



**Republic Of Zambia**

## Financial Intelligence Centre

**“A sole statutory agency dedicated to providing timely, high quality, impartial and actionable financial intelligence to law enforcement agencies and foreign designated authorities in order to eliminate financial crimes in Zambia”**

### **TRENDS REPORT**

2016



**“Countering Money Laundering, Terrorist Financing and Other Financial Crimes”**



# FINANCIAL INTELLIGENCE CENTRE

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## TRENDS REPORT 2016

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## ACRONYMS

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
AMLA	Anti- Money Laundering Authority
AML	Anti-Money Laundering
CTR	Currency Transaction Report
DNFBP	Designated Non-Financial Businesses and Professionals
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
LEA	Law Enforcement Agency
ML/TF	Money Laundering/Terrorist Financing
NGO	Non – Governmental Organization
NRA	National Risk Assessment
PEP	Politically Exposed Person
SDR	Spontaneous Disclosure Report
STR	Suspicious Transaction Report

## FOREWORD

The FIC 2016 AML/CFT trends report is the third edition of this annual AML/CTF trends analysis. In this third edition we have added new insightful sections that make the report more informative.

A section analysing the number and value of Suspicious Transaction Reports (STRs) received month by month in the year 2016 has been added. This analysis revealed that the highest numbers and value of STRs in 2016 were received in the month of August. It is insightful to note that this was the period in which the 2016 General Elections were held. We have also added a section that outlines our recommendations on how to address the existing and nascent trends in money laundering and other serious financial crimes. It is our belief that these recommendations will prove very valuable in policy formulation by the Country.

It is important to note that Zambia conducted the ML/TF National Risk Assessment (NRA) between October, 2015 and November 2016 and the results of the NRA corroborate the findings in this trends report.

In 2016 the Financial Intelligence Centre Act No. 46 of 2010 was amended to introduce new provisions targeted at strengthening the FIC's capacity to achieve its mandate. With these amendments we expect increased levels of compliance among reporting entities, and a subsequent increase in STRs reported to the FIC.

The FIC remains committed to creating strong relationships with Government institutions and various other stakeholders. Robust collaboration and coordination among stakeholders in the AML/CFT space is vital in strengthening the Country's ability to combat associated practices.

Finally, I would like to thank the Government of the Republic of Zambia and various stakeholders for the support and cooperation rendered to the FIC in 2016.

It is my honour and privilege to present to you the FIC 2016 AML/CFT trends report.

Mary C. Tshuma (Mrs)

**Director General**

## 1.0 INTRODUCTION

In 2016, the Financial Intelligence Centre (the Centre or FIC) continued to undertake tactical, operational and strategic analysis of suspicious transaction reports (STRs) and spontaneous disclosure reports (SDRs) received. The results of the strategic analysis enabled the Centre to identify the prevalent predicate offences, as well as the trends and money laundering methods used by individuals and legal entities in the period under review. The analysis further provided guidance on operational priorities, measures and policy direction to address money laundering and other serious financial crimes in the country. The analysis is expected to influence policy formulation and assist other stakeholders in the AML/CFT regime in strengthening cooperation with the FIC.

In 2015, the predominant offences on which cases were disseminated were suspected tax evasion, theft and money laundering. Similarly in 2016, disseminations on matters of suspected tax evasion and money laundering constituted the majority of cases analysed. Although cases of suspected corruption formed only 6% of the number of cases disseminated, the amounts involved were significant and constituted 76% of the value of all disseminated cases.

Among the major developments in 2016 were the amendments to the Financial Intelligence Centre (FIC) Act to include administrative sanctions, inspection powers for the Centre on Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) matters and the role of the FIC as supervisor of last resort on reporting entities. In addition, reporting thresholds for currency transactions were introduced through the FIC Prescribed Thresholds Regulations, No. 52 of 2016.

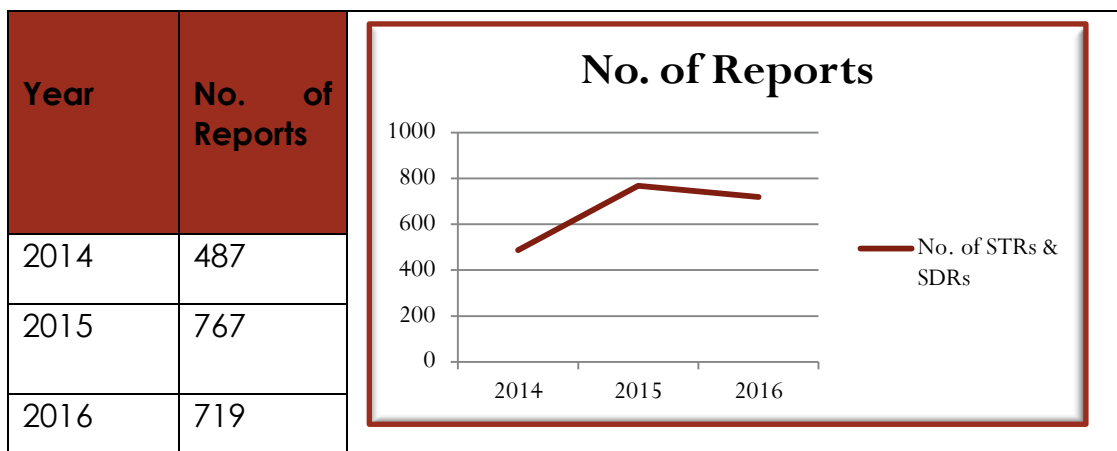
## 2.0 SUSPICIOUS TRANSACTION REPORTS

### 2.1 Number of STRs Received

In 2016, a total of 719 suspicious transaction and spontaneous disclosure reports were received by the Centre from various entities mandated to submit reports. There was a 6% decline in the number of reports received, compared to the previous year, which recorded 767 reports. As observed in previous years, nearly all the STRs received in 2016 originated from the banking sector (92%). There were 661 suspicious transaction reports (STRs), while 58 were spontaneous disclosure reports (SDRs).

