

# ***The Suspicious Activity Report***

JULY 2020

*New Zealand Financial Intelligence Unit*

## INTRODUCTION

*The Suspicious Activity Report* is produced by the Financial Intelligence Unit (FIU), part of the New Zealand Police Financial Crime Group, led by Detective Superintendent Iain Chapman. This report is comprised of FIU holdings and open source media reporting collected within the last month.

## Background

The Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act became law in October 2009. It is the result of a review of AML/CFT legislation and aims to assist in detecting and deterring money laundering, contributing to public confidence in the financial system and achieving compliance with the Financial Action Task Force (FATF) recommendations. The Financial Intelligence Unit produces this monthly report as part of its obligations under section 142(b)(i) and section 143(b) of the AML/CFT Act 2009. The Financial Crime Group is made up of the Asset Recovery Unit, the Money Laundering Team, a headquarters group, and the Financial Intelligence Unit.

## Financial Intelligence Unit

The Financial Intelligence Unit is led by Detective Inspector Christiaan Barnard and has been operational since 1996. Its core function is to receive, collate, analyse and disseminate information contained in Suspicious Transaction Reports, Prescribed Transaction Reports, and Border Cash Reports. It develops and produces a number of financial intelligence products, training packages and policy advice. The FIU participates in the AML/CFT National Coordination Committee chaired by the Ministry of Justice, and chairs the Financial Crime Prevention Network (FCPN). It is a contributing member to international bodies such as the Egmont Group of Financial Intelligence Units and the Asia/Pacific Group on Money Laundering.

## Asset Recovery Unit

The New Zealand Police Asset Recovery Unit is led by Detective Inspector Craig Hamilton and was established in December 2009 specifically to implement the Criminal Proceeds (Recovery) Act 2009 (CPRA). The ARU is the successor to the Proceeds of Crime Units, which were established in 1991, and was combined with the FIU to create the Financial Crime Group. The CPRA expanded the regime for the forfeiture of property that has been directly or indirectly acquired or derived from significant criminal behaviour. It is intended to reduce the possibilities for individuals or groups to profit from criminal behaviour, to reduce the opportunities they have to expand their criminal enterprises, and act as a deterrent for criminal activity. There are four Asset Recovery Units (ARUs), based in Auckland, Waikato/Bay of Plenty, Wellington, and Christchurch, with a fifth being established in Whangārei.

## Money Laundering Team

The Money Laundering Team (MLT), led by Detective Inspector Lloyd Schmid, is the newest element of the FCG and was established in 2017 to target money laundering risks and reduce the investigative gap for financial investigations in organised crime. The MLT investigate criminal offenders moving the proceeds of predicate offending. The focus of the team is on disrupting and dismantling facilitators assisting organised criminal groups to hide illicit funds, including complicit DNFBPs and other third parties such as money remitters.

## FINANCIAL INTELLIGENCE UNIT UPDATE

### Notes from the Head of FIU

*Detective Inspector Christiaan Barnard*

In this month's edition of The Suspicious Activity Report I am very pleased to have my colleague Detective Inspector Craig Hamilton provide an overview of the Asset Recovery Unit (ARU). Having started with the Proceeds of Crime Unit (the predecessor to the ARU) as a detective in 2000, he has worked his way up to lead the Unit. Craig is a renowned expert on money laundering and asset forfeiture and we are very lucky to have him leading the men and women of the ARU. This month he is providing an overview of the ARU's mandate and outlines some of their successes. Craig is leading the NZ Police response to the Mutual Evaluation (ME) and has been heavily involved with engaging with our domestic partners and the assessment team, reviewing the submissions, and providing feedback on the drafts.



While on the subject of the ME, it is one of the four key strategic outcomes the FIU will be focussing on over the next 12 months. The MOJ has the overall lead on the ME engagement with the FATF and the FIU has and will be making key contributions to the ME assessors. As we work our way through this process, we will ensure that we will provide appropriate feedback to ensure that the final report fairly represents New Zealand's true position on the Immediate Outcomes relevant to the FIU.

