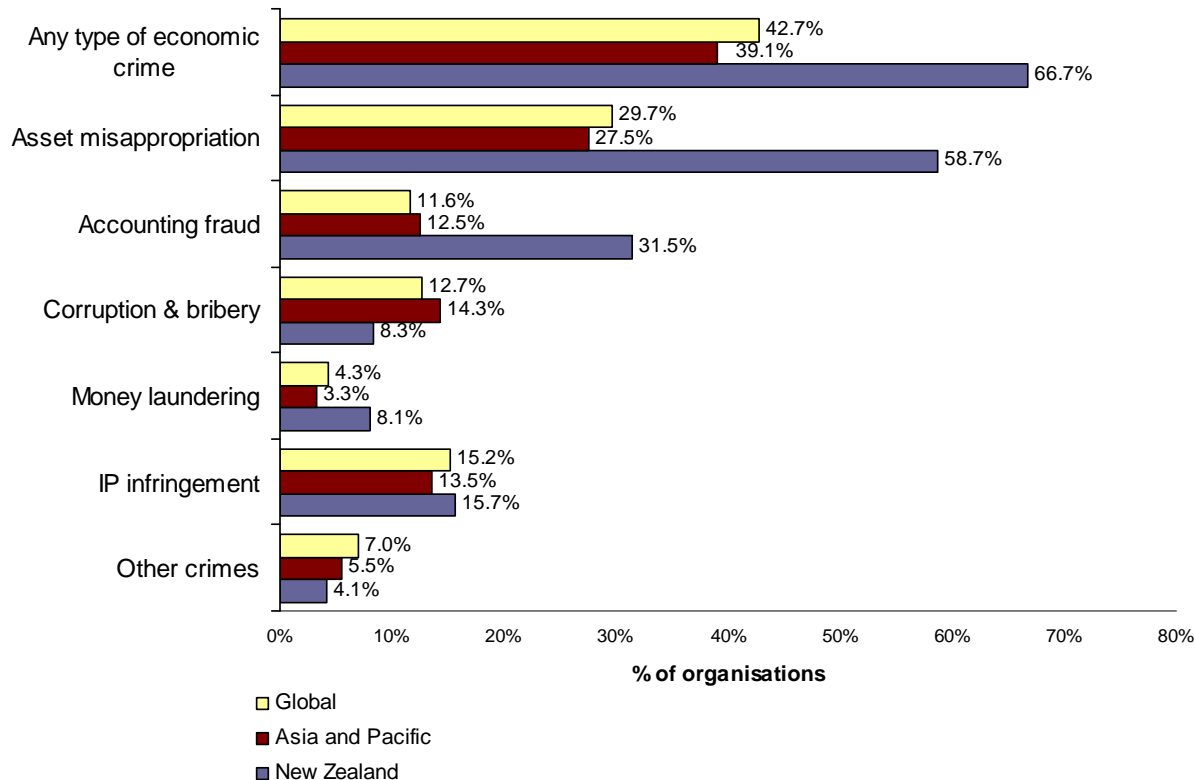
## Trends we are seeing

### 2007 PwC Global Economic Crime Survey:

- 4<sup>th</sup> biennial fraud survey – 1<sup>st</sup> that is NZ specific
- 5,428 organisations globally – 78 in NZ
- 50% made up of government and financial sectors
- Economic crime defined to include:
  - Asset misappropriation;
  - Accounting fraud;
  - Corruption and bribery;
  - Money laundering; and
  - IP theft.

# 2007 Global Economic Crime Survey

- Fraud is a fact of business life – 67% of organisations experienced fraud in last 2 years.



