



**REPORT
OF
NIGERIA NATIONAL RISK ASSESSMENT ON MONEY
LAUNDERING AND TERRORISM FINANCING
2016**



THE NATIONAL (MONEY LAUNDERING & TERRORIST FINANCING) RISK ASSESSMENT FORUM

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ACRONYMS

ACAs	Anti-Corruption Agencies
ABCON	Association of Bureaux de Change of Operators of Nigeria
ACON	Association of Casino Operators of Nigeria
ADB	African Development Bank
AFF	Advanced Fee Fraud
AIHN	Association of Issuing Houses of Nigeria
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ANAN	Association of National Accountants of Nigeria
ASHON	Association of Stock-broking Firms in Nigeria
BCP	Basel Core Principles
BHC	British High Commission
BDC	Bureau De Change
BMOs	Business Management Organizations
BNIs	Bearer Negotiable Instruments
BOFIA	Banks and Other Financial Institutions Act, 1991 (as amended)
BTA	Business Travel Allowance
BVN	Bank Verification Number
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CCB	Code of Conduct Bureau
CCG	Complex Cases Group
CCOCIN	Committee of Chief Compliance officers of Capital Market Operators
CDD	Customer Due Diligence
CDF	Currency Declaration Form
CEMA	Customs and Excise Matters Act
CIFTS	CBN Inter-bank Funds Transfer System
CIS	Collective Investment Schemes
CMOs	Capital Market Operators
CO	Compliance Officer
COMBIN	Committee of Microfinance Banks in Nigeria
CPFA	Closed Pension Fund Administrators
CRF	Consolidated Revenue Fund
CRMS	Credit Risk Management System
CSCS	Central Securities Clearing System
CTID	Counter Terrorism Investigation Department
CTR	Currency Transaction Report
DFIs	Development Finance Institutions
DFID	Department For International Development
DHQ	Defense Headquarters
DMBs	Deposit Money Banks
DNFBPs	Designated Non-Financial Businesses and Professions
DNFIs	Designated Non-Financial Institutions
DSS	Department of State Services
DTCs	Double Tax Conventions
EAG	Eurasian Group
ECOWAS	Economic Community of West African States
EFCC	Economic and Financial Crimes Commission
EOI	Exchange of Information
ETF	Exchange Traded Funds
ESW	Egmont Secure Web
FAI	Financial Analysis and Intelligence

FBM	Fiscal Budgetary Matters
FCs	Finance Companies
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FEP	Financially Exposed Person
FHAN	Finance Houses Association of Nigeria
FHC	Financial Holding Companies
FinCen	Financial Crimes Enforcement Network
FIs	Financial Institutions
FIRS	Federal Inland Revenue Services
FISD	Financial Information Services Division
FMDQ	Financial market Dealers Quotation
FMF	Federal Ministry of Finance
FMITI	Federal Ministry of Industry Trade and Investment
FMOI	Federal Ministry of Information
FMOJ	Federal Ministry of Justice
FPRD	Financial Policy and Regulatory Department
FRC	Financial Reporting Council
FRSC	Federal Road Safety Commission
GDP	Gross Domestic Product
GFI	Global Financial Integrity
GIABA	Inter-Governmental Action Group Against Money Laundering in West Africa
GNI	Gross National Income
GWP	Gross Written Premium
HAGF/MOJ	Honourable Attorney General of the Federation and Minister of Justice
HOFA	Hotel Owners Forum Abuja
ICAN	Institute of Chartered Accountants of Nigeria
ICMR	Institute of Capital Market Registrars
ICPC	Independent Corrupt Practices and other related offences Commission
IFFs	Illicit Financial Flows
IMC	Inter-Ministerial Committee
IMF	International Monetary Fund
IMTSOs	International Money Transfer Service Operators
IOSCO	International Organization of Securities Commissions
INEC	Independent National Electoral Commission
ISA	Investment and Securities Act, 2007
IST	Investment and Securities Tribunal
JIB	Joint Intelligence Board
JSC	Judicial Service Commission
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
LRSC	Legal and Regulatory Sub-Committee
MFB	Micro Finance Bank
ML	Money Laundering
MLA	Mutual Legal Assistance
ML(P)A	Money Laundering (Prohibition) Act 2011 as amended
MMLA	Murtala Muhammed International Airport
MVTS	Money Value Transfer Services
MSMEs	Micro, Small and Medium Enterprises
NAICOM	National Insurance Commission
NAMB	National Association of Microfinance Banks
NAPTIP	National Agency for the Prohibition of Trafficking in Persons
NASD	National Association of Securities Dealers
NAV	Net Asset Value

NBS	National Bureau of Statistics
NCRIB	National Council of Registered Insurance Brokers
NCB	Non Conviction Based (Forfeiture)
NCS	Nigeria Customs Service
NDIC	Nigeria Deposit Insurance Corporation
NDLEA	National Drug Law Enforcement Agency
NEFT	NIBSS Electronic Fund Transfer
NEITI	Nigeria Extractive Industry Transparency Initiative
NFIS	National Financial Inclusion Strategy
NFIU	Nigerian Financial Intelligence Unit
NGOs/NPOs	Non-Governmental Organisations/Non-Profit Organisations
NHA	Nigeria Hotels Association
NIA	National Intelligence Agency
NIBSS	Nigerian Inter Bank Settlement System
NIESV	Nigeria Institute of Estate Surveyors and Valuers
NIMC	National Identity Management Commission
NIN	National Identification Number
NIP	NIBSS Instant Payment
NIPF	National Investor Protection Fund
NIS	Nigeria Immigration Service
NJC	National Judicial Commission
NNPC	Nigeria National Petroleum Corporation
NPF	Nigeria Police Force
NRA	National Risk Assessment
NSCDC	Nigeria Security and Civil Defence Corps
NSE	Nigeria Stock Exchange
NURTW	National Union of Road Transport Workers
OECD	Organisation for Economic Co-operation and Development
OFIs	Other Financial Institutions
OFISD	Other Financial Institutions Supervision Department
ONSA	Office of the National Security Adviser
OTC	Over The Counter
PENCOM	National Pension Commission
PEP	Politically Exposed Person
PFA	Pension Fund Administrator
PFCs	Pension Fund Custodians
PINE	Presidential Initiative for the North East
PMBs	Primary Mortgage Banks (PMBs)
POCA	Proceeds of Crime Act
PTA	Personal Travel Allowance
RBS	Risk Based Supervision
REDAN	Real Estate Developers Association of Nigeria
REITS	Real Estate Investment Trusts
RTGS	Real Time Gross Settlement Systems
SALWs	Small Arms and Light Weapons
SCUML	Special Control Unit against Money Laundering
SDB	Safe Deposit Boxes
SEC	Securities and Exchange Commission
SOPs	Standard Operating Procedures
STR	Suspicious Transaction Report
SRO	Self Regulatory Organisation
TCSPs	Trust and Company Service Providers
TF	Terrorist Financing
TPA	Terrorism (Prevention) Act, 2011 (as amended)

TSA	Treasury Single Account
UBM	United Banking Model
UNODC	United Nations Office on Drugs and Crimes
UNSCRs	United Nations Security Council Resolutions
USD	United States Dollars
WACMIC	West African Capital Market Integration Council
WB	World Bank
WG	Working Group

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FOREWORD

One of the critical success factors of any anti-money laundering and counter-financing of terrorism (AMLCFT) regime is premised on the ability of a country to properly identify, assess and understand the money laundering and terrorist financing (ML/TF) risk elements prevalent in the jurisdiction with a view to efficiently allocate limited resources to address them as enshrined in the Financial Action Task Force (FATF) recommendation 1.

Nigeria has achieved this significant milestone with the successful conclusion of the country's first National (money laundering and terrorism financing) Risk Assessment (NRA) exercise; the outcome of which shall lay the foundation for an effective National AML/CFT Strategy. The need for an AML/CFT strategy cannot be overemphasized as it provides operational and policy coordination between agencies of government as well as the private sector.

I would like to commend all agencies and individuals that contributed in one way or another to the production of this report. I am certain that the recommendations proffered shall have far reaching effects in strengthening the country's AML/CFT regime.



Abubakar Malami, SAN

Honourable Attorney General of the Federation and Minister of Justice

DISCLAIMER

*The National ML/TF Risk Assessment of **Nigeria** has been conducted as a self-assessment by **Nigerian** Authorities, using the National Money Laundering and Terrorist Financing Risk Assessment Tool that has been developed and provided by the World Bank. The World Bank team's role was limited to delivery of the tool; providing guidance on technical aspects of it and review/feedback to assist with the accurate use of it. The data, statistics, and information populated into National Money Laundering and Terrorist Financing Risk Assessment Tool templates, and any other finding, interpretation, and judgment under the scope of National Money Laundering Risk Assessment process completely belong to the **Nigerian** authorities and do not reflect the views of World Bank, its Board of Executive Directors or the governments they represent. Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.*

EXECUTIVE SUMMARY

The prospect of Nigeria and its huge economic potentials is not without challenges, as proceeds from Advance Fee Fraud, armed robbery, arms trafficking, banking fraud, bribery and corruption, capital market fraud, counterfeiting of currency, currency trafficking, drug trafficking, fraud and forgery, human trafficking and sexual exploitation, kidnapping and hostage taking, pipeline vandalism and illegal oil bunkering, piracy and copy rights infringement and smuggling all constitute major sources of illicit proceeds and source of financing terrorism in Nigeria. Money laundering in Nigeria takes many forms. Perpetrators launder money through real estate investment, wire transfer to offshore banks, deposits into foreign banks, round tripping, reselling imported goods, such as luxury or used cars, textiles, and consumer electronics purchased with illicit funds, jewelries as well as bulk cash smuggling. Consequently, Nigeria in her effort to rise above the foregoing menace, successfully conducted its first National Money Laundering and Terrorist Financing (ML/TF) Risk Assessment (NRA) in 2016.

The assessment was also in response to recommendation 1 of the Financial Action Task Force (FATF)'s 40 recommendations which, requires all countries to identify, assess and understand the money laundering and terrorist financing (ML/TF) risks elements prevalent in their jurisdictions for the development of efficient measures to combat the crime and efficient allocation of scarce resources to do the same. The Nigeria Financial Intelligence Unit (NFIU) in consideration of its strategic role as the national agency responsible for the coordination of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) matters in the country, coordinated and led the process under the auspices of Nigeria's AML/CFT Inter-Agency Ministerial Committee (IMC)¹

The exercise had the active participation of all anti-money laundering and combating the financing of terrorism (AML/CFT) stakeholder institutions as well as the private sector. In conducting the assessment, data was obtained from both private and public sectors of the economy, Law Enforcement and Security agencies and the general public. The data was analyzed and interpreted to reveal national risk levels of ML/TF in all sectors with appropriate recommendations proffered contingent on the findings.

The World Bank National Risk Assessment tool was adopted in the conduct of the exercise. The tool was considered most appropriate for Nigeria due to the nature, size and complexities of the country's political structure, financial sector and economy. The model defines ML Risk as a combination of national threat and national vulnerability. Consequently, the exercise involved the assessment of ML risks arising from the occurrence of predicate offences (threats) and sector vulnerabilities (Banking, Capital Market, Insurance, Other Financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs) Sectors) against the national combating ability of the law enforcement agencies in the country and existing control measures. A number of input variables relating to these sectors were evaluated as main drivers of national combating ability. The model also assesses TF Risks as a consequence of terrorism financing threat.

¹ The IMC is driven by three line ministries of Finance, Justice and Interior and compose of members from all Law Enforcement Agencies, Regulatory/Supervisory Bodies with the Nigerian Financial Intelligence Unit serving as the Secretariat.

Accordingly, the report findings revealed that the risk of Money Laundering (ML) in Nigeria is rated **Medium High**. This was derived from the combined effect of the ML threat and vulnerability levels which were both rated **Medium High** in the course of the assessment. The assessment further revealed that the **Bureau De Change Operators (OFIs sector)** is **most vulnerable** to money laundering risk while **Real Estate sector (DNFBPs)** ranked **2nd**.

Within the Financial Sector, the **Banking Sector** ranked highest while the **Insurance Sector** ranked the least. The least vulnerable sectors to ML risk were **Development Finance Institutions, Micro finance banks, Primary Mortgage Banks and Finance Companies** all from the **other financial institutions (OFIs)** sector.

The findings further highlighted significant issues facilitating the national ML vulnerabilities to include the non-comprehensiveness of AML/CFT legal framework, inadequate reliable Identification Infrastructure, non-availability & access to beneficial ownership information, limited capacity and resource of financial crime investigators, prosecutors & Judicial Processes, existence of porous borders, poor quality of border controls, inadequate controls of cash & similar transaction instruments, existence of informal economy, limited capacity of the regulators, law enforcement agencies (LEAs), prosecutors & the Nigerian Financial Intelligence Unit (NFIU) and lack of centralized national criminal database.

While Terrorism/Terrorist Financing Risk was rated to be **Medium** as derived from the combined assessment of Terrorism/Terrorist Financing (T/TF) threats and vulnerabilities which were both rated to be **Medium**.

The assessment culminated with the development of an action plan for the implementation of measures to address to the identified ML/TF risks and ensure effective implementation of Risk Based Approach (RBA) to combating these crimes. Such measures include enhanced integrity and capacity of competent authorities, LEAs, prosecutors & judges, domestic cooperation amongst relevant authorities, financial & human resources, legislative amendments, enhanced supervisory capacity, introduction of border control strategy, adequate funding of the national identity infrastructure, harmonization of the disparate databases of indicted and convicted persons (criminal database) and creation of awareness amongst the financial and designated non-financial institutions on the ML vulnerabilities existing within their sector.

Finally, the report concluded with a recommendation for the development of a National AML/CFT strategy framework that will serve as a road map for the implementation of national AML/CFT coordination mechanism and efficient resource allocation. The strategy framework shall also serve as a policy guideline to policy makers, regulators and law enforcement agencies in addressing the challenges of combating money laundering and terrorist financing in the country as well as ensuring the application of risk based approach by the financial and designated non-financial institutions. Policy implications were highlighted towards ensuring that the policy makers fully comprehend the national and international threats associated with ML/TF risks. The report also recommended measures that will facilitate the full implementation of

Nigeria's obligation under various United Nations Security Council Resolutions (UNSCRs) on counter terrorism financing efforts.

INTRODUCTION

The Federal Republic of Nigeria occupies a landmass of about 923,768 km² within the Western part of Africa. It borders the Republics of Benin in the West, Chad and Cameroon in the East, Niger in the North while in the South it has a coast line on the Gulf of Guinea. Nigeria has a population estimate of 187 million (est. 2015) with an annual growth rate of more than 3%. The Country is described as the economic “power house” of West Africa contributing nearly 50% of the regional GDP. Nigerian National Bureau of Statistics (NBS) estimated the country’s real GDP to be ₦67,152,785.84 billion (\$223, 842.62 billion²) with a corresponding growth rate of 6.22% in 2014 and ₦69,144,855.84 billion (\$230,482.85 billion) with corresponding growth rate of 2.79% in 2015³. Major contributing sectors to the GDP are Agriculture, Solid Mineral, Entertainment and others. Notwithstanding the current economic recession faced by the country, the International Monetary Fund (IMF) in its recent publication (October, 2016), affirmed Nigeria as the largest economy in Africa ahead of South Africa and Egypt⁴.

Nigeria operates a presidential system of Government with an independent executive, legislative and judicial arms working for a common purpose and inter-facing where necessary. The private sector is broad, ranging from the informal to the formal sector contributing to a Gross National Income (GNI) per capita (Atlas Method) of \$2,790 in 2014. The vastness of sectors, multiplicity of commerce, culture, institutions and the cash based nature of the economy makes Nigeria attractive to exploitation by money launderers and terrorist financiers.

The Government of Nigeria overtime has continued to demonstrate efforts aimed at mitigating ML & TF risks including the establishment of specialized anti-corruption and Law Enforcement Agencies (LEAs) such as the Economic & Financial Crimes Commission (EFCC), Independent Corrupt Practices and other related offences Commission (ICPC), Code of Conduct Bureau (CCB) & Department of State Services (DSS). The Government also enacted appropriate legislations and developed strategies for collaboration amongst AML/CFT stakeholder institutions. These efforts are geared towards mitigating **White Collar Crimes** such as Bank Fraud, Bribery, Advance Fee Fraud and **Property /Public Utilities Crimes** like illegal Oil bunkering, Vandalism etc. The efforts also include mitigating **Violent Crimes** such as Arms trafficking, robbery, kidnapping (abduction), extortion, all of which engenders the risk of ML and TF. Only recently (17th August, 2015), the Government constituted a Presidential Advisory Committee on Anti-Corruption as one of the initiatives to address the menace of corruption in the country. The committee was inaugurated to advise the President on measures to tackle corruption and reform the justice system.

It is in this regard that Nigeria further responded to the FATF recommendation 1 by conducting a National ML/TF Risk Assessment (NRA) geared towards understanding the national and sector risk exposure levels to ML & TF.

² All Naira to Dollar conversions in the report are based on \$1 to ₦300

³ National Bureau of Statistics (National Account of Nigeria) 2015

⁴ IMF World Economic Outlook for October 2016

METHODOLOGY AND SCOPE

Nigeria adopted the World Bank tool for her National Risk Assessment. The tool was considered most appropriate for the country due to the nature, size and complexities of the country's political structure, financial sector and economy. The tool involves a 3 phase process approach consisting of 3 workshops delivered in 3 phases over a period of 12 to 18 months.

Nigeria inaugurated an NRA forum in April 2013 with the 1st and 2nd workshops conducted in September, 2013 and January 2015 respectively. However, due to some logistical and financial challenges, progress was not recorded until August, 2016 when a new NRA secretariat was formed specifically to ensure effective and efficient conduct of the exercise. Ninety-Two (92) officers were drawn from 38 AML/CFT Stakeholder agencies and the private sector to serve as members of the various working groups. In line with the World Bank assessment tool and in order to ensure a comprehensive conduct of the exercise, the members were sub-divided into 9 Working Groups with each group focusing on a sector for assessment.

The nine groups include Threat Analysis on ML, National Vulnerabilities, Banking Sector Vulnerabilities, Securities Sector Vulnerabilities, Insurance Sector Vulnerabilities, Other Financial Sector Vulnerabilities, Designated Non-Financial Businesses and Professions (DNFBPs) Vulnerabilities, Risk Assessment of Financial Products aimed at Financial Inclusion and Threat Analysis on Terrorist Financing (TF).

Accordingly, data were collected through questionnaires served on all relevant agencies, individuals and organizations, extensive reviews and analysis of official publications from the stakeholder agencies as well as interviews conducted with industry experts and practitioners. The extensive experiences of the working group members and prevalence of occurrence of events were utilized in some instances during the assessment to arrive at conclusions where reliable statistics were unavailable. The Vulnerability of the sectors was further assessed by considering the strength of factors such as the relevant AML Laws and regulations and its level of enforcement, quality of supervision, penalties involved, and staff integrity among other factors. The product related information was also assessed.

Data Gathering Activities of the Assessment

Data were obtained from both private and public sectors of the economy, law enforcement, Judiciary and Security Agencies. This was analyzed and interpreted to reveal national ML/TF risk levels with appropriate recommendations proffered contingent on the findings. Information collection tools used were designed and developed internally by the different WGs based on the objectives of each group. Pre-collection trainings such as precision techniques, culture competence approaches, in-depth interview of key informant, focused group discussions and interview analysis techniques were conducted prior to the initial data collection process. All enumerations were done within a short time span of 30 days and data were stored in electronic and hard copies for security and safety. Other than the information available, the judgment, professional and expert opinion of WG members were also considered during the assessment. Below is a list of the tools designed for the data collection:

- Stakeholder matrix: identification of stakeholders to be visited along with relevant questions to be asked
- Engagement plan: An itinerary of individual officers to be interviewed within an organization along with the timings to be spent with each person with resources required
- Interview guide: A matrix containing questions for the identified individuals to be interviewed based on their job description and work experience.

Quantitative and qualitative data were collected through these questionnaires, interviews and focused group discussions. The interviews were structured with physical visit to offices of the identified respondents. Further source data utilized include interagency input, guidance reports, speeches, report findings, official circulars and comments of AML/CFT and industry experts published between 2010 to 2016 on AML/CFT matters as well as relevant international studies on the subject matter.

Additional information obtained in the conduct of the exercise include public sector reports published from 2010 to 2016, published research work, journals, textbooks, open sources from the internet, magazines, newspapers and published annual reports from Government Ministries, Departments and Agencies (MDAs). All data are referenced in footnotes and appendices throughout the report. Confidential information and classified intelligence was also accessed through some select Intelligence agencies in Nigeria to specifically support the assessment on terrorism financing.

Inter-agency collaboration also played a significant role in the success recorded during the exercise. Group members facilitated the provision of some relevant information, particularly annual reports and responses from their agencies. Although non availability of data in the required format posed significant challenge in writing the report, the assessment is based on the true field findings of group members.

CHALLENGES OF DATA GATHERING

A major challenge experienced by all working groups during the conduct of the assessment was on data collection. A significant number of the identified institutions, organizations and government agencies were not keeping statistics according to the classification required by the assessment tool or methodology while in some instances; no data was kept at all. In the circumstance, where the data was available, it could not be directly mapped with the requirement of the assessment thus, resulting in delayed response to questionnaires circulated. Additional delays were experienced due to the slow and bureaucratic nature of approvals for the release of information in government agencies. Some agencies/desk officers hosting sensitive and confidential data were reluctant in releasing the requested information due to the nature of their operations. Information lag especially within agencies also played a role in blocking ease of access because of inadequate understanding of the NRA exercise by respondent organizations. Competing schedules of the officers conducting the exercise further delayed data collection as WG members were not released on permanent basis to the constituted NRA secretariat.

Other challenges encountered are as listed below:

- 1. Insufficient Time:** The time allotted for response to request for information from some agencies/organizations was inadequate, leading to late or no response to requests for quantitative data because most agencies did not keep statistics in a format that can be easily sorted. Also, the time allotted for the fieldwork was limited due to the size of some assessed sectors spreading across all 6-geo political zones of the Country.
- 2. Limited Manpower:** Some working groups had insufficient man power hence required a longer time to conduct the field exercise, carry out the analysis and report writing while at the same time combining their activities in the NRA with their primary organizational duties.
- 3. Inadequate awareness of the National Risk Assessment Process:** notwithstanding the stakeholder sensitization workshop held at the early stage of the assessment, which was meant to educate all on the significance and requirement of exercise, some stakeholders still lacked adequate understanding of the assessment, leading to unnecessary delays. Some sector operators perceived the exercise as an assessment of their compliance to the AML/CFT regime in the country.
- 4. Difficulty in locating some entities:** Some targeted entities could not be located from the addresses provided or were no longer in operation.
- 5. Non-functioning statistical coordinating mechanism:** Absence of a coordinating mechanism at the national level to coordinate, collate and house required data from different government agencies also posed some difficulties in collection and collation of data by the assessors.

SCOPE OF THE STUDY

Although risks are best assessed based on the present threats they pose, Nigeria conducted an assessment of the money laundering and terrorist financing risk elements in her system from January 2010 to June 2016. The assessment particularly aimed at identifying and assessing the ML/TF risk for the period under review with a view to acquiring better understanding of the methods, trends, patterns, techniques and enablers of occurrence in order to ensure that commensurate measures are introduced and applied to mitigate identified risks

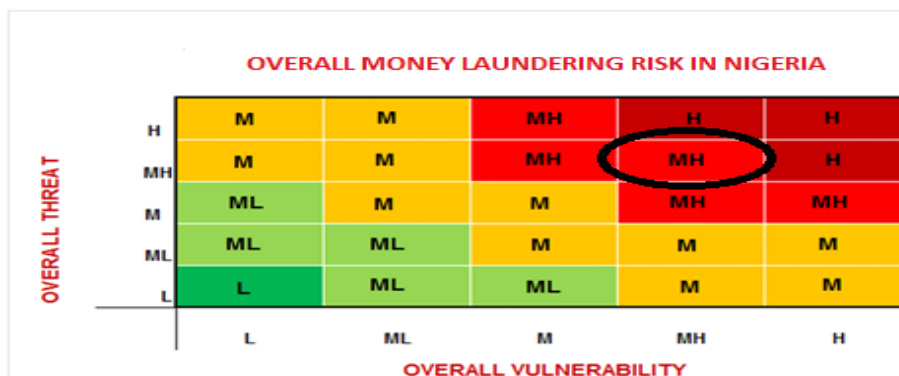
LIMITATIONS OF THE STUDY

The study focused on the assessment of the ML/TF risks existing within the financial, other financial and non-financial sectors of the economy. While the DNFBP sector is understood to be very broad and cash based, contributing about 42% to the national economy, only the 9 most vulnerable sub-sectors within the DNFBP sector were assessed. The focus was determined based on a risk based application.

OVERALL ASSESSMENT OF MONEY LAUNDERING & TERRORIST FINANCING

OVERALL MONEY LAUNDERING RISK ASSESSMENT AND RATING

Nigeria's overall ML threat has been assessed as **Medium High** while overall ML vulnerability has been assessed as **Medium High**. Consequently, the national ML risk level in the country is assessed as **Medium High** as contained in the heat map below.



Furthermore, overall ML risks in the assessed sectors are represented in the table below:

Sector ML Vulnerability, Threat and Risk

Sector	Overall Vulnerability	Overall Threat	ML Risk
Banking	MH	M	MH
Capital market	M	M	M
Insurance	M	L	ML
Real Estate	MH	MH	MH
Hotels	MH	MH	MH
Non Profit Organisation	MH	MH	MH
Car Dealers	H	MH	H
Law Firms	MH	MH	MH
Accounting Firms	MH	MH	MH
Casinos	M	L	ML
Jewellery Dealers	MH	MH	MH
Trust and Company Service Providers	MH	MH	MH
International Money Transfer Service	M	L	ML
Bureau De Change Operators	MH	MH	MH
Finance Companies	ML	ML	ML
Primary Mortgage Bank	ML	L	ML
Micro Finance Banks	ML	L	ML
Development Finance Institutions	ML	L	ML

OVERALL TERRORIST FINANCING RISK

The overall Terrorist Financing Risk is assessed **Medium**. The working group members used the terrorism threat, the direction of the financial flows as well as sources and channels of terrorist financing to determine the overall terrorism financing threats. The overall vulnerability was assessed based on the available terrorist financing controls and country context factors.

Overall Terrorism Threat

The overall terrorism/threat is rated **Medium**. Threat was determined by the following factors;

- Number of reported Terrorism cases
- Value of property lost
- High number of internally displaced persons
- High number of deaths and injuries
- Use of sophisticated arms by terrorists

Overall Terrorism Financing Threat is rated Medium

This is due to the following financing methods adopted by the terrorists;

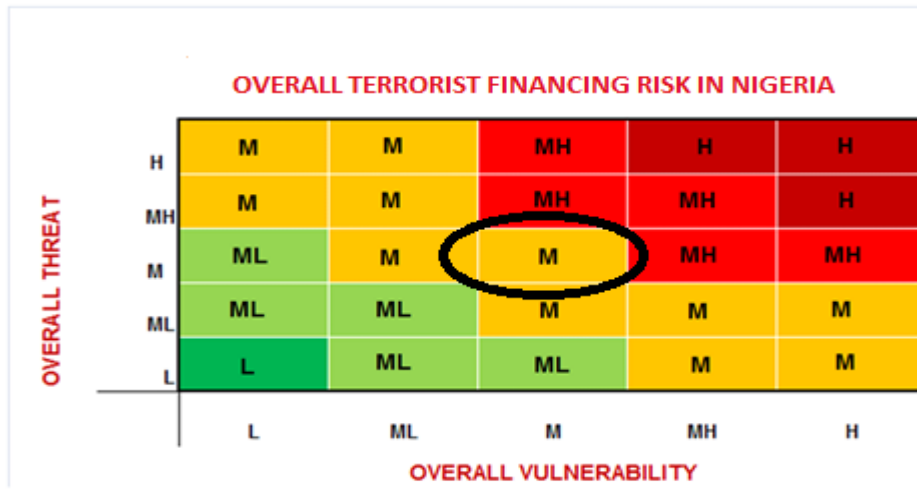
- Bank robberies
- Use of trade based financing
- Protection fees and ransom from kidnapping
- Life stock rustling
- Use of Gold as a medium of exchange
- Use of legitimate businesses (sale of dry fish, dry meat)
- Raiding of villages for consumables (palm produce)
- Smuggling/sale of arms and ammunitions

Overall Terrorism/Terrorism Financing Vulnerability

The overall vulnerability to TF is rated **Medium** due to the following factors

- The DNFBP sector which has been identified as the sector through which 80% of TF takes place, has minimal regulation–inefficient STR reporting from the sector.
- The Nigeria sanctions committee to implement the UNSCRs is yet to be inaugurated
- Lack of centralized database for intelligence sharing on terrorism and terrorist financing by competent authorities.
- Limited domestic cooperation among relevant stakeholders responsible for Terrorism and TF investigations and prosecutions.
- Porous and numerous illegal borders that facilitate easy flow of funds.
- Delay in the prosecution of Terrorism and Terrorist Financing cases.
- Informal and cash based nature of the economy.

The heat map below shows the intersection of Terrorism Financing Threat and Vulnerability which, represents the overall risk of **terrorist financing in Nigeria**.



CHAPTER ONE

1. THREAT ANALYSIS ON MONEY LAUNDERING

Money laundering can be described as the “legitimization, washing or laundering” of illegally acquired money or proceeds in order to hide its true nature or source (typically proceeds generated from drug trafficking, human trafficking, fraud, corruption or other criminal activities). Money is ‘laundered’ by surreptitiously passing the funds through legitimate business channels by means of cash purchases, placed as bank deposits, gaming, investments in legitimate companies, or transfers from one place or person to another.⁵

The problem of money laundering remains a major threat and hydra-headed factor that account for the inefficiency of governments and retarded economic growth around the world, including Nigeria. According to Global Financial Integrity (GFI), a Washington D.C. based research and advocacy organization, Nigeria is amongst the African countries that have recorded massive outflows of illegal funds between 1970 and 2008. GFI maintains that Nigeria lost \$165 billion, nearly 19% of the total \$854 billion outflows from Africa, to the developed market-economy countries⁶. The GFI further rated Nigeria seventh out of the 20 largest exporters of illicit funds worldwide, with a total figure of \$129 billion from 2001 to 2010⁷.

Prior to 2007, Nigeria was identified as a high-risk ML/TF jurisdiction and placed under review by the FATF for non-compliance with international AML/CFT standards. With the support of the FATF and GIABA, Nigeria made significant progress in addressing the identified deficiencies in its AML/CFT regime and was removed from the review list. However, the challenges still remain enormous due to the complexities of the systems in the country. Weak criminal justice system, inadequate inter-agency cooperation, inadequate funding of security agencies has also continued to undermine Nigeria’s ability to address the menace of money laundering.

According to GIABA, ML methods in Nigeria include investment in real estate, wire transfers to offshore banks, political party financing(conduit contributions), bulk cash smuggling, deposit in foreign bank accounts, use of DNFBP’s (professional services, such as lawyers, accountants and investment advisers), and reselling of goods imported at sub-market prices⁸. Other ML methods include the use of micro-finance channels, NPO’s and investment in the stock market.

A statement credited to the Central Bank of Nigeria (CBN) revealed that the estimated amount of illicit funds that go through the Nigerian system annually is about US\$15.7 billion⁹.

DOMESTIC THREAT

⁵ Overview of GIABA operations from 2004 to 2013

⁶ Illicit Financial Flows from Africa: Hidden Resource for Development

⁷ Global Financial Integrity report 2013

⁸ GIABA 2013 Annual Report

⁹ <http://nigerianpilot.com/15bn-illicit-funds-enter-nigeria-annually-cbn/> (assessed on June, 2016)

This involves the laundering of proceeds generated from crimes committed within the country. A significant percentage of the proceeds generated are laundered through the financial and designated non-financial businesses and professions within the country while some are laundered through purchase of arms and investment in real estate amongst others. This makes it very difficult, if not impossible, for investigators to trace, let alone recover them. Proceeds of these crimes facilitate a vicious circle of criminality, increased social & economic power to criminals, increased victimization from emotional trauma to physical violence, increased rate on incarceration and reduced confidence in public and private sector institutions.

EXTERNAL THREAT

This involves the domestic laundering of proceeds generated from predicate crimes committed outside the home jurisdiction. Nigeria being a country of economic significance and geographically endowed with mineral and natural resources, serves as an attraction for genuine business investment and criminal activities. Proceeds generated from criminal activities outside the country are laundered in Nigeria using different mechanisms in order to hide their illicit origin including trade based ML, Foreign Direct Investment (FDI), direct wire transfers, physical cash transportation, proceeds from drug trafficking etc. Analysis of sample case studies and available data revealed that the UAE, China, Malaysia, Hong Kong, South Africa and UK pose significant threat to Nigeria in terms of illicit proceeds inflow.

Discussion with relevant LEAs and analysis of the Nigerian Customs currency declaration data also indicates that potential ML threat lies for Nigeria from countries like Benin Republic, Republic of Togo and Israel due to the high volume of funds movement from the said countries to the Middle East through some Nigerian land borders and airports. Several cases of trafficking in human beings and migrant smuggling were recorded with significant proceeds generated there from. The country is therefore gradually being used as a hub and as a transit point by drug traffickers and human smugglers.

NATIONAL MONEY LAUNDERING THREAT

The ML / TF threat analysis considered the level and trend of predicate offences in the country. In terms of cases detected and proceeds identified, bribery and corruption, pipeline vandalism and Illegal oil bunkering and advance fee fraud have been identified as the most prevalent predicate offence where ML threat was **rated High**. fraud and forgery, human smuggling and trafficking, drug trafficking, and arms trafficking have been rated as predicate offences with **medium** ML threat considering the number of cases reported and proceeds identified while counterfeit of currency have been rated as having **low level** of ML threat.

The banking sector is identified as a main sector through which proceeds are channeled and accordingly rated as having **medium high** ML threat. Other Financial Institutions have been rated as having **medium high** level of ML threat mainly due to cases reported relating to frauds and misappropriation of funds. In the designated non-financial institutions, casinos, lawyers and real estate sector have been assessed as having **medium high** ML threat. Given the combination of the foregoing internal and external threat as evidenced by proceeds generated from predicate

offences committed domestically but laundered internally and those generated outside the home jurisdiction but laundered domestically, the overall money laundering threat is rated **Medium High**.

MAIN CRIMES THAT GENERATE THE PROCEEDS OF THE CRIMES

Below is a detailed analysis of the ML threat stemming from the most important proceeds generating predicate offences amongst other predicate offences though not that significant, but are likely to generate proceeds. However, the limited information on the value of proceeds linked with these offences maintained by LEA's posed a limitation on the assessment. The assessment and ratings further considered the level of threat based on capacity of the offence to generate proceeds.

Bribery and Corruption

There are 3 major anti-corruption institutions established in Nigeria and empowered by law with the responsibility of fighting corruption and bribery in both public and private sectors amongst other things namely; The Economic and Financial Crimes Commission (EFCC), The Independent Corrupt Practices and Other Related Offences Commission (ICPC) and The Code of Conduct Bureau (CCB). Accordingly, Section 2 of the Independent Corrupt Practices and other related offences Commission (ICPC) Act 2000 defines Corruption to "include bribery, fraud and other related offences while the World Bank defines it as "The abuse of public office for private gains¹⁰.

During the period under review, 9,509 cases of bribery and corruption were detected, out of which 313 were prosecuted with 39 convictions secured so far. The disparity in cases detected and secured convictions is due to lack of uniform data collection system in the country. Although, the period under review recorded proceeds seized and confiscated to the tune of ₦5,141,191,903.52 as at 2014 which is estimated at \$26 million USD.

Table 1.1: Bribery and Corruption 2010-2014

S/N	QUESTIONS	2010	2011	2012	2013	2014	TOTAL
1	number of cases detected / investigated	1,243	2,044	1,532	3,045	1,645	9,509
2	number of cases prosecuted	50	29	27	140	67	313
3	number of convictions (cases)	9	4	6	8	12	39
4	number of persons convicted						
5	number of offences committed in home jurisdiction	21	33	42	41	42	179
6	number of offences committed in foreign jurisdiction					2	2
7	number of persons involved and amount			1 case \$233,333(₦70M)			
8	No of intelligence sent by FIU to LEAS and amount		6 cases \$333,333 (₦100M)	7 cases \$333,333 (₦100M)	2	2	17

¹⁰ <http://www1.worldbank.org/publicsector/anticorrupt/corruptn/cor02.htm#note1>

9	Total no of cases referred from ICPC to other law enforcement agencies	1	3		1	1	5
10	No of persons involve and amount	3	3 \$33,333(₦10M)		1	1	8
11	Amount of proceeds seized or frozen (without ml charges)			\$33,333 (₦10M)	\$147,500 (₦44.250 M)	\$13,333 (₦4M)	\$195,067 (₦58.250 M)
12	Amount of proceeds confiscated (without ml charges)			\$39,333(₦1 1.8M)	\$5,000(₦ 1.5M)	\$15,667(₦4 .7M)	\$60,000(₦ 18M)
13	Amount of proceeds confiscated	\$1,241,000(₦372.3M)	\$890,000 (₦267M)	\$2,575,667(₦772.7M)	\$1,805,000(₦541. 5M)	\$1,929,333 (₦578.8) N2.5B	\$16,666,666.67 (₦5B)
14	Total amount confiscated.						\$17,133,333(₦5.14 B)
15	Number of staff sanctioned on account of fraud or bribery & Corruption.					2	
16	Total number of cases related to money laundering investigated			9	18	11	38
17	total number of cases referred for investigation to other law enforcement agencies				2	44	
18	Total amount of assets recovered.			\$3,331,367(₦999.410M)			

However, the Government has continued to introduce measures and strategies to counter the corruption in the country. This is evidenced in the recent effort of the FGN through the anti-corruption agencies and the Federal Ministry of Justice, where it charged several high net worth individuals with corruption allegations before different courts in Lagos and Abuja. This singular effort resulted in several hundreds of millions of Naira as captured in the table below;

Table 1.2: Cash Recoveries related to bribery, corruption and abuse of office from May 2015 to May 2016

Cash Recoveries					
S/N	Items	Naira	US Dollar	GB Pounds	Euro
1	EFCC Cash at hand	39,169,911,023.00 (\$130,566,370.1)	128,494,076.66	2,355	11,250
2	Royalty/tax/payment to FGN account in JP Morgan account New York	4,642,958,711.48 (\$15,476,529.04)	40,727,253.65		
3	ONSA Funds Recovery Account in CBN	5,665,305,527.41 (\$18,884,351.76)	8,000,000.00		
4	VAT recovered from companies by ONSA	529,588,293.47 (\$1,765,294.31)			
5	EFCC Recovered Funds Account	19,267,730,359.36	455,253.80		

	in CBN	(\$64,225,767.86)			
6	ICPC Revenue Collection Recovery in CBN	869,957,444.89 (\$2,899,858.15)			
7	Office of the Attorney General	5,500,000,000 (\$18,333,333.33)	5,500,000		
8	DSS Recoveries	47,707,000.50 (\$159,023.34)	1,943,000.50	3,506,000.46	
9	ICPC Cash Asset Recovery	2,632,196,271.71 (\$8,773,987.57)			
	Total	78,325,354,631.82 (\$261,084,515.4)	185,119,584.61	3,508,355.46	11,250

FGN: Financial and Asset recoveries from May, 2015 to May, 2016

Table 1.3: Assets under Interim Forfeiture

S/N	Items	Naira	US Dollar	GB Pounds	Euro
1	Cash in bank under interim forfeiture	8,281,577,243.92 (\$27,605,257.48)	1,819,866,364.73	3,800.00	113,399.17
2	Amount frozen in bank	48,159,179,518.90 (\$160,530,598.4)	7,131,369,498.49	605,647.55	
3	Value of properties under interim forfeiture	41,534,605,998.00 (\$138,448,686.7)	77,844,600.00	1,875,000.00	190,000.00
4	Value of cars under interim forfeiture	52,500,000.00 (\$175,000)			
5	ONSA Funds under interim forfeiture	27,001,464,125.20 (\$90,004,880.42)	43,771,433.73		
6	Value of Assets Recovered by ONSA	512,000,000.00 (\$1,706,666.667)			
7	ONSA Assets under interim forfeiture	260,000,000.00 (\$866,666.6667)			
8	DSS Recoveries Frozen in Banks	658,929,000.00 (\$2,196,430)	226,476.20		
9	EFCC Cash in Bank under final forfeiture	103,225,209.41 (\$344,084.0314)	17,165,547.00		
	Total	126,563,481,095.43 (\$421,878,270.3)	9,090,243,920.15	2,484,447.55	303,399.17
	Grand Total	204,888,835,727.25 (\$682,962,785.8)	9,275,363,504.76	5,992,803.01	314,649.17

FGN: Financial and Asset recoveries from May, 2015 to May, 2016

Table 1.4: Funds Awaiting Return From Foreign Jurisdictions

S/N	Jurisdiction	US Dollar	GB Pounds	Euro
1	Switzerland	321,000,000.00		
2	UK		6,900,000.00	
3	UAE	310,501.00		11,826.11
4	USA	6,225.10		
	Total	321,316,726.10	6,900,000	11,826.11

FGN: Financial and Asset recoveries from May, 2015 to May, 2016

Table 1.5: Non Cash Recoveries

S/N	Items	ICPC	EFCC	ONSA
Quantity				
1	Farmland	22		
2	Plot of Land	4		
3	Uncompleted Building	1		

4	Completed Building	33	145	4
5	Vehicles	22	3	
6	Maritime Vessels		5	
	Total	82	153	4

FGN: Financial and Asset recoveries from May, 2015 to May, 2016

It is in this regard that the National ML threat in Nigeria has been assessed as **High**.