In addition to the ME, over the next 12 months there are three more key areas that the FIU will be focussing on to improve our performance to ensure that the financial intelligence we are being provided will be used in the most effective way.

Firstly there is the Service Delivery Transformation Project, which is designed to identify and implement cutting edge intelligence tools to ensure that the FIU analysts are getting the insights needed in a timely manner in support of criminal investigations and the Sector Supervisors compliance reviews. Secondly is the ongoing development of the Financial Crime Prevention Network, which is New Zealand's leading Public Private Partnership in the AML/CFT area. Finally, there is a total refresh of the National Risk Assessment on the cards, where we will be moving away from the traditional report and moving towards consumable online dashboards. The goal is to make it clear to each sector what the risks are and how they can mitigate these risks. I look forward to being able to provide updates in future editions of *The Suspicious Activity Report* on how each of these strategic outcomes are progressing.

If you want to stay abreast of news and developments, please follow the official NZFIU twitter feed @nzfiu and remember – know the risk, ask the questions, and report your suspicions to the #nzfiu.

## ASSET RECOVERY UNIT UPDATE

### Notes from the Head of ARU

*Detective Inspector Craig Hamilton*



Thanks to Christiaan for the invitation to contribute to this second edition of The Suspicious Activity Report. It has been just over 10 years since the Criminal Proceeds (Recovery) Act 2009 (CPRA) came into force and right across New Zealand we are seeing the positive impact of this legislation.

The CPRA, much like the AML/CFT Act, was designed with crime prevention at its core. Section 3 of the Act details the purpose of eliminating the chance to profit from crime; deterring involvement in crime; and preventing the ability of criminals to generate wealth and expand their criminal enterprise. These objectives are easy to understand as we know that in allowing criminals to accrue criminal wealth it provides them with power and influence which enables them to drive crime ultimately leading to more victimisation and decreased community safety in homes, in workplaces, and on the roads.

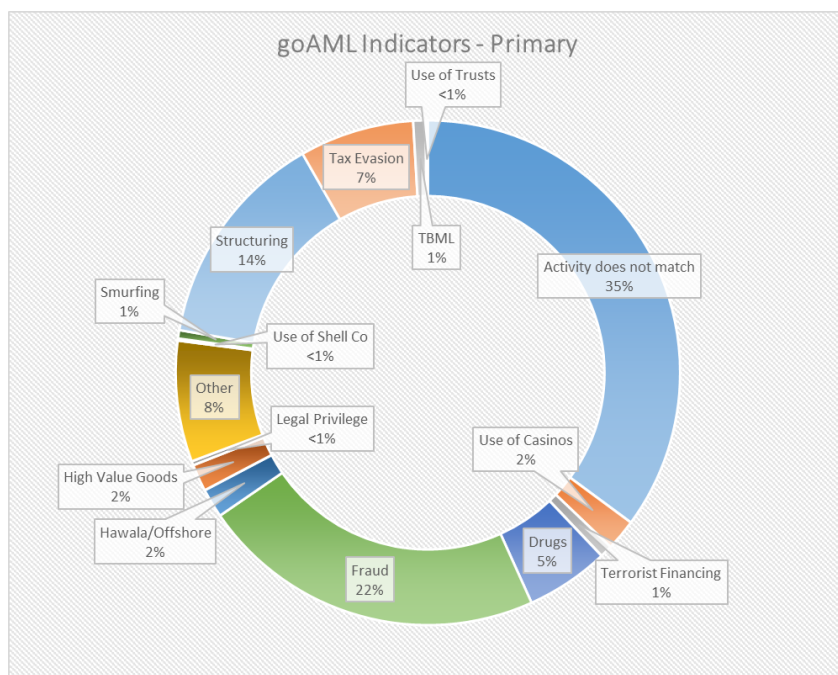
We also know that money feeds and drives the problematic issue of organised crime which is why an effective AML/CFT regime is vitally important as although money is the motivator it is also organised crimes biggest vulnerability from a policing perspective. For these reasons, vigilant reporting and responsive investigation are where our opportunities continue to exist and I can report that much of our work is being driven through direct response to reporting coming through the AML/CFT framework.