The number of reports received over the last three years is shown in the chart below.

**Figure 1: STRs & SDRs received in the period 2014 – 2016**



### 2.2 STRs per Month

The pattern of receipts per month in 2016 showed that the majority of STRs were received in August and December.



The high number of STRs in August could be attributed to the fact that there was a high volume of transactions during that period, which could most likely be linked to general election campaign activities. We further observed that 50% of the STRs received in the month of August involved large or unusual cash deposits.

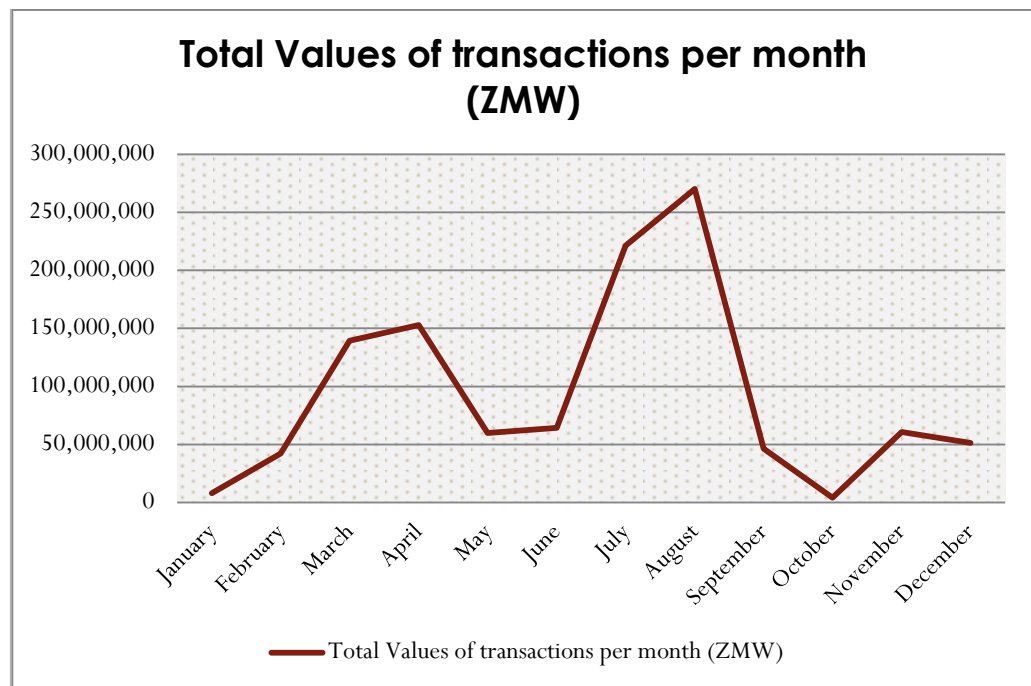
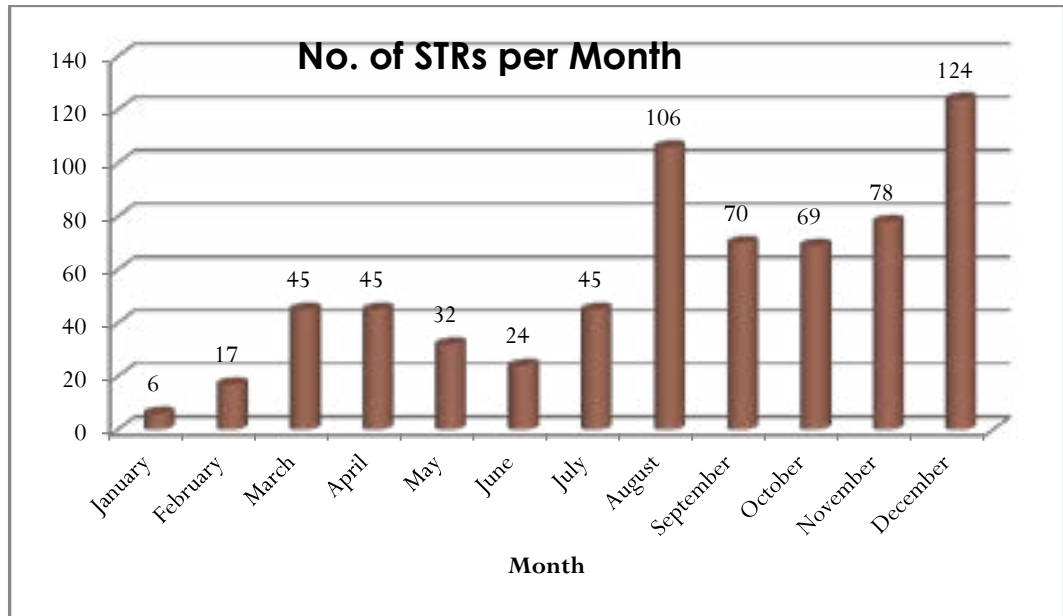
**Figure 2: Volumes and Values per month**