Pipeline Vandalism and Illegal Oil Bunkering

The Nigerian Security and Civil Defense Corps (NSCDC); a Para-military agency, is responsible for the protection of critical national assets and infrastructure. The Corps is statutorily empowered by law act No. 2 of 2003 and amended by act 6 of 4th June 2007. The menace of pipeline vandalism and illegal oil bunkering continue to blight the growth and stability of the Nigerian economy. Stolen Nigerian oil worth billions of dollars is sold every year in international markets with proceeds laundered in international financial centers. An estimated 100,000 barrels per day (bpd) of crude oil was stolen from pipelines in the Niger Delta in the first quarter 2013¹¹. This estimate excludes, the unknown quantities stolen from export terminals.

The theft amounts to around 5% of the Country's 2 million bpd production. The impact of this criminal activity often forces oil companies to shut down pipelines due to damages caused by pipeline vandals. The former Minister of Finance, Dr. Ngozi Okonjo-Iweala put the figure of oil theft and illegal bunkering at 400,000 barrels per day. This activity has costs Africa's largest economy an estimated \$5 billion a year in potential revenue. Nigeria National Petroleum Corporation (NNPC) recorded a loss of 1,188,390 metric tons of petroleum products worth about ₦133.61 billion (\$445,366,666.7) between 2010 and 2014 due to the activities of pipeline vandals and illegal oil bunkering¹². Similarly, the sum of N174.57 billion (\$581.9m) loss was also recorded in 2014 as amount spent in pipelines repairs over the past 10 years.

Table 1.6: Convictions on Illegal Oil Bunkering

YEAR	OFFENCE	PENALTY
2015	MT Good Success & 9 ors except the 8th accused were charged for dealing in 1,459 metric tons of PMS without license.	Sentenced to 10 years imprisonment on 5 counts to run concurrently The court ordered that the vessel MT Good Success, the cargo on board (1,459 metric tons pms), \$220,231,02 (₦66,069,305.07), \$975,694.50 be forfeited to the FGN. ¹³
	Mt. Asteris and her crew were charged for dealing in 3,423.097 metric tons of crude oil without appropriate license.	The Federal High Court Ikoyi, Lagos in 2015, sentenced to 5 years imprisonment with an option of fine in the sum of \$16,666.67 (₦5,000,000.00) The court ordered the vessel, Mt Asteris and the 3,423.097 metric tons of crude oil on board the vessel to be forfeited to the Federal Government of Nigeria. ¹⁴
2016	MV Long Island and 22 Ors were charged for dealing in petroleum products without lawful authority or appropriate license.	The 4th to 23rd accused persons were sentenced to 2 years imprisonment with an option of \$666.67 (₦200,000.00). The Federal High Court, Ikoyi, Lagos ordered that MV Long Island and its Cargo be forfeited to Federal Government of Nigeria. ¹⁵

¹¹ <http://www.reuters.com/article/us-nigeria-oil-theft-idUSBRE98I13P20130919> assessed on 31st August, 2016

¹² 2010 – 2014 NNPC Annual Statistical Bulletin

¹³ www.efccnigeria.org (2015 convictions)

¹⁴ www.efccnigeria.org (2015 convictions)

¹⁵ www.efccnigeria.org (2016 convictions)

Oil thieves have many ways to disguise funds including cash smuggling, delayed deposits, use of middlemen, shell companies and tax havens, bribery of bank officials, cycling cash through legitimate businesses and cash purchases of luxury goods."The United States, Brazil, China, Thailand, Indonesia and the Balkans are the most likely destinations for stolen Nigerian oil¹⁶.

According to a report by Global Financial Integrity in 2014, oil remains Nigeria's problem as 92.9% of the total Illicit Financial Flows (IFFs) from Nigeria are oil related. In just 2008, 76.4% of the IFFs in oil from Nigeria are absorbed by the United States, Spain, France, Japan, and Germany.¹⁷ During the period under review, 14,140 cases of pipeline vandalism and illegal oil bunkering were detected by Nigeria National Petroleum Company, with 3,369 resulting in investigation, 3151 prosecutions and 831 convictions involving 1549 persons.

Table 1.7: Pipeline Vandalism and Illegal Bunkering

S/N	QUESTIONS	2010	2011	2012	2013	2014	TOTAL
1	No. of cases detected	1937	2768	2230	3505	3700	14,140
2	No. of cases investigated		45	1517	1130	677	3369
3	No. of cases prosecuted		N/A	1412	1082	657	3151
4	No. of convictions (Cases).		N/A	176	8	647	831
5	No. of persons convicted			1421	53	75	1549
6	No. offences committed in home jurisdiction			N/A	N/A	N/A	N/A
7	No. of offences committed in foreign jurisdictions	N/A	N/A	N/A	N/A	N/A	N/A

2010 – 2014 NNPC ANNUAL STATISTICAL BULLETIN

While the sustained anti-vandalism activities (oil pipeline/gas installation) by the NSCDC from 2010-2016, has translated into several detection, arrest, detention, prosecution and conviction of offenders as contained in the table below

Summary of the Anti-Vandalism/Critical National Assets protection activities by the NSCDC from 2010-2016

¹⁶ <http://www.reuters.com/article/us-nigeria-oil-theft-idUSBRE98I13P20130919>

¹⁷ <http://thenationonlineng.net/anxiety-grows-over-illicit-cash-flows/>

Table 1.8: Recovered Products A

YEAR	ILLEGAL REFINERIES DESTROYED	PUMPING MACHINE	GEN SET	TANKS OF AGO	TANKS OF PMS	EMPTY TANKS	DRUMS OF AGO	DRUMS OF PMS	EMPTY DRUMS	KEGS OF AGO	KEGS OF PMS	EMPTY KEGS	KEGS OF KERO
2015	25			242	576	119	86	6502	536	297	1725	571	181,000
2014	450			7	15	2,027	471	653	81	813	867	1,821	50
2013	43						2,403			7,991	64,725	115	
2012	78	18	23										
2011		9											
2010		7											

Table 1.9: Recovered Products B

YEAR	AGO (LTS)	PMS (LTS)	KERO (LTS)	CRUDE OIL (LTS)	DRUMS OF CRUDE OIL	CASH (₦)
2015	426	1,142,060	221	1,250	156,000	602,050
2014	882,920	382,000				470,000
2013	2,816,000					
2012	33					
2011						
2010						

Table 1.10: Vehicles arrested

YEAR	VEHICLES	TRUCKS	M/CYCLES	BARGES	VESSELS	BOATS
2015	121	116		391	127	3
2014	55	115	18	7	0	79
2013	99	196	35	26	10	108
2012	117	150	2		11	59
2011	30	49	15			6
2010	23	32	11			6

Table 1.11: Prosecution Records

YEAR	ARREST	UNDER PROSECUTION	CONVICTION
2015	641	634	40
2014	635	633	2
2013	1,082	1,037	41
2012	1,412	1,244	168
2011	663		
2010	309		

Notwithstanding the efforts of NSCDC in combating these criminal activities, the militants in the Niger Delta Region have continued to counter the effort of the Nigerian Government in generating the required revenue to sustain its monetary policies through increased pipeline vandalization. The Niger Delta Avengers have been the most deadliest of all the groups with a sustained attack on several oil facilities belonging to the oil servicing companies and the NNPC. According to the Group Managing Director of NNPC, Mr. Maikanti Baru, (Friday, October 28, 2016) a total of \$7 billion (₦2.1 trillion) is said to have been lost to the activities of militants and vandals in the Niger Delta region of Nigeria.

From last quarter of 2015 to date. In his words:

“Over 7000kpd of crude oil has been lost due to vandalism this year. A bulk of the loss is from JV assets. This implies that 60 per cent of oil production lost is NNPC-FGN equity. “At an estimated price of \$45 per barrel, the total 2016 revenue loss to the Federation Account translates to about \$7 billion. This is money that the government could have used to achieve major infrastructural milestones”¹⁸.

The activities of the Avengers have almost grounded the Nigerian economy; contributing significantly to the current economic recession facing the country since the 2nd quarter of 2016. Crude oil production has crashed from an all time high of 2.5million bpd to less than 1 million bpd.

The FGN has therefore reached out to the Leaders of the region with a view to addressing their agitation, but the sustained activities of the avengers combined with the illegal bunkering in the region has continued to cause significant losses to the Nigerian system. Accordingly, the ML threat is assessed **High**.

Advance Fee Fraud (AFF)

Advanced fee fraud (AFF) is a global and contagious crime that can be defined as confidence scams which promises very attractive returns to lure would-be victims. Nigeria established the AFF and other fraud related offences Act of 2006 as “An Act to prohibit and punish certain offences pertaining to Advance Fee Fraud and other related offences and to repeal other Acts related therewith”. The Economic and Financial Crimes Commission (EFCC) is the primary agency responsible for the administration of the said Act.

Over the last 4 years, AFF cases represented the highest number of cases received and investigated by the EFCC. Specifically, AFF represented 59% of all cases investigated by the commission in 2014.¹⁹

Table 1.12: Number of AFF cases investigated by the EFCC

S/N		2011	2012	2013	2014	TOTAL
1	number of cases detected / investigated	1386	1585	2379	1910	7260
2	number of convictions (cases)	N/A	43	44	37	124
3	number of persons convicted	N/A	N/A	25	42	67

¹⁸ <http://pulse.ng/local/niger-delta-nigeria-lost-n2-1-trillion-to-militants-vandals-in-2016-nnpc-id5674626.html>

¹⁹ Page 15 EFCC Annual Report 2014

Advance Fee Fraud accounts for about \$82 billion in losses from 2000 to 2014. These include \$9.6 billion in 2011, \$10.9 billion in 2012 and \$12.7 billion in 2013, with majority of victims located in the U.S., t U.K., and India²⁰. “According to the report, 80% of all cheque fraud reported, 95% of all lottery scams and 91% of inheritance and last will as well as testament frauds are related to Nigerian 419 scams. Losses from individual scams range from \$200 to \$12 million, based on what the perpetrator enacts. The smaller scams are mostly lottery scams, or scams promising to help job seekers find placements. The larger losses usually deal with fraudulent proposals based on real businesses dealing with oil, gold, medical equipment or other investments”.²¹ Most AFF crimes are committed from different jurisdictions outside Nigeria and targeted at lonely and aged women. The inability of the LEAs to effectively tackle this crime has been a challenge as most of these offences are now committed by nationals of other jurisdictions claiming to be Nigerians.

COURT CASE ACTIONS

- a. EFCC arraigned before court the following accused persons and secured convictions for an offence of advance fee fraud: Mr. Friday Joseph Idachaba (DCP) convicted on November 28, 2014, and sentenced to 7 years imprisonment without option of fine and the court also ordered the convict to pay the sum of \$4,677.05 (₦1,403,114.00) as restitution.²²
- b. Bright Eyogbai & Okechuku Okolo convicted on June 5, 2014, sentenced to 42 years imprisonment and restitution of \$30,000 (₦9,000,000.00) and also to pay the sum of \$233.33 (₦70,000.00) as fine.²³
- c. Abdul Yahaya and Bashir Ahmad Haruna convicted on October 10, 2014, sentenced to 7 years imprisonment and ordered to pay the sum of \$6,759.67 (₦2,027,900.00) as restitution to the complainant²⁴.
- d. Aminu Mohammed & 5 others convicted on December 16, 2014, sentenced to 10 years imprisonment and payment of \$36,666.67 (₦11,000,000.00) as restitution to the complainant²⁵

Notwithstanding the prevalence of occurrence of these crimes, there are no comprehensive records of proceeds generated and amounts confiscated on the said crimes. Where the records exist, they are not classified according to the various categories of the AFF crimes. Emphasis has been on investigation and prosecution of the offenders rather than records of generated proceeds. Therefore, there are limited records with regard to volume either maintained by the commission or any other research which can be relied upon. However, given the prevalence of occurrence of the offence and the available statistics including the sampled case studies, the ML threat has been rated **Medium High**.

Illicit Trafficking in Narcotic Drugs & Psychotropic Substances

Drug trafficking is a global illicit trade involving the cultivation, manufacture, distribution and sale of substances which are subject to international and national drug prohibition laws²⁶. The dynamics involved in drug trafficking globally has made it imperative for countries to respond to the United Nations convention against illicit traffic in narcotic drugs and Psychotropic

²⁰ Ultrascan Advanced Global Investigations on Nigeria

²¹ <http://www.geektime.com/2014/07/21/millions-of-victims-lost-12-7b-last-year-falling-for-nigerian-scams/>

²² https://efccnigeria.org/efcc/images/2014_Convictions.pdf page 1 no.11

²³ https://efccnigeria.org/efcc/images/2014_Convictions.pdf pg 1 no. 21

²⁴ https://efccnigeria.org/efcc/images/2014_Convictions.pdf page 1 no 26

²⁵ https://efccnigeria.org/efcc/images/2014_Convictions.pdf page 1. no 34

²⁶ <https://www.unodc.org/unodc/en/drug-trafficking/>

substances, 1988. The drugs which are known to be very dangerous to the human body have the capacity to induce social vices, psychological disorder and other forms of criminality.

In response to global rise of this vice, Nigeria established the National Drug Law Enforcement Agency (NDLEA) from Decree Number 48 of 1989, now an Act of Parliament CAP N30 Laws of the Federation of Nigeria 2004. The act established the NDLEA as the lead Agency for the enforcement, administration and coordination of all drug laws, and also to investigate, arrest, and prosecute offenders who contravene the provisions of the Act. The Agency is also mandated to identify, trace, freeze, confiscate or seize instrumentalities of drug related offences proceeds derived from drug and drug related offences or assets that corresponds to such proceeds in value. The establishment of NDLEA was a deliberate effort aimed at evolving an institutional framework for the suppression and extermination of illicit drug trafficking and consumption in Nigeria. It was also in fulfillment of the country's international obligation, as a signatory to the 1988 UN Convention, which recommended a dedicated body to lead the onslaught against the ravaging drug menace in many parts of the world. However, it is on record that Nigeria's effort on narcotics control dates back to 1935. Drug trafficking offences in Nigeria are therefore punishable under Part II Sections 11 to 25 of NDLEA ACT Cap N 30 Laws of the Federation 2004.

Nigeria has long been identified as the import and transit route for illicit drugs such as Cocaine and Heroin while it grows and exports Cannabis sativa to some African Countries and other parts of the world. Cocaine is trafficked from Columbia, Bolivia, Brazil and Peru, Mexico amongst others through the United Arab Emirate (Dubai and Qatar) and South Africa into major International Airports and borders in Nigeria. Consequently, they are repackaged and sent to the Europe and Asia. Similarly, traffickers smuggle Heroin from Pakistan, Thailand and Afghanistan by sea and (or) by air into Ethiopia, South Africa, Dubai (UAE), Doha (Qatar) and Turkey where they are flown into Nigeria for onward distribution to Europe and the USA. Owing to the porosity of the borders, harsh and difficult terrains in Northern Nigeria, It has been difficult to break the activities of the drug syndicates completely. Also of concern is the Economic Community of West Africa (ECOWAS) policy on free movement of persons and goods among member States which is being abused to traffic narcotic drugs within the region.

Methamphetamine is clandestinely produced in Nigeria using chemists from countries like Bolivia, Columbia and Mexico working in conjunction with their Nigerian counterparts. In the past five years clandestine Laboratories were discovered in Lagos, Anambra and Delta States. The produced methamphetamine is usually exported to South Africa, Kenya, Tanzania, Mozambique, Rwanda, Malaysia, India and Thailand among others.

Various means have been used to conceal drugs on these routes. Drug traffickers exploit the use of anything with a hollow or space to conceal their drugs. For instance, holy books, mobile telephones and phone chargers, gearboxes, luggage, beaded ceremonial canes for chiefs, shoes, sandals, stethoscope, LCD TV, Stabilizers, corpse, cushion seats of wheel chairs, picture frames, frozen poultry (especially turkey) fried beef artifacts, jeans or trousers, cans of milk, tomatoes and other food stuff, hair attachments, etc. Also, drug traffickers conceals drug in their body

through Ingestion (swallow), Insertion (anus & vaginal cavities) and body packing (strapped to their body or in clothing).

Accordingly, the Government through NDLEA has been proactive with control and enforcement measures to address the problem of illicit drug use and cultivation in the country. Measures such as the launching of the National Drug Control Master Plan 2008-2011 and 2011–2015, 2015-2019 highlighting the national strategy to enhance control of illicit drug supply, reduce drug demand, ensure adequacy and efficacy of legal framework have been put in place.

The sustained control efforts of the NDLEA translated into several detection of hard drugs, arrest, detention, prosecution and conviction of drug traffickers as contained in the table below;

Table 1.13: Drug Trafficking 2010-2014

SN	QUESTIONS	2010	2011	2012	2013	2014
1	No. of cases detected /investigated	6788	8639	8052	8843	8826
2	No of cases prosecuted	1526	1501	1736	1871	2070
3	No. of convictions (Cases).	1509	1491	1718	1865	2054
5	No. of offences committed in home jurisdiction	1526	1510	1736	1871	2070
6	Amount of proceeds seized/ without ML charges	₦44,724,357 (\$149,081.19) \$ 1,072,447 Pounds 50,000	₦856,025 (\$2,853.42) \$90,078 Pounds 14,635 Euros 91,610 Yuan 37,700	₦123,716,869.83 (\$412,389.56) \$70,830.42 Pounds 588	₦21,695,828.90 (\$72,319.43) \$212,550.00	₦8,599,187.60 (\$28,663.96) \$414,517.93 Pounds 20,000
7	Amount of proceeds confiscated without ML charges.	₦44,724,357 (\$149,081.19) \$ 1,07,447 £ 50,000 E Nil Y Nil	₦856,025 (\$2,853.41) \$90,078 £14,635 Euros 91,610 Yuan 37,700	₦123,716,869.83 (\$412,389.56) \$70,830.42 £588 Nil Nil	₦21,695,828.90 (\$72,319.42) \$212,550.00 Nil Nil Nil	₦8,599,187.60 (\$28,599,187.60) \$414,517.93 Pounds 20,000

Furthermore, Nigeria has successfully prosecuted a number of cases involving drug trafficking some of which are discussed below-

ENFORCEMENT ACTIONS

- The National Drug Law Enforcement Agency (NDLEA) seized a total of 227.055 kilos of hard drugs worth an estimated sum of \$8,333,333.33 (₦2.5 billion) at the Murtala Mohammed International Airport (MMIA) in the first half of 2012²⁷.
- A Nigerian tailor was arrested at the MMIA in June 2012 for attempting to smuggle 2.70 kilos of

²⁷ www.spyghana.com/world-news/inside-africa/nigeria-news/ndlea-seizes-227-055kg-drugs-in-6-months

- cocaine with an estimated value of \$96,666.67 (~~₦~~29 million) into the country²⁸.
- c. In September 2012, two Nigerian men were arrested for attempting to smuggle 2.56 kilos of cocaine to Turkey²⁹.
 - d. Two other Nigerian men were arrested for attempting to smuggle out 4.285 of methamphetamine to India in the month of September 2012³⁰.
 - e. A UK-based Nigerian student was arrested at the MMIA for attempting to smuggle 1.535 kilos of cocaine to the UK³¹.

The above analysis of case studies and other detected incidences reveal that some of the destination countries for drug trafficking are Italy, Turkey, United States, Germany, United Kingdom, China and India, among others. The proceeds are laundered back to Nigeria through the financial institutions or international money transfer service operators.

The sum of ~~₦~~199,592,268.33 (\$665,307.56) was seized/ confiscated between 2010-2014. While in 2015 NDLEA arrested 8,778 suspected drug traffickers comprising 8,143 males and 635 females. A total of 903,624.56kg of narcotic drugs was seized from drug trafficking cartels in 2015. The drugs include cannabis 871,480.32kg, ephedrine is 785.10kg, methamphetamine 410.82kg, cocaine 260.47kg, heroin 30.09kg and amphetamine 4.83kg and other substances 30,652.93kg. The Agency also won 1,690 cases prosecuted in 2015³². Given the number of occurrence of drug trafficking cases, convictions and the volume of financial proceeds involved, the ML threat is assessed **Medium High**.

Illegal Arms Trafficking

Section 15(6) of The ML(P)A, 2011 (as amended) prohibits Arms trafficking for money laundering purposes. Arms trafficking, also known as gun running is the illegal trafficking or smuggling of contraband weapons or ammunition. The firearm Act, chapter 146, Laws of the Federal Republic of Nigeria, 1990, empowers the Federal and State Governments to constitute committees to check proliferation of illicit arms in the country³³.

In 2013, the former Minister of Interior disclosed that there were over 1,499 irregular (illegal & unmanned) and 84 regular (legal & manned) officially identified entry routes into Nigeria, confirming the very porous state of these borders which permit or allow illicit transnational arms trafficking. Terrorists, smugglers and other criminals take advantage of the unmanned borders to smuggle Small Arms and Light Weapons (SALWs) thus, resulting in the influx of over 70% of about 8 million illegal weapons in West Africa³⁴.

In October, 2010, the introduction of the Amnesty Program for the Militants operating within the South-South (Niger Delta) region of the Country witnessed the surrender of over 20,000 small arms by Niger Delta militants, while 13 containers loaded with 107mm rockets, 120mm, 80mm,

²⁸ www.tribune.com.ng/13 June 2012

²⁹ www.allafrica.com/stories/201209190986.html

³⁰ www.leadership.ng/nga/articles/36098/2012/09/30

³¹ www.vanguardngr.com/2012/11

³² <http://www.ndlea.gov.ng/v1/?q=content/ndlea-seized-22-billion-naira-drugs-2015-calls-concerted-effort-against-threat-narcotics>

³³ <http://www.nigeria-law.org/Firearms%20Act.htm>

³⁴ <http://studies.aljazeera.net/en/reports/2013/09/201398104245877469.html>

and 60mm mortars and small arms ammunition were uncovered at the country's largest seaport within the same period. The contents were disguised as construction materials. Evidently, more arms are very likely to be proliferated than the authorities are able to seize or destroy³⁵. Recently some states in Nigeria offered amnesty to the restive youths who are suspected to be in possession of various types of arms and a sizeable number of SALWs. The effort resulted in the surrender of a large number of assorted automatic rifles and AK47 to the state Governments by the youth in exchange for gainful employments.

On land, the most notorious entry points for smuggling firearms into Nigeria are Idi Iroko and Seme border towns in the South-West, Warri in Delta State in the South-South, and with North-Eastern states of Adamawa, Borno and Yobe on the border with Cameroon, Chad and Niger. There is also suspicion that SALWs are smuggled into the Niger Delta through the region's numerous creeks, and exchanged for oil at the high seas³⁶. Interviews with independent sources and the Nigerian Police at the Idi Iroko and Seme borders further affirmed the cross-border movement of arms to and fro different parts of West and Central Africa. Nigerian airports are rarely used for arms smuggling into the country, albeit suspicion that the air strip in Warri has been associated with arms trafficking. While arms have been intercepted at Aminu Kano International Airport in Kano state, many traffickers in northern Nigeria carry out their arms smuggling activities into the country across Lake Chad or via the border with Cameroon. An example is the arrest of a woman in Borno state for attempting to smuggle 10 AK 47 Guns into Nigeria from Chad through Cameroon³⁷.

Accordingly, during the period under review, about 140 cases were detected and investigated. However due to limitation on availability of data, the assessment observed only one (1) case of successful prosecution and conviction. About ₦22,500,000 (\$75,000) was confiscated with ₦2m (\$6,666.67) and ₦3m (\$10,000) seized and confiscated on ML offences respectively. However, due to data limitation, no record of recovered proceeds was made available to the working group members.

Statistics available include both number of investigations conducted and persons convicted. It further includes offences committed in home jurisdictions. Based on the porosity and existence of a high number of illegal borders, the ML threat of arms trafficking is adjudged **Medium High**.

Table 1.14: Arms Trafficking 2010 - 2014

S/N	QUESTIONS	2011	2012	2013	2014
1	number of cases detected / investigated			140	
2	number of cases prosecuted			2	1
3	number of convictions (cases)			1	
4	number of persons convicted			2	
5	number of offences committed in home jurisdiction			1	1
6	number of offences committed in foreign jurisdiction				
	Amount confiscated	₦22,500,000 (\$75,000)			

³⁵ http://www.giaba.org/media/f/613_519_GIABA%20SALW%20Nexus-final.pdf GAIBA report on The Nexus between small arms and light weapons and money laundering and terrorist financing in west Africa , pg 13

³⁶ http://www.giaba.org/media/f/613_519_GIABA%20SALW%20Nexus-final.pdf GAIBA report on The Nexus between small arms and light weapons and money laundering and terrorist financing in west Africa , pg 20

³⁷ http://www.giaba.org/media/f/613_519_GIABA%20SALW%20Nexus-final.pdf GAIBA report on The Nexus between small arms and light weapons and money laundering and terrorist financing in west Africa , pg 20

Counterfeiting and Piracy of products

The Nigeria Copyright Commission has the responsibility of enforcing the copyright laws in Nigeria, (Part 1, Section 1-4 of the Copyright Act). Copyright piracy is defined as the illegal reproduction or duplication of copyright works like phonograms, books, paintings, architectural drawings, photographs, films, broadcasts, computer software etc, for commercial purpose. It also includes distribution, whether gratuitous or for sale, and exhibition in public of infringing copies of copyright works. Piracy is used to describe infringement of copyright on commercial bases.

Piracy remains a challenge to law enforcement agencies and the society at large. It is stated that Nigeria is ranked among countries where piracy is very prevalent, with a global percentage of 82% in 2007, 83% in 2008, 83% in 2009, 82% in 2011 and still 83% in 2012³⁸. The rate of piracy in Nigeria, indicates that authors and producers in entertainment industry have been impoverished in the last twenty years, as they lost over \$270,000,000 (₦81 billion) to piracy annually³⁹. Nigerian ports are the principal gateways through which pirated and counterfeited imports come into the country and pirated & counterfeited exports leave⁴⁰. Due to the porosity of our borders and ports, these pirated works are easily moved to other countries sharing borders with Nigeria.

CASE STUDY

CASE STUDY : IMPORTATION OF PIRATED LITERARY MATERIALS

Brief facts about the case: Following a tip off to the investigative authorities' in March, 2014, by a rights owner against importation of suspected pirated literary works (secondary school curriculum), a 20ft container was intercepted at Apapa Wharf, Lagos by the Nigerian Customs Service (NCS) and the Nigerian Copy Right Commission (NCC).

Inspection of the container confirmed the suspicion and revealed 1200 cartons of 60,000 copies of various literary works with an estimated market value of \$200,000(₦60,000,000). Investigation revealed China as source of shipment.

Source: Nigeria Copyright Commission

The Government has therefore been very proactive in its regulatory and enforcement measures. The NCC has recorded several cases of seizures of pirated products through sting operations on notorious locations in the country. Different types of materials are pirated in the country from literary works, optical disc, religious books to satellite transmitters. From 2010 to 2014, about 203 cases were detected and investigated by the NCC out of which 153 were prosecuted with 53 convictions recorded. About \$15,931,452 (₦4,779,435,600) goods were confiscated.

A major challenge facing the operations of the NCC is in the scope of its legal framework. The NCC Act does not recognize piracy and counterfeiting of products as a money laundering offence and as such investigations and confiscations are not extended to the assets of offenders.

Given the foregoing cases investigated and prosecuted, coupled with the economic losses, the threat is rated as **Medium High**.

³⁸ Source:A. Kunle 'Global Software Piracy' Business Alliance Software Magazine, May 11, 2012, P. 31

³⁹ S. Osanyintunyi, 'Effects of Piracy in Nigeria' Available at <http://www.ccsenet.org/jp/> accessed on 12th February 2013

⁴⁰ <http://www.ccsenet.org/journal/index.php/jpl/article/viewFile/12011/8435>

Table 1.15: Piracy and Copyrights 2010-2014

S/N	QUESTIONS	2010	2011	2012	2013	2014	TOTAL
1	No. of cases detected /investigated		73	80	74	40	267
2	No of cases prosecuted		68	78	20	26	192
3	No. of convictions (Cases).		22	26	15	9	72
4	No. of persons convicted		148	26	15	9	198
5	No. of offences committed in home jurisdiction		129	84	158	72	443
6	No of offences committed in foreign jurisdictions			13	4	3	20
7	Amount of proceeds seized or frozen						
8	Amount of proceeds confiscated		₦1,006,585,000 (\$3,355,283.33)	₦4,379,431,000 (\$14,598,103.33)	₦1,643,786,000 (\$5,479,286.67)	₦308,819,600 (\$1,029,398.67)	₦4,779,435,600.00 (\$15,931,452)
9	No. of offences where countries of origin cannot be identified.		6 Million pirated works	13 Containers, (11 contain pirated books; 2 contains pirated music/film works)	4 Containers, (3 contains pirated music/film works; 1 contain pirated books)	3 Containers, (2 contain pirated books; 1 contain pirated music/film works)	The owners of these containers are still at large.

Fraud and Forgery

The Criminal Code Act of the Federal Republic of Nigeria 1999, as amended defines forgery as; "an act by a person who makes a false document or writing knowing it to be false, and with intent that it may in any way be used or acted upon as genuine, whether in the State or elsewhere, to the prejudice of any person, or with intent that any person may, in the belief that it is genuine, be induced to do or refrain from doing any act, whether in the State or elsewhere, is said to forge the document or writing". The Advance Fee Fraud and other Fraud related Offences Act 2006 criminalizes offences of fraud and forgery. The Nigerian police and the EFCC have the responsibility of investigating the fraud related cases in Nigeria. There are more cases of fraud and forgeries in the banking sector than in any other sector. During the review period, various types of channels were used to perpetrate fraud; these included the Web, ATM, bank branches, and PoS terminals. Meanwhile, the instruments used by fraudsters to carry out fraud during the period were cash, cheque, cards and slips.⁴¹

⁴¹ https://www.fitc-ng.com/downloads/1438767428_29110.pdf

CASE STUDIES

In 2016, Bidemi Thompson was charged for obtaining money, impersonation and forgery. The convict is to retribute the victim on the monies he falsely obtained; that is \$20,000, \$2,000, ₦350,000.00 (\$1,166.67) and ₦1.8 million (\$6,000). More so, final forfeiture was ordered on property purchased by accused from proceeds of fraud. The accused person is sentenced to 15 years imprisonment by the High Court of Ogun State, Abeokuta Division.⁴²

A former banker with Wema Bank Nigeria Plc, Ademola Oni was convicted and sentenced to 12 years imprisonment for conspiracy and money laundering by Justice Joyce Abudmalik of the Federal High Court, Ibadan, Oyo State, The court also ruled that he forfeits all his properties and cash in various banks as proceeds of crime. Among properties forfeited by the convict are : 3 plots of land, three acres of land and 2 storey buildings, a borehole machine all located in Ibadan; a Honda Accord Car, 2014 model, a. He is also to forfeit the following sums in bank accounts ₦43,259, 441.22 (\$144,198.14) in a fixed deposit account with FCMB, ₦70,614.60 (\$235.38) in the name of 'De-City- Life enterprise with account No. 22749019 also domiciled with FCMB, another ₦7,189.22 (\$23.96) in the name of Oni Iyabo Mary in the same bank and ₦966,788.81 (\$3,222.63) in the First Bank account of Ezomal Ventures, among others⁴³.

According to Nigeria Deposit Insurance Corporation (NDIC), Nigerian banks in 2012 reported 3,380 fraud and forgery cases as against 2, 352 cases reported in 2011. The amount involved was \$94,666,666.67 (₦28.4 billion) in 2011 and \$59,866,666.67 (₦17.96 billion) in 2012. As of the year ended December 31, 2014, Nigerian banks reported 10,612 fraud cases, as against 3,786 in the corresponding period of 2013, “representing an increase of 182.77%”. The amount involved rose by \$12,700,000 (₦3.81 billion) or 17.5% from \$72,666,666.67 (₦21.80 billion) in 2013 to \$85,366,666.67 (₦25.61 billion)⁴⁴. The types of fraud and forgeries ranged from fraudulent transfer, withdrawal of deposits, presentation of forged cheques, obtaining by false pretence and foreign currencies theft among others.

Table 1.16: Fraud and Forgery 2010 - 2014

S/N	QUESTIONS	2011	2012	2013	2014	TOTAL
1	No. of cases detected	2,352	3,380	3,756	10,621	20,109
	No. of cases investigated		1823	2870	2420	7113
2	No. of cases prosecuted					
3	No. of convictions (Cases).		86		117	203
4	No. of persons convicted					
5	No. of offences committed in home jurisdiction					

⁴² www.efccnigeria.org (2016 convictions)

⁴³ <http://www.vanguardngr.com/2016/10/banker-bags-12-years-jail-term-n8bn-cbn-currency-fraud/>

⁴⁴ <http://www.herald.ng/bank-fraud-rose-by-182-in-2014-ndic/>

6	No of offences committed in foreign jurisdictions					
7	Amount (In Naira) Involved in cases of fraud and forgeries	₦28,400,000,000 (\$94,666,666.67)	₦157,965,000,000 (\$526,550,000)	₦21,800,000,000 (\$72,666,666.67)	₦25,610,000,000 (\$85,366,666.67)	₦233,775,000,000 (\$779,250,000)

Given the foregoing discussion and occurrence of fraud as well as proceeds generated there from, the ML threat has been rated as **Medium High**.

Cash Smuggling

Nigeria operates the cash declaration and disclosure system as provided in section 2 (3) of the MLPA, 2011 as amended. The Act requires all travelers to declare their currency to the Nigerian Customs Service at all entry and exit points of the country. It further prohibits the movement of undeclared physical cash from \$10,000 and above or its equivalent. The offence of cash smuggling is punishable under section 15 of the MLPA, 2011 (as amended).

According to the EFCC⁴⁵, the total sum of \$18,728,692,966.71 was legally declared at the nation's airport and borders, between 2011 to 2014, with 74.2% of funds declared as Asia bound⁴⁶. Furthermore the Nigeria Customs Service confiscated and seized the sum of ₦3,696,278,138 (\$12,320,927.13) and ₦1,177,194,799.30 (\$3,923,982.66) at the nation's borders and airports between 2012 to 2014⁴⁷ as proceeds of undeclared cash bound for foreign destinations (mostly Asia and Europe).

Most cross-border cash declarations are derived from essentially legitimate rather than criminal activity. The smugglers hide funds in a variety of sealed items, such as cans of tomato paste, frozen turkeys, local bread, as well as in bags of rice and containers of vegetable oil and in the boots of smuggled vehicles⁴⁸

CASE STUDY

The Economic and Financial Crimes Commission, EFCC, in September 2012 arrested a bulk currency smuggler, attempting to smuggle \$7million (about ₦2.1billion) out of the country. The offender was arrested at the Murtala Mohammed International Airport in Lagos en route Dubai, United Arab Emirates.

He declared that he had a total sum of \$4.5million on him but a thorough screening and search showed that he was actually carrying \$7,049,444. He reportedly confessed that he was a courier for twenty individuals who hired him to courier the money for them to Dubai. Investigations by the EFCC showed that the offender is a regular traveler and one of several couriers of illegal cash suspected to be proceeds of crime.⁴⁹

⁴⁵ EFCC 2014 Annual Report

⁴⁶ 2014 EFCC Annual report pages 37-38

⁴⁷ Nigerian Customs Service

⁴⁸ Nigerian Drug Law Enforcement Agency, Kano state Command. National Risk Assessment fieldwork in Kano State.

⁴⁹ <https://efccnigeria.org/efcc/index.php/news/117-efcc-nabs-currency-courier-over-7m-cash-export-at-mma>

Two couriers were arrested at the Aminu Kano International Airport by the Nigerian Customs Service for attempting to smuggle \$107,000 ⁵⁰.