With property valued at \$503 million currently restrained and before the Courts I want to take this opportunity to acknowledge that our CPRA successes are also the successes of the Reporting Entities who comply, and the Supervisors who ensure compliance, with the AML/CFT Act. We are all part of a team who are directly contributing to the safety and security of our communities.

In response to this broader effort I can report that the ARU footprint is expanding. There has been significant recent investment in Police and that includes investment in our ARUs and Money Laundering Teams (MLTs). Currently we have ARUs in Auckland, Hamilton, Tauranga, Wellington, and Christchurch, and we are soon to establish investigators in Whangārei, Napier, Palmerston North, Nelson, and Dunedin. Our growth reflects our strategy of integrating financial intelligence more responsively into localised policing operations and investigations and to prevent and disrupt crime through the strategy of detection and confiscation of criminal proceeds.

These are exciting times as it means that the combined efforts of tightening and restricting access to the financial systems through effective AML/CFT compliance, along with the increasing impact through detection and dedicated investigation response means we can collectively deliver on our aspiration of making New Zealand the safest country.

## Suspicious Transaction Reporting to the FIU



The analysis of suspicious activity reports and suspicious transaction reports (collectively “SARs”) reported in July reveals that the number of SARs processed by the FIU was **2,041**. Similar to last month, over 61% of reports did not have indicators selected.

Where there were indicators selected,

the most common selected were **Activity Does not Match Client Profile** and **Fraud**, at 35% and 22% respectively, similar to the prior month. Other common indicators selected were Structuring and Tax Evasion. Common themes mentioned in the STRs included suspected Covid-19 wage-subsidy fraud, suspected child exploitation, and the purchase of cannabis seeds.

Along with other red flags, Reporting Entities have described the behaviours listed below as examples of activity that did not match the client profile:

- Consistent large cash withdrawals from business accounts
- Organising a multi-year loan, then seeking to pay off the loan in full within a few months
- Customers not knowing the name of recipient of wire transfers, or altering stories regarding international funds transfers
- Students or beneficiaries receiving large cash deposits or wire transfers
- Transactions undertaken on behalf of seemingly unrelated third parties

## ASSET RECOVERY UNITS UPDATE



In July 2020, asset restraints rose by \$8m to \$380m cumulative since July 2017. The top three predicate offences remained as money laundering (40%), drugs (25%), and fraud (15%).

### Operation Whero

During the termination of Operation Whero, NZ\$50,000 in cash was seized from the Mongrel Mob in Hastings that had been refined into NZ\$50 notes. Drug dealing is New Zealand's main money laundering risk and, at the point of sale, cash remains a key typology. The cash needs to be injected back into the financial system and that is where Reporting Entities play a crucial role. If your business deals in cash then you must be alert to customers who deal in large volumes of cash; if you are not happy with the nature of the transaction then you must turn them away and report a SAR.



The core goal of the AML/CFT Act is in the job of denying criminals access to the financial system. A measure of our success is finding cash hidden in the walls of the homes of criminals or in holes in their back yard. Here are some key facts about the use of cash in New Zealand:

- The money laundering risk associated with drug dealing has been estimated in New Zealand at NZ\$750 million per annum – this translates into over \$14 million cash per week being used in this underground economy.
- The popularity of NZ\$100 notes has been increasing. The total value of NZ\$100 notes in circulation increased by 184% between 2000 and 2015.
- As measured by value, cash is one of the most valuable assets seized by our Asset Recovery Units. Since 1 July 2017 NZ\$25 million in cash has been restrained by the NZ Police. This figure is only surpassed by bank accounts (NZ\$185m) and residential property (NZ\$132m)
- Those businesses with a high cash exposure are generally rated as higher risk in the National Risk Assessment.

We are operating in a society where the need for cash should be reducing, yet the amount of cash in circulation increases faster than inflation. For more information on cash as a vulnerability check out New Zealand's National Risk Assessment ([NRA](#)) from page 39.

## FCG in the News

### OTT/MSI Decision

The Auckland High Court has fined Auckland-based OTT Trading Group Ltd \$3.1m and Christchurch-based MSI Group Ltd \$4.4m for breaching laws to prevent money laundering. OTT and MSI were part of a group providing money remittance and foreign exchange services in New Zealand and Australia. The penalties resulted from civil proceedings by the Department of Internal Affairs (DIA) taken under the Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT Act).