Month	No. of STRs	Values (ZMW)
January	6	7,875,844.00
February	17	42,111,790.00
March	45	139,440,129.00
April	45	152,790,012.00
May	32	59,748,902.00
June	24	64,207,329.00
July	45	221,273,744.00
August	106	269,995,688.00
September	70	46,202,442.00
October	69	4,075,782.00
November	78	60,701,451.00
December	124	51,229,691.00
	<b>661</b>	<b>1,119,652,804.00</b>

Figure 2 shows the volumes and values of STRs received from January to December. As noted above, the month with the highest amount in terms of value of transactions was August, with a total of

ZMW269,995,688. The second highest was July with a total amount of ZMW 221,273,744. We note that this was the period in which the 2016 general elections were held. The monthly transactions are illustrated in graphical form below:

**Figure 3**



### 2.3 STRs by Transaction Value

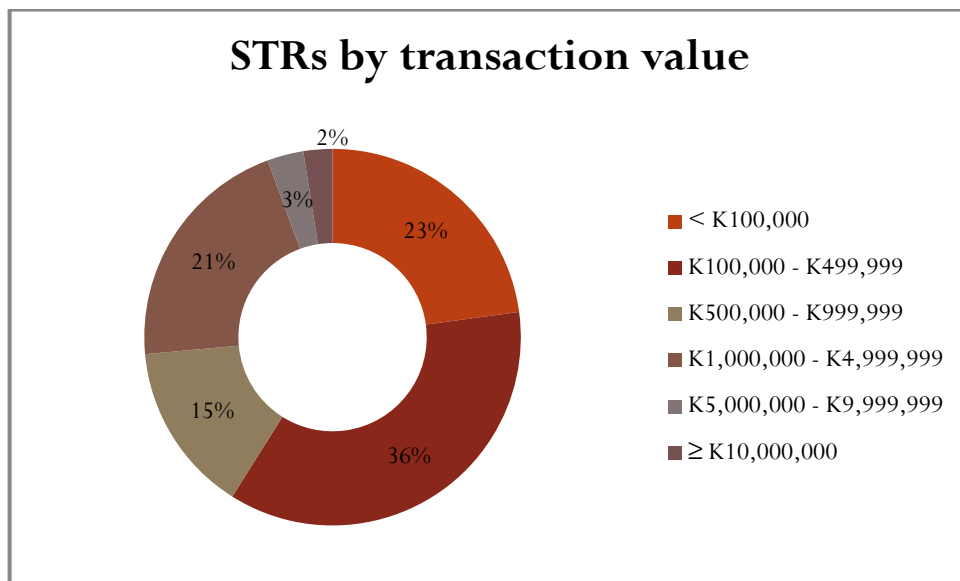
The FIC does not have a threshold for suspicious transaction reports which means that STRs can be generated on any amount as long as there is a suspicion relating to money laundering or other serious financial crimes. As illustrated in figure 4 below, 23% of reports received in 2016 involved transactions of less than K100, 000.

**Figure 4: STRs by transaction value**

Value of STR	<K100,000	K100,000 - K499,999	K500,000 - K999,999	K1,000,000 - K4,999,999	K5,000,000 - K9,999,999	≥K10,000,000
Number	147	232	94	134	20	16
Percentage	23	36	15	21	3	2

Analysis indicates that the majority of transactions reported (36%) were between K100, 000 and K500, 000. Large value transactions of more than K10 million constituted only 2% of STRs received.

**Figure 5: Chart of transaction values**



## 2.4 STRs by Currency Type

The currencies primarily used in the Zambian economy are the Zambian Kwacha and the United States Dollar. In 2016, 62% of the reports submitted by reporting entities involved the use of the Zambian Kwacha, while 38% were in foreign currency. Some of the largest foreign currency transactions observed in 2016 involved inward remittances received by Non- Governmental Organizations (NGOs).

## 2.5 Nature of Suspicion Reported

In 2015, the majority of STRs were reported on the grounds of large or unusual cash deposits. Similarly, in 2016, 48% of the suspicious transactions reported involved large cash deposits by both individuals and corporations.

While the bulk of STRs reported in the last three years (2014 - 2016) were on the grounds of large cash deposits, there was a significant drop in 2015, as compared to the other two years.