In 2016, Ojukwu Nnamdi Rowland was sentenced to 2 years imprisonment and forfeiture of the entire US\$2,917,272 to FG for Non declaration of Money contrary to Money Laundering (prohibition) Act by the Federal High Court, Ikoyi .⁵¹

Also in 2016, Ngene Linus Chibuikwe was sentenced to 2 years imprisonment and forfeiture of the entire US\$2,495,498 to FG for Non declaration of Money contrary to Money Laundering (prohibition) Act by Federal High Court, Ikoyi .⁵²

Table 1.17: Cash Smuggling

S/N	QUESTIONS	2012	2013	2014	TOTAL
1	No. of cases detected /investigated	17	6	3	26
2	No. of convictions (Cases).	10	1	2	13
3	No. of offences committed in home jurisdiction	17	6	3	26
4	Amount (In Naira) Involved in cases of cash smuggling)	₦2,788,467,003 (\$9,294,890.01)	₦501,564,575 (\$1,671,881.92)	₦406,246,560 (\$1,354,155.2)	₦3,696,278,138 (\$12,320,927.13)
5	Amount forfeited seized	₦266,771,857.30 (\$889,239.52)	₦490,964,097.00 (\$1,636,546.99)	₦419,458,845.00 (\$1,398,196.15)	₦1,177,194,799.30 (\$3,923,982.66)
6	Grand Total	₦3,067,973,448 (\$10,226,578.16)	₦551,774,270 (\$1,839,247.57)	₦799,309,370 (\$2,664,364.57)	₦4,419,057,088 (\$14,730,190.29)

Given the total volume of proceeds seized and confiscated, the threat for ML is rated **Medium High**.

Kidnapping and Hostage Taking

Chapter 31, section 365 of the Nigerian Criminal Code Act of 1999 as amended describes a kidnapper as “Any person who unlawfully confines or detains another in any place against his will, or otherwise unlawfully deprives another of his personal liberty, is guilty of a misdemeanor, and is liable to imprisonment for a period of two years”⁵³.

Nigeria has experienced series of kidnapping incidences in the past within the South-East and South-South region of the Country. Although it was most prominent in the south-south due to the existence of international oil companies where the expatriates were mostly kidnapped for ransom. However in the recent past, the crime of kidnapping has become very rampant and on the increase as it has spread to all parts of the country from north to south, west to east. From the

⁵⁰ Nigerian Tribune, 22 October 2012

⁵¹ <https://efccnigeria.org/efcc/images/RECORD%20OF%20CONVICTION%202016%20Complete.pdf>

⁵² <https://efccnigeria.org/efcc/images/RECORD%20OF%20CONVICTION%202016%20Complete.pdf>

⁵³ Chapter 31, section 365 of the Nigerian Criminal Code Act of 1999 as amended

criminal groups who are engaged in the activity for money to the terrorist financiers who kidnap for ransom to raise funds for their terrorist activities. It is therefore strongly believed that kidnapping is seen as a get rich quick and lucrative business venture if not caught by the law.

The manifestation of incidence of kidnapping became heightened between 2015 to 2016. Many believe that in Nigeria today, kidnapping has become the order of the day as it affects all calibers of individuals, from the rich to the poor, the PEPs to the nonentities. Ransoms are also demanded from a mere amount of ₦20,000 (\$66.67) to about ₦100million to ₦1billion Naira (\$333,333-\$3,333,333) depending on the caliber of the individual kidnapped. Relatives of victims usually source for the ransom amount and pay in fear of losing their loved ones against the LEAs advice not to pay anything to the criminals.

According to the Director-General, DSS at an interaction with the Senate, he informed that in October 2015, a total of 108 kidnap and sea piracy incidents in 24 states in which 180 victims, including 26 foreigners, were detected. It is believed that about 80% of the ransom demanded is usually paid by the victims family as informed by some of the victim's family or employer; that in October, 2015, the sum of ₦84,500,000 (\$281,666.67) was reportedly demanded by kidnapers, and the sum of ₦28,016,000 (\$93,386.67) was paid. However, the incidence of kidnapping increased to 117 cases by November, 2015 involving 151 victims spread across 23 states⁵⁴. Below are some celebrated cases of kidnapping in 2016:

CASE STUDIES

CBN Governor's Wife, Mrs. Margaret Emefiele – 2016

A group of heavily armed kidnapers on Thursday, September 29th, 2016 abducted Margaret Emefiele, wife of the Governor, Central Bank of Nigeria, Mr. Godwin Emefiele along the Benin-Agbor Road. Her captors initially demanded for ₦1.5billion(\$5,000,000)⁵⁵.She regained freedom two days after intense search by the Nigerian security agencies. However, the alledged kidnapers were arrested and nearly ₦15m (\$50,000), along with three motor vehicles and an AK 47 rifle, were recovered from the nine kidnapers.⁵⁶

Lagos monarch, Oba Oniba of Ibaland – Oba Yushau Oseni- 2016

Gunmen abducted the first class traditional ruler in Lagos, Oba Yushau Goriola Oseni, the Oniba of Ibaland, killed his guard and shot his wife on July 16th, 2016. The gunmen, suspected to be from Niger Delta, stormed the monarch's palace at Iba area of Lagos, Southwest Nigeria around 11:30pm on Saturday and took the monarch away, escaping through the waterways.⁵⁷

Olu Falae- 2015

The former Finance Minister, Olu Falae was kidnapped by six Fulani herdsmen at his Ilado home in Akure, Ondo state on September 21, 2015. He was released after an undisclosed amount of ransom was paid by his family; the kidnapers initially asked for ₦100 million (\$333,333.33) but later reduced it to ₦90 million (\$300,000)⁵⁸.

It's no wonder that Nigeria accounted for 26% of kidnap and ransom incidents globally in the first half of 2013⁵⁹, Nigeria is seen as the 5th among the countries that have experienced high

⁵⁴ <http://www.vanguardngr.com/2016/05/senate-okays-death-penalty-kidnappers/>

⁵⁵ <http://www.premiumtimesng.com/news/headlines/211717-%E2%80%8Ewife-nigerias-central-bank-governor-kidnapped.html>

⁵⁶ <http://saharareporters.com/2016/10/10/police-parade-suspects-kidnapping-margaret-emefiele-abuja>

⁵⁷ <http://www.pmnewsnigeria.com/2016/07/17/breaking-news-gunmen-abduct-iba-monarch-kill-guard-shoot-wife/>

⁵⁸ <http://saharareporters.com/2016/10/10/police-parade-suspects-kidnapping-margaret-emefiele-abuja>

⁵⁹ NYA International, specialist crisis prevention and response consultancy

kidnapping incident in that year (2013). Another risk consultancy firm, Control Risks also reported that 74% of kidnappings recorded in Africa in 2012 occurred in Nigeria⁶⁰.

CASE STUDIES

- a. In July, unidentified gunmen kidnapped a male U.S. citizen missionary in Bokkos, Plateau state. The kidnapers allegedly demanded a ransom of \$250,000 (₦75 million) for the missionary's release. The victim was released a week later.⁶¹
- b. In May, unidentified gunmen kidnapped an Irish priest in Waje Ribah, Kebbi state. The kidnapers allegedly demanded a ransom of \$250,000 (₦75 million) for the missionary's release. The victim was released a week later.⁶²
- c. In February, unidentified gunmen kidnapped a female U.S. citizen missionary from the Hope Academy compound in Emiworo, Kogi state. The kidnapers allegedly demanded a ransom of \$300,000 (₦90 million) for the missionary's release. The victim was released two weeks later.⁶³
- d. On the night of 14–15 April 2014, 276 female students were kidnapped from the Government Secondary School in the town of Chibok in Borno State, Nigeria. Responsibility for the kidnappings was claimed by Boko Haram, an extremist and terrorist organization based in northeastern Nigeria⁶⁴

There is limited record maintained by the LEAs on the exact proceeds generated or amount paid as ransom fees on the kidnappings as many of the cases are usually not reported to LEA's out of fear by the families of the hostage. Accordingly, ransom fees are usually paid quietly by the victims' relatives without the knowledge of the LEAs. However, discussion with respondents and the prevalence of occurrence suggests that the south/south, south/east and middle belt regions of the country are most plagued with this crime. During the period under review, 3473 cases were detected and investigated, while 72 cases were prosecuted with 26 convictions secured. Meanwhile, ₦76,729,623 (\$255,765.41) was recovered as proceeds generated from kidnapping between 2012 and 2013. Analysis of available data indicates that cases of kidnappings in Nigeria have been on a constant increase since 2012.

Table 1.18: Kidnapping and Hostage Taking 2010-2014

SN		2010	2011	2012	2013	2014	TOTAL
1	No. of cases detected /investigated	170	53	495	574	2,181	3473
2	No of cases prosecuted	45	12	15			72
3	No. of convictions (Cases).	15	6	5			26
4	No. of persons convicted	7	4	3			14
5	No. of offences committed in home jurisdiction						
6	No of offences committed in foreign jurisdictions						
7	Amount of proceeds						

⁶⁰ Daily Independence 2013

⁶¹ https://afs.ucdavis.edu/our_services/travel-e-entertainment/z-test-folder/travel-e-entertainment/nubn/documents-nubn/OSAC%20Nigeria%20Kidnapping%20Middle%20Belt.pdf

⁶² https://afs.ucdavis.edu/our_services/travel-e-entertainment/z-test-folder/travel-e-entertainment/nubn/documents-ubn/OSAC%20Nigeria%20Kidnapping%20Middle%20Belt.pdf

⁶³ https://afs.ucdavis.edu/our_services/travel-e-entertainment/z-test-folder/travel-e-entertainment/nubn/documents-nubn/OSAC%20Nigeria%20Kidnapping%20Middle%20Belt.pdf

⁶⁴ www.bringbackourgirls.ng

	confiscated						
8	Numbers of physical Assets recovered						
9	Total amount recovered in all crime committed in 2012			₦19,610,623 (\$65,368.74) \$281,000	₦1.2m (\$4,000)		₦76,729,623 (\$255,765.41)

Accordingly, the threat is rated **Medium High**.

Human Trafficking and Sexual Exploitation

Human Trafficking is a transnational organized crime involving high-level criminal groups. In Nigeria, section 13, Part III of the Trafficking in Persons (Prohibition) Enforcement and Administration Act 2015 criminalizes all acts of human trafficking while National Agency for the Prohibition of Trafficking in Persons (NAPTIP) is charged with the responsibility of enforcing the administration of the said Act. For internal trafficking, the south-western and northern regions of the country have been identified as source targets for domestic trafficking while Europe has been identified as the destination for external trafficking. However, recent cases of trafficking from other West African countries most especially in the northern Nigeria have been on the increase.

Nigeria has therefore been identified as a source and transit route for trafficking to Europe, while it serves as a destination country for trafficking from the West African region. It was also reported that nearly 701,032 Nigerians are illegally moved out of the country every year for human organ removal, sexual exploitation and forced labour⁶⁵.

CASE STUDIES

- a. Federal High Court sitting in Abeokuta, Ogun State capital in suit No. FHC/AB/78C/13 convicted one Jennifer Ifeoma Umeh and two others who were charged under sections 12(a), 13(a), 15 and 19(a) of the Trafficking in Persons Act 2003 as amended for deceitful inducing three girls for sexual exploitation. While two of the accused were sentenced to 7 years imprisonment, the 3rd accused person was sentenced to 5 years imprisonment without an option of fine.⁶⁶
- b. In the charge No/ FHC/S/35c/2015; two convicted human traffickers were arraigned on a two- count charge on promotion of foreign travels which promotes prostitution as well as deceitfully inducing the victims to move from one place to another all contrary to section 16 and 19 of the Trafficking in Persons Prohibition Law 2003 as amended, the third convict was sentenced to a one count charge on promotion of foreign travel which promotes prostitution. The sentences are to run concurrently.⁶⁷

Table 1.19: Human Trafficking/Sexual Exploitation 2010-2014

S/N		2010	2011	2012	2013	2014	TOTAL
1	No. of cases investigated	145	193	268	475	543	1624
2	No of cases prosecuted				2		2
3	No. of convictions (Cases).	31	51	25	46	38	191
4	No. of persons	31	51	25	46	38	

⁶⁵ <http://dailypost.ng/2015/12/01/701032-nigerians-trafficked-for-sexual-exploitation-organ-removal-yearly-taphom/>

⁶⁶ <http://naptip.gov.ng/index.php/pressrelease/item/87-naptip-secures-13-new-convictions>

⁶⁷ <http://naptip.gov.ng/index.php/pressrelease/item/87-naptip-secures-13-new-convictions>

	convicted						191
5	No. of offences alleged to have been committed in home jurisdiction	126	158	191	408	276	1159
6	No of offences alleged to have been committed in foreign jurisdictions	19	35	61	33	198	346
7	Amount (In Naira) Involved in cases of Human trafficking and sexual exploitation.			1	9	1	11
8	Monetary Assets Detected	₦7,048,170 (\$23,493.90)	₦260,060 (\$866.87)	₦48,730 (\$162.43)			₦7,356,960 (\$24,523.20)
9	Monetary Assets Investigated	₦1,228,125 (\$4,093.75)	₦1,481,085 (\$4,936.95)	₦213,875 (\$712.92)	₦40,000 (\$133.33)		₦2,963,085 (\$9,876.95)
10	Numbers of physical Assets Detected	6	4	4	2		16
11	Numbers of physical Assets Recovered	6	4	4	2		16
12	Numbers of physical Assets confiscated	3	2	1			6
13	Numbers of physical Assets Forfeited	3	3	3	2		11
14	Total number of staff trained on AML/CFT	3	1	14	12		30

Table 1.20: Human Trafficking and Related ML Cases

1	Human Trafficking	Offences Reported	176	235	289	506	534	1740
2	Human Trafficking	Offences Detected	56	64	64	76	120	380
3	Human Trafficking	Offences investigated	152	174	197	206	311	1040
4	Human Trafficking	Offences concluded	94	135	148	124	110	611
5	Human Trafficking	Offences under investigation	56	63	88	112	140	459
6	Human Trafficking	Offences closed for want of evidence	13	22	17	8	41	101
7	Human Trafficking	Offences KIV	19	40	51	87	154	351
8	Human Trafficking	Offences charged to court	58	55	32	52	37	234
9	Human Trafficking	Offences prosecuted	32	46	21	29	37	165
10	Human Trafficking	Offences currently undergoing prosecution						
11	Human Trafficking	Offences where conviction is secured	27	42	14	29	15	127
12		ML intel receive from NFIU			1	10	5	16
13		Feedback to NFIU			1	5	4	10

The total sum of monetary assets detected between 2010 to 2014 stood at ₦7,356,960 (\$24,523.20), while the sum of ₦2,963,085 (\$9,876.95) was associated with monetary assets investigated. Having considered the number of detections, investigation and convictions, the threat is assessed **Medium**.

Currency Counterfeiting

Article 3 of the Currency Counterfeiting Convention 1929 defines currency counterfeiting as “fraudulent making or altering of currency, whatever means are employed”⁶⁸. Currency counterfeiting is prohibited in Nigeria in accordance with section 2(3) of the Money Laundering Prohibition Act 2011 (as amended) while the FATF Recommendation 3 designates counterfeiting currency as a predicate offence for money laundering (ML).⁶⁹ In Nigeria, the offence of currency counterfeiting is punishable under section 6(1)(b) of the Counterfeit Currency Special Provisions Act, CAP C35 LFN 2004⁷⁰.

Counterfeiting has the capacity to generate very large quantities of illicit funds and in its most extreme forms, destabilize and weaken local currency. Accordingly, currency counterfeiting could undermine Nigeria’s economy and cause economic distortions if left unchecked. According to the former CBN Governor, Mr. Sanusi Lamido Sanusi, in his call on the need to redesign the Naira stated that, “8.4% of notes in circulation were fake in every ₦1 million (\$3,333.33)”⁷¹ notes in circulation.

CASE STUDY

Two alleged fraudsters being prosecuted by the Economic and Financial Crimes Commission, EFCC, for allegedly being in possession of fake United States Dollar bills have been convicted and sentenced to five years imprisonment by Justice E. S. Chukwu of the Federal High Court, Abuja⁷².

The said offences are in contravention of section 10 (6) of the (Miscellaneous Offence Decree No.20 of 1984) as amended and section 5 (1) (b) of the Counterfeit Currency (Special Provisions) Act Cap. 35, Laws of the Federation of Nigeria, 2004. Ali and Sanj were arrested by operatives of the Commission at Mararaba, Nasarawa State in 2011. At the time of their arrest, they were in possession of fake Ten Thousand US Dollars (\$10,000).

During the period from 2010 – 2014, 1182 cases were investigated, and a total of 29 convictions were secured. Given the number of cases sampled and the records of proceeds generated as at the time of this assessment, the ML threat assessment of this crime is adjudged **Medium**.

⁶⁸ <http://www.fatf-gafi.org/media/fatf/documents/reports/money-laundering-terrorist-financing-related-to-counterfeit-currency.pdf>

⁶⁹ <http://www.fatf-gafi.org/media/fatf/documents/reports/money-laundering-terrorist-financing-related-to-counterfeit-currency.pdf> page 8

⁷⁰ <http://lawsofnigeria.placng.org/print.php?sn=91>

⁷¹ <https://brandiconimage.blogspot.com.ng/2013/07/we-must-redesign-naira-notes-now-sanusi.html>

⁷² <http://efccnigeria.org/efcc/index.php/news/685-court-jails-two-for-currency-counterfeiting>

Table 1.21: Counterfeiting of Currency 2010 - 2014

S/N	QUESTIONS	2010	2011	2012	2013	2014	TOTAL
1	No. of cases detected /investigated			489	676	17	1182
2	No of cases prosecuted	N/A	N/A	N/A	N/A	N/A	N/A
3	No. of convictions (Cases).			7	5	17	29
4	No. of persons convicted			8	6	10	24

Armed Robbery

The offence of armed robbery is captured under section 390 of the Penal Code. The offences defined in the Penal Code include robbery in the aggravated form which carries heavier penalties. Although the provision of security to lives and property to the citizens is one of the cardinal responsibilities of the government of Nigeria, the prevalence of armed robbery was high from 2010 to 2014 as evidenced in the table below. A total of 10,753 cases were investigated during the period under review with 115 cases prosecuted and 8 convictions secured. Meanwhile, no central database has been maintained by the LEA's on the amount of proceeds involved. The recent drop in the number of cases of armed robbery could signify that there is improvement by the LEAs combating ability. However, considering the lack of available data to show the proceeds generated from armed robbery and the number of cases prosecuted as against the number of cases investigated, the ML threat is **Medium**

Table 1.22: Armed Robbery 2010- 2014

S/N	QUESTIONS	2010	2011	2012	2013	2014	TOTAL
1	number of cases detected/investigated	2555		3015	2917	2266	10753
2	number of cases prosecuted			115			115
3	number of convictions (cases)			8			8
4	number of persons convicted			8			8
7	Number of cases referred			1685			

ORIGIN BREAKDOWN

The term origin breakdown simply helps to clarify the jurisdiction of the origin of proceeds of crimes, were they are committed in a foreign jurisdiction, how they are laundered and to some extent, the sector of the economy these proceeds are invested.

Data analysis indicates that there is an increase in the number of money laundering crimes committed in home jurisdiction as against offences committed in foreign jurisdictions. During the period under review, about 9,865 money laundering offences were alleged to have been committed in the home jurisdiction.

Consequently, 182 were prosecuted with 140 convictions secured. However, about 366 offences were committed in foreign jurisdictions but because of the limitation of data, analyses were not

conducted in these jurisdictions. Also, during the period under review, data on amounts of proceeds were not available.

Table 1.23: Origin Breakdown

		No of ML cases investigated	No of ML cases prosecuted	No of ML convictions (cases)	No of persons Convicted on ML	Amount of ML proceeds seized or frozen on ML	Amount of ML proceeds confiscated
	Origin of Laundered process.						
A	Offences committed in home jurisdiction	9865	182	140	203		
B	Offences committed in foreign jurisdiction	366	N/A	N/A	N/A		
C	Offences committed both in home and foreign jurisdiction	N/A	N/A	N/A	N/A		
D	Origin country cannot be identified	N/A	N/A	N/A	N/A		
	TOTAL	10231	182	140	203		

SECTOR THREAT ASSESSMENT

THREAT OF MONEY LAUNDERING TO THE BANKING SECTOR

Money laundering poses a great threat to the banking sector in Nigeria as the DMBs dominate the business of receiving deposits and providing direct access to those deposits through the payments system. The exploitation of the banking system in Nigeria by fraudulent individuals and groups, as well as corrupt public officials is enabled by factors such as the sheer size of the banking sector, complexity of banking products which allow concealment⁷³, the shift to electronic payments channels which reduces face to face contacts and connivance by some of the banks employees in certain instances. Financial products such as securities, bonds, insurance products and savings products provide criminals with series of opportunities for laundering illegal proceeds. The products which are offered in sectors other than banking always end up with the commercial banks in the course of fulfilling their primary mandate of deposit taking and asset creation.

Surveys have shown that illicit proceeds derived from the predicate offences are channeled through the banking system either domestically or internationally. While it has proven difficult to quantify with accuracy the total number of money laundering investigations, prosecutions and convictions involving the banking sector based on predicate offence as data are not kept in a systematic way across the law enforcement agencies in Nigeria, the data obtained from the

⁷³ FATF Global threat assessment July, 2010.

EFCC offer a rough quantitative analysis of money laundering involving the banking sector. This is bearing in mind that the cases investigated by the EFCC are usually predicate offences to money laundering and the illicit proceeds derived from the offences are in most cases routed through the DMBs.

The annual breakdown of the money laundering investigations, prosecutions and convictions involving the banking sector are shown in the table below:

Table 1.24: ML Investigations, Prosecutions and Convictions in the Banking Sector

Year	No. of ML investigations	No. of ML prosecutions	No. of ML convictions
2014	2,512	388	126
2013	2,883	485	117
2012	2,062	502	87
2011	2,606	417	67
2010	2,399	206	68

Source: EFCC

Accordingly, banks are increasingly being targeted based on poor KYC and CDD measures as practiced by some banks. Given the foregoing statistics and exposure that banks are faced with daily in the course of their operations from all sectors of the economy, most especially in the wake of the speed and ease of electronic transactions, the ML threat is rated **Medium**

CAPITAL MARKET THREAT ASSESSMENT

ML threats in the Nigerian Capital Market do exist such as when proceeds of drugs trafficking are invested in the capital market. Analysis of Mutual Legal Assistance Treaty (MLAT) as well as operational cases investigated by the NDLEA revealed that proceeds from drug trafficking were invested in the capital market. The table below shows a brief summary of some of such cases:

Table 1.25: Extract of MLAT Cases Investigated by the NDLEA

	NAME	FACT OF CASE	ASSETS INVESTIGATED	REMARK
01	CRO & 4 others	Request of Mutual Legal Assistant (MLAT) from the British authorities	₦16,500,000.00 million (\$55,000) in various banks account & 10,000 units of UBA shares	£126,000.00 British Pounds confiscated by the British Court. Also Convicted to 7 years for money laundering, and another confiscation of about £2,100,000.00 GBPs.
02	CNO	Request of Mutual Legal Assistant (MLAT) from the United States Department of Justice	Bank Accounts and Shares worth over ₦20,000,000.00 (\$66,666.67)	Convicted for Money Laundering Conspiracy in Georgia, USA ⁷⁴

⁷⁴ MLAT Cases Investigated by the NDLEA

The above findings corroborate the predicate crime assessment on drug trafficking earlier discussed. As stated earlier, Nigeria is a trans-shipment location for drugs from Latin America, South-East and South-West Asia en-route Europe and the United States of America.

In view of the foregoing discussion, the ML threat to the capital market is rated **Medium**

INSURANCE SECTOR THREAT ASSESSMENT

Generally, ML/TF threat in the insurance sector is relatively low. This is because of the difficulty in placing the proceeds of crime into the system. However, discussions with industry experts revealed that ML/TF threat exist under life insurance with investment products due to the specific characteristics of the product. For example, when lump sums are paid and withdrawn before maturity by the policy holder or where the policy holder surrenders and receive value before maturity or upon cancellation.

Similarly, there is the possibility of using the insurance intermediaries specifically the insurance broker but in such instances, the insurance broker cannot transact through any of the insurance institutions due to the controls put in place. However, it is likely that the insurance broker's action now poses a threat to other sectors such as the banking or securities sector where they may decide to place the funds. There are also no records of investigation or prosecution of ML or TF in the insurance sector during the period of the assessment. Accordingly, we can say that ML/TF threat in the insurance sector is rated **Low**.

THREAT OF MONEY LAUNDERING TO DNFbps

LAWYERS

In Nigeria, Legal training is regulated by the Council of Legal Education while legal practice is guided by rules of professional conduct enforced by the Body of Benchers supported by the Nigerian Bar Association (NBA) which serves as the Self Regulatory Organization (SRO) to the lawyers, Legal practitioners are classified as DNFbps under the ML(P)A 2011 (as amended).

The legal profession serves a variety of clients including high risk customers and PEPs thus; legal professionals are prone to threat posed by the activities Money Launderers. The professionals can be used to separate the criminal activities from the proceeds generated, by concealing the source and true beneficial owners of such funds, often through complex corporate or trust structures formed using their client's account. Such assistance also covers up the legitimacy of the movement of funds and other business operations. Furthermore, the lawyers enjoy what is termed as the legal privileges account which is usually not subjected to financially investigation. Such accounts are used by the Lawyers to receive funds from different clients they represent including PEPs. In the last five years, 39 cases were reported against legal profession while there is no available data to enable actual quantification of proceeds laundered through the use legal practitioners by money launderers.

There are no specific AML/CFT control measures in place while the Nigerian Bar Association has challenged their statutory reporting obligation in a court of law for which judgement was given in their favour. However, the EFCC has appealed against the judgement, the case is still

on-going as at the time of this assessment. The overall level of risk posed by legal firms or lawyers is rated **Medium High**.

ACCOUNTANTS

Accountants are professional who are duly licensed by a professional body to carry out audit and accounting services. In Nigeria accountants are supervised by two associations namely the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN). They are also classified as DNFBPs and are regulated by the ML(P)A 2011 (As amended).

A large percentage of professional accountants are yet to register their membership with SCUML, the body responsible for the supervision of DNFBPs on AML/CFT measures. This deficiency has enabled Accountants to perpetrate money laundering on behalf of their clients just as in the case of the legal professionals.

CASE STUDY

The EFCC and the committee set up by the Federal Ministry of Finance to investigate the fuel subsidy scam in 2011 established that the auditors engaged by the Federal Government had aided the fuel importers to perpetrate fraud by verifying fake importation documents. While the fraudulent importers were charged to court for money laundering, the appointment of the auditors was terminated without any sanction⁷⁵.

There were 12 cases reported against the accounting profession⁷⁶ in the last 5years mainly due to the weak implementation of legislations and weak or ineffective regulations by the regulatory bodies, The ML threat is therefore rated **Medium High**.

REAL ESTATE

The Real Estate Development Association of Nigeria (REDAN) is the SRO of real estate developers in Nigeria. The Real Estate sector in Nigeria is a DNFBPs and regulated by SCUML under the ML(P)A 2011 (as amended). Real estate transactions usually involve lawyers and trust accounts. These lawyers can knowingly or unknowingly provide legitimacy or hide the source of illegally sourced funds. Other ML methods and techniques that allow illicit cash into the financial system include cash purchases of properties or large cash down payments, and cash payments especially in the construction, renovation and upgrading of real estate assets.

The accelerated growth of the real estate sector and the number of properties owned by public servants most especially in Abuja and Lagos as compared with their income stream gives a strong indication of huge flow of funds into the real estate sector. It further supports the assertion that the latest and the easiest means of ML in Nigeria is through the real estate sector.. Additionally, there are several luxurious properties built in high brow areas and tastefully furnished but remain abandoned and unoccupied. These are clear red flags of ML as the cost of the properties are far in excess of what the owners legally earn.

⁷⁵ http://www.premiumtimesng.com/business/4753-fg_revokes_contract_with_akintola_williams_adekanola.html

⁷⁶ NFIU

The sale of property at random prices further constitutes an effective way of laundering money. Sale of low value property at highly inflated prices is another technique of ML just as the level to which the prices are inflated is the extent to which monies are laundered.

CASE STUDY

The Economic and Financial Crimes Commission (EFCC) arraigned a former Governor of a State in Nigeria between May 2007 and May 2011 on three counts of money laundering. He was accused of making cash payment of \$2,290,000 (an equivalent of ₦687,000,000) for the purchase of a property in Asokoro District, Abuja ⁷⁷.

Even though the volumes of proceeds involved are not mentioned due to its non-availability, the potential threat for money laundering using the Real Estate sector is **Medium High**.

CAR DEALERS

Car dealers are regulated by SCUML in accordance with the Money Laundering (Prohibition) Act 2011 as amended. Nigeria is cash based economy and as such, most transactions are done in cash including car purchases. Analysis of questionnaires served on operators of this sector and interviews held with major car dealers in the country revealed that most cash based transactions are untraceable due to poor record keeping by the dealers. While the low awareness of the provisions in the ML(P)A 2011 (as amended) by the car dealers has further made the sector very prone to ML most especially when the purchased vehicles are used to hide laundered funds or raise and move funds for financing of terrorism.

Money launderers usually engage in car sales business as funds are easily converted to cash. The business is as attractive as it further facilitates an avenue of cleaning dirty money where the initial funds are placed in banks either as sales proceeds or payment for importation of vehicles. Where the KYC procedure of a bank is weak, then it is easy for the launderer to abuse the system by not offering any explanation on source of funds. This business has persistently offered a challenge to the regulators as majority of the car dealers are illiterate and usually claim ignorance of their statutory reporting requirement. The organized car dealers association in Nigeria represents an insignificant number when compared to the size of the sector and number of operators. Car dealers also usually serve as front for other individuals; it is very difficult to identify the beneficial owners of the businesses thus posing a very high threat to ML.

Given the minimum control measures in place largely due to the fact that the sector is informal, it is very difficult for the Self Regulatory Organization (SRO) to effectively control the activities of its members. The level of risk in this sector is rated **Medium High**.

HOTELS

The Nigeria Tourism and Development Corporation, SCUML and Nigeria Hoteliers Association have the responsibility of overseeing the activities of Hotels in Nigeria. Hotels are also classified as DNFBP's and regulated by SCUML in accordance with the provisions of Section 25 of the

⁷⁷ Punch Newspaper, July 9, 2015

ML (P)A 2011 (as amended). Currently, SCUML has registered over 2000 hotels from 2010 – 2014.

Our findings reveal that supervisory control of hotels by the Regulatory Bodies has been weak due to limited human and material resources thus; the sector can easily be exploited by money launderers. Additionally there were instances where funds generated by some hotels cannot be justified due to their location and client traffic. Specifically an incidence was once recorded where a hotel located in the North East Nigeria was generating over ₦100,000,000 (\$333,333.33) weekly during the peak of the Boko Haram insurgency⁷⁸. The lack of data collection by hotels through documented means of identification from its customers has further made it difficult for LEA's to trace the actual source of funds inflow to the hotel. Our findings also revealed false resident documentations to justify the daily proceeds of the hotel are a common practice that has thrived in this sector.

Recent investigations by the EFCC also suggests that huge sums of monies running into billions of Naira have been laundered into the hospitality industry as several hotel structures were traced to indicted public officials. The cases are still ongoing in various courts across the country and as such no records of confiscations are made available. Given the foregoing discussion, the overall risk stands at **Medium High**.

CASINOS

The legal status of casinos is stated in section 25 of the MLPA 2011 (as amended) and the Federal Ministry of Industry, Trade and Investment (Designation of Non-financial institutions and other related matters) Regulations enforced by the SCUML. All Casinos operating in Nigeria are subject to the existing AML/CFT Regulations. The Association of Casino Operators of Nigeria (ACON) is the SRO for casinos in Nigeria.

Most forms of gambling are illegal in Nigeria other than skill-based card games, backgammon, and the national online lottery. Casino gross gambling revenues have grown at double-digit rates during the past three years.

Casino operations are largely case-based. Chips are bought with cash, the chips are traded in for cheques from the casino perhaps in the name of a third party after a period of time during which gambling may or may not have taken place. This presents opportunities for casinos to become conduits for ML when proceeds of crimes are transferred to them for the purpose of gambling and subsequently withdrawn as casino winnings. Furthermore, AML knowledge of the business by operators of casino is relatively low. Despite, the fact that there are minimum control measures in place, the Regulators have not issued regulatory guidelines covering casinos relating to ML, and the size of the sector in the economy.

Although, there are no established cases of casinos being used for money laundering in Nigeria, but given the size of the sector and revenues generated, we have assessed the threat of using casinos for money laundering to be **Low**.

⁷⁸ NFIU database

JEWELLERY DEALERS

Jewellery dealers are regulated by the Federal Ministry of Industry, Trade and Investment (Designation of Non-financial institutions and other related matters) Regulations enforced by the SCUML in compliance with section 2 and 25 of the MLPA 2011 (as amended).

Jewellery dealers have been known to purchase precious metals and jewelleries with the proceeds of crime, melt and subsequently sale them either as finished products within the country or taken outside the country as raw material for moulding of new designs and transporting back to home country or purchase of properties and luxury goods. This process if not detected, offers a laundering opportunity of hiding the illicit origin of funds. In other instances Jewellery dealers are used as fronts to launder proceeds of crime through their accounts. As a result of the nature of their business which grants them access to foreign financial centres, they can use foreign jurisdictions and entities to purchase and sell precious metals and jewellery acquired with the proceeds of crime; and in turn use the proceeds to purchase luxury goods.

The ineffective regulation of the activities of jewellery dealers by the SRO has given rise to the operation of a number of illegal jewellery dealers in the country. Additionally, jewelleries are easily concealable and smuggled out of the country without trace or records thereby making it very difficult to have accurate record on the volume of proceeds generated there from. Government revenue is equally lost as relevant taxes are not paid due to absence of records.

Although there are no established ML cases involving jewellery dealers during the period under review, the potential risk of Jewellery dealers to ML has been rated **Medium High**.

NON PROFIT ORGANISATIONS

A Non Profit Organization (NPO) is defined as “a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or the carrying out of other types of ‘good works.’⁷⁹” The operators in this sector are regulated by SCUML in accordance with section 25 of the ML(P)A 2011 (as amended)

NPOs generally enjoy substantial public trust, which is one of the basic components that has contributed to the sector’s success; it also provides an opportunity for money launderers to hide their illicit funds under the disguise of humanitarian activities. Due to the weak and ineffective monitoring measures in place for the regulation of their activities, it has become extremely difficult and elusive to track the activities of NPOs effectively, such as matching their expenditure against their perceived income. Some of them have become tools for money laundering either by PEPs or public servants under the guise of contributing for a particular cause or projects.

The practice of foreign agencies or individuals sending money directly to NPO’s without being accountable or reporting to any regulatory body is a potential risk for ML. According to the National Risk Assessment (NRA) findings, 65% of NPOs interviewed, receive 50% of their

⁷⁹ <http://www.fatf-gafi.org/media/fatf/documents/reports/Risk-of-terrorist-abuse-in-non-profit-organisations.pdf> page 20

funding from foreign donors. While 35% receive 100% of their funding from domestic donors. The Nigeria Network of NGOs is self regulatory in the regulation of the activities of NPO's in Nigeria, while the International Cooperation Department of the National Planning Commission is charged with monitoring their activities especially inflow of foreign grants and utilization of such grants to ensure that expenditure is in line with mandate of the NGO. Records of grants received from donor agencies and how these grants are utilized were unavailable. However, the practice of self regulation by NPOs is plagued with weak enforcement systems and inability to effectively check members. While about 46,000 NGOs registered in Nigeria with the Corporate Affairs Commission (CAC), only 3,869 of them are registered with SCUML in the last 5 years (2010-2014)⁸⁰

The abuse of NPOs for ML may seem to be potentially low, but due to the fact that NPO's are not effectively regulated, they pose a significant threat for money laundering in the country. While there are no available data on cases, assets frozen, seized or confiscated in relation to money laundering, it's still very obvious from our findings that this sector poses a risk, hence the ML threat assessment level for this sector is rated **Medium High**.

TRUST AND COMPANY SERVICE PROVIDERS (TCSPs)

Trust and Company Service Providers (TCSPs) play a key role in the global economy as financial intermediaries, providing an important link between Financial Institutions and many of their customers⁸¹. They provide invaluable assistance to clients in the management of their financial affairs and can therefore significantly impact transactional flows through the financial system⁸². Accordingly, the FATF Recommendation 12 requires trust and company service providers to apply due diligence when they prepare for or carry out transactions for their clients. In Nigeria, TCSPs are recognized as DNFBP's and regulated by SCUML in accordance with section 25 of the Money Laundering (Prohibition) Act 2011 as amended. Consequently, Accountants and Lawyers act as TCSPs in Nigeria.

Trust Companies and Service Providers offer additional services that can be used in the layering stage of money laundering. For example, trust and lending accounts can be used to conceal the sources and uses of illicit funds, as well as the identity of the beneficial and legal owners. Criminals who are customers or account beneficiaries usually want to remain anonymous in order to move illicit funds or avoid scrutiny. They seek a certain level of anonymity by creating private investment companies, offshore trusts or other investment entities that hide the true ownership or beneficial interest of the trust.

TCSPs have therefore become key vehicles for the movement of illicit funds or money laundering from one country to another, through the registration of shell companies with the goal to evade tax, illegal transfer etc. In as much as TCSPs provide services in relation to the establishment and management of corporate structures, trusts/foundations, and structuring of investments, criminals will often target TCSPs or other intermediaries in jurisdictions that have weak laws and/or inadequate enforcement of laws in these areas. They will seek to capitalize on

⁸⁰ European Union: 2009

⁸¹ FATF

⁸² FATF publication on Money Laundering using Trust and Company Service providers page 6

these weaknesses and use the intermediaries to distance themselves from the money laundering and other criminal schemes established on their behalf.

Hence, due to the lack of proper regulations to effectively monitor and check the activities of TCSPs, the ML threat is rated **Medium High**.

THREAT ASSESSMENT FOR OTHER FINANCIAL INSTITUTIONS (OFIS)

International Money Transfer Service Operators

Section 2 (d) of the Central Bank of Nigeria Act, 2007 and Section 57 (2) of the Banks and Other Financial Institutions Act (BOFIA), Laws of the Federation of Nigeria, 2004, confers on the CBN the powers to regulate the International Money Transfer Service Operators (IMTSOs) in Nigeria. Also section 25 of the Money Laundering (Prohibition) Act 2011 as amended provides for the regulation of the activities of IMTSOs.

Remittances from Nigerians living abroad hit \$20.77 billion in 2015, making Nigeria the sixth largest recipient of remittances in the world⁸³. Remittances to Nigeria rose every year over the last decade from \$16.93 billion in 2006 to \$20.83 billion in 2014⁸⁴ with a slight fall to \$20.77 billion in 2015. The two top source countries were identified as United States (\$5.7 billion) in 2015 and the United Kingdom (\$3.7 billion).⁸⁵

Initially, there were three registered IMTSOs in the country, namely Western Union, MONEYGRAM and RIA, coupled with unlicensed operators with no physical presence in the country. The Central bank of Nigeria in 2016 banned all unlicensed IMTSOs from operation due to nefarious activities carried out by these operators. In order to regulate the activities of these unlicensed IMTSOs, the CBN formally licensed 11 additional IMTSOs, making it 14 regulated IMTSO's in Nigeria. According to the Association of Bureau De Change Operators of Nigeria (ABCON), these unregistered operators control a sizeable amount of remittance business in the country. FOREX operators also confirmed that these unlicensed IMTSOs deny the country access to the dollars remitted by Nigerians in Diaspora. They open naira accounts with local banks from which they pay beneficiaries of the remittances in naira, while they keep the dollars outside the country, rather than selling them to local banks as mandated by the CBN⁸⁶. However, the CBN through its circular⁸⁷ of 9th August 2016 has now mandated all IMTSOs to start selling all their dollar inflows to BDCs in order to meet the local demand by Nigerians. The policy will also check against the mis-use by the operators and possible round tripping of the foreign currencies.