Breaches of the AML/CFT Act had occurred over a 5-year period, and the companies also made multiple attempts to mislead the department. Checking of MSI transactions showed many lacked any verification of the customer's identity, and customers were not asked to provide evidence of the source of their funds. OTT also regularly failed to conduct standard due diligence and did not complete enhanced due diligence on transactions totalling more than \$60m.

Director of the DIA's AML group Mike Stone has a firm message for those Reporting Entities who are not fulfilling their AML obligations:

*"the Act has been in place since 2013; there is no place for excuses, ignorance, or wilful non-compliance. OTT and MSI let all New Zealand businesses down by damaging our good reputation, something we all work hard to maintain. Those who ignore or are negligent to their compliance obligations will be held to account and can expect significant financial penalty and reputational damage. The Department's focus remains sharply fixed on the highest risk sectors but this judgement serves as an important reminder not just to remitters, but to all reporting entities about the consequences of not meeting the Act's obligations."*

### Operation Rio

In July 2020, the Central Asset Recovery Unit restrained property in Rotorua and Hastings after Immigration New Zealand referred an investigation involving visa offences. Overseas visitors to New Zealand were illegally working as Prostitutes, which is contrary to any visitor or work visa that can be issued in New Zealand. The criminal proceeds investigation has focused on those in New Zealand who arranged for the visitors to enter the country to work illegally. It is alleged they have earned illicit income from the services provided by those working as Prostitutes.

Operation Rio was supported by 2 distinct FIU products, comprising of 8 SARs and 44 reported transactions (STRs, IFTs), which were submitted by banks and money remitters between May 2015 and May 2019.

### Red Flags

- Large cash deposits, especially by individuals on tourist visas
- Frequent international funds transfers by individuals on tourist visas



## INTERNATIONAL AML/CFT NEWS

### Basel Institute on Governance

#### [Basel AML Index: 9<sup>th</sup> Public Edition](#)

The Basel Institute on Governance AML Index has been published annually since 2012, and remains the only independent, research-based index by a non-profit organisation that ranks countries according to their risk of money laundering and terrorist financing (ML/TF). Risk is defined broadly as a country's vulnerability to ML/TF and its capacities to counter it, and not the actual amount of ML/TF activity in a country.

The Basel AML Index ranks countries based on their overall scores, with higher list rankings denoting lower risk. New Zealand is ranked 135 of 141 countries. The report also breaks down rankings within geographical regions; New Zealand is included in the "East Asia and Pacific" region, where it ranks just behind Cook Islands as the least risky country.

### Guatemala

#### [Money-laundering and Narco-Cattle Ranching](#)



A [Texas State University study](#) published in June 2020 found that between the years 2000 and 2015, approximately 30% of forest cover in Guatemala's Maya Biosphere Reserve was converted into agricultural lands, much of it devoted to cattle ranching.

According to the researchers at Texas State University, "anomalous" patches of deforestation are taking place by use of fire, at an unusually large scale, and at a much faster pace than typically found. Interviews conducted during the study revealed that about 2/3 of this deforestation is directly funded by what are known locally as "narco-ganadero" (narco-ranchers). While clearing of forest for cattle may not normally be associated with drug traffickers, it is believed to be a highly efficient mechanism for laundering illicit proceeds. It is understood that drug traffickers deforest the protected area in order to illegally ranch cattle, which serves as a mechanism of money laundering, drug smuggling, and territory control.

### Malta

#### [237 Maltese taxpayers investigated in connection with Panama Papers](#)

In a parliamentary question to Finance Minister Edward Scicluna, it was revealed that from the 237 people investigated, 163 cases have been concluded with a total sum of €14m [NZ\$25.5m] recovered. Former minister Konrad Mizzi and ex-chief of staff at the Office of the Prime Minister, Keith Schembri, were exposed in the Panama Papers as having opened companies in Panama and trusts in New Zealand.