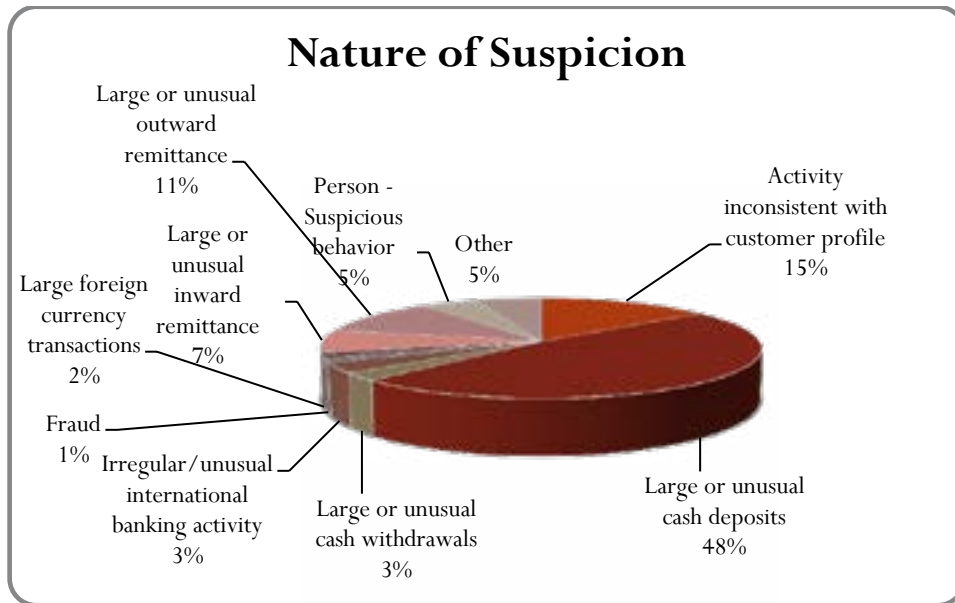
**Figure 6**

Period	2014	2015	2016
% of large or unusual cash deposits	50%	29%	48%

STRs relating to large inward and outward remittances accounted for 18% of all reports received, while 15% were reported on the grounds of account activity being inconsistent with the customer's profile.

The chart below shows the grounds of suspicion on which STRs were raised.

**Figure 7: Nature of suspicion**



## 2.6 STR by Customer Type

There were 104 (16%) STRs received on corporations, while 557 (84%) related to transactions by individuals. We noted that the reports on legal entities were related to large and unusual cash deposits and large inward transfers on the accounts. A significant number of transactions by individuals were linked to legal entities including limited liability companies and sole proprietorships. In the majority of these cases, individuals were using their personal accounts to conduct business transactions. In other cases, funds originating from large corporations were being remitted through the accounts of individuals to foreign jurisdictions.

It was further noted that Asian nationals comprised 49% of all STRs received on individuals. The remaining 41% were Zambians, while 10% were of other nationalities. We observed a similar pattern in 2015, when 50% of reports received involved Asian nationals. This

could be an indication that they own many of the businesses but are not compliant with the laws and regulations for doing business in Zambia.

## 2.7 Spontaneous Disclosure Reports

As earlier noted, 58 spontaneous disclosure reports were received in 2016, on matters ranging from suspected corruption, fraud, human trafficking, drug trafficking, tax evasion and money laundering.

Figure 8 below shows the potential loss in Zambian Kwacha relating to the grounds of suspicion on which STRs and SDRs were raised.

**Figure 8**

Reason for Suspicion	Potential Loss Amount (ZMW)	%
Large or unusual cash deposits	269,439,304.00	6
Activity inconsistent with customer profile	167,443,954.00	3.6
Large or unusual inward remittances	151,750,036.00	3.3
Unusually large foreign currency transactions	55,686,058.00	1.2
Large outward or inward transfers	800,000.00	0
Fraud	92,756,443.00	2.0
Large or unusual cash withdrawals	7,442,063.00	0.2
Suspected corruption/theft	3,518,300,000.00	76.3
Large or unusual outward remittances	48,306,012.00	1.0
Unusual business practices	121,822,253.00	2.6
Other	171,435,039.00	3.7
<b>TOTAL</b>	<b>4,605,181,162.00</b>	<b>100</b>

It was noted that the transactions with the highest values were spontaneous disclosures on suspected bribery and corruption, amounting to over ZMW 3 billion. The circumstances of these reports included fraudulent procurement of mining and government contracts as well as transactions by politically exposed persons (PEPs) and their associates.

### 3.0 DISSEMINATIONS

In 2016, the Centre analyzed and concluded 180 STRs, of which 45 were closed, 21 placed as dossiers and a total of 114 disseminated to local Law Enforcement Agencies and Financial Intelligence Units in foreign jurisdictions.

As in previous years, the majority of cases (46%) were disseminated on the grounds of suspected tax evasion. Disseminations relating to money laundering constituted 26%, while the remaining 28% were for possible violations of the Penal Code, the Immigration and Deportation Act and the Anti-Corruption Act, among others. Figure 9 below provides statistics on cases disseminated in 2016.

**Figure 9: Disseminations**

Type of Violation	No. of disseminations	%
Possible violations under the Income Tax Act and Customs Act	52	46
Possible violations under the Penal Code and Proceeds of Crime Act	7	6
Watch listed organization & individual	2	2

Money Laundering, Drug trafficking, Forgery	30	26
Possible violations under the ACC Act, 2012 -Suspected bribery and Corruption	7	6
Unsolicited financing proposals, unusual business practices	5	4
Possible violation of the Immigration and Deportation Act	5	4
Possible violations of laws in respective countries	6	5

Although cases relating to suspected corruption constituted only 6% of disseminations, it was noted that the amounts involved were significantly high and amounted to over ZMW 3 billion. Analysis revealed that these were predominantly linked to public procurement contracts.

Feedback obtained on matters previously disseminated to Law Enforcement Agencies revealed that the majority were still under investigation, some had been closed and two had proceeded to court. No convictions or forfeitures on disseminated cases were reported. During 2016, the Centre restricted/froze two accounts with funds amounting to ZMW 2, 500,000 for suspected bribery, theft and fraud.