Although there are no available data of IMTSOs being used for money laundering, the potential risk that this sector poses for money laundering is **Low** due to the local policy regulations in place and the international AML/CFT regulations guiding their operations from their host countries.

⁸³ World Bank's Migration and Remittances Factbook 2016

⁸⁴ The World Bank Migration and Remittances Factbook 2016

⁸⁵ World Bank's Migration and Remittances Factbook 2016

⁸⁶ <http://www.vanguardngr.com/2016/08/sanitising-nigerias-35bn-remittance-market-boost-forex-inflow/>

⁸⁷ <https://www.cbn.gov.ng/Out/2016/TED/FX%20Sales%20BDCs.1.pdf>

Bureaux de change (BDCs)

All licensed BDCs in Nigeria are required to register with the Association of Bureaux De Change Operators of Nigeria (ABCON), which is the umbrella body and serves as a SRO for operators⁸⁸. In Nigeria, BDCs are not required to engage in the business of accepting deposits from individuals or corporate bodies. However, several instances have been recorded where clients make deposits into the accounts of the BDCs domiciled in a Deposit Money Bank and the BDC sells or buys foreign currencies from the CBN on their behalf. There are also, instances where individuals who act as agents to BDCs, receive large volume of local currency from other Clients and subsequently transfer the funds into the accounts of the BDCs. The BDCs in turn pay foreign currency directly to the client or companies located in Nigeria or any offshore jurisdiction. There are also reported cases where BDC operators courier huge amount of cash usually foreign currency on behalf of clients to another jurisdiction or within the country.

Notwithstanding the foregoing, report findings reveal that there are several unlicensed foreign exchange parallel market operators known as ‘Black’ market operators who are not registered with ABCON. These operators are not under any form of monitoring & regulation by the CBN or subject to discipline by the ABCON and thus pose significant ML threat as they do not have permanent addresses where their business is conducted.

A large percentage of these operators control substantial transactions in the market. Their business activities extend to several major cities in Nigeria like Kano, Kaduna, Abuja, Lagos and Port Harcourt .The unregulated nature of their operations as well as the ease and convenience of doing business with them continue to serve as an attraction and opportunity for miss-use and abuse by the Money Launderers and Terrorist Financiers thus, constituting a high risk to money laundering threat to the system. Clients do not need to provide any form of identification to exchange foreign currency and they can sell or buy any amount of foreign exchange currencies to their clients without any form of restriction. The level of cash activity in the parallel market is high due to the market size as compared with the licensed BDCs. Transactions are usually conducted on face to face basis. Records of transactions are not kept making it difficult to trace. The activities of the unlicensed operators provide a safe haven for laundering of illegally obtained funds since there are no records to trace the movement or source of funds. The threat for money laundering in the parallel market is rated **Medium High**.

Development Finance Institutions (DFIs)

A Development Finance Institution is a specialized financial institution established with specific mandate to develop and promote key sectors of the economy considered to be of strategic importance to the overall socio-economic development objectives of the country⁸⁹. . The term is generic and is used to refer to operators who provide a range of alternative financial services such as microfinance institutions, community development financial institution, Mortgage Banks, Bank of Industry, Bank of Agriculture etc. Their operation does not permit them to

⁸⁸ <https://www.cbn.gov.ng/OUT/CIRCULARS/OFID/2007/OFID-04-2007.PDF>

⁸⁹ Regulatory And Supervisory Guidelines For Development Finance Institutions In Nigeria

<https://www.cbn.gov.ng/Out/2015/OFISD/Regulatory%20And%20Supervisory%20Guidelines%20For%20Development%20Finance%20Institutions%20In%20Nigeria%202015.pdf>

receive cash deposits from clients. The sources of funds of DFIs, particularly, from foreign jurisdictions are monitored by the CBN.

Every transaction by the DFIs is properly documented and the use of agents in the course of their activities is not permitted. Every DFI maintains records of its transactions which are traceable and there are no recorded cases of the abuse for money laundering. However, considering they are subjected to regulation by a regulatory body, there is likelihood of undue political interference in the activities of DFIs resulting from their ownership structure with government either being a significant stakeholder or having a 100% ownership. Overall, the threat of money laundering in this sector is **Low**.

Finance Companies (FCs)

Finance Companies are licensed and supervised by the CBN to offer financial products and services to micro, small and medium enterprises (MSMEs). Presently, the CBN has directed the recapitalization of Finance Companies in order to strengthen the sector and ensure compliance with AML/CFT legal framework in the country.

Finance companies offer services and products ranging from consumer loans, funds management, asset finance, project finance, local and international trade finance, debt factoring, debt securitization, debt administration, financial consultancy, loan syndication, warehouse receipt finance, covered bonds, and issuing of vouchers, coupons, cards and token stamps. Finance Companies are not permitted to accept deposits. All transactions of the FCs are routed through deposit banks where they maintain accounts after meeting all the necessary requirements to open such an account⁹⁰.

The levels of cash transactions are relatively low and traceable. Also, all transactions are conducted on a face to face basis as many clients of finance companies are either applying for funds to execute a local purchase order or seeking for medium/long term investments. The frequency of international transactions is low as they are allowed to source for funding from foreign sources subject to CBN approval. In as much as FCs transact through commercial banks on behalf of clients, it creates an opportunity for ML activities as beneficial owners are not disclosed at the point of funds lodgement with the DMBs. Due diligence is expected to be conducted by the FCs while establishing relationship with clients. Accordingly, the ML threat for this sector is rated **Medium Low**.

Microfinance Banks (MFBs)

A Microfinance Banks (MFBs), unless otherwise stated, shall be construed to mean any company licensed by the CBN to carry out business of providing financial services such as savings and deposits, loan, domestic funds transfer, other financial and non-financial services for their clients.⁹¹ The target of MFBs is usually low income earners, the un-banked and underserved individual mostly in rural areas. MFBs do not engage in international transfers and their products cannot be used anonymously. Transaction records of microfinance banks (MFBs)

⁹⁰Central Bank of Nigeria Revised Guidelines for Finance Companies in Nigeria

<https://www.cbn.gov.ng/out/2014/ccd/revised%20guidelines%20for%20finance%20companies%20in%20nigeria.pdf>

⁹¹ CBN Revised Regulatory guidelines for Micro Finance Banks in Nigeria page 7

<https://www.cbn.gov.ng/out/2013/ccd/amended%20regulatory%20and%20supervisory%20guidelines%20for%20mfb.pdf>

are traceable, however, sometimes with difficulty especially for those located in rural areas which may not have a sophisticated transaction recording and monitoring system. Most transactions are done face to face except where there is a transfer from the deposit banks through a client.

MFBs maintain accounts with commercial banks that serve as clearing banks for its transactions. MFBs also provide ML opportunity as beneficial owners of funds are not disclosed during lodgement with the DMBs. There is high a likelihood abuse by the money launderers and terrorist financiers. However, there are no available data on cases, convictions, or proceeds of money laundering. Considering the level of its cash activity, and the services or products, the threat of the MFBs sector ML is **Medium Low**.

Primary Mortgage Banks (PMBs)

The Primary Mortgage Banks are companies licensed by the CBN to carry out primary mortgage banking business in Nigeria. The business covers: mortgage finance; real estate construction finance (within the permitted limits); acceptance of savings and time or term deposits; acceptance of mortgage-focused demand deposits; drawing from mortgage funds (e.g. National Housing Fund Facility) for on-lending; financial advisory services for mortgage customers and other activities the CBN may approve from time to time. There are no available data or records of cases, convictions or proceeds of money laundered using the PMBs. However, considering the fact that Real Estate is a big haven for money laundering, findings from correspondents revealed that, the involvement of the PMBs creates a channel for such illicit funds. The major clients of PMBs are real estate developers. Also, public servants and low income earners can access the products and services of the PMBs to own a property. PMBs keep records, so their transactions are traceable. The ML threat of PMBs is rated **Low**.

Pension Funds Administrators/Custodians

Pension Fund Custodians (PFCs) are responsible for the warehousing of the pension fund assets. The PFAs are not allowed to hold the pension funds assets but rather invest them in the securities market. The employer sends the contributions directly to the Custodian, who notifies the PFA of the receipt of the contribution and the PFA subsequently credits the retirement savings account of the employee. The Pension Commission regulates the activities of the Pension Funds Administrators and Custodians. There are 4 Pension Fund Custodians (PFCs) and 21 Pension Fund Administrators (PFAs) licensed by the Pension Commission of Nigeria.

Section 4(3) of the Pension Reform Act states that ‘Any employee to which this Act applies may, in addition to the total contributions being made by him and his employer, make voluntary contributions to his retirement savings account’. This section of the Act has given workers the opportunity of making additional voluntary contributions and withdrawing the voluntary contributions as they elect to freely do. Although the source of the additional voluntary contributions is not always known to PENCOM, the enrollee is required to route such contributions through his/her employer thus, limiting the ML risks. However, ML risks may still exist where the enrollee is the employer and there are no supervisory/regulatory bodies overseeing such transactions.

Accordingly, a potential risk for money laundering exists in the scheme, although no cases have been recorded on the use PFAs or PFCs for money laundering. The ML threat is therefore assessed **Medium Low**.

CROSS BORDER THREAT ANALYSIS

Over the years, there has been an increase in cross border crime across Nigeria which may not be unconnected to the porosity of the Nigerian borders. Report credited to the Federal Ministry of Interior revealed that only 7% of the total border areas across Nigeria are manned by Security Agencies. Consequently it has cost Nigeria, human, material and financial losses. However, Government has responded with different measures to combat the activities of criminal elements. Part 1, section 2, (3) and (4) of the ML(P) A 2011 (as amended) empowers the Nigeria Customs Service to seize and confiscate any undeclared funds across all border points. Though successes have been recorded in some quarters, the porosity of Nigeria's borders is still a challenge and a lifeline in the survival of criminal elements.

A statement credited to the Central Bank of Nigeria (CBN) revealed that the estimated amount of illicit funds that go through the Nigerian system annually is US\$15.7 billion⁹². The statement also revealed that the funds laundered come from a range of different sources, the most significant of which are illegal oil bunkering amounting to over ₦140 billion (\$466,666,666.70) annually and, drug and currency trafficking, amounting to \$43 billion.

Major cross border threats associated with ML during the period under review are cash smuggling, human, arms and drugs trafficking. Currently, ML cases investigated on cross border offences account for about 1,068 out of which 160 were prosecuted with 140 convictions secured. Furthermore, the period under review recorded a total of ₦2,878,555,859,341.19 (\$9,595,186,198) as currency declaration across all the borders while ₦4,419,057,088 (\$14,730,190.29) were amount seized and confiscated. The countries where these monies are laundered to include the United Kingdom, United States of America, South Africa, United Arab Emirates among others. Considering the increase in cross border crime and the porosity of the border which have cost the country a lot in terms of human, material and financial losses, the ML threats is therefore rated **HIGH**.

Table 1.26: Cross border threats 2010-2014

SN		2010	2011	2012	2013	2014	TOTAL
1	Number of ML investigations	152	174	215	213	314	1068
2	Number of ML prosecution	32	46	31	33	18	160
3	Number of ML convictions	27	42	24	30	17	140
4	Number of persons convicted	32	57	63	39	12	203
6	No of NFIU case files sent to Law Enforcement Agencies (LEAs)			2	3	4	

⁹² Nigerian Pilot newspaper August 4th 2015

7	Total amount of seized and frozen assets			₦279,506,445 (\$931,688.18)	₦50,209,695 (\$167,365.65)	₦393,062,810 (\$1,310,209.37)	₦722,778,950 (\$2,409,263.17)
8	Originating countries of TCSP clients (if the country has a significant TCSP sector)	N/A	N/A	N/A	N/A	N/A	N/A
12	Number of Tax Information Exchange Requests (incoming and outgoing)	N/A	N/A	N/A	N/A	N/A	N/A
13	Total amount of cross-border cash declarations (incoming and outgoing)	₦10,782,938,035.73 (\$35,943,126.79)	₦335,538,854,534.84 (\$1,118,462,848)	₦1,884,589,199,628.42 (\$6,281,963,999)	₦308,096,055,396.1 (\$1,026,968,851)	₦220,097,514,228.56 (\$733,658,380.80)	₦2,878,555,859,341.19 (\$9,595,186,198)
14	Total number of cash smuggling cases (in borders or customs)	N/A	N/A	17	6	3	26
15	Total seized or confiscated amount in cash smuggling cases (in borders or customs)	N/A	N/A	₦3,067,973,448 (\$10,226,578.16)	₦551,774,270 (\$1,839,248.16)	₦799,309,370 (\$2,664,364.57)	₦4,419,057,088 (\$14,730,190.29)

RISK ASSESSMENT FINDINGS

In assessing the risk, the following findings were observed;

- a) There is ineffective regulation for the Non-profit organizations, car dealers, unlicensed foreign exchange parallel market operators, hotels and casinos which pose current and future high levels of risk.
- b) There is no centralized data base by Ministries, Department and Agencies on proceeds recovered, confiscated or frozen from predicate offences.
- c) Weak Mutual Legal Assistance with other countries.
- d) There are so many unmanned borders in the country, making the borders very porous and attractive for drugs trafficking, arms trafficking, cash smuggling, and human trafficking.
- e) Inadequate information dissemination procedure among LEAs with regards to money laundering cases.
- f) There is inadequate understanding of the nature and extent of AML/CFT issues in the various sectors in the country.
- g) Limited investigative capacity of the LEAs involving ML cases.
- h) The impact of new technology and emerging financial tools has the potential to circumvent the management and mitigation of risk even before such measures can be fully enacted and regulated.

CONCLUSION

Generally, the assessment of the national risk on money laundering in Nigeria is adjudged to be timely considering the pervasive threat it poses to the internal security, growth as well as the development of the country. This menace seemingly perpetrated by both the public and private sector is responsible for the wide range of unemployment, increased criminality, lack of value change, poor Foreign Direct Investment (FDI) and under development of the country with attendant consequences of undermining the sovereignty of the nation. However, several efforts by the government in enacting comprehensive money laundering regulatory, enforcement and legal framework in compliance with the FATF recommendations is yielding positive results. Accordingly, Government needs to review and strengthen existing AML/CFT regime as well as human capacity and infrastructural development. There is a need for value re-orientation of the citizenry on the threat of money laundering while pending legislations should be speedily passed into law.

More so, bribery and corruption ,pipeline vandalism, advance fee fraud, human trafficking, drugs trafficking, as well as kidnapping should be given due consideration with a view to mitigating their occurrence. While government should ensure that it delivers the dividends of democracy to the citizenry to regain their confidence in the long run.

WAY FORWARD AND RECOMMENDATIONS

The maiden edition of the National Risk Assessment aims to provide the foundation for future risk assessments. It is anticipated that as the process and exercise progresses and collaboration become more efficient, future iterations of this report will more closely reflect a complete fusion of information from all stakeholder agencies, such as widening the scope of participating agencies. Additionally, cross border cash reports may provide indicators and warnings in relations to cash smuggling and proliferation of SALW. Considering the magnitude of the risk assessed, the following recommendations are proffered to curb the rising predicate offences and risk of ML threat in Nigeria-

- a) All LEAs should ensure that going forward; records (number and volume/value) on all investigations, prosecutions and convictions are maintained including asset forfeitures where applicable-
- b) the Anti-Corruption Agencies in the country should create a harmonized database on all bribery and corruption cases for enhanced operational efficiency and ease of reference by the relevant authorities-
in combating ML, the country requires a higher level regulatory and enforcement strategy.
- c) a central database should be maintained by the appropriate Justice Sector Institution for all criminal cases in the country and electronic access should be made available to the relevant Government Agencies to support the effective discharge of their responsibilities-
- d) all advance fee fraud cases should be classified according to type of occurrence for ease of analysis-
- e) the Federal Government should as a matter of urgency take measures to close down all illegal borders and adequately secure the legal routes in order to prevent the country from being

used either as a transit route or destination location for criminal activities. The action will also assist in the prevention of the proliferation small & light weapons-

- f) the Nigerian Police Force and the Anti-corruption Agencies should increase regular sensitization of the public against misplaced societal values encouraging indiscipline and corruption in Nigeria-
- g) the Federal Government should provide adequate funding of the Ministries, Departments and Agencies (MDAs) and develop strong systems of integrity, accountability and transparency-
- h) development and updating of the legislative framework that needs to adjust to changing environment such as relevant AML/CFT laws-
- i) robust capacity building and employees education policy for LEAs officers who are responsible for the day to day activities and the private sector-
- j) the legal framework of the NCC should be amended to recognize piracy and counterfeiting of products as predicate offence to money laundering thereby expanding the scope of investigations to the assets of offenders-
- k) the Federal Government should make available working tools and equipments to LEAs, with the goal of effectiveness and professionalism in carrying out their activities and
- l) section 4(3) of the 2014 Pension Reform Act which permits voluntary contribution should be reviewed with a view to introducing AML/CFT control measures on verification of source of funds.

A valid and reliable risk assessment will inform and assist this process and provide decision makers with the information they need to prioritize and target limited resources. It is safe to assume that a weak regulatory framework in the area of ML increases the prospect of criminals to exploits the country's financial system for criminal ends. To this end, it is recommended more data on sector break down should be made available in subsequent risk assessment exercise.

CHAPTER TWO

2. NATIONAL VULNERABILITY TO MONEY LAUNDERING RISK

NATIONAL COMBATING ABILITY

There are a total of 22 variables that influence the country's ability to combat money laundering. Data gathered from various sectors assisted in assessing the ML vulnerability of each variable. The overall national vulnerability is rated **Medium High**. This is mainly due to National combating ability which is **Medium** as result of poor quality of cross-border controls, adjudication, and asset forfeiture framework. The overall Sector ML Vulnerability is assessed **Medium High**.

Quality of Money Laundering Policy and strategy

Nigeria has demonstrated a high level of commitment to all issues bordering on money laundering and terrorist financing through inauguration of the Inter-Ministerial Committee (IMC) on money laundering and terrorist financing. The Constitution is also in compliance with the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) recommendation that requires GIABA member states to constitute IMCs. The committee is the highest policy making body on all AML/CFT matters in the country. It consists of the 3 line ministries; the Federal Ministry of Justice, Federal Ministry of Finance and the Ministry of Interior and is chaired by the Honourable Attorney-General of the Federation and Minister of Justice (HAGF/MOJ) as the chief law officer in the Federation. The committee meets once every month to deliberate on issues of national importance as it relates to AML/CFT matters in Nigeria including the provision of regular reports to the government on developments and progress made in the implementation of AML/CFT regime in the country.

While the Nigerian Financial Intelligence Unit (NFIU) serves as the central coordinating body in the country on AML/CFT matters, the unit constitutes and coordinates the activities of the authorized officer's forum which draws members from all relevant stakeholder agencies once every quarter to deliberate on AML/CFT issues between the NFIU and their agencies. The NFIU also serves as the Secretariat of the IMC⁹³ and the Nigeria Sanctions Committee. The Sanctions Committee is statutorily recognized by law and provided for in section 4(1)(d) of the Terrorism Prevention (Freezing of International Terrorist Funds and Other Related Measures) Regulations, 2013. Accordingly the NRA forum was inaugurated under the IMC by the HAGF with the NFIU serving as the co-ordinating body.

Additionally, the Senate and House Committees on Financial Crimes have been actively involved in AML/CFT developments in the country. This is evidenced by the participation of Chairman, Senate Committee on Anti-Corruption and Financial Crimes at FATF plenaries while the Chairman of the House Committee on Financial Crimes has also been very supportive of the

⁹³ Section 6(b) of the Nigerian Financial Intelligence Unit Regulation 2015

NRA and is sensitive to issues that border on ML/TF in the country. Similarly, the recently constituted Presidential Advisory Committee on Anti-corruption (PAC, 2016) has been working very closely with the NFIU in the coordination of AML/CFT activities in the country including the development of national AML/CFT Strategy Framework.

Notwithstanding the foregoing discussions, challenges such as overlapping functions and inadequate operational cooperation amongst LEAs and other stakeholders exist. Knowledge gap among stakeholders and poor public awareness on AMLCFT policies affects the effective implementation of the policies and strategies in place. Consequently, the variable is rated **High**.

Effectiveness of ML Crime Definition

Section 15 of the ML(P)A 2011 (as amended) has provided for predicate offences (this has covered all the 21 categories of predicate offenses as required by the FATF) to money laundering as well as other criminal acts specified in the Act or in any other law in Nigeria. Generally, offences of money laundering can be tried independently and can also be tried alongside the predicate offence(s) that generates the criminal proceeds. These provisions can be found in sections 15 and 16 of the Act.

There is a wide range of penalties provided by the Act which include, jail term and fines for individuals and fine of not less than 100% of the value of the assets, withdrawal of licenses and revocation of certificates for corporate bodies. The act provides a minimum jail term of 7years and maximum of 14 years for money laundering offences. This provision is far in excess of the FATF recommended penalty for serious offences which ranges between 6 months to 1 year.

Section 18 of the ML(P)A 2011 (as amended) make provisions for offences ancillary to the offence of money laundering such as; conspiracy, aiding and abetting as well as inciting, procuring or inducing any person by any means whatsoever is criminalized as an offence, while sections 15 to19 of the Act explicitly provides penalties for both natural and legal persons.

In Nigeria, both criminal and administrative sanctions can be applied to legal and natural persons. While the ML(P)A 2011 (as amended) provide for criminal sanctions; the regulations and guidelines issued by the sector Regulators or Supervisors provide for administrative sanctions evidence of which can be seen in the relevant sections of the sector report contained in this report.

In order to strengthen and build AML/CFT capacity of the judicial system, Judges in Nigeria were exposed to an international study tour for High Court Judges of Anglophone countries in ECOWAS countries from 24 to 30 June, 2012 in Minnesota, USA⁹⁴ . The program aimed to expose them to new technologies in the AML/CFT field. Furthermore, Judges are guided by appropriate sentencing guidelines in sentencing of convicts as provided by the Administration of Criminal Justice Act, 2015. Following the foregoing discussions, the variable is assessed **High**.

⁹⁴ http://events.ecowas.int/wp-content/uploads/2013/03/2012-Annual-report_English_VF.pdf page 127

Comprehensiveness of Asset Forfeiture Laws

Nigeria's Mutual Evaluation Report of 2008 indicates that the country has laws which provide for the confiscation of proceeds of crime including the instrumentalities used in and intended to be used for the commission of money laundering and other illegal acts and property of corresponding value. Based on that evaluation, the country received a Partially Compliant (PC) rating⁹⁵ in the Country's 1st Mutual Evaluation Report (MER) of 2008 by GIABA. While the law provides other types of measures for recovery of proceeds of crime including seizure and forfeiture of cash and assets either through plea bargaining or through a court order, the confiscation provision is based on criminal conviction only. The table below highlights legislations that provide for confiscation measures and procedures to be applied:

Table 2.1: Nigerian Legislations On AML

S/N	Legislation	Implementing Agency	Date of Enactment
1	EFCC Act, 2004	EFCC, NFIU, CBN,	2004
2	CBN Act,	CBN	2007
3	BOFI Act and, - Attorney General's powers under Section 174 of the 1999 Constitution and Section 14 (2) of the EFCC		1991 and 1999 as amended
4	Act ICPC Act	ICPC	2000
5	NDLEA Act	NDLEA	1989 as amended
6	Advance Fee Fraud Act	EFCC and NPF	1989, 2007
7	Instrument No. SSS 1 of 1989	SSS	1999

The present legal framework does not provide for Non-Conviction Based (NCB) forfeiture, enforcement of foreign NCB orders, and administrative forfeiture. In certain instances and the need to save tax payers money expended in prolonged trials, prosecutors accept the option of plea bargain usually initiated by the defendant. This action also secures the forfeiture of assets to the victim.

However, a Proceeds of Crime Bill is receiving legislative attention at the National Assembly. The bill was first read on the floor of the Nigerian Senate⁹⁶ and House of Representatives⁹⁷ on 10th November, 2016 and 7th December, 2016 respectively. The bill provide for an effective legal and institutional framework for the recovery and management of the proceeds of crime or benefits derived from unlawful activities. Part C of the proposed Act provide for civil forfeiture. This entails proceedings under this part to be civil proceedings and the procedure for the service of documents applicable in civil proceedings shall apply to the part. Section 5 of the bill provides for the protection of interest of third parties to the effect that a person who has an interest in any property that is subject to a preservation order may give notice of his intention to oppose the making of a forfeiture order or apply for an order excluding his interest in the property concerned from the operation of the forfeiture order.

⁹⁵ GIABA 2008 Mutual Evaluation Report

⁹⁶ <http://placbillstrack.org/view.php?getid=2403>

⁹⁷ <http://placbillstrack.org/view.php?getid=2487>

Furthermore, in addition to the on-going effort to conclude work on the Proceeds of Crime (non conviction-based/civil forfeiture) Bill⁹⁸, the Nigerian authority is finalizing work on a comprehensive Regulation on Asset Recovery which will meet all the requirements of the FATF Rec. 3.

Taking into consideration availability of the Laws empowering Anti-Corruption Agencies (ACA) to confiscate laundered properties, right and protection of interest of third parties in the laws as well as different successes recorded by ACAs in the fight against ML/TF, the WG concluded that the observed weaknesses in these laws did not adversely affect the operations of the ACAs. Hence the variable is rated **Medium**.

Quality of FIU Intelligence Gathering and Processing

The Nigerian Financial Intelligence Unit (NFIU) is the central national agency in Nigeria responsible for the receipt and analysis of financial disclosures and dissemination of intelligence generated there from to competent authorities. The Unit was established in June 2004 and became operational in January, 2005. The NFIU is domiciled in the EFCC as an autonomously operational unit. In 2015 the Attorney General of the Federation and Minister of Justice, pursuant to his powers under Section 43 of the EFCC Act, ML(P)A 2011 (as amended) issued the NFIU Regulation of 2015 which clearly outlined the powers, operational autonomy and governance structure of the NFIU. The Unit is the Secretariat to the Nigerian Sanction Committee, the Inter-Ministerial Committee on AML/CFT and the National Risk Assessment. The NFIU is headed by a director and six departmental heads.

The NFIU receives funding through the EFCC's appropriation and has received support from international and domestic partners particularly the Inter- Governmental Action Body Against Money Laundering in West Africa (GIABA), International Monetary Fund (IMF), United Nations Office on Drugs and Crimes (UNODC), the American Embassy in Nigeria and the Department For International Development/Justice For All (DFID/J4A) in the area of technical assistance on operational restructuring, capacity building and strategic planning implementation measures. The NFIU is staffed with personnel from diverse academic backgrounds ranging from accounting, insurance, economics, international relations, education, Statistics to state but a few.

The Unit uses a secure STR reporting platform called the goAML application. The goAML is an online secured reporting platform used for electronic reporting of large number of transactions by Reporting Entities (REs) with large number of records. Other REs use the web reporting portal available at the NFIU website to file single reports. NFIU analysts carry out effective analyses of the reports received from the reporting entities. The capacity to carry out this function is further enriched by the regular tactical and strategic analysis trainings received. In 2012, the IMF/World Bank provided tactical and strategic analysis training to the NFIU analysts while in 2014, officers of the NFIU underwent training on insurance and capital market operations conducted by resource persons from the National Insurance Commission (NAICOM) and Securities and Exchange Commission (SEC) respectively.

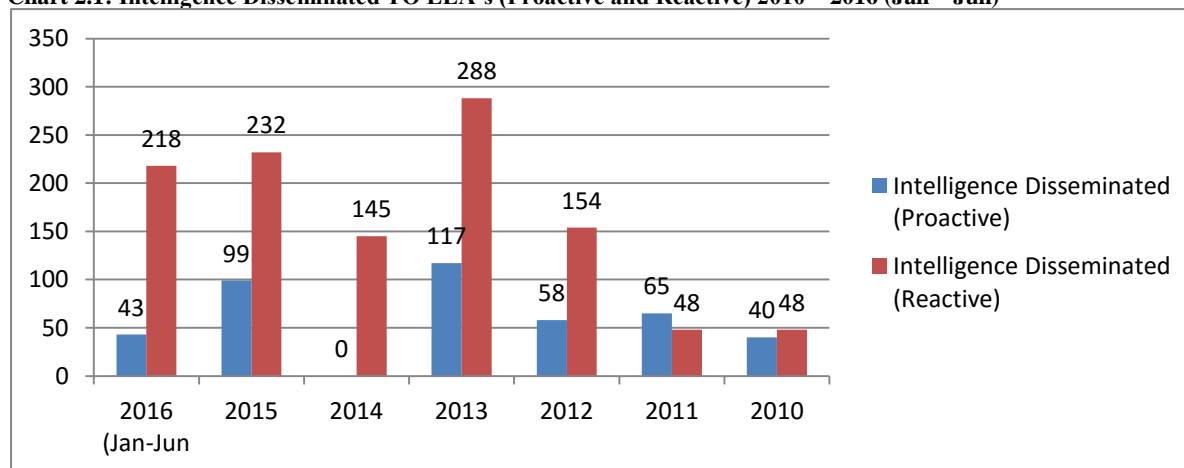
⁹⁸ Nigeria 7th Follow-up Mutual Evaluation Report

Dissemination of NFIU intelligence is done through AML/CFT Authorized Officers (AOs) of the recipient agency to ensure confidentiality. Such disseminations are either proactive and spontaneously (based on STR analysis) or reactive (sequel to a request for information) as shown below:

Table 2.2: NFIU STRs, CTRs and Intelligence Dissemination (2010- 2014)

	2016 (Jan-Jun)	2015	2014	2013	2012	2011	2010
Intelligence Disseminated (Proactive ⁹⁹)	43	99	87	117	58	65	40
Intelligence Disseminated (Reactive ¹⁰⁰)	218	232	145	288	154	48	48

Chart 2.1: Intelligence Disseminated TO LEA's (Proactive and Reactive) 2010 – 2016 (Jan – Jun)



Additionally, the NFIU is a member of the Egmont Group of FIUs and has access to their online secured platform for making and receiving requests from over 150 member countries. The NFIU further has access to a wide range of domestic databases which it leverages upon in its intelligence analyses, categories of which include; company registry, tax, land registry, financial transactions, national identity database e.t.c. The NFIU also receives reports of Currency Declaration Reports (CDR) for the Nigeria Customs Service.

Furthermore, the NFIU has a secured online page on the goAML application for making and receiving requests from the financial institutions. Against the foregoing, the WG variable is assessed **Medium High**.

Capacity and Resource of Financial Crime Investigators

The Economic and Financial Crimes Commission (EFCC) is one of the anti-corruption agencies charged with the responsibility for investigating financial crimes in Nigeria. The Commission has departments that are specialized in the investigation of specific crimes such as General and Assets Investigation, (Bank Fraud, Capital Market/Insurance Fraud Section), Research, Legal and prosecution. The State Security Service (SSS), pursuant to the law establishing it, investigates economic crime of National Security dimension. Its Counter Terrorism Investigation Department (CTID), Financial Analysis and Intelligence (FAI) as well as Fiscal

⁹⁹ Intelligence generated based STRs filed to the NFIU

¹⁰⁰ Intelligence generated based requests made on the NFIU

and Budgetary Matters (FBM) departments have competent investigators to carry out such tasks. It also liaises with the NFIU for financial intelligence on new and on-going investigations. Overall, there is a Directorate of Economic Intelligence that co-ordinate efforts and resources within the SSS.

Other Law Enforcement Agencies (LEAs) such as, Nigeria Customs Service (NCS), National Drug Law Enforcement Agency (NDLEA), National Agency for Prohibition of Trafficking in Persons (NAPTIP), Independent Corrupt Practices and Other Related Offences Commission (ICPC), Nigeria Immigration Services (NIS), Nigeria Security and Civil Defense Corps (NSCDC), Nigerian Police Force (NPF) and Code of Conduct Bureau (CCB) also engage in investigation of predicate offences under their purview.

In the discharge of their duties, ML investigators can either procure timely intelligence or access financial intelligence from the NFIU to guide their operations. On receipt of such intelligence, and pursuant to the powers given to them by their respective establishment Acts, they can request financial institutions, DNFBPs and other natural or legal persons, to produce such records or in some instances secure *ex parte* order to produce certain documents. Such agencies also have inherent powers that allow them to arrest, search and detain persons as well as take statements. Similarly, cars, aeroplanes, premises among others can be searched and incriminating items or documents can be seized and properly documented for prosecution. Such operations sometimes are carried out as single or joint operations with other LEAs which may involve collaboration between 2 or more relevant agencies. In practice the agencies with the statutory mandate to prevent the threat usually lead the operations.

All the aforementioned agencies being organs of government draw their respective funding from appropriation. Due to the increase in threat of corruption and ML, various agencies give serious attention to the training of their personnel on AML/CFT. In appreciation of this situation, various international organizations and embassies support the agencies capacity building efforts.

For instance, from 2013 to 2014, a total number of 3,604 staff involving EFCC officers and other stakeholders were trained on courses related to AML/CFT at the EFCC academy. Such courses include tracing, seizing and management of assets. A seminar for stakeholders involved with Non-Profit Activities on asset investigation recovery and management among others¹⁰¹ were facilitated.

The table below is a breakdown of agencies that benefited for AML/CFT training at the EFCC academy from 2013 and 2014.

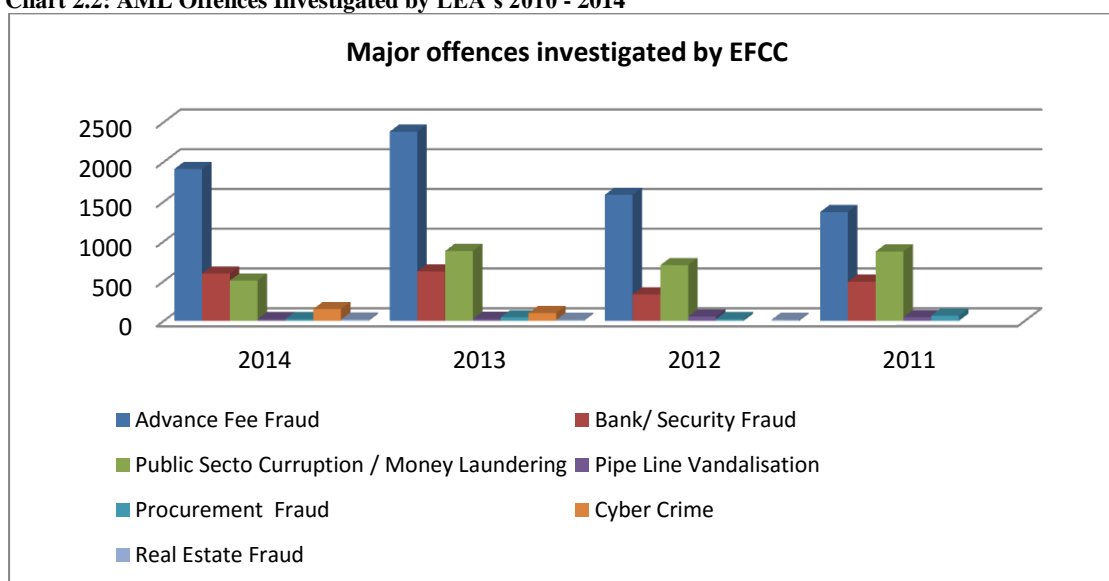
Table 2.3: EFCC Academy Training For 2013 – 2014

S/N	AGENCIES	PARTICIPANTS PER AGENCY		TOTAL
		2013	2014	
1	NSA	2	-	2
2	EFCC	361	738	1099
3	DSS	9	4	13

¹⁰¹EFCC Annual Report: 2012, 2013 and 2014

4	NDLEA	12	8	20
5	NEITI	9	-	9
6	NSCDC	14	32	46
7	CCB	16	16	32
8	NAIC	29	-	29
9	FMJ	30	8	38
10	NIS	35	-	35
11	NPF	45	94	139
12	NAPTIP	52	45	97
13	ICPC	60	81	141
14	NIA	3	-	3
15	NDIC	-	29	29
16	NCS	-	10	10
17	OTHERS	139	1,723	1,862
TOTAL				3,604

Chart 2.2: AML Offences Investigated by LEA's 2010 - 2014



Notwithstanding, discussions with industry experts reveal that financial crime investigators capacity are limited by factors such as officer's knowledge on AML/CFT, inadequate human and material resources and above all inadequate strategic approach to AML/CFT among LEAs. Having discussed the above strength and weakness, the variable is rated **Medium**

Integrity and Independence of Financial Crime investigators

In addition to provisions made in the enabling Act of various agencies, Section 2(a) of the Public Officers Protection Act, CAP P41 LFN 2004 provides safe guard to preserve the integrity of the investigator in Law. Combating agencies receive petitions from the general public either written, (either in electronic or hard copy sent or submitted by hand) or walk-in-complainants. Complains are done in person or in anonymity, thereby availing petitioners unfettered access to seek for justice.

Various combating agencies have SOPs in maintaining the integrity of their respective staff. These include the Code of Conduct Bureau (CCB)'s mandatory asset declaration, which every

newly employed public officer fills before assuming office as well as at the point of leaving the service. Furthermore, such assets declaration forms are filled once in every four years throughout an employee’s career. Accordingly, the EFCC has the Department of Internal Affairs (DIA) responsible for conducts of investigation on all complaint leveled against its staff. The department conducts Polygraph test and vetting as a prerequisite for new employees as well as continuous vetting of existing staff of the Commission. Other security agencies equally conduct continuous vetting on the integrity of their staff.

Furthermore, the investigative and asset forfeiture process in the country does not provide for nor permit any form of political or social pressure/interference. However, there are instances where allegations of intimidation and abuse of office have been recorded. The Financial crime investigators therefore ensure that all reported cases related to money laundering, corruption and other criminal matters are investigated without any fear or favor. There are records of prosecutions involving PEPs in the country while there are currently several on-going investigations and prosecutions related to powerful members of the society. Between 2012 to 2014, analysis of petitions investigated by EFCC indicates that, a total number of 1935 or 59.71% of cases investigated by the commission are on public procurement fraud cases, while 137 or 3.76% of the cases are of public sector money laundering related¹⁰².