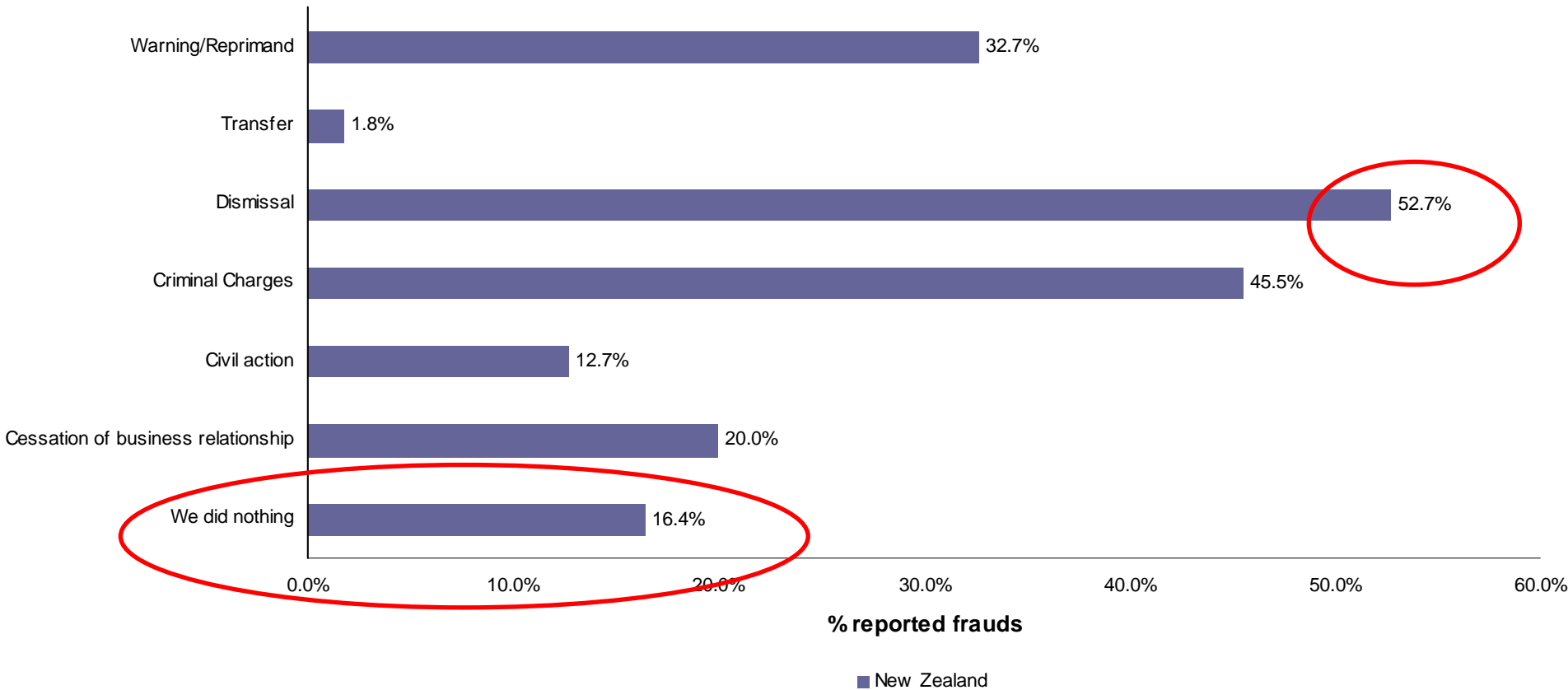
# 2007 Global Economic Crime Survey

- Total loss from economic crime over last 2 years from NZ respondents was \$69,540,574
- Average loss over the last 2 years was \$1,021,501
- 20% of losses were between \$1.35 and \$13.5 million