#### 4.0 TREND ANALYSIS

The trends and patterns of activities observed in 2016 were in many ways similar to those observed in the previous year. What was peculiar, however, was that 2016 was an election year and the highest volume and values of STRs received were observed in the two months preceding the elections. The trend may indicate a need for election campaign finance reform and/or regulation.



#### **4.1 Large and Unusual Cash Deposits**

Cash related transactions, which amounted to ZMW 347 million, accounted for 48% of the STRs that were reported in 2016. One of the patterns observed involved large amounts of cash being deposited in business accounts. These would then be followed by wire transfers to individuals and corporations outside the country. Most beneficiaries were in the Middle East, Asia and a named Southern African Country. Another trend involving the use of cash related to significant cash withdrawals over short periods of time. The withdrawals were in some cases traced to candidates of a named political party.

#### **4.2 Inward and Outward Remittances**

There was an increase with respect to inward remittances on accounts held by Politically Exposed Persons (PEPs). Analysis revealed that the transfers were often followed by cash withdrawals, which was intended to disguise ultimate beneficial owners. Further, we observed an increase in the repatriation of funds from offshore Centres such as Mauritius and Singapore into Zambia.

In an incident involving a non-governmental organization (NGO), we noted that the entity received large inward transfers which were later diverted to businesses and to political campaigns.

With regard to outward remittances, the pattern observed was that most foreign companies that wired funds to foreign jurisdictions were not tax compliant. The Centre further observed an increase in transfers to high risk countries or known tax havens such as Mauritius and the United Arab Emirates. In some cases, shell companies

registered in these jurisdictions were used to layer funds before returning them for use in Zambia.

### **4.3 Corruption**

Although the number of reports received on the grounds of suspected corruption only represented 6% of the total number of reports received in 2016, the value of transactions was significantly high, and accounted for 76% (over ZMW 3 billion) of the total value of cases analyzed. Cases of corruption continued to be linked to public procurement contracts and were often perpetrated by PEPs or their associates. We further noticed the use of proxies in business transactions and the avoidance of the banking system through third party cash payments. This may point to the need to further designate more businesses as reporting entities for purposes of currency transaction reports (CTRs). It may further point to the need for smart regulation in the use of cash in commerce. The Anti-Money Laundering Authority (AMLA) has taken interest in this matter and initiated a project on the use of cash in commerce.

During the period under consideration the Centre noted with concern that some employees of competent authorities were providing private consultancy services, which could indicate a conflict of interest.

### **4.4 Other Trends**

The Centre observed that Designated Non- Financial Businesses and Professions (DNFBPs), in particular law firms, were used in a number of cases to facilitate the receipt of questionable incoming funds, which in some cases originated from high risk jurisdictions. The receipts were structured in order to avoid being detected. In

addition, the funds were received on behalf of other parties including PEPs, in order to conceal beneficial ownership.

According to the Global Financial Integrity Report 2015, on illicit financial flows, Zambia is estimated to be losing an average of US\$2.8 billion per year, through financial flows, which are often concealed or disguised using corporate vehicles before they are introduced into the financial system. Despite the essential and legitimate role that corporate vehicles play in the economy, under certain conditions, they have been misused for illicit purposes. Furthermore, corporate funds are externalized through over-invoicing of goods and services provided by foreign suppliers, who are given preference over local suppliers by multinationals. The Centre has found that some contractors to multinational companies are related to the Board or Management of the companies. Therefore, it is not always that transactions between them are at arms-length. The contraction of loans from secrecy havens at non arms- length terms is another common method used by corporations to reduce reported profits.

## **5.0 EMERGING, DECLINING AND CONTINUING TRENDS**

### **5.1 Emerging Trends**

- The Centre noted an emerging trend within the Real Estate sector that involved deceptive land or property dealings, as well as money laundering activities by both foreign and Zambian nationals. It was noted that funds that were illegally obtained through government contracts were invested in assets and properties using proxies of PEPs.

- A recent development has been observed within the Insurance Sector, in which the principal-agent relationship is being abused, resulting in policy holders being denied insurance services.
- Another emerging trend was observed in the border towns where accounts belonging to Zambian nationals were being utilized by foreigners to purchase foreign currency. The pattern observed was that Zambian nationals would open bank accounts and within a short period of time begin to receive huge cash deposits, above their declared income. These funds would almost immediately be debited through foreign currency purchases. This trend was most prevalent in the border towns of Livingstone and Nakonde.
- The Centre further observed a practice in which Asian nationals purchase copper ore from small scale miners on the Copperbelt, which they subsequently export to entities that are known to be shell companies or that are registered in tax havens. The practice may be encouraging criminality in the region.

## 5.2 Continuing Trends

The Centre noted that the use of personal accounts for business purposes in order to evade tax, has continued. Zambia is losing colossal amounts due to tax evasion by individuals and aggressive tax avoidance schemes implemented by large international corporations.

Further, we observed that bank account activity contrary to the stated purpose of the account or activity on the account not matching the stated occupation is a continuing trend.

### **5.3 Declining Trends**

The Centre has continued to see a decline in the number of cheque related offences. In 2016, only three case of cheque fraud were reported.

## **6.0 DEVELOPMENTS AND OUTLOOK**

### **Regulations**

In 2016, the Financial Intelligence Centre prescribed thresholds for currency transactions through the FIC Prescribed Thresholds Regulations, No. 52 of 2016. The regulation stipulates that any currency transaction equal to or above US\$10,000 for both corporations and individuals should be reported to the Centre. Currency Transaction Reports (CTRs) will serve as an important source of information in the Centre's tactical and strategic analysis.