## United States

### [Superman29 pleads guilty to laundering millions using bitcoin ATMs](#)



Kais Mohammad, aka “Superman29” has agreed to plead guilty to federal charges he ran an unlicensed bitcoin ATM network that laundered up to \$25 million, including funds that originated in criminal activity.

From December 2014 to November 2019, Mohammad owned and operated “Herocoin”, an illegal virtual-currency money services business. Mohammad processed

cryptocurrency deposited into the machines, supplied the machines with cash that customers would withdraw, and maintained the server software that operated the machines.

The bitcoin ATMs were located in gas stations, malls, and convenience stores in California. The kiosks allowed customers to both buy and sell bitcoin in exchange for fiat. Mohammad faces a maximum of 30 years in federal prison and as part of the plea agreement, has agreed to forfeit cash, cryptocurrency and the 17 bitcoin ATMs he operated.

### [Art and money laundering](#)

A bipartisan US Senate investigation released on 29 July found that the ‘art world’ is susceptible to money laundering and sanctions evasion. The Senate report details how a pair of Russian oligarchs with ties to Russian President Vladimir Putin allegedly seized on the secrecy of the art industry to evade sanctions by making high-value art purchases. The art world is considered to be the largest legal unregulated industry in the US, according to the investigation.



The investigation traced more than \$18 million in expensive art purchases through auction houses and private dealers back to anonymous shell companies that appeared to be linked to sanctioned Russian oligarchs named Arkady and Boris Rotenberg. The investigation also found those shell companies engaged in more than US\$91 million [NZ\$138m] of overall transactions in the financial system after sanctions were imposed on the Rotenbergs in March 2014.

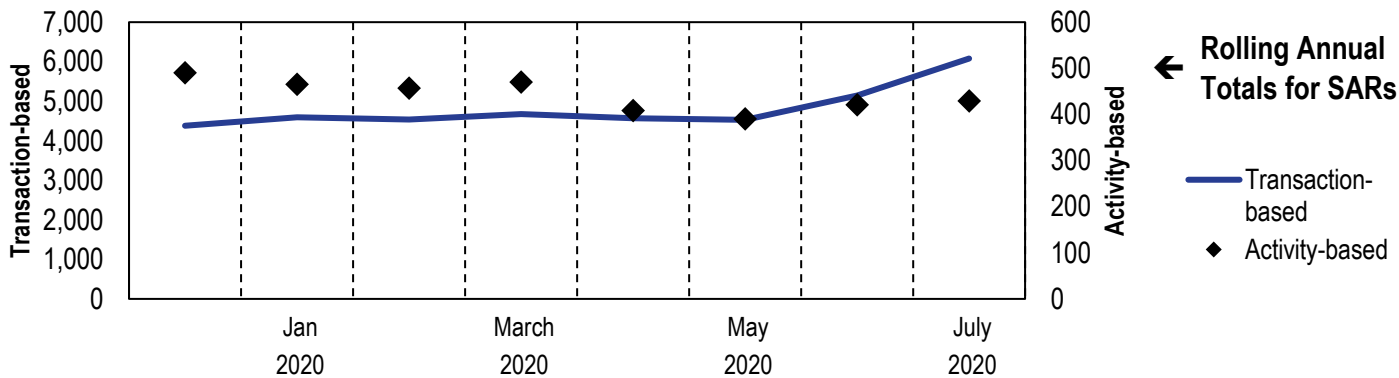
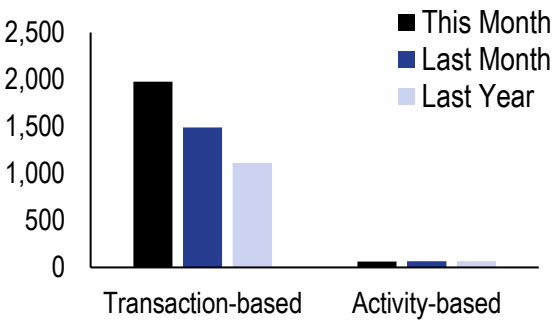
The investigators found that most of the Rotenberg-linked art purchases were facilitated by Gregory Baltser, a US citizen with an art business in Moscow called BALTZER. Baltser personally took the title to the art, ensuring that due diligence was done only on him – not on the ultimate buyers, the report said.