Table 2.4: Investigated Major Offences EFCC 2012-2014)

YEAR	PUBLIC SEC CORRUPTION / ML		PROCUREMENT FRAUD	
2012	700	0,74	20	25.91
2013	878	2,37	44	15.32
2014	506	0.65	21	21.66

(EFCC Annual Report 2014)

In practice, traced assets are transferred to the assets forfeiture department for monitoring and safe keeping while an interim forfeiture of assets (where involves) is sought in the court pending the determination of the case. Assets that have been satisfactorily processed (judgment has been obtained) are forfeited through perpetual or final forfeiture order to the State.

Notwithstanding these fabulous operational procedures and success, in practice investigators face the challenge of attempt to influence outcomes and sometimes intimidations or even death by the accused and their families. For instance during the investigation of FGN Vs Ibori¹⁰³ having been faced with clear indictment, Mr. Ibori attempted to bribe Mr Nuhu Ribadu (Then chairman of EFCC, 2003-2007) with the sum of \$15million. In accordance with SOP, Mr. Ribadu collected the Bribery money, declared and forwarded same to court. Other instances are the cases of Mohammed Danjuma and Abubakar Ummar who were shot to death for refusing to compromise investigation in the course of doing their job¹⁰⁴

Furthermore, other challenges enumerated by industry experts include insufficient integrity among LEAs, inadequate investigator training, knowledge gap, ego and rivalry among the

¹⁰²EFCC Annual Report 2012, 2013, 2014

¹⁰³ (2008) LPELR-CA/K/81C/2008

¹⁰⁴www.Saharareporter.com. Accessed on 14/06/2016 @2023Hrs.

officers. However, as can be seen above, various combating agencies have mechanisms in place for maintaining the integrity of their respective staff. For instance the EFCC has the Department of Internal Affairs (DIA); while the SSS conducts continuous vetting on the integrity of its staff. Officers that are found to have breached their respective SOPs are made to face the full wrath of the law¹⁰⁵. The above were further backed by respondent's affirmation (50.7%). From the forgoing this variable is rated **Medium**.

Capacity and Resources of Financial Crimes Prosecutors

There is a specialized unit in the office of the Honourable Attorney General of the Federation and Minister of Justice (HAGF/MOJ) that handles AML/CFT and corruption cases. The unit is called Complex Cases Group (CCG). The group benefited from specialized training organized by National Crime Agency of United Kingdom, United Nations office on Drugs and Crime (UNODC) among others.

The NFIU in 2013 and 2014 in conjunction with international stakeholders like the British Department for International Development (DFID) under the Justice for All program organized training for investigators and prosecutors. Some of the key agencies that benefited from this training include the Police, EFCC, ICPC, Customs and FMOJ. The principal area covered by this training was on the need to deepen understanding of money laundering investigation and prosecution and to also create the necessary synergy between the FIU analysts, investigators and prosecutors in the Attorney General's chambers. Various other trainings on prosecution of ML cases were also conducted at the EFCC Academy.¹⁰⁶

Table 2.5: EFCC Convictions

Year	Cases Filled In Court	Convictions
2014	388	126
2013	485	117
2012	502	87
2011	417	57
2010	206	68

On the average, this exposure to AML/CFT training translated to increase in the number of cases filed and convictions secured. This is analyzed to have impacted positively on the output of the prosecutors¹⁰⁷. Accordingly, the variable has been rated as **Medium**.

Integrity and Independence of Financial Crime Prosecutors

The Attorney General's Chambers conducts prosecutions in criminal matters and appears on behalf of the Government, Government Departments, Statutory Boards and Public Corporations in any Court or Tribunal. Notwithstanding various provisions contained in the relevant agencies

¹⁰⁵Abdulrahman Mohammed Biu DDS who was arrested for collecting \$150,000 (about N45 Million) from some Military officer currently under investigation for their involvement in the arms procurement scam. www.citynews.ng/efcc-operative.date accessed 14/6/2016 12:57Hrs.

¹⁰⁶ 2013 and 2014 Annual Report of EFCC

¹⁰⁷ 20 Annual Reprt of EFCC

establishment Acts, Section 2(a) of the Public Officers Protection Act, CAP P41 LFN 2004 provide safe guard to preserve the integrity of the prosecutors in Law.

Additionally, some LEAs are statutorily permitted to prosecute cases investigated by their agencies through their legal departments while other agencies are required to forward their investigation reports to the Department of Public Prosecution of the FMOJ for prosecution to take place. The system has therefore provided for the independence of the prosecutor irrespective of the mandate of the LEA. However, there are instances of alleged political interference from high net worth individuals in the country during some on-going cases. The judiciary has further been accused of slow judicial process thus, subverting the course of justice. Accordingly, this variable has been rated **Medium**.

Capacity and Resources of Judicial Processes

The Federal High Court is the designated court on ML matters. Some Federal High Court Judges are specifically trained on AML/CFT. Sensitization and awareness programs for Judges on AML/CFT, with assistance from Nigeria's international development partners enlightened judges in handling AML/CFT cases. The office of the NSA also organizes meetings for Criminal Justice Stakeholders which enjoys representation from the Federal High Court. Section 6(1)(2) of the Nigerian constitution has vested all Judicial powers in the courts thereby protecting and guaranteeing their capacity to discharge their statutory functions independently.

Pursuant to this mandate, the National Judicial Institute has been organising Anti-corruption case work training and workshops for Judges since 2008. Such training programs which enjoyed support from international organizations, more particularly UNODC were carried out for both Federal and State High Court Judges. For instance, in 2010, the Bayelsa State judiciary participated in anti-corruption case work for judges. In 2012, 25 Judges participated in a specialized workshop on counter terrorism and Money laundering for Judges of Federal High Court. A similar workshop was organized for another set of 25 Judges via online training platform on counter Terrorism. In the same vain between 2013 and 2014 about 90 Judges were trained on handling AML/CFT matters¹⁰⁸.

In general Nigerian court proceedings sometimes take a longer period for criminal cases due to late reception of the use of Information and Communication Technology (ICT) tools, knowledge gap on AML/CFT matters, limited capacity in prosecution skills, lack of central database and the need to reform existing laws. Although the recent Administration of Criminal Justice Act, 2015 has greatly improved the handling of AML/CFT cases in Nigerian courts but the prosecutors capacity is still very limited. This is because over time, most lawyers in Nigeria have gained more experience in defense than prosecution as majority of the cases brought before the courts previously were on mare theft or other simple criminal offences against the state. Accordingly, 52.9% of the industry experts affirmed the inadequacy of the capacity and resources of the Judiciary. In view of the observed weaknesses, the variable is rated **Medium Low**.

Integrity and Independence of Judges

¹⁰⁸National Judicial Institute Questionnaire response

The integrity and independence of the presiding officers is guaranteed by section 81(3) of the Nigerian 1999 constitution (as amended). It excised the expenditure of the judiciary from executive meddling by stating that any amount standing to the credit of the judiciary in the Consolidated Revenue Fund (CRF) should be paid directly to the National Judicial Council (NJC) for disbursement to heads of courts in Nigeria. Section 158 of the said 1999 constitution guarantees the independence of the NJC and Judicial Service Commission (JSC) in exercising its power to make appointments or to exercise disciplinary control over judicial officers.

The NJC and JSC are among the Federal Commissions and Councils created by section 153 of the Constitution. Their powers and functions cannot be amended or repealed without absolute majority in parliament and 2/3 of States' Houses of Assembly voting in the affirmative. Although a few empirical studies have been carried out in the past on the justice system in general and the problem of corruption in particular, there is insufficient data on the specific measure, extent and locations of corruption that would inform meaningful policy formulation and enforcement¹⁰⁹. Furthermore, lack of integrity and corrupt practices deny citizens the fruit of quick dispensation of justice. That is why the system is empowered to deal decisively with erring judges.

To ensure that Judges remain above board, there is a code of conduct and etiquette for Judges. Any Judge that contravenes any of the provision is appropriately sanctioned. This was the position taken by NJC in the case of Judges of Niger State High Court for falsifying their respective date of birth and a judge of Lagos State High Court for delaying delivery of judgment for about two years¹¹⁰. In addition, LEAs have the statutory responsibility to fight corruption Including Judicial Corruptions. This is the stance of the EFCC in the instance of five Nigerian high court judges that are being investigated for sharp practices. Furthermore, available data from NJC shows that from 2000 to 2016, a total of 48 judicial officers were sanctioned. This number is made up of 8 judicial officers sanctioned for corruption, 4 on falsification of age and remaining 36 for general misconduct¹¹¹.

Notwithstanding the foregoing, Nigerian courts in the discharge of their statutory duties have been awarding interim and final forfeiture orders. For instance, in 2014, 155 interim and 13 final forfeiture judgments on assets related to different money laundering cases in Nigerian courts were awarded¹¹². Consequently, the variable is rated **Medium High**.

Quality of Border Control

The Nigerian Customs Service is the leading Government Agency that monitors and checks cross border movement or smuggling of trade goods, precious stones, and bulk cash among other commodities. It is established by section 3 of the Customs and Excise Management Act, CAP C45, LFN, 2004. Section 21 of the Act empowers customs officers to inspect any ship, aircraft,

¹⁰⁹Assessment of the Integrity and Capacity of the Justice System in Three Nigerian State (Technical Assessment Report January 2006 United Nations Office on Drug and Crime

¹¹⁰www.allafrica.com/stories Accessed on 15/06/2016 at 1454 hours

¹¹¹NJC Planning , Research & Statistics Dept Ref NJC/11/12/54/T/X Dated 14th July, 2016

¹¹²Supra, footnote 1

vehicle or goods carried therein or documents relating to the ship, aircraft or vehicle or to the goods or persons, carried therein.

The NCS oversees a total of Seventy-Nine (79) manned or officially designated border post, categorized into four NCS operational zones cutting across twenty five states of the federation¹¹³. In the discharge of their statutory mandate at these border posts, the NCS impounds and seizes contraband goods thus, preventing them from entering the Nigerian territory. A total of 33,743 contraband goods worth ₦38,398,658,265.65 (\$128 million approximately) were impounded¹¹⁴ from 2011 to 2015. Furthermore, the NCS stated in a publication that a total of USD 9,349,481, Euro 484,280, GBP 10,100, Dirham 775 and 60 ATM cards, were seized from 86 suspects for the month of August 2015 on trans-border cash movement and instruments,¹¹⁵.

Similarly, the State Security Service is established by section 1(c) of the National Security Agencies Act, CAP N74 LFN, 2004. The SSS is responsible for detection and prevention of crimes against internal security amongst other things. Its instrument SSS1 of 1999 explained this to include threat of sabotage; terrorist activities; economic crimes of national security dimension; separatist agitation and inter group conflict as well as threat to law and order. To achieve its objectives, it monitors movement of suspicious goods and persons at the national borders including arms and ammunition.

Section 1 of the National Drug Law Enforcement Agency (NDLEA) Act, Cap N 030 LFN, 2004 established the NDLEA. It is empowered to coordinate all drug laws and enforcement function conferred on any person or authority in Nigeria. In this regard, it maintains presence at all entry and exit points of the country. While Section 16 of the Immigration Act, CAP I O1, LFN, 2004, established the Nigeria Immigration Service (NIS) and empowers its officers to examine persons entering Nigeria by land or other means. The NIS has presence at all the designated border (Air, land and Sea) posts.

It is a fact that Nigeria's borders are porous due to the existence of large track of unmanned borders. This was corroborated by the interview conducted with the respondents at the border post. Furthermore, nine out of ten (94.1 percent) of the respondents in the survey conducted affirmed to the vulnerability of border control in Nigeria. While industry practitioners further affirmed that the unfavorable topography of the border, uncooperative attitude of the communities, low level of awareness to AML/CFT issues and inadequate human and material (surveillance and scanning equipments, vehicles, living quarters, etc) resources of the LEAs among others all contribute to the vulnerability of the borders. Considering the above factors, the variable is rated **Very Low**.

Comprehensiveness of Custom Regime on Cash and similar Instrument

Nigeria through the Nigeria Custom Service (NCS) and other relevant agencies have put in place measures to ensure that the movements of foreign currencies and negotiable instruments across

¹¹³NCS HQTRS Approved Border Stations

¹¹⁴NCS Statistics Office, Enforcement and Drug Unit, NCS HQTRS Wuse Abuja

Also see NCS Annual Report 2014

¹¹⁵NCS HQTRs Monthly Summary of activities of the Presidential Committee on Trans-border cash movement

the air, land and sea borders and ports, are detected through declarations and disclosures in compliance with the ML(P)A 2011 (as amended) and the Financial Action Task Force Recommendation 32 on Cash Courier. The Customs and Excise Management Act (CEMA) CAP C45, LFN, 2004, gave the Nigeria Customs Service comprehensive powers to detect, confiscate and seize undeclared & concealed goods and Bearer Negotiable Instruments (BNIs). The CEMA is further supported by customs and excise management (Disposal of Goods) Act, CAP C46, LFN, 2004 and Customs and Excise (Special Penal and other Provisions) Act CAP C47, LFN, 2004 among others. While Section 2 of the ML(P)A 2011 (as amended) empowers the NCS to seize from individuals in or out of the country any false or undeclared amount or negotiable instruments in excess of \$10,000.00 or its equivalent. Sections 12 & 14 of the Foreign Exchange (Monitoring and Miscellaneous) Provisions Act, 1995 further empowers the NCS to regulate and supervise cross border currency movement and declaration.

Notwithstanding the foregoing provisions, the ML(P)A 2011 (as amended) has been proposed for further amendment in order to provide for declaration on movement of precious metals (gold, precious stones etc) and other artifacts in excess of \$10,000 or its equivalent to address the current ML/TF trend observed involving the use precious metals and artifacts.

In order to further strengthen the declaration regime, a presidential task force was constituted between the EFCC, NFIU and the NCS to monitor closely the likely violation of the declaration regime by inbound and outbound passengers in the country...

Records of seizures recorded by the taskforce at the Abuja, Lagos and Kano Airports from 2007 to 2014 in foreign currency (\$):

Table 2.6: NCS Seizures 2007 - 2014

Airport	2007-2008 (\$)	2009-2011 (\$)	2012 (\$)	2013 (\$)	2014 (\$)
Lagos	8,317,740.00	1,176,000.00	13,874,879.00	2,520,390.00	1,909,140.00
Abuja	-	-	188,058.00	35,000.00	200,000.00
Kano	-	-	1,007,401.00	-	132,100.00
Total	8,317,740.00	1,176,000.00	15,070,338.00	2,555,390.00	2,241,240.00
Grand Total-\$29,360,708.00					

In view of the comprehensiveness of the Customs regime on cash and similar instruments this variable is rated **High**.

Effectiveness of Custom Controls on Cash and Similar Instrument

Airlines, ships and coaches/buses entering Nigeria inform their respective passengers on the need to declare any cash in excess of \$10,000.00 or its equivalent. In the same vein, Nigerians and indeed any other persons travelling out of Nigeria are requested by NCS to make declarations. Currency Declaration Forms (CDF) are administered to passengers and submitted at the customs

desk. NCS officers on duty or any other law enforcement officers could randomly spot suspicious cash couriers and hand them over to the designated authority for further investigation. Travel control posts are equipped with scanning and screening machines and supported by manual search as the need arises. Extant rules provides for appropriate measures and sanctions for failure to make cash declaration and illegal transportation of cash, negotiable instrument and precious metals and stones. However, there are records of large sums of foreign currencies moved out of the country as illicit financial flows (IFF). Most disturbing, is the recent concerns over the increasing trafficking of huge sums of foreign currencies across Nigerian borders by individuals and corporate bodies in contravention of the extant laws and regulations on currency declaration.

Table 2.7: Nigerian Customs Currency Declaration and Destination 2011-2014

YR	DESTINATION OF CURRENCY DECLARED PER CONTINENT					NO.OF DECLARANTS	TOTAL AMOUNT DECLARED (USD)
	ASIA	AMERICA	AFRICA	EUROPE	OCEANIA		
2011	5,450,054,289	454,051,184	100,371,243	755,559,911	859,924	46,042	6,670,322,640
2012	7,903,924,386	401,687,795	312,112,176	1,272,055,203	37,252,091	32,717	3,179,394,888.80
2013	687,190,686	61,458,301	115,143,017	213,695,829	885,599	40,511	1,144,870,716.84
2014	104,256,727.83	5,168,393.13	18,603,421.77	19,292,172.10		26,248	807,585,061.70

Notwithstanding the high level of compliance with the declaration regime in the country, the practitioners interviewed enumerated that factors like inadequate office space at the border post, inadequate detection and monitoring gadgets, lack of central database, lack of/or obsolete operational equipment's including vehicles, sandy and water logged border terrain, uncooperative attitude of border communities to LEAs, ego and rivalry among LEAs, officers knowledge gap on AML/CFT, insufficient manpower, dearth of integrity among LEAs at the border, inadequate local knowledge and culture of border communities, insufficient training, paucity of operational synergy, insufficient and slow disbursement of funds, are among the multifarious factors militating the effectiveness of this variable.

Given the intense deliberation and analysis of available records, the **variable is rated Medium Low.**

Effectiveness of Domestic Cooperation

As discussed earlier, the Inter-Ministerial Committee (IMC) is the national policy cooperation and coordinating mechanism,. The IMC has introduced several measures in support of AML/CFT regime including the review of AML/CFT legislations; proposing the enactment of Terrorism Prevention and Prohibition Act (TPPA), Proceeds of Crime Act (POCA), Mutual

Legal Assistance (MLA) and Witness Protection Bills. It also provides high level inter agency coordination for the NRA process. The aforesaid directives given by the IMC are implemented by the stakeholders.

Similarly, the FIU is charged with the responsibility of coordinating the various institutions involved in the fight against ML and supports the enforcement of all laws dealing with financial crimes. The NFIU is mandated by section 3 of the NFIU Regulations, 2015 to develop, promote strategic partnerships and cooperate effectively with relevant agencies on AML/CFT matters.

The office of National Security Adviser (NSA) being the organ statutorily mandated to coordinate issues concerning national security¹¹⁶ maintains various platforms and fora for cooperation amongst LEAs and regulators. For instance it provides the secretariat for the criminal justice stakeholders' forum made up of Federal High Court (FHC), Federal Ministry of Justice (FMJ), Nigeria Police (NPF), SSS, Nigeria Prisons Service (NPS) and the British High Commission (BHC). There is also The Intelligence Community Committee (ICC)¹¹⁷ made up of NSA who serves as Chairman, Permanent Secretary Special Services Office (SSO), DGSS, Chief of Defence Intelligence (CDI), DGNIA, Assistant Inspector General of Police (AIGP/FOR CID), Director of Military Intelligence, Director of Naval Intelligence, Director of Air Intelligence and such other person that may be co-opted from time to time by the committee. Lastly the Joint Intelligence Board (JIB) comprises of the NSA, who serves as chairman, Permanent Secretary Special Services Office (SSO), DGSS, Chief of Defence Intelligence (CDI), DGNIA, Assistant Inspector General of Police (AIGP/FOR CID), Director of Military Intelligence, Director of Naval Intelligence, Director of Air Intelligence, and other Para Military Organisations, Permanent Secretary Ministry of Internal Affairs, Permanent Secretary Federal Ministry of Finance, Permanent Secretary Ministry of Foreign Affairs, Permanent Secretary Ministry of Communications, and such other person as may be co-opted from time to time by the board.

Section 4 of Terrorism Prevention (Freezing of International Terrorists Funds and Other Related Measures) Regulations, 2013, Government Notice No156, established the Nigerian Sanctions Committee. The committee is made up of HAGF who serves as chairman and the following members or their representatives not below the rank of a director or its equivalent: SSS, NPF, CBN, Minister of Foreign Affairs, NSA, DGNIA, CDI, representative of Chief of Defence Staff and the Director of NFIU who shall be the Secretary to the Committee. The Committee shall formulate and provide general policy guidelines on freezing of International Terrorist Funds and Other Related Matters.

Operationally, the key standing AML/CFT fora for enhancing domestic cooperation and coordination are:

- AML/CFT Stakeholders Consultative Forum (SHCF) – A forum initiated by the CBN for discussion of AML/CFT issues in Nigeria. It holds quarterly meetings and members

¹¹⁶ Section 4 of National Security Agencies Act, CAP N074 LFN, 2004

¹¹⁷ Section 6 of Instrument No NSA2 of 1999

comprise representatives of AML/CFT regulators, supervisors and Law Enforcement Agencies (including CBN, NDIC, SEC, NDLEA, SCUML, FMF, NCS, NFIU, NAICOM, SSS, and ICPC); and.

- The Committee of Chief Compliance Officers of Banks in Nigeria (CCCOBIN) – The Committee comprises of Chief Compliance Officers of Nigerian banks and regulators/supervisors of the financial sector such as CBN, NDIC, NAICOM, SEC, NDLEA, FIRS, NPF, EFCC and NCS. The committee meets monthly to discuss regulatory issues with AML/CFT as one key item.
- Capital Market Regulators and representatives of key participants usually hold quarterly meetings of Capital Market Committee (CMC).

Furthermore, the Office of the NSA is the coordinating organ for joint operation amongst the relevant LEAs and Anti- Corruption Agencies (ACAs). The above was supported by the practitioners, ICPC 03 page 7 PH2 “we share information with police, the EFCC, CCB, CAC and they also give us intelligence on certain issues”. Further collaboration among LEAs include information sharing at 76.9%, Exchange of suspect 63.5%, Joint investigation 53.5%, and Exchange of Exhibit 43.5% rate.

The NFIU facilitates cooperation amongst LEAs/ACAs through the establishment of Authorized Officers (AO) Forum. The forum meets once every quarter to discuss issues relating to AML/CFT for enhanced operational efficiency amongst the relevant stakeholder agencies. The table below shows information sharing between the NFIU and other relevant stakeholders:

Table 2.8: NFIU’s Intelligence Collaborations with Stakeholders 2011-2016 (Jan – Jun)

Agencies	2011	2012	2013	2014	2015	2016 (Jan-Jun)	Total
EFCC	80	106	120	127	205	146	784
ICPC	6	26	122	53	51	35	293
NSA	0	9	8	3	6	9	35
NIA	0	4	19	0	1	2	26
SSS	17	34	42	7	3	7	110
NDLEA	2	6	19	8	27	4	66
FIRS	4	13	24	9	23	11	84
DIA	0	1	5	2	0	0	8
NPF(SFU, FSARS & FIB)	4	3	33	17	12	0	69
CCB	0	1	8	1	5	11	26
NCS	0	1	0	0	0		1
NAPTIP	0	8	5	5	12	7	37
NAIC				3	9	11	23
NSCDC						1	1
SEC						1	1
DMI						1	1
INTERPOL						2	2
NAVY HQ						1	1

Despite the availability of these cooperation forums, most practitioners interviewed by the WG informed that factors such as inter-agency rivalry among LEAs, inadequate strategic approach to AML/CFT, officer's knowledge gap on AML/CFT, overlapping functions, lack of central database were among other challenges that affect effective domestic collaboration.

Inferring from the above factors, this variable is **rated Medium**.

Effectiveness of International Cooperation

Nigeria uses both formal and informal channels for international cooperation. For instance, Nigeria being a member of the United Nations and in pursuit of its commitment to international peace and security enacted various legislations and regulations for the purpose of implementing UN resolutions.¹¹⁸ The Vienna convention, 1988; the Palermo Convention, 2000; the United Nation Convention against corruption, 2003; and the Terrorist financing Convention 1999, have all been domesticated among other measures. These laws prescribed the procedure for the freezing of funds, financial assets or other economic resources of any suspected terrorists, international terrorists or international terrorist groups,¹¹⁹ whether initiated locally or on request from foreign partners.

The NFIU is also a member of the Egmont Group (EG) and thus, has access to information with over 150 member countries. EG is a group of FIUs that seeks to facilitate exchange of financial intelligence thereby fostering global partnerships in combating money laundering and terrorist financing. Below is a table showing intelligence shared between NFIU and other FIUs.

Table 2.9: NFIU International Information Exchange 2012-2014

S/N	Description	2011	2012	2013	2014	2015	2016	Total
1	Incoming Request from other FIUs	63	72	93	53	80	94	281
2	Spontaneous disclosure from other FIUs			11	34	52	60	45
3	Responses by other FIUs	27	20	39	32	45	55	118
4	Out-going request from NFIU	39	48	93	58	53	95	238
5	Spontaneous request from the NFIU			31	1	NIL	NIL	32
6	Responses by the NFIU	56	38	49	39	69	40	182

From 2012 to 2014, the EFCC and the NFIU entered into various Memoranda of Understandings (MOUs) with strategic countries of interest and other International Organizations. In 2012, the WB, UNODC, United Nations Development Program (UNDP), African Development Bank (ADB), the Department for International Development (DFID), U.S. State Department and other Embassies maintained solid partnership with the EFCC in the war against economic and financial crimes. The external linkages established by the Commission over the years were strengthened with the signing of more MOUs and personnel capacity building¹²⁰. In 2013, the EFCC further strengthened international cooperation with signing of more MOUs with the West

¹¹⁸Terrorism Prevention Act 2011 (As amended) and Terrorism Prevention (Freezing of International Terrorists Funds and Other Related Measures) Regulations 2013

¹¹⁹ Section 2 of the regulations cited above

¹²⁰ EFCC 2012 Annual Report Page 50

Australian Police (Major Fraud Squad), World Bank Integrity Group, Commonwealth Secretariat on Placement & Prosecutor Mentoring, United Kingdom Serious Fraud Office amongst others¹²¹.

The table below also highlights MOUs signed by the NFIU with other FIUs.

Table 2.10: MOUs signed by the NFIU with other FIUs

YEAR	NUMBER	COUNTRY
2012 ¹²²	4	People Republic of China, Ghana, Mali, Niger and Togo
2013 ¹²³	2	Malawi and Panama
2014 ¹²⁴	4	Cape Verde, Sierra Leone, Republic of Chad and Colombia

a. Mutual Legal Assistance (MLA)

The country has Mutual Legal Assistance (MLA) in criminal matters within the Commonwealth (Enactment and enforcement Act) CAP M24 LFN, 2004. The Central Authority Department of Ministry of Justice is responsible for MLA. Ministry of Foreign Affairs acts as a channel for the transmission of information. Requests for MLA are usually received by various government agencies such as Ministry of Defense and Ministry of Foreign Affairs. In such instances, government agency receiving requests will forward them to the central authority, domiciled within the office of Attorney General and Minister of Justice.

b. Regulator to Regulator

The regulators have bilateral relationships with their foreign counterparts such as the CBN being a member of the Bank for International Settlement and the Association of African Central Banks. Also, the Securities and Exchange Commission is a signatory to the Memorandum on Information Sharing of the International Organization for Securities Commission (IOSCO) and a member of the West African Capital Market Integration Council (WACMIC). The National Insurance Commission (NAICOM) is also a member of the International Association of Insurance Supervisors (IAIS). Despite these international cooperation forums, differences exist in jurisdictional laws, justice systems, monetary and fiscal policies which continue to hinder international cooperation. The variable is therefore, rated **Medium High**.

Level of Formalization of the Economy

Informal economic activities make a sizable contribution to Nigeria’s rebased GDP which stood at 41.43% while the formal economy stands at 58.56%¹²⁵ in 2015 with several activities contributing to the percentage growth of the informal economy against the formal sector. Although a significant proportion of economic activities in Nigeria continue to be traditionally cash-based & unrecorded, the Government has introduced different measures and schemes aimed at transiting from informal to formal economic activities through financial and designated non-financial institutions. Specifically, Banking, Capital Market, Insurance and the DNFI sectors as well as the pension commission were identified as sectors responsible for ensuring the

¹²¹ EFCC 2013 Annual Report Pages 48 and 49

¹²² EFCC 2012 Annual Report Page 32

¹²³ EFCC 2013 Annual Report page 37

¹²⁴ EFCC 2014 Annual Report page 39

¹²⁵ Formal and informal sector split of GDP 2015: National Bureau of Statistics, June 2016.

formalization of the informal operators within their respective sectors. Measures introduced include the CBN cashless policy and financial inclusion products by all FIs and DNFI's such as the CBN 3-tiered KYC and the micro insurance and takaful products in the insurance sector as well as the collective investment schemes in the capital market which simplifies the entry requirements while at the same introduced AML/CFT controls to prevent abuse of the products. Additionally, a simplified identification procedure (third party identification by community leaders and kingsmen) was introduced by the financial sector regular in order to enable the financially excluded individuals to come onboard thereby ensuring enhanced formalization of the activities of the informal operators. A micro pension scheme was also developed for different segments of the society as an additional measure for transiting from the informal sector. The scheme makes it compulsory for all businesses with up to three employees including the employer to ensure the registration and contribution into the scheme on behalf of its employees. Other initiatives include the micro small and medium enterprise development, poverty alleviation/eradication programmes, informal sector support schemes, vocational trainings, unemployment schemes, regulation of domestic workers,. The measures and initiative were introduced not only to ensure formalization of informal activities, but also as a means of widening the national tax base.

Despite the above, the Nigerian informal sector is besieged with several challenges which include but not limited to:

1. limited or no access to capital remains a vital constraint for people working in the informal sector;
2. deficiency in skills, education and training are major impediments to growing businesses in the informal structure;
3. limited access to technology, inadequacy of power and poor general infrastructure development;
4. Taxation bureaucracies and lack of documentary evidence of the various transactions availed prospective taxpayers to manipulate records, turn-over figures, and also eliminate third party information relating to purchasers and sales.¹²⁶

From the forgoing, the Nigerian formal sector is estimated to fall between (40% < Informal Economy ≤ 50%). This indicates that the informal sector is the main driver of the nation's economy. This situation makes the country very vulnerable to ML/TF. To this end, the variable is rated **Very Low**.

Level of Financial Integrity

In Nigeria, Business institutions and professions are committed to good corporate governance and high level of business ethics¹²⁷ but maintain a low level of tax compliance culture. However, the introduction of the Self-Assessment regulation put in place by FIRS has elicited voluntary compliance by several business entities and professions thus, resulting in improved filing of tax returns. The regulations extends to tax returns under Companies Income Tax Act, Tertiary

¹²⁶Research Journal of Finance and Accounting www.iiste.org ISSN 2222-1697 (Paper) ISSN 2222-2847 Vol.6, No.10, 2015
Taxation and Sustainable Development in Nigeria: Informal Sector Challenges Ohaka John & Zukbee, John D; 10/10/2016;
15:36 Hrs

¹²⁷ Questionnaire response from the FIRS

Education Tax Act, Petroleum Profit Tax Act, Personal Income Tax Act, National Information Technology Development Act, Value Added Tax Act and Capital Gains Tax Act. given that all taxes under the FIRS Establishment Act are stated as falling under the scope of the Regulations. Broadly under the self-assessment regime, taxpayers are required to compute their tax liabilities, file and make payment concurrently on or before the due dates. Any breach is liable to penalty and interest as prescribed under the Regulations or the relevant laws. The Revenue Authority identified the gap by some businesses with respect to registration. The FIRS' effort to remedy this gap has resulted in the additional registration of over 700 hundred companies between Jan-July 2016.

However, there have been records of false tax declarations, non-adhere to the codes of conduct and misleading financial records. This was observed over the years from the various monitoring, audit and investigation exercises conducted by the Service on the operations of taxpayers.. For example, in 2015, additional tax liabilities estimated at about ₦50.6b (\$169 million approx) and \$36,284,951 were raised on a number of about 116 corporate taxpayers by the Tax Investigation Department.

To address the identified challenges and ensure compliance with global tax requirement, Nigeria committed to the principles of transparency and exchange of information in March 2002 by joining the Global tax forum in April 2011. Nigeria now has 92 information exchange relationships via 17 Double Tax Conventions (DTCs) and the Convention on Mutual Administrative Assistance in Tax Matters, as amended (the Multilateral Convention). Presently, 12 of the DTCs are in force as well as the Multilateral Convention entered into force on 1st September, 2015.¹²⁸

Nigeria's DTCs are generally patterned on the Model Tax Convention in relation to the scope of information that can be exchanged. However the DTCs with Korea (signed in November 2009) and Spain (signed in June 2009) though yet to be in force, is in line with the requirement of article 26 (1) of the Model Tax Convention as the use the term "foreseeably relevant" was maintained.

All of the DTCs and the Multilateral Convention concluded by Nigeria explicitly or implicitly provide for the exchange of information in both civil and criminal matters. During the three-year Organization for Economic Co-operation and Development (OECD) review period, Nigeria provided information requested to Exchange of Information (EOI) partners equally for both criminal and civil matters. Further, the process of exchanging information related to criminal matters is the same as that for civil matter.

Furthermore, the legal framework of Nigeria ensures that all relevant entities and arrangements have to keep general accounting records and underlying documentation that correctly indicate their correct financial position. In practice, the tax and regulatory authorities have in place several monitoring and enforcement mechanisms to ensure that relevant entities and

¹²⁸ Discussions under this variable contain quotes and references from: OECD (2016), Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Reviews: Nigeria 2016: Phase 2: Implementation of the Standard in Practice, OECD Publishing. <http://dx.doi.org/10.1787/9789264250857-en> as well as questionnaire responses from the FIRS

arrangements maintain necessary accounting records and supporting documentation for a minimum period of 6 years. Section 331 of the Companies and Allied Matters Act (CAMA) states that every company must keep accounting records which shall be sufficient to show and explain the transactions of the company and must be such as to (a) disclose with reasonable accuracy, at any time, the financial position of the company; and (b) enable financial statements to be prepared.

The Nigerian tax system is therefore very comprehensive and provides detailed process for payment of different categories of taxes by individuals, small & medium scale enterprises and corporate bodies. Federal Inland Revenue Service (FIRS) is the authorized competent authority in the country responsible for the collection of Federal Government Taxes from all corporate bodies in Nigeria, individuals resident in the Federal Capital Territory and officials of the Armed Forces while the State Boards of internal Revenue collects taxes from individuals, partnerships, communities, families and trustees of estates in their jurisdictions.

Government workers' taxes are deducted at source based on a Pay As You Earn (PAYE) policy, while company taxes such as Withholding Tax (WHT) and Value Added Tax (VAT) are also deducted at source by the paying body whether a Government Ministry, Department or Agency (MDAs) or any other corporate entity.. The tax system in the country encourages voluntary filing of tax returns by legal and natural persons based on self assessment criteria. However, where a case of non-compliance or violation with the policy is established, the relevant Inland Revenue authority is empowered to investigate and prosecute the offender.

Additionally, the law enforcement authorities have access to the tax information from the relevant tax authorities to support their investigations. This is usually obtained through a formal request which is swiftly responded to while the NFIU has an authorized officer from the FIRS who serves as a liaison between the NFIU and FIRS on matters relating to Exchange of Information (EOI).

Various professional bodies and businesses in Nigeria fall under the regulation of SCUML and have their codes of conduct and file returns to auditors and investigators where issues of compromise and complicity to financial crimes occur. However, the overall compliance level of entities and arrangements in Nigeria on statutory reporting requirements is generally low. This renders the possibility that the accounting information may not be readily available in some cases thus; the variable is **rated Medium**.

Effectiveness of Tax Enforcement

Section 1 of the Federal Inland Revenue Service (FIRS) (Establishment) Act, CAP F36, LFN, 2004, established the Federal Inland Revenue Service to control and administer the different taxes and laws made or to be made from time to time by the National Assembly. The FIRS assesses, collects, accounts for and enforces payment of taxes as may be due to the federal Government or any of its Agencies. Section 8(1) (g) empowers it to identify, trace, freeze, confiscate or seize proceeds derived from tax fraud or evasion while sub-section (m), empowers it to maintain database statistics, records and reports on person, organization, proceeds,

properties, document or other items or assets relating to tax administration including matters relating to waivers, fraud or evasion.

There is a comprehensive legal framework, including the provision of adequate powers for obtaining information and an appropriate regime of sanctions to deter and penalize non-compliance with tax laws as evidenced in the table below:

Table 2.11: Enforcement Powers of the FIRS

Provisions in the Tax Laws	
Powers of the FIRS	Relevant Sections of the Laws
Power to call for returns, books, documents and information	Section 26 FIRSEA 2007 and Section 60 CITA C21 – 2004
Power to call for further returns	Section 27 FIRSEA 2007
Information to be delivered by Banks	Section 28 FIRSEA 2007 and Section 61 CITA C21 – 2004
Power to enter and search premises (access lands, buildings, books and documents)	Section 29 FIRSEA 2007 and Section 64 CITA C21 – 2004
Power to remove books, documents etc	Section 30 FIRSEA 2007 and Section 64 CITA C21 – 2004
Addition for non-payment of tax and enforcement of payments	Section 32 FIRSEA 2007
Power to distrain	Section 33 FIRSEA 2007
Enforcement of Powers	Section 36 FIRSEA 2007

Audit inspections carried out by the FIRS has promoted voluntary compliance by taxpayers with the tax laws. For instance, Tax Audit Performance (Additional Assessment) raised ₦ 202,150,748,364.07 (\$673,835,827.9) from 4368 concluded cases in 2014 and ₦ 143,564,662,938.32 (\$478,548,876.5) from 2317 cases in 2015. Similarly, Self Assessment filed by taxpayers recorded ₦105,480 Billion (\$351,600,000,000) in 2014 and ₦116,876 Billion (\$389,586,666,666.67) in 2015 signifying an increase.

The FIRS confirmed that it carries out a balanced program of tax audits. The program has adequate coverage as taxpayers are adequately selected by sectors and tax audit exercises are reviewed for quality assurance and penalty/interest raised to deter noncompliance.

The FIRS has a properly structured tax audit division that is staffed with 856¹²⁹ personnel. Staff of the tax audit division has received specialized trainings that include the following:

- Preliminary/Final Inspectors of Taxes (PIT/FIT)
- International Financial Reporting Standard (IFRS)
- Integrated Tax Administrative System (ITAS)
- Technical sessions.

The tax audit division is staffed with personnel who possess a wide range of skills. The table below highlights the distribution of staff against their skill set:

Table 2.12: Distribution of FIRS Tax Audit Division against their Skill Set

QUALIFICATIONS	NUMBER OF STAFF	% OF TOTAL (856)
Chartered Accountants	387	45.21%

¹²⁹ As at 9th September, 2016

National Accountants	97	11.33%
Degree holders or its equivalent	639	74.65%
Chartered Institute of Taxation of Nigeria members	394	46.03%
Master's degree holders	261	30.49%

It is pertinent to note that there is a high level of operational independence and autonomy in the performance of duties by officers of the FIRS and are devoid of undue internal and external influence. FIRS staff are guided by operational guidelines and procedures. They are also guided by code of ethics and service rules and regulations and discharge their duties with high sense of responsibility. In law, section 44 of the FIRS (Est.) Act spelt out the penalties for erring staff of the Service while in practice, the code of ethics establish and maintain the highest standards of honesty, integrity and impartiality of all officers of FIRS in their relation with taxpayers and the general public at all times.

The Service has a functional Tax Payers Service Department that guides and educates tax payers on tax matters. Tax enlightenment programmes are also handled through radio, TV jingles and programmes. Taxpayers' education has guided against future reoccurrence of non-compliance by the taxpayers. There have also been periodic enlightenment programs targeted at bringing more taxpayers under the tax net. These education programs have recorded impacts on taxpayer obligations such as registration, filing of tax returns and payment of taxes.