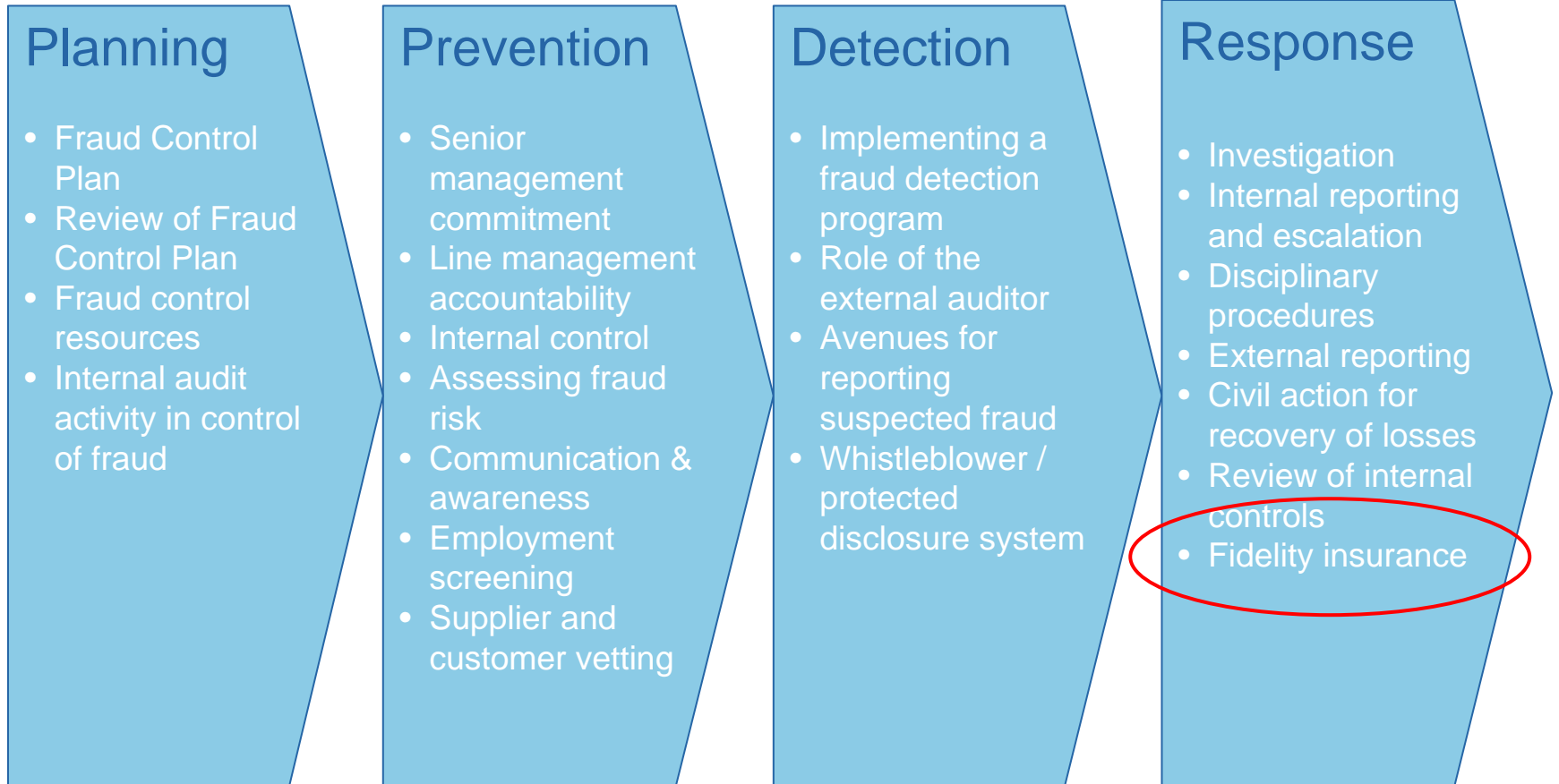


# 2007 Global Economic Crime Survey

- How were the perpetrators dealt with?



## Key elements to an effective Fraud & Corruption Control Strategy



# Anti-Money Laundering

# The new Bill

- The “Anti Money Laundering and Countering Financing of Terrorism Bill” has just been released.
- Will eventually replace the Financial Transactions Reporting Act 1996.
- Regulations not released yet – the devil will be in the detail.
- Select Committee will report back to Parliament on 15 September
- New regime comes in to force 2 years after legislation is passed i.e. October/November 2011
- Two tranches of implementation.