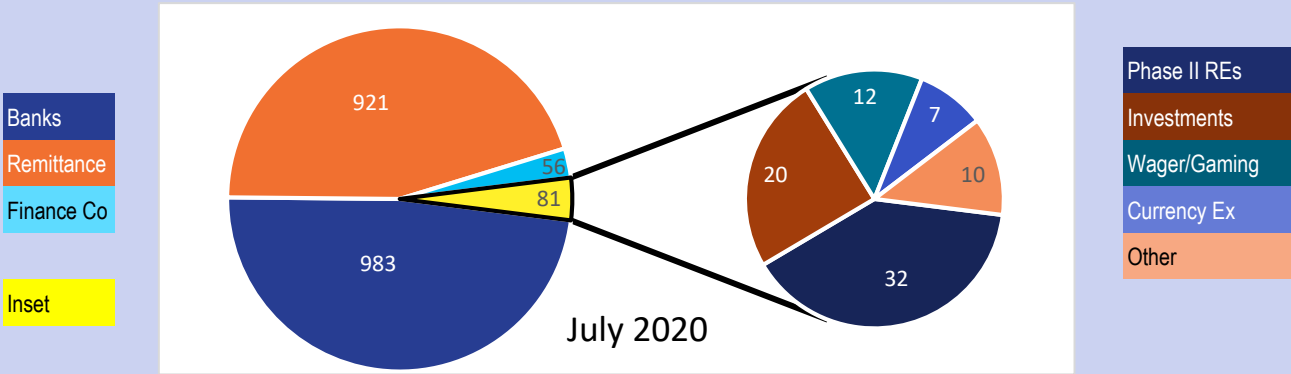
SUBMITTED REPORTS to the FIU\*

Processed Suspicious Activity Reports (SARs)

	This Month	Last Month	Last Year
	July	June	July
	2020	2020	2019
Transaction-based	1,978	1,489	1,110
Activity-based	63	65	65
Total	2,041	1,554	1,175

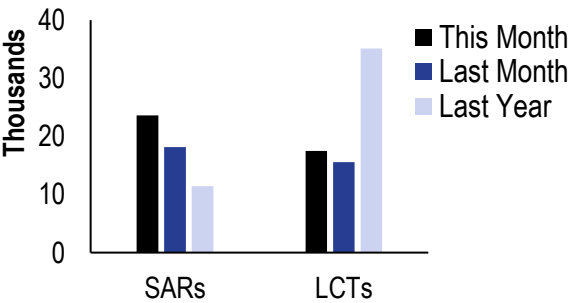


Processed SARs by Sector



Transaction Volumes within SARs and PTRs

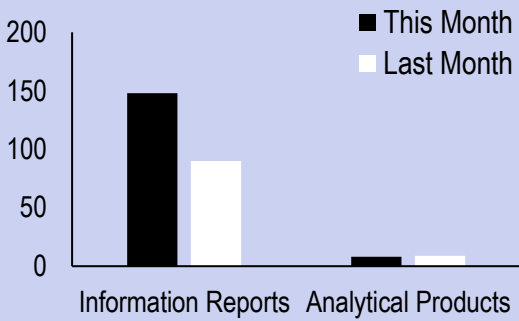
	This Month	Last Month	Last Year
	July	June	July
	2020	2020	2019
SARs	23,598	18,126	11,438
IFTs	467,030	414,958	442,260
LCTs	17,477	15,559	35,132