Analysis of available data indicated that there have been several cases where sanctions have been imposed and enforcement action carried out on businesses for non-compliance with the tax laws. Using a risk management strategy, the FIRS identified the different levels of taxpayers' compliance. Tax payers that are not willing to comply are deterred by detection and imposition of necessary sanctions in accordance with relevant provisions of the tax laws. Following the above discussions, the variable is rated **Medium**.

Availability of Independent Audit

In Nigeria, independent auditors conduct audit in accordance with International Standard of Auditing (ISA) 200. This complements the operations of Section 1(a) of the ICAN Act CAP I 11, LFN, 2004, which provides that all Chartered Accountants shall follow Nigeria Accounting Standards issued by the Institute of Chartered Accountants of Nigeria in the preparation of financial statements. All practicing members shall follow the auditing standards issued by the Institute of Chartered Accountants of Nigeria. Furthermore, section 15 (1) (b) of the ICAN Act empowers the ICAN councils to make rules for the supervision and regulation of the engagement of Accountants among others. Also, the Association of National Accountants of Nigeria (ANAN) in line with the provision of ANAN Act, CAP A26 LFN, 2004 Section 11(6) empowers ANAN to make Rules for Professional misconduct, while Section 11 (1) and (3) established ANAN Disciplinary Tribunal and ANAN Investigative Panel respectively to punish erring members. Similarly, Sections 331 to 334 of the Companies and Allied matters Act CAP C20 LFN, 2004, provides that each director should prepare financial statements for their entity.

According to the CBN, SEC and Financial Reporting Council of Nigeria (FRC) draft National Codes of Corporate Governance¹³⁰, every reporting entity must rotate their external auditors

¹³⁰<http://www.financialreportingcouncil.gov.ng/demo/corporate-governance/revised-draft-of-the-national-code-of-corporate-governance-january-23-2016/>

every 10 years and may be reappointed for another 7 years. The ISA 200 requires reporting entities to evaluate the independent auditor's/audit firm's performance¹³¹.

The Companies and Allied Matters Act (CAMA) 1990 makes it mandatory for reporting entities to disclose audit fees while the International Financial Reporting Standards (IFRS) requires the disclosure of other non-audit service professional fees. The FRC's Rule 3 also states that: "where an audit firm and/or its related entity offers non-audit service(s) to an audit client (that is the entity), it shall disclose the details of such non-audit services and the applicable fees paid thereon in the notes to its financial statements."

An evaluation of annual reports of public interest companies shows that there is regular and effective engagement and communication between independent auditors/audit firms and the Audit Committee. This can be found in the audit committee reports of the respective companies/organizations. The FRC who is the audit oversight body in Nigeria ensures regular and effective dialogue between reporting entities 'supervisory authority and relevant audit oversight body. This was confirmed in the questionnaire response from the FRC. In Nigeria, ISA 260 requires that independent auditors/audit firms disclose in writing to the Audit Committee any independence issues and not to the potential auditors. However, FRC's Rule 3 states that "The audit firm shall, for the purpose of audit quality control examination by the Council, document that these services were carried out with the consent of the audit engagement partner who shall have ensured that the non-audit service(s) are not prohibited and pose no threat to the audit firm's independence and objectivity.

The International Standard on Quality Control (ISQC 1) and ISA 200 require the prospective independent auditor's/audit firm's internal control procedures to guarantee the uniform quality of the audit and compliance with auditor independence requirements. FRC is mandated to carry out audit quality control. (See FRC Act. section 61).

CASE STUDY

In ascertaining the integrity of auditing practice in Nigeria and international best practices the case reported by IBTC minority shareholders against IBTC as an entity and KPMG as independent auditor Financial Statements of Stanbic IBTC Holdings Plc for years ended 31st December 2013 And 2014 to FRC became a litmus test on the Laws as well as integrity of audit practice in Nigeria. After thorough investigation of breaches and infractions committed by IBTC in connivance with KPMG, the FRC among other decisions recommended that the FRC number of the following persons Atedo N. A. Peterside FRC/2013/CIBN/00000001069; Sola David-Borha FRC/2013/CIBN/00000001070; Arthur Oginga FRC/2013/IODN/00000003181; and Dr. DaruOwei FRC/2014/NIM/00000006666. who attested to the misleading Statements of Financial Position of Stanbic IBTC Holdings Plc for years ended 31st December 2013 and 2014 be suspended. Also Ayodele H. Othihiwa (FRC/2012/ICAN/00000000425 of KPMG was suspended for professional negligence¹³²

In arriving at its rating, consideration was given to the comprehensiveness of the laws, effort of the FRC at implementing the law, different sanctions awarded to entities and auditors. Moreso,

¹³¹ Financial Reporting Council response to questionnaire.

¹³²FRC Regulatory Decision In The Matter Of Financial Statements Of Stanbic IBTC Holdings Plc For Years Ended 31st December 2013 And 2014

only a few erring entities and independent auditors were sanctioned thus, the variable as **Medium**.

Availability and Access to Beneficial Ownership Information

Section 3 of the Money Laundering (Prohibition) Act 2011 (as amended) requires all financial institutions (FIs) and designated non-financial Institutions (DNFIs) to take measures to identify and verify the beneficial ownership in corporations, trusts and similar vehicles for the purpose of KYC/CDD measures. The information should also be readily available and accessible in a timely manner by competent authorities.

However, the Corporate Affairs Commission (the Company Registry in the Country) requires only privately quoted companies in Nigeria to state the details of the beneficial owner at the point of registration along with the means of identification of all shareholders and directors of the company in line with the Company's and Allied Matters Act (CAMA) while, similar information is not required for publicly quoted companies. Information maintained by the CAC is easily and timely accessible to competent authorities and regulated AML/CFT businesses and professions via an online format. While the information maintained on beneficial ownership for privately quoted companies can be accessed manually by FIs and DNFBPs via a formal request through a consultant at a fee. This makes verification of beneficial ownership time consuming and costly

Additionally, publicly quoted companies are not required to provide beneficial ownership information under the law at the point of registration with the CAC. Meanwhile, all regulated entities rely completely on information available in the incorporation documents provided by the CAC when establishing business relationship thus, indicating a clear legal deficiency.

Additionally, the Special Control Unit Against Money Laundering (SCUML) under the Federal Ministry of Industry Trade and Investment (FMIT&I) also requires reporting entities under their control to register with them for the purposes of ensuring compliance with the AML/CFT obligations in line with the provisions MPLA 2011 (as amended). Regulation 10 of FMIT&I (AML/CFT) Regulations applicable to DNFBPs has further provided for CDD measures on beneficial ownership information. Part IV of the (CBN AML/CFT) Regulation 2013, Part III of the (SEC CMOs AML/CFT) Regulations 2013 and Part III of the (NAICOM AML/CFT) Regulations 2013 have all provided for comprehensive CDD measures in the identification and verification of identity of the beneficial ownership.

Consequently, the CAMA has been proposed for amendment to address the identified deficiencies in compliance with the relevant FATF recommendations by the Minister of Industry, Trade and Investment (FMIT&I). Given the foregoing discussions and absence of very vital information in the company registry and delay in accessibility; **the variable is rated Low**.

Availability of Reliable Identification Infrastructure

In Nigeria, all FIs and DNFBPs are required to obtain a valid means of identification from existing and prospecting clients before the commencement of any business relationship as required by law.

The acceptable means of identification are International Passport issued by the Nigerian Immigration Service (NIS), Driver's License issued by the Federal Road Safety Commission (FRSC) or National Identification Number (NIN) issued by the National Identity Management Commission (NIMC). However voter's card and third party identifications ¹³³are accepted for financial inclusion clients/products. With the establishment of NIMC in 2007, Nigeria is said to have a good identification infrastructure and process in place.

The National Identity Management Commission (NIMC) as the central authority in the country is responsible for issuance of the national electronic identity card (eID), to all citizens in the country. The Commission which took over the affairs of the defunct Department of National Civil Registration (DNCR) under the repealed National Civic Registration Act, 1978, was established in 2007 by National Identity Management Commission (NIMC) Act, No.23. The NIMC has the primary legal, institutional, supervisory and regulatory framework to drive the reform initiative (in the identity sector) as contained in the National Policy and the NIMC Act¹³⁴. The identity system represents a paradigm shift for Nigeria from the conventional identity card schemes to the implementation of an electronic identity management solution. The concept was borne out of the need for the country to have a secured and easily accessible central database of identification information of its citizenry.

The ID contains basic information of a card holder that is only accessible to authorized terminals or Card Acceptance Devices (CADs) in a confidential manner. Access to the stored information requires special readers approved by NIMC thereby leading to secured validation of the applicant's NIN. This simple unique function makes the National eID a strong tool for institutions offering services to their customers like the "know your customer" (KYC) tool for FIs and DNFBPs online/real time at a minimal cost¹³⁵. The e-ID card is thus a secured chip based card with multiple functions.

The Commission has presence in all the 774 Local Government Areas in Nigeria for the purpose of capturing the identification information of individuals. The information is centrally stored in servers at the data center. There is also a control and monitoring room that monitors the activities of all locations as well as active and inactive connections for immediate restoration and support where necessary. The system also flags up incidence of double registration through facial recognition for resolution by the system administrator. The system has provision for the registration of foreigners and they work closely with the Nigerian Immigration Service at the border points for ease of identification of non-Nigerians.

Furthermore, NIMC has provided a secured platform for verification of identity information by the relevant law enforcement agencies and the FIs & DNFBPs at a minimal cost. This is already

¹³³ This is a relaxed KYC (tier 1) that allows a third-party such as; clergyman, village or clan head, headmaster amongst others with acceptable means of identification to identify the socially disadvantaged person with no formal means of identification.

¹³⁴ sections 1,2,5 and 6 of the NIMC Act

in practice as some financial institutions are already utilizing the platform for the verification of their client’s identity in compliance with section 3 of the ML(P)A 2011 (as amended).

However, NIMC is facing great challenges due to inadequate funding to address the needs of the Commission. This challenge is limiting the Commission’s ability to acquire additional servers for data storage. Presently NIMC has registered only about 14,672,607 million Nigerians and issued 13,094,742 identification card containing their National Identification Numbers (NIN) from 2012 to 2016 out of a population size of about 170 million Nigerians¹³⁶ . Furthermore, the capacity of the servers stands at a maximum of 4 million records per annum. This means that NIMC cannot register more than 4 million Nigerians in any particular year. This is greatly hampering the operational efficiency of the agency especially in view of the growth rate (birth rate) of the country which is estimated at 5 million per annum. In addition, the NIMC currently has only 12,000 registration terminals as against 24,000 required for optimal capacity operations.

It is obvious therefore that though the existing database is highly secured, reliable and easily accessible to the reporting entities and other competent authorities upon request, only about 5% of the Nigerian populace has been captured. This is grossly inadequate and disproportionate to the population size. The situation therefore indicates that, the Commission lacks adequate capacity to meet up with the growing population size given the available infrastructure.

Table 2.13: Statistics on Identification Registration

S/N	DESCRIPTION	2012	2013	2014	2015	2016
1	total number of registered Nigerians for national identity card purposes	57,841	1,147,181	3,833,450	2,203,168	7,430,967
2	total number of registered Nigerians issued with current national identity cards	-	-	1,082	-	-
3	total number of requests from banks and other financial institutions on identity verification	-	-	2,400	-	-
4	total number of fake national identity cards detected till date	-	1	1	-	-
5	total number of NIMC staff trained on AML/CFT	-	1	1	-	-
6	number of staff dedicated to AML/CFT responsibilities;	-	1	1	-	-

In view of the foregoing discussions therefore, available data and discussion with industry experts, the variable **is rated low**.

Availability of Independent Information Sources

In Nigeria, there are limited independent sources of information such as the credit bureaus, Utility Companies, Telecommunication Companies (Telcos) and the National Voter’s Register maintained by the Independent National Electoral Commission (INEC). The most reliable and accessible source is the information maintained by the credit bureaus. The CBN requires all

¹³⁶According to 2008 census by the National population commission

licensed banks to avail all registered credit bureaus operating in Nigeria with the loan portfolios of all their clients on a monthly basis for the purpose of aggregation, rating and determination of the risks profile of the clients across all banks. This provides a reliable and easily accessible hub of valuable financial history of clients by all regulated entities.

All Regulators and Supervisors further require regulated entities in the country to obtain from all natural and legal persons, a reliable and valid utility bill before commencing any transactions in line with the KYC/CDD guidelines. The utility bill is required in order to ensure that during verification, the individual can be identified with the physical address presented to the entity at the point of on-boarding. The regulated entities therefore have access to utility bills in the course of the relationship but the challenge lies with clients living in rented apartments. The bills they present contain information on the landlord and not themselves. The regulated entities will have to go the extra mile during KYC/CDD procedure to ensure that the address is tied to the client.

Other independent sources of information are those maintained by Independent National Electoral Commission (INEC) and the telecommunications (Telcos). Although INEC has the widest coverage in the country, the information maintained in its server is the least reliable. This is perhaps due to issue of double registration, absence of proper residential address, unavailability of updated records such as change of address etc. While the information maintained by the Telcos is reliable to an extent as it requires the capturing of biometrics, the addresses provided by the clients still remains a challenge due to similar issues of improper description of our streets or total absence of the street names and house numbers in some instances. Additionally, a court order is required for access to such information maintained by the independent sources thus, limiting the efficiency of service delivery.

Challenges

- a) Unavailability of the data in the required format-
- b) Improper record keeping-
- c) Improper addressing of streets and houses-
- d) Non-adherence to laid down town planning regulations-
- e) Inadequacy of street names and house numbers-
- f) Absence of updated records in cases of change of address, marital status and place of work and
- g) Difficulty in accessing records maintained by some of the independent sources

The variable is accordingly given a Low rating in line with the foregoing challenges highlighted and discussion with industry experts.

RECOMMENDATIONS

From the foregoing, the following recommendations are proffered for consideration:

- a) The capacity of all LEAs dealing on issues of AML/CFT should be continuously improved through effective training to enable them conduct financial investigations alongside the criminal investigation in line with recommendation 30 and 31 of the FATF-

- b) The LEAs should also designate officers that would specialize in AML/CFT matter for enhanced operational efficiency-
- c) There should be improved collaboration and cooperation amongst the LEAs through information & intelligence sharing for operational synergy-
- d) There should be improved relationship between the border community and the LEAs
- e) the relevant LEAs should ensure designation of officers with language advantage to the relevant border posts-
- f) There should be adequate funding of the CCB to support the automation of the Assets Declaration system in the country-
- g) The CCB should ensure that the relevant LEAs are availed online access to the database for enhanced operational purposes-
- h) The Federal Government should support the CCB with logistics (equipment) to effectively carry out the verification exercise across the country-
- i) All LEAs should ensure that their officers are subjected to regular job rotation and encouraged to take their annual vacation in line with the dictates of the job. This is to prevent compromise on the job and ensure high integrity of the officers. The LEAs should ensure automation of their operational processes in order to avoid possible suppression of reported cases and on-going investigations-
- j) There should be improved welfare packages for the LEAs as well as timely payment of all benefits and allowances including pension and gratuity for the retiring personnel. This effort will prevent officers from getting involved in corrupt practices The Ministry of Justice should ensure the passage of the non-conviction based Asset forfeiture to support AML/CFT prosecutions and ensure non-interference with the judicial process by the accused as their financial ability will be withdrawn from them during the prosecution process-
- k) The Federal Government should improve the funding of other relevant LEAs for enhanced operational efficiency-
- l) The customs, immigration and NDLEA should ensure improved living conditions, operational vehicles and other logistics for their officers at the border posts and
- m) The National Assembly should expedite passage of the Mutual Legal Assistance Bill.

CHAPTER THREE

3. BANKING SECTOR VULNERABILITY TO MONEY LAUNDERING RISK

INTRODUCTION

The Nigerian banking sector consists of 26 licensed Deposit Money Banks (DMBs) and 3 financial holding companies (FHCs) as at May, 2016. The DMBs include 21 commercial banks, 4 Merchant Banks (MBs) and 1 non-interest bank (NIB), The sector is regulated by the Central Bank of Nigeria (CBN) and it accounted for more than 95% of the financial system assets as at the end of 2014. Available data indicates that the banking industry total assets grew marginally by 1.36%, total loans and advances rose by 5.56%, shareholders' funds unimpaired by losses increased by 14.02% while capital adequacy ratio stood at 17.66%. However, total deposit liabilities declined by 2.83%, unaudited profits decreased by 2.02% in 2015¹³⁷. While the total assets and liabilities stood at ₦31,231.4 billion (\$104,104,666,666.67) at the end of first quarter of 2016, representing an increase of 9.6% over the level at the end of the preceding quarter. The funds were sourced, mainly, from time, savings and foreign currency deposits, foreign liabilities and unclassified liabilities and used mainly to increase claims on private sector, acquire foreign and unclassified assets. At ₦20,406.4 billion (\$68,021,333,333.33), banks' credit to the domestic economy, rose by 11.2%, compared with 0.9% at the end of the preceding quarter. The development was attributed to the significant increase in claims on the private sector as at June, 2016. The Apex Bank's credit to the commercial banks rose by 34.2% to ₦1,041.73 billion (\$3,472,433,333.33) at the end of the review quarter. Total specified liquid assets of the banks stood at ₦6,536.9 billion (\$21,789.666,666.67), representing 34.9 per cent of their total current liabilities¹³⁸.

Table 3.1: Classification of the banking sector and branch network as at end May, 2016

Type of Bank	No of Institutions
Commercial banking license with international authorization	10
Commercial banking license with national authorization	9
Commercial banking license with regional authorization	2
Non-interest banking licence with regional authorization	1
Merchant banking license with national authorization	4
TOTAL	26
Financial holding companies in nigeria	3

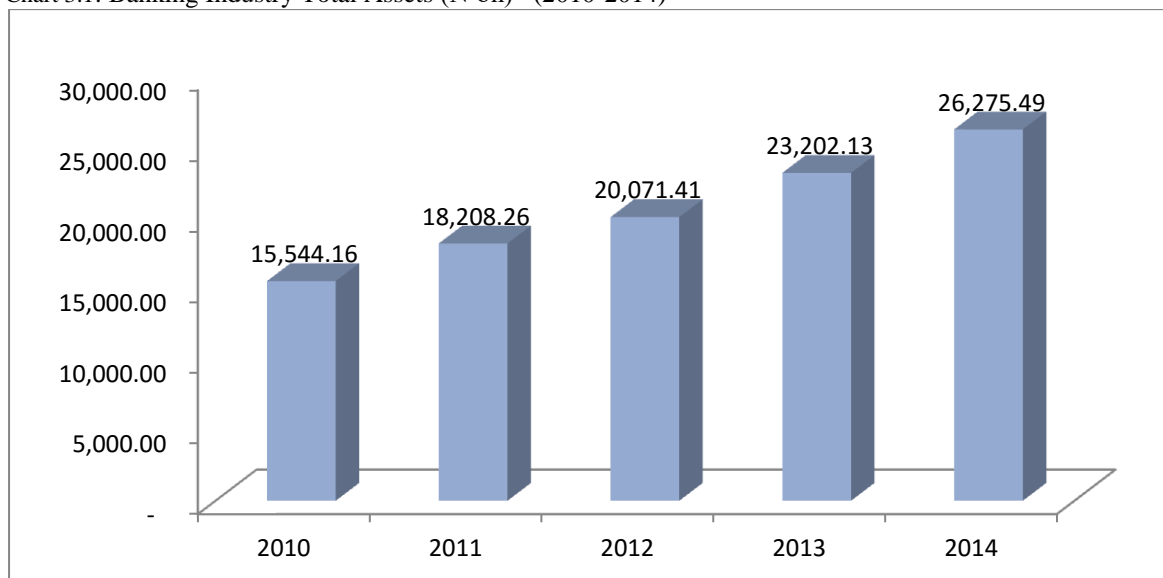
According to the CBN consolidated Banking Supervision Annual Report (BSAR) 2009-2014, activities in Nigeria's banking sector are concentrated in few major banks in Nigeria. The

¹³⁷ 2015 NDIC Annual Report

¹³⁸ CBN Economic Report, second Quarter

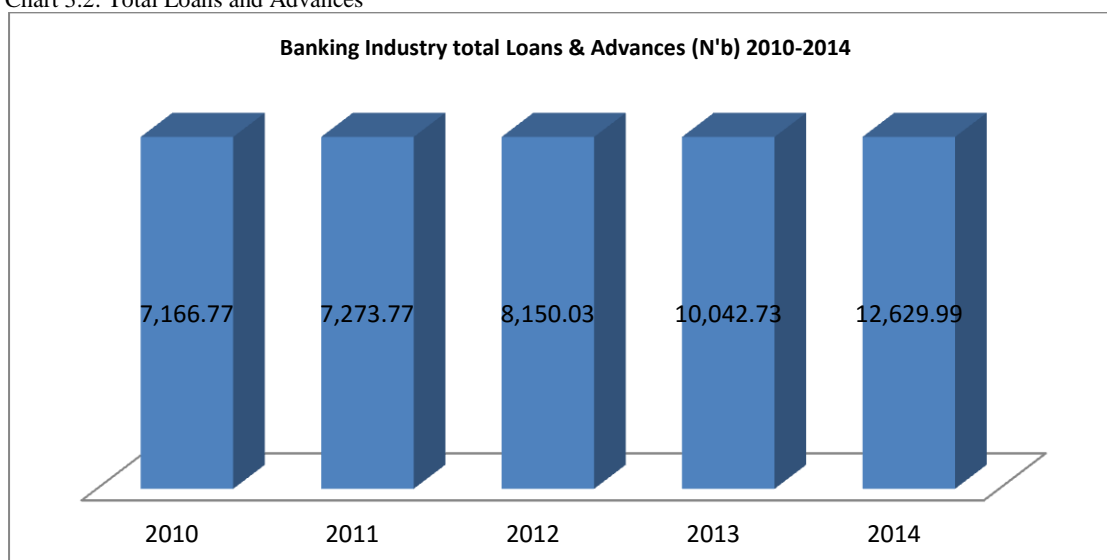
audited financial statements of the DMBs revealed that the top five largest banks controlled 51.90% of the industry assets as at 31st December, 2014 compared with 51.10% as at 31st December, 2013. Also, the top ten largest banks controlled 77.90% of the industry total assets as at 31st December, 2014 as against 77.30% as at 31st December, 2014. See Chart below for Total Assets in the banking industry.

Chart 3.1: Banking Industry Total Assets (N’bn)– (2010-2014)



The top 5 banks granted 53.70% of the total loans and advances within the banking sector as at end of 2014 as compared with 52.50% as end of 2013. Likewise, the top 10 DMBs are responsible for 77.90% of loans and advances in the banking sector as at end of December 2014 as compared to 77.30% as at end of December, 2013¹³⁹. See Chart below for Total Loans & Advances.

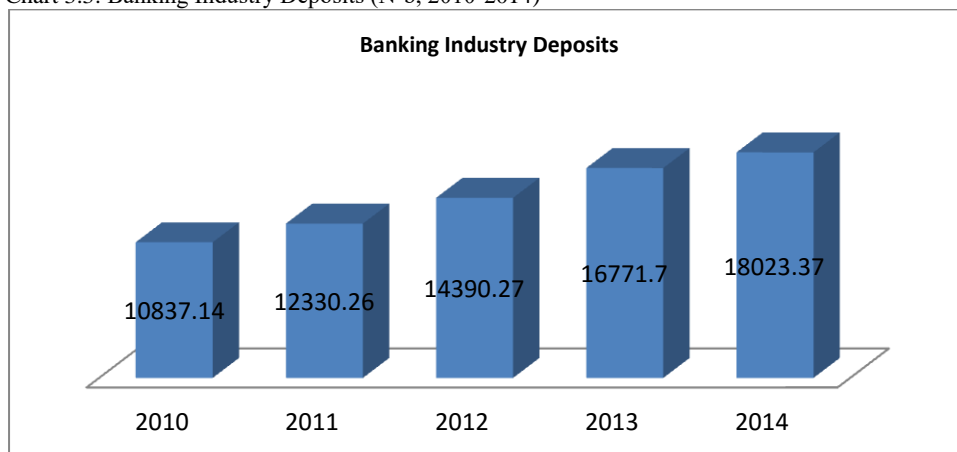
Chart 3.2: Total Loans and Advances



¹³⁹ CBN Consolidated BSAR (2009-2014)

Similarly, the top 5 and 10 DMBs held 52.80% and 79.80% of the total deposits within the banking sector as at end of 2014 as compared with 52.20% and 79.80% as at end of 2013, respectively. However, the use of alternative delivery channels has been on the increase since 2007 largely due to technological advancement globally.

Chart 3.3: Banking Industry Deposits (N'b, 2010-2014)



The geographical dispersion of branches indicate a concentration in the Western part of the country. The total number of bank branches from 2010 to 2014 is as follows:

Table 3.2: Total number of bank branches in Nigeria

Year	Number of Branches
2010	5,678
2011	5,648
2012	5,408
2013	5,477
2014	5,500

The number of bank branches per 100,000 adults is 5.9 as at end December 2014 with a target of 7.6 by year 2016. Furthermore, as at end 2014, Nigerian banks had 61 foreign subsidiaries, 7 representatives and 1 international branch (Please see table below)

Table 3.3: Foreign subsidiaries of Nigerian Banks

Region	Subsidiaries		Representative Offices & Branches	
	2013	2014	2013	2014
West Africa	35	34	-	-
The Rest of Africa	20	18	4	4
Europe, North America & Asia	9	9	5	5
Total	64	61	9	9

Total loans and advances to the Nigerian economy stood at ₦13.33 trillion (\$44,433,333,333.33) in 2015, showing an increase of 5.56% over the ₦12.63 trillion (\$42,100,000,000) reported in 2014. The non-performing loans to total loans ratio for the industry increased from 2.81% in 2014 to 4.87% in 2015, but was within the regulatory threshold of 5%.¹⁴⁰ Domestic credit provided by the banking sector as a percentage of GDP in Nigeria was last measured at 21.65 % in 2014¹⁴¹. This sector's composition to GDP has shown an increasing trend over the years.

Products offered by the Banking Sector

The banking sector offers a wide range of lending and deposit products to the customers. These products can be broadly classified under corporate and retail banking. Key lending and deposit products offered by banks under these categories are as follows.

Table 3.4: Products of the Banks (Deposit and Lending)

Key Deposit Products	Key lending products
Demand deposits	Overdrafts
Savings deposits	Term loans
Term deposits	Mortgage loans
	Leasing
	Credit cards
	Trade finance

In compliance with CBN AML/CFT regulation 2013, international standards and best practice as well as the banks staff's own experience, most banks have categorized their customers on risk based and customer demand as well as contribution to the varied products offered. Banks have been under the supervisory purview of the AML/CFT supervision department of the Banking Supervision Department (BSD), Central Bank of Nigeria since 2007.

SECTOR OVERALL ASSESSMENT

The vulnerability of the Nigerian banking sector to ML risk arises from weaknesses in AML general controls and quality of supervision variables. The vulnerability is assessed based on the variables provided by the assessment tool. The overall banking sector vulnerability to ML risk is rated **Medium High**. This is mainly due to the weaknesses and deficiencies in the quality of CDD framework, which was rated **Medium Low**. Furthermore, availability and access to beneficial ownership information is rated **Low**, the availability of reliable identification infrastructure is rated **Low**, the availability of independent information sources obtained a **Low** rating and availability and enforcement of criminal sanctions is rated **Medium** which are very poor ratings considering the nature and impact of the respective variables on the banking sector vulnerability.

Considering the overall vulnerability of the products/ services offered by the banking sector, the most vulnerable products are Current Accounts and loans & Advances signifying **Medium High**

¹⁴⁰ 2015 NDIC Annual Report

¹⁴¹ World Bank

vulnerabilities. Private Banking, electronic banking, time deposits, trade finance and savings accounts all rated **Medium**. The least vulnerable products are **micro deposit** which is rated **Low**. The vulnerability of all products lies on the medium category. The assessment considered 13 general input variables as discussed below.

Comprehensiveness of AML Legal Frameworks

In compliance with the Financial Action Task Force (FATF) 40 recommendations, Nigeria has become a major player in the global fight against money laundering and terrorist financing (ML/TF) by implementing an effective AML/CFT regime that sets out to achieve a multiplicity of measures and objectives which encapsulates legal, regulatory and institutional/supervisory frameworks. The measures are comprehensive and conform to the FATF Recommendations and relevant Basel core principles of banking and the United Nations Security Council Resolutions (UNSCRs). The interplay of these frameworks provides for an efficient implementation and management of the regime.

Although GIABA noted in its 25th Technical Commission Plenary Report of May, 2016 the sustained progress made by Nigeria in strengthening its AML/CFT regime, it however observed that the country had not enacted effective legislation on confiscation of proceeds and instrumentalities of crime, the legal status of the NFIU and mutual legal assistance. It therefore urged Nigeria to urgently enact the said instruments. This is notwithstanding the fact that the ML(P)A, 2011 (as amended) as the primary AML/CFT legislation in country has addressed the observed weaknesses initially identified by the GIABA during the first round of the country's mutual evaluation exercise in 2007.

Specifically, the amendment of the ML (P)A in 2011 included the expansion of the scope of offences to cover all known predicate offences to ML, extended AML obligations to non bank financial institutions in addition to adequate provisions on enhanced customer Due Diligence requirements¹⁴².

Section 14 of the Terrorism Prevention Act (TPA) 2011 (as amended) also provides for the filing of suspicious transaction reports relating to terrorist financing by all financial institutions and designated non financial businesses and professionals to the Nigerian Financial intelligence Unit (NFIU)¹⁴³.

The Central Bank of Nigeria (CBN) AML/CFT Regulations, 2013 strengthens the existing regulatory framework in line with international best practice. The CBN has also issued various guidance notes and circulars relating to the implementation of the AML/CFT regime in the Country including -the adoption of uniform account opening format for financial institutions, a policy on safe deposit boxes (SDB) requiring the monitoring of activities of SDB by financial institutions and reporting of STR related issues to the NFIU etc. The NFIU in its coordinating role has continued to issue relevant advisory and guidance notes in line with FATF publications to serve as further guidance to the financial institutions. Some of the advisory notes issued by the

¹⁴² Money Laundering (Prohibition) Act, 2011 (As Amended) (Harmonized Act No. 11, 2011 and Act No. 1, 2012)

¹⁴³ Terrorism Prevention Act (TPA) 2011 as amended and Terrorism Prevention (Freezing of International Terrorists Funds and Other Related Measures) regulations, 2013

NFIU include those on transparency and beneficial ownership, best practices for targeted financial sanctions on Terrorist Financing, guidelines on statutory reporting etc.

With reference to compliance with revised Basel Core Principles (BCP) of banking 2012, which provides for internationally accepted minimum standards for sound prudential supervision of banks and banking systems, Nigeria conducted the First Financial Sector Assessment (FSAP) in 2002 after which measures were undertaken to address observed weaknesses. However, from 2002 to 2011, several other assessments were conducted in line with changes and dynamism of the banking sector activities. As at August/September 2012, the IMF/WB observed in their independent assessment, that Nigeria had recorded significant improvement in her level of compliance with BCP's since its first independent assessment of 2002. Consequently, the country was assessed against the 25 BCP issued in 2006 and rated as thus.

Table 3.5: Nigeria's rating against the BCP essential criteria of 2006 by the IMF/WB

S/N	Rating On Of Essential Criteria	Nigeria's Score- IMF/WB	by Nigeria
1	Compliant	1	3
2	Largely Compliant	17	11
3	Materially Non-Compliant	7	9
4	Non-Compliant	NIL	2

Following the adoption of the IMF/WB report in 2013, the country drafted an implementation plan to address observed weaknesses.

In view of the foregoing discussions and sequel to intense deliberations, analyses and available information, the **variable is assessed High**. The rating is based on the consideration that though the two primary pieces of legislation have addressed all essentials on the comprehensiveness of the legal framework, the 3 instruments identified by GIABA as outstanding are yet to be enacted by Nigeria. However, the identified gaps observed by IMF/WB during the country's 2012 compliance assessment with BCP for effective banking supervision have been addressed through the action plan implemented by the CBN,. It is also instructive to note that the CBN also initiated another round of self assessment in the last quarter of 2014 to determine the extent of compliance with the revised core principles.

Availability and Enforcement of Criminal Sanctions

Nigeria has adequately criminalized money laundering and terrorist financing as contained in the Money Laundering (Prohibition) Act 2011 (as amended), the Terrorism (Prohibition) Act 2011 and the Terrorism (Prohibition) (Amendment) Act, 2013. These legislations have fully provided for a range of money laundering predicate offences and other ancillary offences relating to financial malpractices and crimes. Non-compliance to any of the provisions, statutory or regulatory requirements attracts penalties as stated in section 15 of the ML(P)A, 2011 (as amended) and section 14 & 18 of the EFCC Establishment Act, 2004. Some of the offences attract monetary penalties, and or jail term imprisonment or both. Specifically, section 15 of ML(P)A, 2011 (as amended), provides for penalties upon conviction for a prison term up to 7 years in case of an individual and in the case of a financial institution, a fine of not less than 100%

of the funds or properties acquired as a result of the offence and suspension or withdrawal of operating licenses where the bank persists in the commission of the same offence for which it was convicted in the first instance.

The sanctions are applicable to both directors and senior management of banks and thus the management and staff of the banks completely understand and believe that the criminal sanctions regime in the country is sufficiently dissuasive to positively influence individual behavior patterns. Actions have been initiated in the past against employees in cases of non-compliance with AML/CFT obligations. This was further substantiated by the operators during interview sessions where they informed that typologies on criminal actions taken against the bank employees were communicated to all employees during the relevant AML/CFT trainings in other to serve as deterrence to other staff. The table below shows criminal cases reported against bank employees to law enforcement authorities for non-compliance with AML/CFT requirements.

Table 3.6: No of Criminal Cases Reported Against Bank Staff

Year	2010	2011	2012	2013	2014
Total no of employees in the banking sector	71,876	75,606	67,242	67,115	69,377
No of criminal cases reported to LEAs against the institution's staff	344	178	205	175	130

Although the necessary legislation is in place for enforcement of criminal actions in case of non-compliance with AML/CFT obligations and industry practitioners also believe that the criminal penalty regime is quite severe and rigid, the variable is has been rated **Medium Low** as available statistics is limited to records of reported cases to LEAs without a corresponding prosecution and conviction where applicable. However, industry practitioners have continued to take proactive measures against the occurrence of criminal activities by their employees most especially at the point of on-boarding of employees. The banks’ management also shares case studies on instances of such breaches to serve as deterrence to other employees. The regulator has also continued to introduce policies and control measures against the occurrence of criminal actions by employees within the industry.

Market Pressure to meet AML Standards

Market pressure to meet AML standards is rated **Very High**. This is given the regulatory requirement set out by the CBN on due diligence with regards to correspondent banking relationships as contained in the ML(P)A 2011 (as amended) and the CBN AML/CFT regulation 2013. The CBN also requires banks to apply its group wide AML/CFT policies to all its subsidiaries and branches within and outside the country. Consequently, Banks conduct due diligence when engaging in cross border transactions as required by the law and erring banks are accordingly penalized domestically and internationally. For example, Guaranty Trust Bank (UK) Ltd was fined £525, 000 (\$815,000) by the Financial Conduct Authority (FCA), United Kingdom in 2013 for failings in its anti-money laundering controls for high risk customers¹⁴⁴. All banks in

¹⁴⁴ www.fca.org.uk/news/fca-fines-guaranty-trust-bank-uk-ltd

Nigeria therefore, conform to international AML/CFT standards at the time of establishing the business relationship for continued business practice. Furthermore, banks are guided by peer pressure in ensuring adhere to AML/CFT regulations.

Additionally, before the establishment of any relationship with any Nigerian bank, correspondence subsidiaries conduct compliance checks on the domestic banks in order to ascertain their level of compliance with AML requirements through a questionnaire served on the domestic bank. On-site visits are also conducted as further checks where discussions are held with regulatory bodies on areas of AML/CFT measures and compliance. In instances where Nigerian banks operate through their own foreign branches, they are equally subjected to the same rigorous compliance checks required by all correspondence banks.

It is therefore given that Nigerian banks effectively comply with AML/CFT requirements in establishing correspondent banking relationship as evident in the number of Nigerian banks with correspondent relationship and no incidence of breaches were recorded in that regard. Less than 5% of Nigerian banks with foreign branches have ever been sanctioned on non-compliance with AML/CFT measures globally. Furthermore, the banks also consider reputational damage as very significant to their business continuity, so they ensure compliance with all AML/CFT requirements most especially on cross border correspondent relationship.

Availability and Effectiveness of entry Controls

Following the global financial crisis in 2007 to 2008, the CBN introduced a number of banking sector reform measures in order to strategically reposition the Nigerian financial system against the shock of the crisis and align with global banking best practices. Some of the measures include the discontinuation of the Universal Banking Model (UBM), which was initially adopted in January 2001 where banks were allowed to operate as financial supermarkets, offering diverse financial services such as capital market, insurance, asset management, pension and custodial services. As a result of inadequate skills and risk management practices to cover the entire spectrum activities, unintended operational losses were witnessed in the capital base of most banks. Some banks engaged in speculative high risk activities in the capital market by creating margin loans, a number of which became non-performing in the wake of the slump in the capital market. In effect, the laudable objectives of the UBM were exploited by operators to the detriment of core banking practices. Therefore, remedial action was imperative to refocus the Nigerian Banking System for effectiveness and improved efficiency.

To this end, a new banking model was introduced in November 2010 via CBN regulation No.03, 2010¹⁴⁵ to replace the UBM. Under the new model, banks were permitted to operate either as Commercial Banks, Merchant or Specialized Banks (non-interest banks, microfinance banks, mortgage banks and development finance institutions) only. The model further authorized commercial banks to carry on business on a regional, national or international basis upon meeting certain criteria while prohibiting them from having equity stake in non-banking subsidiaries, among other things.

¹⁴⁵ Regulation on the Scope of Banking Activities and Ancillary Matters

To this end, assessment has shown that the CBN has a very comprehensive licensing framework for banks in Nigeria which includes, among other things:

- a) A fit and proper test policy that is adhered to strictly
- b) Capital verification of amounts invested by prospective owners of banks to ensure that they are not from proceeds of unlawful activities;
- c) A dedicated and adequately resourced division for licensing and approval
- d) A competency framework that requires minimum qualification for certain key banking officers including the Internal Auditors and Chief Compliance Officers to ensure that only staffs with appropriate qualifications are employed to hold key positions within the banks.

Please see copies of CBN competency framework, licensing framework and registration laws, regulations, policies and procedures including application forms and supporting documentations and manuals for supervisory staff and CBN directive/policy/circular on appropriate educational and professional certification requirements for key directors and senior management of banks¹⁴⁶. The license granted in 2011 was for 1 specialized bank (non-interest bank) while the 3 licenses granted in 2012 were for 2 merchants and 1 Deposit Money Bank. However in 2012 and 2013, two Deposit Money Banks were granted license to operate a non-interest banking window.