### **Amendments to the FIC Act**

The amended Act introduced among others, the following:

- Powers to conduct AML/CFT inspections
- Administrative sanctions – the Centre will impose administrative sanctions where a reporting entity is in breach of the provisions of the FIC Act, including non-submission of STRs and CTRs. The sanctions may take the form of a caution, reprimand, directive, suspension of business activities, publication of a public notice or a financial penalty, depending on the nature and seriousness of the relevant non-compliance.

With these amendments we expect increased levels of compliance among reporting entities, and a subsequent increase in STRs reported to the FIC.

### **National Risk Assessment**

Zambia conducted its money laundering and terrorist financing National Risk Assessment (NRA) between October, 2015 and November, 2016. The results of the NRA showed that money laundering risk is highest in the DNFBPs sector. The report further shows that tax evasion, corruption and misappropriation of public funds were among the most prevalent predicate offences in Zambia. The results of the NRA support the findings of the trend analysis for 2016.

The NRA also identified high risk sectors to which more resources will be focused in order to increase compliance. A further outcome of the NRA is that the FIC will focus on increasing the capacity of financial institutions and DNFBPs to detect and prevent ML/TF and other financial crimes.

### **Risk –Based Supervision**

Following amendments to the FIC Act, the Centre will begin supervising reporting entities using a risk based framework. This framework will be used to assess compliance in reporting entities. The results of the NRA have influenced the development of the AML/CFT supervision and monitoring framework through which the Centre will adopt prevention or mitigation measures commensurate to the ML/TF risks identified.

In supervising reporting entities, the Financial Intelligence Centre Act No. 46 of 2010 (as amended) ('the Act') empowers the Financial Intelligence Centre (the Centre) to undertake AML/CFT inspections. Conducting of inspections in reporting entities will enhance the detection, prevention and deterring of ML/TF and Proliferation Financing.

## 7.0 RECOMMENDATIONS

### Use of Cash in Commerce

Evidently, cash remains a significant mode of transacting in Zambia. The majority of STRs reported between 2014 and 2016 were on the grounds of large or unusual cash deposits and cash withdrawals. This is an indication of the significance of cash in the settlement of transactions in the Zambian economy.

The Centre notes that high usage of cash brings a number of problems to countries, which include income leakages, tax evasion, corruption, cash couriers, and derisking. Given the aforementioned, the following measures with regard to the use of cash are proposed:

- i. The obligation to report cash transactions beyond the limit as per SI 52 on Prescribed Thresholds should be extended to entities other than the reporting entities listed in the FIC Act.
- ii. Zambia should consider a limit beyond which you cannot transact in cash. For example, the use of cash to purchase fixed property and motor vehicles and any other items of significant value should be prohibited.
- iii. The country should consider adopting technology that enables and integrates identity documentation with e-payment systems.

- iv. Government should consider a differentiated tax regime, where cash based payments attract higher taxes for given cash thresholds. This could be a form of “cash tax” to discourage this mode of payment.
- v. All Zambian residents, as defined by the Income Tax Act, be made to complete an annual income tax return.

#### Illicit Financial Flows

Access to beneficial ownership information would help to prevent the misuse of corporate vehicles for corruption, tax evasion, trade based money laundering and other illicit activities. The Company’s Act is being reviewed to include provisions on beneficial ownership. It is recommended that beneficial ownership information be held at the Patents and Companies Registration Agency and that this information be provided when companies are incorporated. It is further recommended that beneficial ownership information be required for all government contracts with third parties.

#### Taxation

The majority of cases disseminated to Law Enforcement Agencies in 2016 were on the grounds of tax evasion. Measures to address this continuing trend could include:

- i. The Development of a General Anti-Avoidance Rule (GAAR) to deter abusive tax avoidance by international corporations and foreign work permit holders
- ii. Compliance with the arms-length principle which is core in the analysis of intercompany transactions must be defined precisely in the Zambian legislation. It will entail transparency on the part of multinationals’ internal rules and policies.



- iii. The review of current and prospective tax treaties and bringing current treaties in line with OECD guidelines

## 8.0 CASE STUDIES

### Case Study 1: Usage of NGOs and Law Firms to move funds

The Centre received a report indicating that a recently created NGO account had received funds amounting to USD 12 Million from a Foundation in Asia.

#### Findings

- I. The Foundation advised that the funds remitted to the NGO in Zambia constituted a grant given to a welfare selected by the owner of the Foundation.
- II. That NGO was used as a vehicle to receive the funds as they were later routed to other accounts for personal use, business purposes, campaigns, purchase of motor vehicles and setting up of boreholes, among other activities. We concluded this inquiry under the following headings:

**Possible Offences:** Bribery, Tax evasion and money laundering

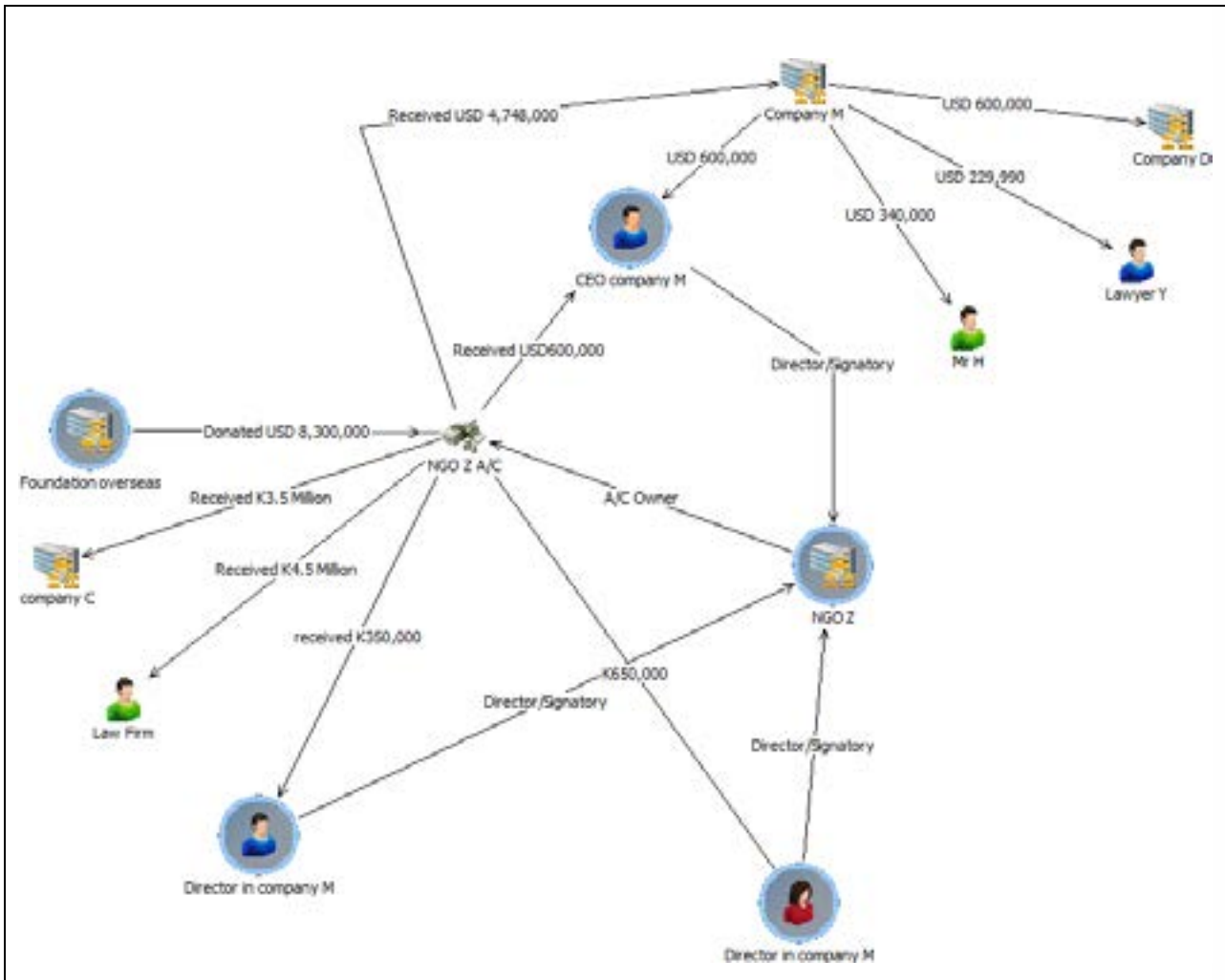
**Suspects:** Individuals, Corporations

**Sector:** Corporate, Non- Profit and Public entity

**Indicators:**

- Account activity inconsistent with customer profile
- Recently created NGO suddenly receives huge transfers
- Payments that had no business rationale
- Abnormal or large cash payments
- Involvement of Politically Exposed Persons

Below is a link chart showing a graphical representation of the financial flows.



### Case Study 2: Illicit Financial Flows & PEPs (Tax Evasion, Bribery & Corruption)

The Centre received a report alleging that **Mr. B**, the CEO of **Company X**, had been working with companies in which he had interest to externalize funds to **Country Z**. **Company X** is a large mining company. It is alleged that **Mr. B**, a national of **Country Z**, is working with his colleagues from the same country who have incorporated companies in Zambia and in their country respectively. Further, it is alleged that the shareholders in the Zambian companies are the same shareholders in **Country Z**. The 3 incorporated companies in Zambia are **Company K**, **Company C** and **Company A**. The modus operandi is that the

mining Company **X** with the aid of the CEO would give contracts to any of the three incorporated companies in Zambia. The Zambian based company would then subcontract to a local firm at a small fraction of the contract sum. Thereafter, funds are remitted with the narration, "management fees" to the sister companies in country **Z** upon issuing questionable invoices to the Zambian based companies.

**Findings:**

- Our analysis revealed that that Mr. **B**, CEO for the mining Company **X** facilitated the issuance of contracts to his colleagues who had locally registered companies.
- PEPs aided foreign nationals in obtaining their Immigration permits in return for some consideration such as contracts for their companies or some payments.
- We noted the PEPs cited have since acquired a number of assets and built property which was not proportionate to their declared incomes.
- In one of the locally incorporated companies with a foreign element, it was noted that a Zambian PEP was a shareholder. He received funds in excess of **ZMW 4 Million** between October 2014 and April 2016.
- Company **X**, which is a mining company, has been reducing their taxes by inflating costs as illustrated in the next point.
- In one of the incidents, Company **K** was paid **ZMW 7 Million** by the mining company for works valued at less than **ZMW 100,000**. Company **K** thereafter subcontracted Company **XYZ** to conduct the works.
- We noted that for the total value of contract of USD 2,723,460.25 paid to Company **K** by the mining company, they paid the local Company **XYZ** USD 265,820.55 for executing the same contract.