# Affected industries

## 1. Initial tranche of the legislation (financial institutions known as a “reporting entity”)

- registered banks
- non bank deposit takers (includes finance companies, building societies & credit unions)
- life insurers
- issuers of securities
- futures dealers
- funds managers
- brokers
- financial advisers
- money changers and money and value transfer services
- casinos

## 2. Subsequent tranches of the legislation

- Racing Board (TABs), lawyers, conveyancers, accountants, real estate agents, jewellers

# What constitutes a financial institution?

Very broad definition. Undertakes any of these (amongst others):

- **Underwriting or placement of life insurance or other investment related insurance**
- Accepts deposits or other repayable funds from public
- Lending to or for a customer & financing of commercial transactions
- Financial leasing (not including consumer products)
- Transferring money on behalf of a customer (repayment of premiums for cancelled policies?)
- Undertaking financial guarantees & commitments
- Issuing or managing the means of payment (credit cards, traveller's cheque)
- Investing, administering, or managing funds on behalf of other people
- Money or currency changing
- And more.....

# The main obligations

- The main obligations under the Bill:
  - Implement an AML/CFT programme
  - customer due diligence
  - Transaction monitoring and ongoing CDD
  - Record keeping for at least 5 years
  - Train & vet staff
  - Suspicious transaction reporting

# Why should this be of interest to you?

## **Section 31 of the Bill – Reliance on agents**

Subject to any conditions that may be prescribed by regulations, a reporting entity may authorise a person to be its agent and rely on that agent to conduct the customer due diligence procedures and obtain any information required for customer due diligence under this Act or the regulations.

# Customer Due Diligence

- Reporting entities must conduct CDD on
  - Customer
  - Any beneficial owner of a customer (what %age constitutes a beneficial owner?)
  - Any person acting on behalf of a customer
- Types of CDD are
  - Standard CDD
  - Simplified CDD
  - Enhanced CDD

# Standard Customer Due Diligence

- When business relationship established with a new customer
- Customer seeks to conduct an occasional transaction
- If you suspect AML or CFT is involved
- If you reasonably suspect the customer is not who they say they are
- For existing customers:
  - Change in business relationship
  - Doubts raised as to original CCD documents or data
  - Suspect that the transaction involves AML or CFT
  - Believe that in relation to the level of risk, the entity has insufficient information on the customer
- Must have sufficient information on the nature & purpose of the proposed business relationship
- Have sufficient information to determine whether they need to be subject to enhanced CDD

# Standard Customer Due Diligence

What do you need?

- Full name
- DOB
- Person's relationship to customer (if not the customer)
- Address or registered office
- Company registration number
- Any information required by regulations
- Any other information, based on the risk, that could be reasonably obtained

# Enhanced Customer Due Diligence

Enhanced CDD required when customer is:

- Trust or other vehicle for holding personal assets
- Non-resident customer from a country that has insufficient AML systems (how do we know what those countries are?)
- Company with nominee shareholders or shares in bearer form
- Unusually large or unusual pattern of transactions that have no apparent or visible economic or lawful purpose (transaction monitoring?)
- When reporting entity considers that level of risk is sufficient to apply enhanced due diligence
- PEPs – both domestic & foreign
- Involved with new or developing technologies and products that might favour anonymity
- Other requirements relating to wire transfers and correspondent banking

# Enhanced Customer Due Diligence

What do you need to do:

- Identify source of customer's funds, ensure that it is current & correct
- Take reasonable steps to verify beneficial owner's identity
- Verify identity of persons acting on behalf of customer
- Take all reasonable steps to verify source of wealth or funds of customer
- Anything else required by regulations

# Thank you and any questions?

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