In view of the foregoing discussion on existing measures related to entry controls, the variable is **rated Very High**.

Effectiveness of Supervision Procedure and Practices

The Nigerian banking sector is supervised by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) both performing off-site surveillance and on-site examination of banks with the CBN as the regulator and lead supervisor. They both derive their supervisory powers essentially from the Central Bank of Nigeria Act, 2007, Nigeria Deposit Insurance Corporation Act, 2006, and the Banks and Other Financial Institutions Act, 1991. Other legislative instruments that impact on banking supervision include the Failed Banks (Recovery of Debts) and Other Malpractices in Banks Act, 2004, the Companies and Allied Matters Act, 2004, the EFCC Establishment Act 2004 and the ML(P)A 2011 (as amended). The CBN and NDIC also issue circulars, rules and regulations to the banking sector including the CBN (AML/CFT) Regulations for Banks and Other Financial Institutions in Nigeria, 2013.

The CBN, as part of its statutory mandate of promoting sound financial system in Nigeria, is charged with the primary responsibility of supervising and regulating the banking sector with the aim of ensuring high standards of banking practice and financial stability through its surveillance activities, as well as the promotion of an efficient payment system. It licenses and carries out the prudential regulation and supervision of these banks and other financial institutions. NDIC, on the other hand, administers the deposit insurance scheme and also collaborates with the CBN in the onsite and offsite supervision of the banking sector.

¹⁴⁶ The enumerated documents are provided as appendix

The CBN AML/CFT supervisory function is carried out by the Financial Policy and Regulation Department; responsible for formulation and monitoring of AML/CFT policies and the Banking Supervision Department: responsible for AML/CFT on-site examination and off-site surveillance of banks & discount houses.

Consequently, in furtherance to its regulatory functions to strengthen and enhance the supervisory processes, the CBN developed an Electronic Financial Analysis System (E-FASS) and a Credit Risk Management System (CRMS) with the intention of developing an integrated system to monitor the operations and performance of banks. The CBN has also developed the CBN Risk Based Supervision (RBS) Framework, 2011 and adopted a “risk-based approach” for supervision of banks, as opposed to the former compliance based approach. This new approach is being applied uniformly across all supervised institutions and provides comprehensive guidelines for risk-assessment and prioritization of resources across all supervised entities. Currently statutory examinations are conducted on a risk basis approach according to the CBN RBS Framework 2011 and the BOFIA 1991. Thus the RBS framework provides an adequate supervisory process, essentially based on the risk profiling of banks, enabling the CBN supervisors to have appropriate understanding of the safety and soundness of banks in the system. The framework enables a better evaluation of risks through the separate assessment of inherent risks and risk management processes, which also requires the CBN supervisors to understand the effect of the external environment, at the level of the banking system in the first instance and secondly at the level of the whole economy (bcp19¹⁴⁷) 56.

(i) AML/CFT Supervisory capacity of the CBN

The CBN has 30 officers involved in continuous AML/CFT supervision and examinations of banks drawn from the banking supervision department (BSD) and Financial Policy and Regulation department (FPRD). These officers are adequately resourced on AML/CFT matters and designated to AML supervision based on the requirements. There is a proper mix of on-site and off-site supervisors to evaluate the condition of banks and their inherent risks. A total of two hundred and twenty-two (222) supervisors were trained on RBS from 2011 to 2014 and two hundred and fifteen (215) were trained on Basel Core Principle II and ICAAP in 2004. Supervisors were further exposed to courses, seminars and workshops on anti-money laundering, consolidated supervision, corporate governance, market risk, credit risk, operational risk, oil and gas and non-interest banking during the period.

The CBN conducts onsite and offsite AML/CFT supervision of Deposit Money Banks (DMBs), Financial Holding Companies (FHCs), Discount Houses (DH), Merchant Banks (MB) and Credit Bureaus (CB) to ensure the safety and soundness of the banking sector of the Nigerian financial system.

Accordingly, AML/CFT Risk Based Examinations were conducted on 24 Banks in 2014. Some DMBs were sanctioned to the tune of ₦124, 000,000.00 (\$413,333.33) for failure to file STRs, non-compliance with the CBN directive on status and reporting lines of Chief Compliance

¹⁴⁷ Basel Core Principle 19

Officers (CCOs) as well as CDD breaches. Additionally, the CBN in a recent circular where it enhanced the minimum qualifications for the position of Chief Compliance Officers (CCO) of banks and introduced the position of Executive Compliance Officers (ECO) not below the rank of a bank ED, also made the both the ECO and the CCO directly responsible for breach of the any extant regulation in the DMBs including the suspension or dismissal of the said Executive(s)¹⁴⁸.

Onsite supervision examinations carried out by CBN also revealed that there have been occasions where there were revisions required to the AML policy documents to enforce the necessary provisions of the extant legislation. These were brought to the knowledge of the banks and follow up procedures are in place to check whether the banks promptly addressed identified concerns otherwise.

(ii) Supervisory capacity of the NFIU

The NFIU is the central agency responsible for the receipt and analysis of financial disclosure (Currency Transaction Reports and Suspicious Transaction Reports) and dissemination of intelligence generated there-from, to competent authorities in order to counter money laundering and terrorist financing. The FIU also conducts various types of compliance checks including offsite compliance checks on the quality, validity and timeliness of statutory reports that are filed to the NFIU. Exception reports are thereafter generated and findings communicated to the reporting entity for explanation. Where a breach for non-compliance with AML/CFT measures is established, the NFIU refers to the regulator for proper investigations and appropriate sanction(s).

In view of the foregoing, the variable is **rated High**. In arriving at the rating, the assessment team considered the number of supervisors compared with the number and branch network of the banks. The human resource of the supervisory department of the CBN is also considered to be inadequate to the bank's branch network to enable effective supervisory activities across the country.

Availability and Enforcement of Administrative Sanctions

The ML(P)A, 2011 (as amended) and BOFIA 2004 (as amended) have provided for administrative sanctions in cases of non-compliance with AML/CFT requirements. Section 15 of ML(P)A 2011 (as amended) provides for administrative actions such as removal of critical staff or suspension and withdrawal of bank licenses as the case may be while section 60 of BOFIA and AML/CFT Regulations, 2013 provides an omnibus clause which the CBN relies upon for administrative sanctions on prudential matters. The sanctions are applicable to directors and senior management of banks and so most of them understand and believe that administrative action would be initiated against them in cases of non-compliance with AML/CFT requirements. Recently, the CBN re-emphasized its commitment to effective implementation of the extant regulations via a circular dated 28th September, 2016, to sanction or dismiss bank Executives for breach of the any extant regulation where they are found culpable¹⁴⁹.

¹⁴⁸ CBN Circular to all DMBs on Minimum qualifications for the position CCOs of DMBs: Ref:FPR/DIR/GEN/CIR/06/004

¹⁴⁹ CBN Circular to all DMBs on Minimum qualifications for the position CCOs of DMBs: Ref:FPR/DIR/GEN/CIR/06/004

The CBN also requires banks to publish/disclose in their financial statements, all financial penalties imposed on them to serve as a further deterrence on issues of non-compliance with AML/CFT obligations. However, the applicable penalties contained in the BOFIA is limited to a maximum of ₦2,000,000(\$6,666.67) only, an amount considered inadequate and not dissuasive enough to influence bank management and staff behavior as compared with the level of compliance breaches. The regulator therefore relies on AML/CFT regulations for effective administrative sanctions regime in order to ensure that bank management and staff behaviors are adequately influenced in compliance with the AML/CFT requirements; thus, highlighting the inadequacy of the BOFIA and the need for review to ensure an effective administrative sanctions regime.

Efforts are therefore ongoing by the Federal Ministry of Justice (FMoJ) to issue new regulations that will provide for a more effective administrative sanctions regime for the Banking Sector. In the year 2010, a total of ₦95,000,000.00 (\$316,666.67) was imposed on 18 DMBs for various KYC breaches¹⁵⁰. Also, in the years 2012 and 2013, the sum of ₦122,500,000.00 (\$408,333.33) and ₦36,800,000.00 (\$122,666.67) were imposed on DMBs for failure to file STRs, failure to comply with requirements to appoint chief compliance officers¹⁵¹. The total of 15 DMBs were fined the sum of ₦56,000,000.00 (\$186,666.67) in 2014¹⁵²

Notwithstanding the foregoing, supervisors and regulators need to be adequately empowered by the laws and regulations to apply more effective and dissuasive administrative sanctions as well as undergo in-depth training and retraining. While information sharing, cooperation and collaboration between the Central Bank of Nigeria, the NFIU and law enforcement Agencies during enactment/amendments of laws, investigations and prosecutions, should be enhanced. The country is therefore said to have a moderate administrative sanctions regime in place and is rated **Medium**.

Integrity of Bank's Staff

In Nigeria, it is a legal requirement for all banks to ensure that appropriate screening measures are in place for prospective employees before recruitment. This is to ascertain that employees and management staff employed into the banking industry have high integrity and their character is not in doubt. Thus, the banks generally consider their employees to be safe from criminal act as they have recorded low incidences of integrity failure or willful blindness to suspicious transactions¹⁵³. Please refer to the table below on integrity breaches by bank staff and the disciplinary actions taken against them.

¹⁵⁰ 3rd Follow-up report of Nigeria to GIABA

¹⁵¹ 6th Follow-up report of Nigeria to GIABA

¹⁵² 7th Follow-up report of Nigeria to GIABA

¹⁵³ transcripts of interview with industry experts

Chart 3.4: Disciplinary actions against bank's employees on integrity breaches



The law has gone further to provide appropriate mechanisms for protection of bank staff against negative consequences resulting from STR reporting, or other actions while complying with AML obligations¹⁵⁴. The CBN in its on-site supervision, also checks the effectiveness of staff screening programs including verification of the necessary documentation obtained. It is therefore observed that banks have a very effective approach in ensuring the recruiting of staff with sound integrity as evident in the CBN circulars on fit and proper test for directors and key management persons and Competency Framework for recruitment of personnel with appropriate qualifications to hold key positions within the banking industry. These circulars are issued at par with the international standards/best practice.

However, the incidences of fraud and forgeries attributable to staff collaboration rose steadily from 357 in 2010 to 682 in 2013 and declined to 465 in 2014 and 425 in 2015.¹⁵⁵ The actual loss suffered by the insured banks decreased by ₦3.02 billion (\$10,066,666.67) or 48.79% from ₦6.19 billion (\$20,633,333.33) in 2014 to ₦3.17 billion (\$10,566,666.67) in 2015 as shown in the table below:

Table 3.7: No of Fraud Cases and Losses

S/no	Year	Number of fraud cases		Total Number of bank employees	% of bank staff involved to total employees	Total expected loss (N'million)
		Total	Bank staff			
1	2010	1,532	357	71,876	0.5	11,800
2	2011	2,380	498	75,606	0.66	4,072
3	2012	3,380	531	67,242	0.79	4,517
4	2013	3,756	682	67,115	1.02	5,757
5	2014	10,621	465	69,377	0.67	6,192
6	2015	12,279	425			3.17

Source: NDIC annual reports 2010 - 2014

While separate figures were not obtained for specific fraud and forgery cases related to AML/CFT, one of the causes of the frauds highlighted by the above report was non/partial implementation of the KYC rules. The total amount involved bank wide decreased significantly by ₦7.59 billion (\$25,300,000) or 29.63% from ₦25.608 billion (\$85,360,000) in 2014 to ₦18.021 billion (\$60,070,000) in 2015 while the loss suffered by the industry due to frauds

¹⁵⁴ Section 6(10) of the MLPA 2011 as amended

¹⁵⁵ NDIC annual reports 2010 - 2014

declined significantly by 59.4% from previous year figure of ₦1.242 billion (\$4,140,000) to ₦0.504 billion (\$1,680,000), representing 15.9% of total industry loss to frauds and forgeries¹⁵⁶.

The categories of staff involved in these fraud cases include supervisors, managers, clerks and cashiers with ATM fraud, fraudulent transfers/withdrawals of deposits and internet banking recording the highest rate fraud. The percentage of bank's staff involved to total employees as seen in the above table is insignificant. For example, highest percentage of 1.02% was recorded in 2013.

CASE STUDY

The Economic and Financial Crimes Commission, EFCC, May 21, 2014 arraigned two staff of Ecobank Plc, Ekpe Sunday and Denis Joseph James alongside Ecobank, before Justice I. L Ojukwu of the Federal High Court sitting in Uyo, Akwa Ibom State on a 2-count charge bordering on conspiracy, fraudulent diversion of funds, forgery and impersonation to the tune of ₦7, 067, 576.55 (\$23,558.59).

Sunday and James were alleged to have failed to exercise due diligence in opening a spurious account for a fraudster, in the name of a pensioner, Chief Ukim Okon Edem. As a result of their negligence, the fraudster used the account to convert and steal ₦7, 067, 576.55(\$23,558.59) being proceeds from the sale of the shares of the pensioner.

Mechanisms have been put in place to identify them and banks are required to file reports to the CBN on all fraud and forgery incidences recorded. The CBN further requires banks to train their staff at all levels on AML/CFT requirements and render quarterly and annual returns on the trainings conducted including the spread at the branch level, categories of staff trained, budgeted amount and expended as well as names and content of the trainings received. The CBN also conducts capital verification exercises to ascertain sources of funds used to acquire ownership of banks during setting up and re-capitalization of banks to ensure they are not proceeds of crimes and that criminals do not take over the banking industry.

The returns from the banks showed that the majority of the fraud and forgeries during the period under review were perpetrated by clients, while some bank employees were also involved in fraudulent acts. These frauds were successfully perpetrated through sundry means: armed robbery attacks, pilfering of cash, suppression and conversion of customer's deposits, stealing, illegal funds transfer, defalcation, fraudulent ATM withdrawals etc. The staff involved in these acts were identified and the necessary disciplinary action taken against them.

Furthermore, a detailed review of questionnaires administered on-site to all the banks in Nigeria revealed that most banks have good suspicious transaction reporting mechanisms in place to ensure that the confidentiality of the relevant officers is protected in terms of suspicious transaction reporting. The ML (P)A 2011 (as amended) protects banks employees from any negative consequence that may arise from reporting STRs. The banks also have whistle blowing mechanisms that provide for complete anonymity.

¹⁵⁶ 2015 NDIC Annual Report

Also, Nigeria was rated largely compliant (LC) on tipping off and confidentiality (FATF Recommendation 21) in Nigeria's first Mutual Evaluation Exercise report of 2008 by GIABA. This indicates that Nigeria has mechanism in place for the protection of bank employees and tipping off on STR reporting. Although the provision is only applicable to STR reporting, efforts are on-going to extend it to cover all relevant provisions of the ML (P)A 2011 (as amended).

Additionally, discussions with industry experts revealed that there have been instances of under reporting by some financial institutions in order to avoid perceived negative publicity. Staffs suspected to be involved in fraudulent transactions were simply advised to resign and no reports were filed to the authorities¹⁵⁷. It is therefore a great concern as such employees may end up being recycled within the industry (employed by other banks).

In light of the foregoing discussion, analysis of the available data, the variable was **rated Medium High**.

The rating was intensively deliberated and agreed that notwithstanding the provisions of the law, regulations and policy guidelines regulating the activities of the practitioners of the banking industry, the observed incidences of under-reporting reduces the effectiveness of the implementation.

AML Knowledge of Bank's Staff

The CBN regulation requires banks to train and retrain their staff at all levels on AML/CFT in line with the provisions of the ML(P)A 2011 (as amended). The regulator also requires the regulated entities to render quarterly and annual returns as well as ensure that their employees especially those tasked with compliance responsibilities possess professional AML/CFT qualifications in addition to their academic qualifications. In order to ensure compliance with AML/CFT obligations, banks are required to submit their annual AML/CFT training calendar and budget to the CBN at the beginning of their financial year while at the end of the year, a report is submitted indicating the number of personnel trained on AML/CFT and amount expended in that regard.

Furthermore, one hundred and fifty seven (157) directors of DMBs were trained by the CBN on AML/CFT issues between 2014 and 2015. This is in furtherance to its regulatory functions. The NFIU has also been involved in conducting training on filing of STRs, CTRs and other regulatory reports as well as ML/TF indicators.

Discussion with industry practitioners revealed that banks have their own training programs on AML Laws, policies and procedures. This includes training given at induction as well as training given periodically to upgrade staff knowledge. Analysis on responses to questionnaire served on the banks relating to AML knowledge of the bank's staff reveals a high degree of Compliance Divisions' knowledge on AML/CFT procedures. More than 80% of the banks responded with good level of understanding on the AML enforcement measures not necessarily because level of

¹⁵⁷ transcribed interview document on integrity breaches with industry experts

knowledge exists across the banks but the questionnaires were filled by a few experts in compliance divisions of the banks. AML/CFT knowledge is mostly concentrated amongst a few employees and at head offices or major branches. Assessment conducted revealed that though the compliance team's knowledge is quite high the level of knowledge of the remaining employees is low especially Customer Service Officers (frontline employees that do the marketing of new customers) and employees in Operations Divisions that carry out/monitor transactions. It was also observed that most of the periodical training carried out by banks were web-based. Banks must give more significance to classroom training as opposed to conducting online training session with little guaranty of knowledge being assimilated. Furthermore, the number of employees trained is not reflective of the total number of employees in the industry as it represents a tiny percentage. Banks must increase the number of employees trained on AML/CFT by increasing the training frequency, vendors, coverage across all cadre and budget.

Please see table below for statistics on number of personnel trained across the banking industry on AML/CFT matters.

Table 3.8: Record of AML Trainings Received By Bank Employees

SN	QUESTION	ALL BANKS				
		2010	2011	2012	2013	2014
1	total amount budgeted for AML/CFT training by banks	₦118,133,666.00 (\$393,778.89)	₦116,509,000.00 (\$388,363.33)	₦190,960,029.20 (\$636,533.43)	₦236,792,450.00 (\$789,308.17)	₦259,508,270.00 (\$865,027.57)
2	total number of AML/CFT training conducted by banks	381	1380	325	1108	1673
3	NUMBER OF AML/CFT TRAINING CONDUCTED BY INSTITUTIONS FOR					
a.	Board	23	19	23	24	24
b.	Senior Management	54	165	46	111	108
c.	Middle Management	48	55	93	126	172
d.	Front Desk Officers	45	52	69	92	148
e.	Others	286	1151	161	818	1263

This will ensure that the banks give confidence and assurance to employees by providing sufficient support and training to make it easier for the employees to embrace the required level of responsibility and competency in their AML obligations when engaged in their day to day work processes. **Given the foregoing discussions, the variable is rated Medium.**

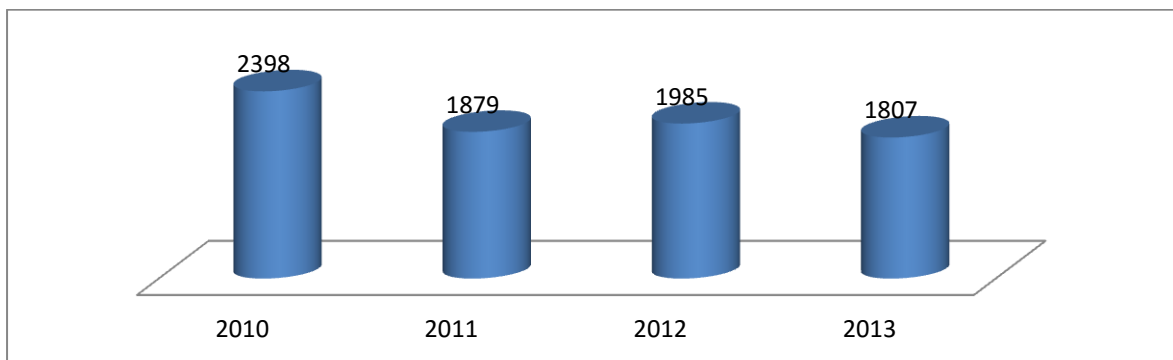
Effectiveness of Compliance Function

Nigeria has the necessary regulatory framework to support sound AML compliance function as derived from the AML/CFT legal framework. The CBN AML/CFT Regulations 2013 has fully provided for all compliance requirements as well as sanctions and penalties for non-compliance. Thus all the licensed banks have sufficiently resourced independent officer at the senior management level designated as Chief Compliance Officer. The banks have also gone further to constitute a forum of the Chief compliance officers in Nigeria known as the Committee of Chief Compliance Officers of Banks in Nigeria (CCCOBIN), a very active and effective forum for the

deliberation of AML/CFT regulatory issues and requirements as well as standardization of policies across the banking industry. The banks also have documented AML policy manual which fulfills the requirements of the CBN AML/CFT regulations to enforce an effective AML compliance function.

Banks therefore have internal compliance programs that are commensurate to the level of risk, taking into account factors such as the volume and nature of the products provided, the client base profiles, the transaction patterns, and the cross-border nature of transactions. Disciplinary actions are also taken against bank staff in cases of breaches of compliance policy. Please see chart below.

Chart 3.5: Disciplinary action taken against bank employees on breach of compliance policy



The results of the questionnaire and discussions with industry practitioners revealed that the compliance officers and the other bank staff receive adequate internal training on AML/CFT matters. However, continuous training is recommended in order to strengthen the AML/CFT knowledge and understanding of the staff so that it will positively contribute to having an effective AML/CFT function in the banking sector.

The existing legislation in the country requires the banks to establish an audit function to test the procedures and systems for the compliance with the provisions of the MLPA. Hence, all banks perform internal and /or external AML audits. **It is therefore given that the foregoing discussion is the basis for rating the variable High.**

Effectiveness of Suspicious Activity Monitoring and Reporting:

In line with the provisions of section 6 and 7 of the ML(P)A 2011 (as amended) and the T(P)A 2011 (as amended) as well as the AML/CFT Regulations and other relevant circulars and guidelines issued by regulators on AML/CFT issues which, requires reporting entities to report known or suspected violations of law or suspicious activity to the NFIU, all banks operating in Nigeria now have effective and appropriate systems for record keeping, monitoring and reporting of STR to support their AML policies and procedures. Specifically, section 7 of the MLPA requires all financial institutions to preserve and keep at the disposal of the authorities, the records of customer identification and transactions including the information filed on STRs for a minimum period of 5 years after severance of the relationship. While section 6 of ML(P)A 2011 (as amended) requires all financial institutions to report any suspicious transactions to the NFIU

only, for analysis and dissemination to the relevant law enforcement agency for investigation and possible prosecution.

Thus all Commercial banks in Nigeria have acquired AML solutions (information systems) that enables and facilitate the monitoring of transactions of clients against their profiles thereby enabling the generation of statutory reports and transactional records in an XML format that supports AML screening and monitoring, identification and reporting of STRs, identification and recording of all complex & unusual transactions as well as PEP screening.

The NFIU, as a coordinating body for AML/CFT, monitors the activities of the banks through the review of the various types of reports filed by the banks in order to assess compliance level of banks in relation to statutory report filing. The NFIU also requires banks to file other monthly and quarterly reports such as report on Politically Exposed Persons. In addition to the STR reporting, the ML(P)A 2011 (as amended) requires all financial institutions to file currency transaction reports (CTRs), a threshold based report to the NFIU. The NFIU also disseminates STR related intelligence to relevant LEAs for investigation and possible prosecution.. Please see table below for the statistics on STR dissemination over a period of 5 years.

Table 3.9: Statistics of STR dissemination

STR CLASSIFICATION	2010	2011	2012	2013	2014	2015
Number of quality STRs filed to the NFIU by the Commercial Banks	4,150	3,824	1,590	3,180	2,180	1,932
Total no of intelligence disseminated to LEAs and other stakeholders based on STR analysis (Proactive disseminations)	40	68	58	117	88	99
No of STR related requests for information made to other FIUs	18	41	55	93	58	53

The foregoing discussion indicates that banks have adequate and appropriate AML monitoring and STR reporting systems. **Thus the variable is rated High.**

PRODUCT SPECIFIC INPUTS

The following are vulnerabilities emanating from products or services in the banking sector:

PRIVATE BANKING

Private Banking (PB) is the priority banking proposition offered in Nigeria by some banks for high net worth individuals including PEPs and financially exposed persons (FEPs). The product entails preferential rates, services and reward programs. One of the unique services offered to PB clients is the assignment of a Personal Relationship Manager who will create a bespoke financial strategy designed just for the customer, providing advice and other services such as financial planning, up-to-date market information and expert opinion on trends & performance. These relationship managers liaise with the asset portfolio managers and stock brokers to invest their client's funds in money and capital markets. The investment of funds into the financial system increases the vulnerability of this product to money laundering.

Available data obtained from DMBs in Nigeria on the total assets/liabilities associated with private banking and interviews conducted with some industry practitioners indicate that the total product size/value is high. Private Banking products generate up to 2% of the total annual revenue of some big DMBs. Considering the fact that the combined gross revenue of insured DMBs was over ₦2.6trillion (\$8,666,666,666/67) in 2014¹⁵⁸, the contribution from private banking products to total revenue is therefore significant.

Discussion with banking sector representatives further revealed that preferential services accorded to private banking clients include confidentiality in service delivery, hotels services, personal travel arrangements including for family members, home-delivery for cash, safe deposit box services, etc. The provision of these personalized services extends beyond relationship management to personal friendship which in some instances poses vulnerability as the relationship manager can act under willful blindness towards certain transactions. The discussion further revealed that though private banking customers in Nigerian banks are subjected to full range of KYC, some identity information may be made confidential to some lower level cadre of staff within the bank. This has the potential of making transactions anonymous thus, increasing the probability of money laundering occurrence.

Therefore, in addition to the general AML controls, DMBs usually adopt specific AML controls which include enhanced due diligence, continuous transaction monitoring of clients and prior management concurrence with a view to mitigating the money laundering risks associated with this product. The ML risk associated with this product is further diluted with the introduction of the BVN which ensures amongst other things, biometric links to accounts and transactions, prevention of unauthorized access to accounts, mitigates against identity theft and minimizes frauds and forgeries. The BVN further exposes beneficial owners in transactions thus, further reducing the vulnerability of this product. Additionally, most of the smaller DMBs do not offer private banking products.

Given the client profile, presence of investment features, anonymity, amount and use of large cash in this product, the variable is rated **Medium**.

CURRENT ACCOUNTS

The current accounts considered here include all individual and corporate current accounts (current accounts of Money Service Businesses MSBs, Asset Managers, Trusts, and PEPs).

The current account deposit liabilities of Nigerian DMBs grew from ₦3.83 trillion in 2010 to ₦5.25 trillion in 2014. Current account deposits formed the single largest component of total deposits for all DMBs. Data analysis of information obtained from the banks revealed high transaction volume and number. Further analysis also highlighted that while the product

¹⁵⁸ NDIC 2014 annual report

accounted for 35% and 29% of total deposits of banks in Nigeria between 2013 and 2014, it contributes over 5% of the total revenue of some banks. See table below:

Table 3.10: Current Account Deposits in Nigeria DMBs

Product	2010 (₦'million)	2011 (₦'million)	2012 (₦'million)	2013 (₦'million)	2014 (₦'million)
Current Account Deposits	3,830,281.95 (\$12,767,606,500)	4,920,850.24 (\$16,402,834,133.33)	5,072,986.00 (\$16,909,953,333.33)	5,169,063.97 (\$17,230,213,233.33)	5,250,345.48 (\$17,501,151,600)
Total Deposits	9,784,542.41 (\$32,615,141,366.67)	11,452,763.25 (\$38,175,877,500)	13,135,887.35 (\$43,786,291,166.67)	13,825,188.77 (\$46,083,962,566.67)	17,258,583.05 (\$57,528,610,166.67)

Although the recent adoption of the Treasury Single Account (TSA) by the Federal Government of Nigeria has reduced the risk associated with the product, only a few State Governments have adopted the same mechanism while no Local Government has implemented the measure. However, the CBN has continued to introduce measures that will mitigate against the abuse of this product. Such as the issuance of August, 2016 guidelines for the operation of international money transfer service (IMTOs) in Nigeria which prohibits banks from operating accounts either as companies or companies masking themselves as individuals for the purpose of illegally receiving inflows from abroad for onward disbursements to recipients in Nigeria¹⁵⁹.

This significance to total revenue and the cash intensive nature of the product which facilitates the movement and concealment of illicit funds mostly from public corruption related activities as well as the client profile makes the product vulnerable to the ML risk. It was further observed that there are no specific AML controls imposed on the product. Hence, the product is rated **Medium High**.

RETAIL DEPOSIT PRODUCTS

The assessment of the retail products considered only Savings Accounts, Time and foreign currencies Deposits. The total amount of these retail deposits on the balance sheets of Nigerian DMBs has continued to grow year on year. The breakdown is shown in the tables below:

Table 3.11: Retail Deposits in Deposit Money Banks between 2010 and 2014

Product	2010 (₦'million)	2011 (₦'million)	2012 (₦'million)	2013 (₦'million)	2014 (₦'million)
Time, Savings & FC Deposits	5,954,260.45 (\$19,847,534,833.33)	6,531,913.01 (\$21,773,043,366.67)	8,062,901.35 (\$26,876,337,833.33)	8,656,124.80 (\$28,853,749,333.33)	12,008,237.57 (\$40,027,458,566.67)
Total Deposits	9,784,542.41 (\$32,615,141,366.67)	11,452,763.25 (\$38,175,877,500)	13,135,887.35 (\$43,786,291,166.67)	13,825,188.77 (\$46,083,962,566.67)	17,258,583.05 (\$57,528,610,166.67)

SOURCE: CBN

(A) SAVINGS ACCOUNTS

The number of savings accounts in Nigerian banks as well as the total size of the transactions is high while average transaction amounts are low. Savings accounts represent 14.21% and 19.83% of total deposits of banks in 2013 and 2014, respectively.

¹⁵⁹ CBN Trade & Exchange Circular on Illicit money remittances through the banking system; 25 August, 2016

Table 3.12: Movement of Retail Deposits in Deposit Money Banks between 2013 and 2014

Types Of Deposit	2013		2014	
	Amount ₦'B	% of Total	Amount ₦'B	% of Total
Savings	2,383.38 (\$7,944,600,000)	14.21	2,552.71 (\$8,509,033,333.33)	19.83
Demand	9,936.37 (\$33,121,233,333.33)	59.21	5,629.31 (\$18,764,366,666.67)	43.73
Time/Term	4,451.84 (\$14,839,466,666.67)	26.58	4,689.96 (\$15,633,200,000)	36.44
Total	16,771.59 (\$55,905,300,000)	100	12,872.06 (\$42,906,866,666.67)	100

SOURCE: NDIC 2014 ANNUAL REPORT

Available data obtained from DMBs on the total revenue/assets/liabilities associated with savings accounts and interviews conducted with their industry practitioners further affirms the aggregate size of the product as high. All DMBs in Nigeria offer these products and it represents between 1% to 2% of their total annual revenue.

Discussions with banking sector operators revealed that, though savings accounts once opened can be operated anonymously through ATMs and internet banking which makes the product vulnerable, but the introduction of the BVN tied to every account holder has significantly reduced the vulnerability. Furthermore, a review of the responses to questionnaires administered to DMBs, revealed that, in some banks, 90% of the transactions of savings accounts customers were face-to-face and only 10% of their transactions were through ATMs and internet banking. Low level of anonymous transactions in these products reduces their inherent money laundering risk.

Analysis and further discussions, revealed that the accounts are generally used for small deposits over a period of time and that disbursements from these accounts can be made in cash, telegraphic transfers or through online banking and credits can be made to the account by similar means. These potentially pose inherent money laundering risks in this product. However, due to the fact that the average transaction amounts are generally low in nature and banks place certain restrictions on their usage, the risk is not as considerable as in the time/term deposits, which generally are associated with high amounts. **Based on the foregoing, this product is rated Medium.**

(B) TIME DEPOSITS

The total number of Time Deposits accounted for 26.58% and 36.44% of total banks' deposits in 2013 and 2014, respectively (see table 3.13 above). Analysis of available data indicates that the value of the transaction and the average transaction size of this product are high. In addition, discussions with banking sector representatives revealed that time deposit accounts are usually opened via transfers from existing accounts and by using cash. Further, discussions revealed cash or third party payments are also often requested by clients upon maturity. The level of cash activity associated with this product makes it more vulnerable to money laundering than savings accounts.

Discussions with industry experts also indicate that government officers often use this product to launder public funds by placing public funds in term deposits for higher interest than is actually declared, the hidden part of the interest is given personally to the government officers usually through cash payouts. **Based on the foregoing, this product is rated Medium.**

MICRO DEPOSIT ACCOUNTS (TIERS I AND II ACCOUNTS OF THE THREE TIERED ACCOUNTS POLICY)

In its quest to promote financial inclusion, the CBN, on 18th January 2013, introduced the ‘three-tiered’ KYC regime which ‘seeks to implement a flexible account opening requirements for low-value and medium-value account holders subject to caps and transactions restrictions’¹⁶⁰. There are three levels of accounts, under this system. The first two tiers of accounts allow for simplified KYC requirements while the third tier requires the application of normal KYC process. Research conducted by the CBN provided evidence to show that the group of customers targeted for tiers I & II are generally low volume and are considered low risk in respect of money laundering. Additionally, discussions with banking and other private sector experts, indicates that these category of customers pose low money laundering risk. This is in line with FATF Recommendations 1 and 10 which permit countries to allow financial institutions to apply simplified due diligence (SDD) measures in respect of lower risk customer category.

A detailed analysis of information obtained from the CBN revealed that as at December 2014, 17 DMBs and 12 Micro Finance Banks (MFBs) had commenced the implementation of the 3 Tiered KYC policy and 102,537 tier I and 119,846 tier II accounts have been opened by these institutions for this category of customers.

The tier one accounts are the low-value accounts and are subject to a single deposit amount of ₦20,000.00 (\$66.67) and a maximum cumulative deposit of ₦300,000.00 (\$1,000), while the level two accounts are the medium-value accounts and are subject to a maximum single deposit of ₦50,000.00 (\$166.67) and a maximum cumulative balance of ₦500,000.00 (\$1,666.67). The thresholds are necessary mitigating factors for the relaxed KYC requirements that provided for the presentation of a passport photograph, name, date of birth, gender, address and telephone number as the only prerequisites for account opening. In order to further mitigate this potential vulnerability, the CBN also required financial institutions to have ‘robust, effective and efficient AML/CFT solutions in place that will monitor the various thresholds and suspicious activities (which should be reported to the NFIU accordingly). The tiered KYC regime equally allows for the use of bank’s agents and mobile banking portals, which further renders this product inherently vulnerable. However, in view of the fact that the average transaction size of this product is very low, the potential risk is not significant. **Based on the foregoing, this product is rated Medium Low.**

ELECTRONIC BANKING

The e-banking channels assessed are ATM, PoS Internet Banking and Mobile Banking. Available data obtained from DMBs on e-banking and interviews conducted with their

¹⁶⁰ CBN circular on introduction of three-tiered KYC requirement

representatives suggested that the aggregate size of this product is very high. All DMBs in Nigeria offer this product and it generates up to 5% of their total annual revenue, in some cases.

The electronic payment system in Nigeria is broadly divided into retail payments system and the wholesale payments system. The retail electronic payments system comprise of ATM, PoS, Mobile payments and Web. A detailed review of available information revealed that the usage of the e-payment channels for 2014 indicated that ATM transactions are the most patronized in both volume and value with a total value of ₦3,679.9 billion (\$12,266,333,333.33) accounting for 83.5% as shown in Table 3.15 below:

Table 3.13: Share of Categories of e-Payment Channels, 2012 – 2014

e-Payment Channels	Volume (Million)			Value (₦ Billion)		
	2012	2013	2014	2012	2013	2014
ATM	375.5	295.3	400.1	1,984.7 (\$6,615,666,666.67)	2,828.9 (\$9,429,666,666.67)	3,679.9 (\$12,266,333,333.33)
% of Total	98.1	91.3	88.1	91.3	88.9	83.5
WEB (Internet)	2.3	2.9	5.6	31.5 (\$105,000,000)	47.3 (\$157,666,666.67)	74.3 (\$247,666,666.67)
% of Total	0.6	0.9	1.2	1.5	1.5	1.7
POS	2.6	9.4	20.8	48.0 (\$160,000,000)	161.0 (\$536,666,666.67)	312.1 (\$1,040,333,333.33)
% of Total	0.7	2.9	4.6	2.3	5.1	7.1
Mobile	1.5	15.8	27.7	31.5 (\$105,000,000)	142.8 (\$476,000,000)	339.2 (\$1,130,666,666.67)
% of Total	0.6	4.9	6.1	1.5	4.5	7.7
Total	382.7	323.4	455.6	2,095.7 (\$6,985,666,666.67)	3,180.1 (\$10,600,333,333.33)	4,391.4 (\$14,638,000,000)

The resultant effect of this is the increase in the vulnerability level of this e-payment channel as seen in the increase in the number of reported fraud cases in 2014. Additionally, discussions with banking sector representatives revealed that the issuance of multiple debit cards on individual and corporate accounts which allow users to withdraw huge cash (in aggregate) both within and across the border increased the risk associated with this payment channel.

Typology: Abuse of Debit Cards

Abuse of debit cards have been on the rise in Nigeria. The following two typologies have been observed:

Type 1: Subjects fund individuals to open Bank accounts and make request for debit cards. These accounts are funded by deposits made by monies from the subjects. Subjects take debit cards out of the country and make payments through POS terminals or withdrawals through ATM machines.

Type 2: Corporate accounts make request for debit cards for each of its Directors from their Bankers. Banker issues Debit cards. Corporate accounts further request for raise of ATM /POS withdrawal limits per day on each of the cards. With each Director having a debit card and a raised limit for daily transactions. The principal prime mover of corporate account leaves country with theses and start making withdrawals outside of Nigeria.

There were evidences of a single customer owning several hundred cards which he/ she draws on simultaneously.

Between 2013 and 2014, losses resulting from cards fraud via ATMs increased by 4789%, similarly, card fraud via POS and Web increased by, 2594% and 844% respectively within the same period. See table below:

Table 3.14: Fraud Actual Loss Amount Trend by Channels In Terms of Percentage Change between 2013 and 2014

CHANNEL		2013 LOSS AMOUNT	2014 LOSS AMOUNT	% CHANGE
		₦	₦	
CARDS	ATM	54,999,829 (\$183,332.76)	2,688,669,292 (\$8,962,230.97)	4789%
	POS	5,851,443 (\$19,504.81)	157,610,831 (\$525,369.44)	2594%
	WEB	109,298,898 (\$364,329.66)	1,031,239,284 (\$3,437,464.28)	844%

Furthermore, the high frequency of non-face to face feature further increases the vulnerability of this channel.