### Company XYZ subcontract with Company K

Between Oct. 2014 to April 2016	Amount Paid for the subcontracted works
Paid to Company XYZ	\$ 265,820.55
% of Value contract Cost	9%
Company K Gross Benefit	\$ 2,723,460.25
	91%

- We suspect that the mining company **X** has been over invoicing or over valuing works with a view to externalize funds, inflate costs and thus reduce profits and taxes due to Government.
- Upon scrutiny of the companies incorporated in Zambia by Country **Z** nationals, we noted that they lacked capacity to execute the contracts and in most instances subcontracted local companies as illustrated in the table above for company **XYZ**.

**Possible Offences:** Bribery, corruption, tax evasion and money laundering

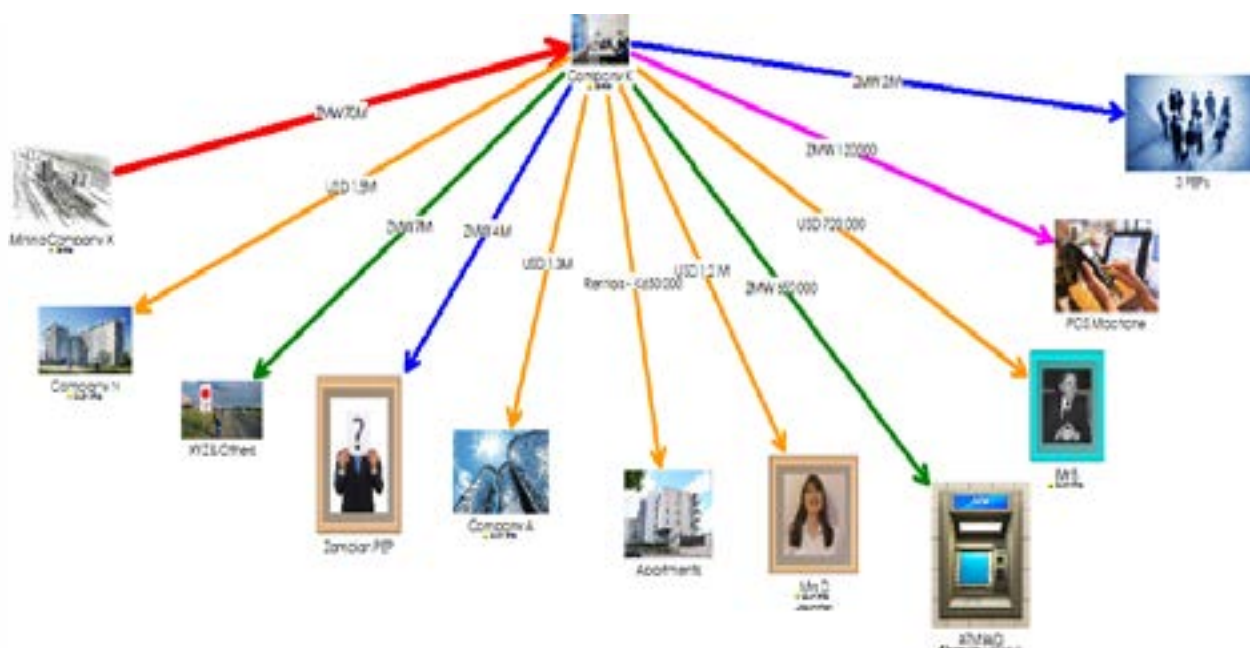
**Suspects:** Individuals, Corporations

**Industry :** Corporate and Public entity

**Indicators:**

- Account activity inconsistent with customer profile
- Customers undertaking complicated transfers without a business rationale
- A number of irregular contracts
- Abnormal or large cash payments
- Politically Exposed Persons
- High usage of ATM Card on Corporate accounts

Below is a link chart showing a graphical representation of the financial flows.



### Case Study 3: Illicit Flows in the Insurance Sector

The Centre received a suspicious transaction report from an Insurance company. The report contained allegations against some Brokers. The three allegations in the main were that the Brokers did not pass on the discounts offered by the Insurance company to their clients. Secondly, it was alleged that Brokers altered / falsified the payment schedules, which resulted in a number of policy holders being denied insurance services by the insurer. The other allegation was the issue of non-remittance of premiums by the brokers.

#### Findings:

1. Non-remittance of premiums

Section 21 of the Insurance Act provides that “where any premium on a policy is paid to a broker by a client, the broker shall, within thirty days of the due date of the premium, transmit the premium, less any agreed premium, payable by the insurer to the broker ...”

For the period June 2014 to November 2016 the broker received ZMW12 million and failed to remit premiums in excess of ZMW 6 million.

2. Altering /falsifying of payment schedules

The Centre noted that one of the brokers was removing some amounts from the schedules submitted by employers of policy holders.

3. Failure to pass the discount allowed

Our finding was that the brokers were not passing discounts to policy holders

4. Involvement of PEPs

The Centre noted the involvement of PEPs.

Below is a link chart showing a graphical representation of the financial flows.