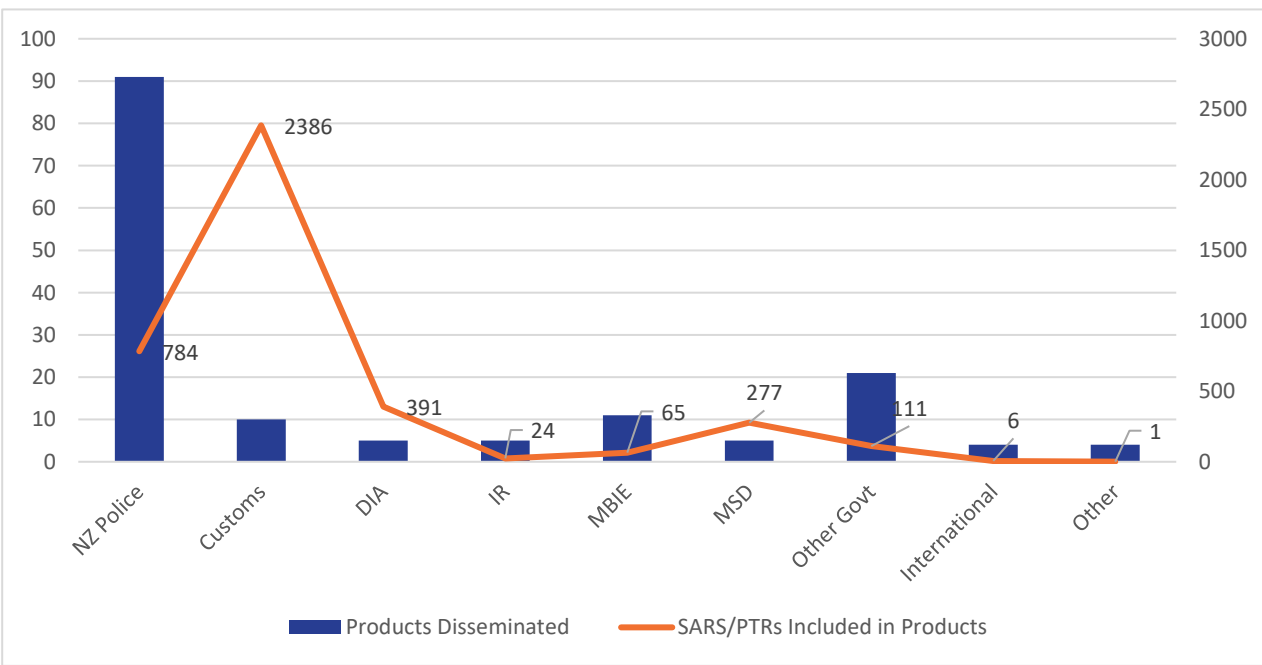
FINANCIAL INTELLIGENCE PRODUCTS

Disseminations of Products by Type

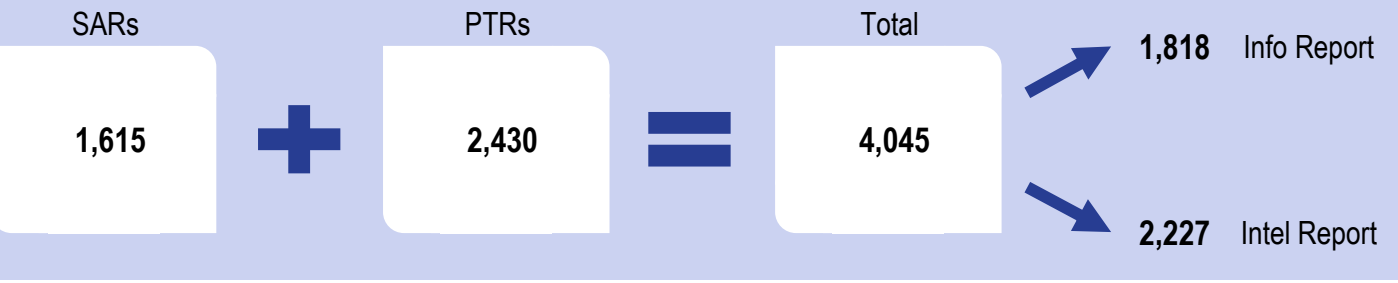
	This Month	Last Month
	July	June
	2020	2020
Information Reports	148	90
Analytical Products	8	9
Total Products	156	99



Disseminations of Products by Recipient



Disseminations of Products by Included SARs and PTRs



\*Statistical data for transaction reporting and intelligence products may be updated as new information is processed, and so there may be minor discrepancies between the statistical figures contained in this report and subsequent reports.