However, in consideration of the foregoing vulnerabilities and the dwindling forex reserves of the country, the CBN directed the banks to apply product-specific AML controls on debit/credit cards usage within and outside the country. The daily limit cash withdrawal limit was therefore reduced to only \$300 with an annual cumulative limit of \$50,000 only. Some banks went further to prohibit the usage of these cards within certain jurisdictions in the Middle East, Africa and Asia in order to further mitigate the inherent ML/FT risks. Similarly, the Bank Verification Number (BVN) biometric enrollment as an additional control measure associated with the use of several products in the banking sector including e-products. This project which is driven by the CBN when concluded, would improve security and identity management of all banks' customers. The total value of transactions of the products is considered high due to usage of multiple cards and frequency, among other things. Additionally, the CBN released a circular in August 2016 in a bid to further reduce the exposure of banks through e-payment solution platforms. The apex bank directed all banks and e-payment solution providers to ensure value is only given to clients after settlement has taken place except where collaterals have been provided by the payee or are in place through a prior arrangement and is sufficient enough to cover that exposure¹⁶¹. However, the average transaction size is medium due to limits set. There are existence of cash activity through ATM withdrawals and frequency of international transactions.

Wholesale electronic payments system in Nigeria includes web based RTGS (CIFTS), NIBBS Instant Payment (NIP) and NIBSS Electronic Fund Transfer (NEFT). A detailed analysis of available information, revealed that a significant number of the transactions (Individual, Public and Corporate) conducted in Nigeria are via the said platforms. This increases the inherent vulnerability associated with the payment channels as transactions are enabled upon the availability of internet access and a smart phone. Although the introduction of the Treasury Single Account (TSA) by the CBN has reduced the vulnerability as it aims to centralize the collection of Government revenue and expenditure payment. In view of the foregoing and given the recent action undertaken by the government through the introduction of the TSA as a specific AML control measure, **Electronic banking is rated Medium.**

¹⁶¹ CBN, Banking and Payments Systems Department Circular; Ref;BPS/DIR/GEN CIR/03/006

TRADE FINANCE

Trade finance in Nigeria refers to the means of financing international transactions in order to mitigate against the risk of default on payments for goods and services and ensure reliability of the transactions such as issuance of letters of credit and other instruments. Considering the import dependent nature of Nigerian businesses, trade finance activities are very significant.

Available data obtained from deposit money banks (DMBs) on the total revenue/assets associated with trade finance and discussions with their representatives indicated that both the total amount and average transactions size of this product are high. Total letters of credit amounting to US\$ 18,920,022,842.00 and US\$ 14,013,848,917.52 were issued by Nigerian banks in respect of trade finance in 2014 and 2013, respectively, as shown in the table below:

Table 3.15: Value of Trade Finance

YEAR	TRADE FINANCE (AMOUNT US\$)
2010	11,099,546,564.83
2011	16,414,860,757.29
2012	11,279,078,081.04
2013	14,013,848,917.52
2014	18,920,022,842.00

It also revealed that all DMBs in Nigeria offer these products which generates up to 5% of banks' revenue, in some cases.

Further review of available data revealed that the level of international transactions involved in this product is very high due to the international transfers/payments through letters of credits etc. The frequencies of these transfers are very high.

Discussions with industry experts and review of CBN examination reports indicated that due to the peculiar nature and complex procedure of the transactions involved in this product, the ML risk is high. This is in consideration of the fact though the transaction involves the importation/exportation of visible goods, the banks rely absolutely on the shipping documents for settlements. Invariable, where complicity occurs outside the banking purview, it is almost impossible/very difficult for the bank to detect. During the CBN on-site examinations of banks, there were observed instances of over/under invoicing which were not detected by the banks. Further discussion, revealed that Nigerian banks conduct "price index" searches to ascertain whether the prices of products involved are reasonable in order to mitigate against over/under invoicing practices. Based on the huge amounts involved, complexity of the transaction and the channels (inspection & clearing agents, customs etc) involved before settlement takes place by the bank, the money laundering risk is rated **Medium**. Although the CBN FX restriction policy introduced in the first quarter of 2016 and the depleting external reserves of the country has significantly reduced the volume of trade finance outflow from Nigeria. A significant number of requests for FX purchase from the CBN are usually declined due to limited availability of the FX. Thus reducing the vulnerability associated with the use of the channel.

LOANS AND ADVANCES (CREDIT)

Nigerian banks perform a role of financial intermediation, of accepting deposit from customers and channeling the amounts mobilized to borrowers in the form of loans and advances to individuals and organizations. This role of financial intermediation is cardinal to the economic development of the country.

Discussions with the banking sector experts revealed that credit products under loans and advances are mainly credit cards, letters of credit, corporate lending, retail lending, overdraft etc. Credit products are classified in terms of individual credit products as well as credit products for bodies corporate. The volume and average transaction size are significant and can be quite high in the case of corporate credit. In 2014 a total credit of ₦12.6 billion (\$42,000,000) was granted to customers. Loans and advances constituted 44.6% and 39.7% of the total assets of the 24 DMBs in Nigeria in 2014 and 2013, respectively.

A detailed analysis of the client profile of this product revealed high level of patronage by inherently high-risk customers such as high net worth individuals and their companies including PEPs, etc. Therefore, the client profile is rated high risk.

Discussions with the banking sector experts revealed that the level of cash activity in these products is high as there were instances where large amounts of cash were used in loan repayments. Furthermore, Loans granted to PEPs, for example, are often repaid using corruption related funds comingled with legitimate funds, more often than not using cash.

International transactions are also prominent in these products. Review of available information suggests that such loan amounts are often transferred outside the country to purchase properties, luxury goods, etc. while repayment is sourced and made locally with evidence of corresponding sales proceeds generated there from. Furthermore, credit cards are also frequently used abroad to make payments through POS or withdraw cash. Unlike debit cards, credit cards permit withdrawal up to a maximum of the credit limit. However, the CBN has continued to introduce measure to address the growing concern on the abuse of the product. The regulator recently directed a full provision of all foreign currency loans and advances in the books of banks. This action will ensured that proper CDD and EDD are conducted prior to engaging in such business relationships.

No specific controls are available only general AML controls are applied for most of these products. Based on the above analyzed vulnerabilities of these products, **this variable is rated Medium High.**

RANKING OF PRIORITY AREAS

Priority areas have been identified from the assessment as follows.

Table 3.16: Main Priority Areas in the Banking Sector

PRIORITY RANKING - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML Legal Framework	
Availability and Enforcement of Criminal Sanctions	4
Level of Market Pressure to Meet AML Standards	
Availability and Effectiveness of Entry Controls	
Effectiveness of Supervision Procedures and Practices	
Availability and Enforcement of Administrative Sanctions	2
Integrity of Banks' Staff	5
AML Knowledge of Banks' Staff	1
Effectiveness of Compliance Systems	
Effectiveness of Suspicious Activity Monitoring and Reporting	
Availability and Access to Beneficial Ownership Information	6
Availability of Reliable Identification Infrastructure	3
Availability of Independent Information Sources	7

RECOMMENDATIONS

In order to reduce the vulnerability emanating from the banking sector, the following recommendations are made in order of their priority;

- a). The **CBN** should ensure that all banks operating in Nigeria take measures to understand their ML/TF risk and apply measures commensurate to the risks. Enhanced measures must be in place to address higher risks while simplified measures must be in place to address lower risks. Customer risk profiling and identification of product specific risk are major areas of concern in this assessment.
- b). All **DMBs** should improve the knowledge of their bank employees with regard to understanding of ML issues and their obligations (duties and responsibilities) on their part, in curbing ML. This should take into account, the quality of the training materials, frequency and level of training, type of staff trained and the spread across the bank. This will in turn contribute towards achieving staff integrity to a much higher level.
- c). The **CBN** should take steps to improve the quality of AML supervision. This should include but not be limited to having sound qualified AML supervisors in the BSD of the CBN. This will facilitate improvement of the efficiency and quality of supervision.
- d). The CBN should ensure that going forward AML/CFT examination is extended to remote branches in the rural areas. This effort would ensure uniform of operations and AML knowledge

across all bank branches thus limiting the vulnerability of such branches to abuse by money launderers and terrorist financiers.

e). The **CBN** should ensure that Bank Supervisors follow the Risk Based Approach in their supervision function. Allocation of supervisory resources and implementation of specific process to supervise the individual banks need to be based on ML/TF risks involved. Furthermore, supervisors need to have a clear understanding of ML/TF risks identified in the NRA process.

f). Bank Supervisors must have access to relevant information on risks associated with customers, products and services of banks. There should be procedures to review and update risk profiles of banks on regular basis and in light of significant events. Frequency and intensity of the supervisory process needs to be based on the bank's AML/CFT risk profile and bank's risk assessment policies

LEGAL FRAMEWORK

g). In order to facilitate the enforcement of sound AML obligations, measures should be taken to amend the MLPA to provide for the gaps and deficiencies observed during the assessment including-

- i. the introduction of a proportionate and dissuasive administrative sanctions regime,
- ii. Provision of statutory protection for the office of the Chief Compliance Officers (CCOs)
- iii. The CAMA should be amended to ensure that a legal provision for the disclosure of beneficial ownership information of public companies during registration, maintenance of a register of all beneficial owners as well as the presentation of identification document of all Directors and shareholders for all classes of registration.

h). The **Government** should provide more funding for the operations of the NIMC so as to enable adequate procurement of the identification infrastructure to accommodate more data than the current annual capacity.

i). **NIMC** should as a matter of urgency, fast track the harmonization of the existing disparate databases most especially the BVN database, INEC database, Immigration and Drivers 'License database.

j). The **NFIU** should champion and coordinate the process that would ensure the maintenance of data by relevant MDAs in the required format for future risks assessments. A system or mechanism should be developed by the MDAs and banks under the guidance of the NFIU to maintain data/information as required for these assessments in future in line with data gap analysis conducted during the project.

CHAPTER FOUR

4. CAPITAL MARKET SECTOR VULNERABILITY TO MONEY LAUNDERING RISK

INTRODUCTION

The Securities and Exchange Commission (SEC) is the apex regulatory body of the Nigerian Capital Market and has the mandate to develop and regulate the Nigerian capital market. This is according to Federal Government promulgated Investments and Securities Act (ISA) 2007. The vision of SEC is to be Africa's leading capital market regulator and has a mission to develop and regulate a capital market that is dynamic, fair, transparent and efficient to contribute to the nation's economic development.

The Nigerian capital market is principally a market for long term investments where securities of corporate and governments are issued and traded. The market comprises of equities, fixed income securities, exchange traded products, foreign exchange derivatives and commodities among others. The market represent a small but growing proportion of the nation's economy. As at December 2015, the equities market and exchange traded products had a combined total market capitalization of ₦9.863 trillion (\$32,876,666,666.67), while the fixed income securities and foreign exchange derivatives had a combined turnover of ₦17.889 trillion (\$59,630,000,000).

Chart 4.1: Trend of Total Market Capitalization (2009-2015)



Source: Securities and Exchange Commission

The Nigerian capital market is regulated by a plethora of laws in Nigeria which include:

1. The Constitution of the Federal Republic of Nigeria 1999 (as amended)
2. The investment and Securities Act (ISA),2007
3. Securities and Exchange Commission (SEC) consolidated Rules and Regulations,2015(as amended)

4. Central Bank of Nigeria/ Securities and Exchange Commission (CBN/SEC) Guidelines and Rules on Margin Lending
5. Anti-Money Laundering/Combating Financing of Terrorism (AML/CTF) Compliance Manual for Capital Market Operators 2013
6. Investment and Securities Tribunal (Procedure) Rules 2003
7. Nigerian Stock Exchange Rules and Regulations
8. Nigerian Stock Exchange Listing Requirements
9. National Investor Protection Funds (NIPF) Rules.
10. Abuja Securities and Commodity Exchange Rules
11. Companies and Allied Matters Act 1990

The structure of the Nigerian Capital market

The key participants in the Nigerian Capital Market are Regulatory Institutions (the apex Regulator which is SEC & Self Regulatory Organizations (3 securities exchanges (NSE, FMDQ & NASD) and 2 commodities exchanges (NCX & AFEX)) which provide the platforms for various transactions in the market, Specialized Institutions for Dispute Resolution (IST) and Capital Market Operators/consultants (Broker Dealers, Fund/Portfolio Managers, Custodians, Issuing Houses, Registrars, Trustees, Underwriters, Investment Advisers, Solicitors, Accountants, Surveyors and Sub-Brokers).

RECENT DEVELOPMENT IN THE NIGERIAN CAPITAL MARKET FOR STRENGTHENING THE SYSTEM

The capital market commenced implementing a 10 year capital market master plan which was dutifully developed by the entire market community to guide the growth, development of the Nigerian capital market and strengthen the system for efficiency and effectiveness. The following initiatives within the master plan were implemented in the year 2015:

1. **Corporate Governance Scorecard:** The Master Plan emphasizes the need to improve corporate governance practices in the Nigerian capital market with focus on disclosure and compliance in the sector. The Scorecard was developed with support from the International Finance Corporation (IFC) and is the first of its kind in Africa. The Scorecard was unveiled on 26th November 2015 in Lagos.
2. **National Investor Protection Fund (NIPF):** Since the 2008 financial crisis, investor confidence has yet to be fully regained. Compensating investors with genuine cases in order to restore their confidence and attracting them back to the market was prioritized. The take-off of NIPF translated to approval of compensation claims of 580 eligible investors in 2015.
3. **Recapitalization:** The Master Plan highly recommends ensuring that market institutions are strong and well-capitalized. The SEC therefore remained resolute to complete the exercise by the agreed deadline of 30th September 2015. Following rigorous verification by accounting firms, The SEC released the list of compliant CMOs. Cleaning-up of

records also begun where the registration of 84 CMOs was cancelled. This enforcement exercise contributed significantly to the sanitization of the system.

4. **Dematerialisation:** Dematerialisation has been a legacy issue in Nigeria. . The SEC committed itself to achieving substantial dematerialisation of share certificates not beyond 2015. At the beginning of the year, less than 40% of share certificates were dematerialised and by the end of 2015, over 97.4% dematerialisation had been achieved. With renewed commitment from SEC, the NSE, CSCS and Registrars, 100% dematerialisation will be achieved in the Nigerian capital market.
5. **E-Dividend:** With great support from Central Bank of Nigeria (CBN) and Nigerian Inter Bank Settlement System (NIBSS), the E-Dividend portal was launched which enables both banks and registrars to share information on investors and boost efficiency of processing e-mandate forms. Training was also conducted for users of the portal. The SEC embarked on far-reaching public enlightenment campaigns to sensitise investors on the opportunity to register for e-dividend payment free of charge. This is aimed at reducing the quantum of unclaimed dividend warrants which is a threat to the system,
6. **Direct Cash Settlement:** Direct Cash Settlement is another key initiative that impacts investor confidence. Working closely with the Nigerian Stock Exchange, CBN and NIBBS, the scheme kicked off in January 2016.
7. **Deepening Non-Interest Capital Market:** The growth of non-interest products in the market is being pursued. In the year 2015, regional roundtable events were held targeting potential issuers of non-interest products like Sukuk.
8. **Robust Public Enlightenment:** This is a continuous exercise in which we reach out to investors through electronic, print and new media sensitizing them about various market issues. The year 2015 was a landmark year for public enlightenment in the history of Nigeria's capital market during which investors were sensitized on issues like e-dividend, dematerialisation, direct cash settlement, ponzi schemes, etc. The advertisements ran in all states of the Federation and in English and major Nigerian languages. This was an effective means of enlightening the public for the purpose of financial inclusion, prevention of fraudulent activities and overall development of the market.
9. **Zero Tolerance for Infractions:** The Master Plan emphasizes the need to rid our market of all forms of infractions. The year 2015 began with maintaining a stronger enforcement posture; revamped rulemaking and also reconstituted a stronger SEC Administrative Proceedings Committee (APC). A position was maintained that any CMO that crosses the redline will be asked to go back to the green light and if it does not will be taken out no matter the size of the company.
10. **Strengthening the Regulator:** This is an important objective within the Master Plan. We set out to strengthen the SEC to function more effectively as apex regulator. Staff are

aware that SEC worked on identifying areas of weakness in both human and ICT capacity.

A Risk-based criterion was adopted in the selection of significant CMOs for the NRA exercise whereby the following functions were identified for the assessment:

1. Broker-Dealers
2. Fund Portfolio Managers
3. Custodians
4. Issuing Houses
5. Registrars; and
6. Trustees.

SECTOR OVERALL ASSESSEMENT

The Nigerian Capital Market trade largely in a variety of instruments which include: equities, bonds and collective investment funds. Other instruments traded in the market include commodities, commercial papers, OTC Forex futures, treasury bills, Repurchase Agreements (REPOs) etc.

The vulnerability of the sector is determined from the efficiency of the AML general controls (the structure, legal framework and implementation involving enforcement and mitigating factors). The overall capital market vulnerability to ML risk is rated **Medium**.

Findings from the assessment revealed that Broker Dealers and Fund/Portfolio Managers have significant number of individual clients and are exposed to non-face-to-face transactions to a limited degree. It is also notable that most of the foreign investments in the Nigerian capital market come from countries with low ML/TF risk and as such lowers the jurisdictional risk.

It is also noteworthy that the SEC carries out risk based AML/CFT examination for the sector which signifies good mitigation/controls and as such lowers the level of risk. The Suspicious Transaction Reports (STRs) submitted by the capital market operators to the Nigerian Financial Intelligence Unit (NFIU) also remains **Very Low**.

Custodians, Issuing Houses and Trustees mostly have corporate clients who are exposed to non-face-to-face transactions to a limited degree. It is also observed that cash placement is also available but very limited. Specifically, Custodians are exposed to a higher level of ML vulnerability when compared with Broker Dealers and Fund/Portfolio Managers who have same vulnerability level. Issuing Houses and Trustees have low vulnerabilities while Registrars are least vulnerable to ML due to their nature of operations.

QUALITY OF AML GENERAL CONTROL

A detailed analysis of the Securities Sector in relation to the AML General Control variables with the findings is set out below:

Comprehensiveness of AML Legal Framework

Nigerian AML/CFT regime comprises of two main legislations; the ML(Prohibition)Act 2011 (as amended) and the Terrorism (Prevention) Act 2011 & Terrorism (Prevention) (Amendment)

2013 . There are other legislations targeting ML predicate offences individually or collectively. The SEC also issued the AML/CFT Regulations for Capital Market Operators (CMOs) 2013 in addition to various compliance rules, circulars, etc which guides the AML/CFT activities of the Capital Market.

The Investment and Securities Act, 2007 (ISA) (as amended) is the statutory law guiding the operations of the Capital Market in Nigeria. Section 13 of the Act empowers the SEC to develop Rules and Regulations governing the Capital Market. The Market Operates in accordance with the provisions of the ISA, SEC Rules and Regulations (as amended) and any other Law incidental to the operations of the market.

The SEC AML/CFT Regulations for CMOs adequately provide for all the requirements under this variable, which are fully enforced and implemented in the Nigerian Capital Market.

Section 3 of the ML(P)A 2011 (as amended) and Regulation 9 of AML/CFT Regulations for CMOs provides for CDD (risk-based approach, including verification of beneficial ownership of customers that are natural persons/legal entities/legal arrangements).

Other comprehensive provisions include: Section 7 of the ML(P)A 2011 (as amended) and Regulation 19 of AML/CFT Regulations for CMOs which provides for Record-keeping, Section 3 of the ML(P)A 2011 (as amended) and Regulation 16 of AML/CFT Regulations for CMOs provides for Enhanced Due Diligence for PEPs and high-risk countries. The Laws and Regulations also provide for the full range of CDD measures which are in line with the FATF 40 recommendations. It is pertinent to note that the GIABA in 2014 follow-up report did not identify any outstanding capital market deficiencies as it pertains to the Nigeria's AML/CFT legal framework.

From the foregoing, there are sufficient laws and regulations governing AML/CFT activities within the Nigerian Capital Market hence all institution types were rated **Very High**.

Effectiveness of Supervision Procedure and Practices

The SEC is empowered by section 13(r) of the ISA to make Rules and Regulations for the Nigerian Capital Market. The detailed processes for the supervision of various participants in the market are clearly stated in the SEC Rules and Regulations. The SEC has a sector specific Regulation for combating Money Laundering and Terrorism Financing in the market. Sections 2, 9 and 21 of the ML (P)A empower the SEC as the apex regulator of the capital market to counter Money Laundering and Terrorism Financing in the sector.

From 2010 to 2011 SEC conducted rule/compliance based offsite and onsite inspection which involves routine/periodic, targets and spots inspections to measure and ascertain the level of compliance by all CMOs. The SEC migrated to RBS in 2012 following a technical assistance by the International Monetary Fund (IMF). The table below highlights the RBS exercises that were carried out by SEC.

Table 4.1: Risk Based Supervision carried out by SEC

YEAR	FUNCTION	NUMBER OF OPERATORS	MARKET SHARE %
2012	Broker Dealers	68	80
2013	Funds/Portfolio Managers	72	80
2014	Multiple Functions	35	N/A

It is pertinent to note that the SEC carries out its supervision function using a comprehensive RBS manual that details the procedures examiners are expected to follow. A risk-based criterion is usually applied in the selection of CMOs to be examined based on offsite records. Inspections reports are usually collated, analyzed and secured in both hard and soft copies. Recommendations for remedial actions and sanctions are applied based on inspection findings.

The CMOs interviewed confirmed that the SEC constantly engages them in addressing issues of concern in the capital market. The SEC through the Capital Market Committee (CMC) forum meets on a quarterly basis with all key stakeholders in the Capital Market. In the same vein, the platform of the Committee of Chief Compliance Officers of Capital Market in Nigeria (CCCOCIN) was established to improve compliance. Pre-registration engagement with new registrants is also another means of ensuring that only fit and proper people are allowed to participate in the market.

The SEC is a member of the International Organization of Securities Commissions (IOSCO) which is the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities markets. SEC became an "A" signatory under the IOSCO Multilateral Memorandum of Association (MMoU, 2002) in 2006, an umbrella for information sharing, enforcement, capacity building etc.

SEC's on-site RBS for each category of market participant includes components on assessing compliance with AML regulations. Data collection and analyses to be carried out during routine AML/CFT on-site Inspection include the following:

- a) Client base nature (foreign, local, PEP, transaction type, individual, institutional etc)
- b) Availability and strength of risk mitigating factors (corporate governance, risk management, internal control, policies & procedures compliance program and training level)
- c). the registration status and knowledge of the compliance officer
- d). Frequency of reporting on compliance function
- e). Adequacy of the compliance manual and if it is board approved.
- f). Presence of KYC procedures in accepting clients
- g). Existence of adequate procedures to ensure that EDD is conducted on high risk clients

Further, during the course of each on-site audit, a targeted sample of customer account opening (KYC) forms from each risk category of clients (high risk, medium risk etc) of the firm is obtained for the following purposes:

1. To check if the firm obtains KYC information at the point of account opening, and
2. To check whether the said forms are comprehensive.

Based on the above, the Supervision Procedures and Practices are highly effective hence all institution types were rated **Very High**.

Availability and Enforcement of Administrative Sanctions

Appropriate administrative sanctions are in place for non-compliance with AML obligations as provided for in Sections 15, 16, 17, & 19 of the ML(P)A, 2011 (as amended) Section 151(6) of ISA and Regulations 93(2) of AML/CFT Regulations for CMOs. The SEC has a very effective Legal & Enforcement Directorate which is responsible for monitoring, investigation, enforcement and compliance. Erring CMOs are usually invited before the Administrative Proceedings Committee APC (which is a quasi judicial body within the SEC) in connection with illegal activities in the market or any violations of Rules and Regulations. Statistics of these sanctions are contained in the annual reports and statistics from SEC

Table 4.2: Administrative Sanctions for AML/CFT and suspected infractions

ACTION	2014	2013	2012	2011	2010
AML/CFT PENALTIES	0	0	0	110	50
CAUTION ON SHARES ¹⁶²	9	7	2	7	5

Table 4.3: Statistics of Fraudulent Sales of Shares from the IST

DESCRIPTION	2010	2011	2012	2013	2014
No of Cases Involved In Fraudulent Sales of Securities (Shares)	5	7	2	7	9
Amount (Naira) Involved in Fraudulent Sales of Securities (Shares)	16,111,037.00 (\$53,703.46)	4,392,196,231.48 (\$14,640,654.10)	7,110,221.60 (\$23,700.74)	174, 799,419.99 (\$582,664.73)	81,609,251.17 (\$272,030.84)

Prior to the imposition of sanctions by the SEC, compliance level for rendition of foreign exchange transaction report (FTRs) (section 2 of MLPA) was at 20%. After imposition of monetary penalties amounting to ₦62 million (\$206,666.67) penalties on erring CMOs; compliance level significantly improved and rose to 90%. Similarly, based on administrative sanctions imposed over the years there was significant improvement in AML/CFT compliance relating to limitation to cash transactions, CDD/KYC requirements and overall written policy on AML/CFT compliance in the capital market.

Other sanction mechanism available to the SEC include withholding clearance for CMOs with ML/TF violations thereby preventing them from participating in any offerings in the market and as such deprives them from enjoying financial gains (Commissions) that may accrue. This action serves as deterrence. In addition, based on interviews conducted with CMOs respondents affirmed that their staff are fully aware of the consequences for non-compliance with AML/CFT requirements such as sanctions by SEC. As an additional measure, names of sanctioned CMOs are published on the SEC website as well as the published annual reports. The sanctioned CMO is also required to publish the sanctions in their Audited Annual Reports for the year in which

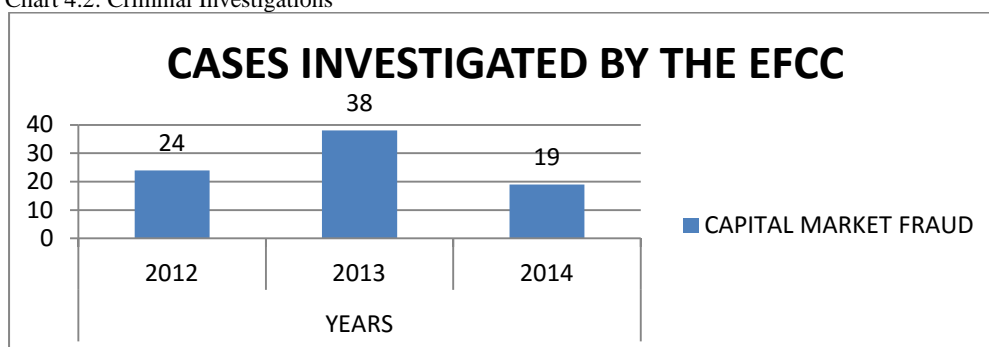
¹⁶² Caution on shares is a temporal lien/freeze placed on shares pending the determination of suspected fraud.

they were sanctioned. Based on the foregoing this variable is assessed **High** for all institution types.

Availability and Enforcement of Criminal Sanctions

Sections 15 and 16(1) (f) of ML(P)A 2011 (as amended) as well as Regulations 93(1) SEC AML/CFT Regulations provides for criminal sanctions. Sections 14 and 18 of the EFCC Establishment Act 2004 also provides for same. Criminal activities in the capital market are normally referred to the EFCC and the Nigerian Police. The EFCC has a capital market/insurance fraud section that is operational in the head and all zonal offices of the Commission. The chart below highlights number of investigations carried out by the EFCC (2012 to 2014):

Chart 4.2: Criminal Investigations



The EFCC has carried out several prosecutions over the years. See case study below:

CASE STUDY: CAPITAL MARKET FRAUD

On Monday July 7, 2014 The EFCC arraigned three suspects: MRL, ROO and AT; before JLA of a Lagos High Court sitting in Ikeja on different criminal counts, all bordering on conspiracy, obtaining money by false presence, stealing, impersonation, forgery, using false document and money laundering. While MRL was charged with 19-counts, ROO and AT were charged with 7-counts each. The defendants, got into trouble, when they were arrested by operatives of the Commission, following a report of fraudulent sale of shares of two deceased shareholders who had shares in several blue chip companies including, ANL, TO, UBN Plc, NN Plc, MON Plc, UN Plc and NB Plc. The stocks originally belonged to SAD and AIK (both deceased) but were fraudulently claimed, converted and sold by the three defendants. MRL allegedly forged Identity Cards, Drivers License; School Certificates and International Passports of both SAD and AIK, to perfect the scam. The total value of shares converted and sold by the three defendants was ₦141,652,951 (\$472,176.50)¹⁶³.

Table 4.4: Highlights some other prosecutions carried out by the EFCC

DATE OF ARRAINGMENT	SUSPECTS	VICTIM(S)	OFFENCE	VALUE OF SHARES (₦)
20 th May, 2014 ¹⁶⁴	EJE	CUOE	Conspiracy, forgery and stealing	11,655,000 (\$38,850)
10 th February, 2014 ¹⁶⁵	CBO Q Limited	PKO	Obtaining money by false pretence, stealing and publication of false statements.	135,000,000 (\$450,000)

Evidence of other enforcement actions in the capital market includes the following:

¹⁶³ <https://efccnigeria.org/efcc/index.php/news/949-stealing-from-the-dead-efcc-arraigns-three-suspected-impostors-for-n141-7m-securities-scam> (assessed on 24th August, 2016)

¹⁶⁴ <https://efccnigeria.org/efcc/index.php/news/885-suspected-fraudster-arraigned-for-n11-6m-securities-scam> (assessed on 24th August, 2016)

¹⁶⁵ <https://efccnigeria.org/efcc/index.php/news/724-efcc-arraigns-businessman-for-n135m-equity-scam> (assessed on 24th August, 2016)

A stockbroker was sentenced to 7 years imprisonment for fraudulent sale of shares. The stockbroker was arraigned by the EFCC following a petition filed by the SEC in 2010¹⁶⁶.

Based on responses received from a broker dealer firm; in 2011 a staff was involved in suppression of cheques. The staff's appointment was terminated. In 2015 another staff in the same firm was involved in impersonation. The staff is being prosecuted by the police and the client was restituted.

There is currently no record of convictions and criminal enforcement actions taken by law enforcement authorities regarding non-compliance with AML requirements.

Based on the above findings, the Availability and Enforcement of Criminal Sanctions is rated **Medium** for all institution types.

Availability and Effectiveness of Entry Controls

No entity can legally operate in the Nigerian Capital Market except after being granted license to operate by SEC.

Section 38(2) of the ISA states that the SEC shall prescribe the conditions for registration including the level of knowledge and skill required to operate in the capital market. Entry controls into the Nigerian capital market are very robust and comprehensive and in accordance with international best practices. SEC has a very comprehensive licensing framework for CMOs in Nigeria which involves rigorous processes and procedures as it relates to companies and sponsored individuals (including AML/CFT compliance officers). The framework includes:

- A fit and proper test policy that is strictly adhered to (which include among others clearance of all sponsored individuals by all operational departments within SEC, clearance by other financial sector regulators (CBN, NAICOM, PENCOT), law enforcement agencies and previous employers);
- Capital verification of amounts invested by the promoters;
- Pre and post registration inspection;
- A competency framework that requires minimum qualification (educational and relevant experience) for certain key staff including the AML/CFT Chief Compliance Officers to ensure that only staffs with appropriate qualifications are employed to hold key positions within the capital market;
- All sponsored individuals must attend pre-registration training and pass the registration examination and interview before they are registered;
- All sponsored individuals must submit Sworn undertaking to abide by the ISA and the Commission's rules and regulations (to be notarized);
- Sworn undertaking to keep proper records and render returns as may be specified by the Commission from time to time (to be notarized);
- Submission of a valid fidelity bond/professional indemnity policy; and

¹⁶⁶ <https://efccnigeria.org/efcc/news/1608-stockbroker-bags-seven-years-for-fraudulent-sale-of-shares> (assessed on 24th August, 2016)

- In addition all stockbrokers must be qualified members of the Chartered Institute of Stockbrokers (have passed the final examination of the Institute and its fit and proper test) and are required to abide by the code of conduct of the Institute.

The registration process is carried out by a dedicated and adequately resourced department for registration and licensing of entities which has three units namely: fresh registration, legal and regularization units. . The department presently has 21 senior staff in addition to clerks and interns.

The SEC enforcement department in collaboration with its police unit rapidly closes down entities that operate illegally without SEC approval and apprehend owners of the businesses while erring operators are either suspended from the market or have their license revoked depending on the gravity of the violation(s) The table below depicts enforcement action taken from 2010-2014.

Table 4.5: Administrative Sanctions for AML/CFT and Prudential Obligations

ACTION	2014	2013	2012	2011	2010
SUSPENSION OF LICENSE	9	11	11	4	28
CANCELLATION OF REGISTRATION ¹⁶⁷	2	N/A	35	N/A	N/A
SEAL UP (ILLEGAL OPERATORS)	2	12	29	N/A	6

Applicants are required to have AML/CFT controls in place to a large extent before licenses are granted. As at 2014, the requirement for the submission of written AML/CFT policies/manuals was a post-registration requirement by the SEC. However, this is now a pre-registration requirement.

Based on the foregoing the availability and effectiveness of entry control is rated **Very High** for all institution types.

Integrity of Staff in Securities Firms

Section 6(10) of the ML(P)A 2011 (as amended) provides for the protection of directors, officers and employees of securities firms who report STRs in good faith from civil /criminal liability or have criminal or civil proceedings brought against them by their customers.

The ISA 2007 provides for powers of SEC as follows: Section 13 (g) “register and regulate corporate and individual capital market operators as defined in the Act;” and Section 13 (bb) to “disqualify persons considered unfit from being employed in any arm of the securities industry”

Similarly, Regulation 26(2) of the SEC AML/CFT Regulations 2013 states that a CMO is supposed to create an enabling working environment that can make it possible for employees to report any violation of the AML/CFT compliance program. In addition, Reg. 26(4) of the SEC AML/CFT Regulations 2013 provides that CMOs shall inform their employees in writing to make reports of suspicious transactions confidential and that they will be protected from victimization for making them. In fulfillment of this requirement, CMOs have developed AML/CFT policies/manuals with the requirements stating protection of staff clearly

¹⁶⁷ Cancellation of registration is synonymous with revocation of license of operators.

Schedule IX of the SEC Rules and Regulations provide for full range of code of conduct for CMOs and their employees. The code has requirements for employment and conduct of employees as it pertains to integrity after they are employed. These Know Your Employee (KYE) requirements extend to sponsored individuals.

Additionally, the SEC risk based on-site inspection template requires the assessment of the adequacy of KYE of CMOs during on site review. Analyses of on-site inspection reports revealed that CMOs conduct background on new employees before confirmation of their appointment.¹⁶⁸

Interviews conducted with respondents of CMOs revealed that background checks are carried out on new employees during their 6 months probationary period. Interviews also revealed that almost all cash transactions are consummated through banks due to the fact that CMOs are not allowed by regulation to collect cash exceeding ₦50,000 (\$166.67) from their clients. This was confirmed by Rule 346 of SEC rules and regulations for securities offerings.

Funds are paid directly into the firms trading account(s) hence staff in securities firms have limited opportunities to compromise their integrity due to the internal controls and monitoring by superiors and levels of authorization.

The Staff Integrity in Securities Firms is rated **Medium High** for all institution types.

AML Knowledge of Staff in Security Firms

Section 9 of the ML(P)A 2011 (as amended) and Section 14 (5) of SEC Rules & Regulation as well as Section 8 (3) of SEC AML/CFT regulation 2013 for CMOs requires that Compliance Officers and all staff of CMOs receive AML/CFT trainings.

Findings from interviews conducted revealed that staff in the head offices of CMOs have good AML/CFT knowledge and are aware of ML indicators. However, those at the branches (Port Harcourt, Kano & Kaduna) have inadequate AML/CFT knowledge. It was observed that very few CMOs have prepared and filed their annual AML/CFT training calendars to SEC. Although most staff have undergone various AML/CFT trainings, their knowledge of AML/CFT typologies is either very poor or non-existent.

Findings from RBS onsite inspection¹⁶⁹ carried out on 68 Broker Dealers (who control 80% of transactions in the market in 2013) revealed that 41 Broker Dealers (60.3%) have adequate AML/CFT training programs and sufficient budget/evidence of implementation.

Fieldwork and on-site inspection indicated that 66.2% of staff are aware of AML compliance, reporting procedures, and obligations. The requirements for on-going trainings and capacity building are clearly spelt out in relevant laws and regulations. Fieldwork indicated staff members of CMOs understand the legal consequences of AML/CFT compliance breaches. The AML knowledge of staff in securities firms is rated **Medium** for all institution types.

¹⁶⁸ SEC RBS inspection template

¹⁶⁹ Reports of SEC RBS AML/CFT inspections

Effectiveness of Compliance Function (Organization)

In compliance with Nigeria’s AML/CFT regime, CMOs have internal compliance programs that address the requirements stipulated in the AML/CFT laws and regulations. This is in compliance with Regulation 21 (SEC AML/CFT, 2013) and Section 9 of ML(P)A 2011 (as amended). In line with the requirements for the appointment of chief compliance officers; CMOs only register ‘sponsored individuals’¹⁷⁰, as their compliance officers. By virtue of the mentioned SEC rules and regulations, a sponsored individual must be a management staff of the firm who can be held liable for the actions and (or) in actions of the firm. Requirements for compliance officers are contained in Regulations 3(c) and 29(2) of SEC AML/CFT Regulations 2013.

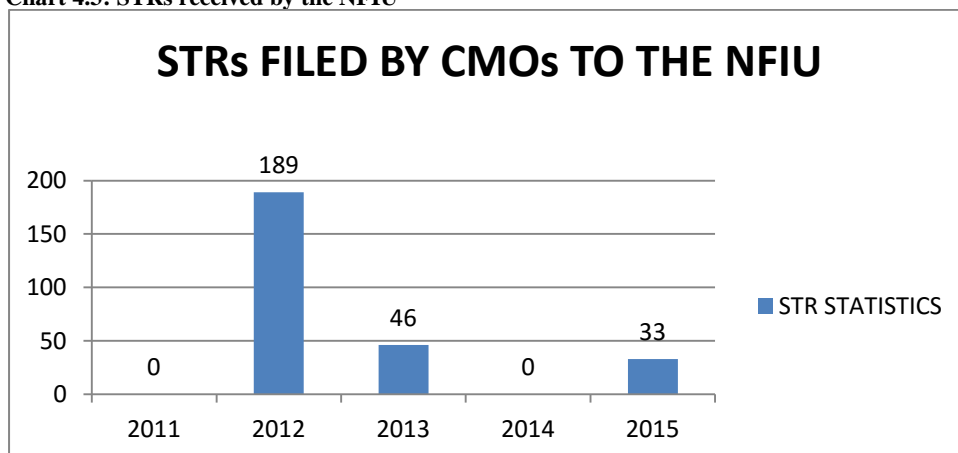
Regulations 21(5) and 25 of SEC AML/CFT Regulations 2013 have requirements for CMOs to subject their AML/CFT policies to internal/external audits. However, findings from SEC examination reports revealed that CMOs do not subject their AML/CFT compliance programs to external audits. There were no evidence of AML/CFT breaches nor disciplinary actions taken by CMOs against their staff on account of such breaches.

Therefore, effectiveness of compliance function is rated **Medium High** for all institution types.

Effectiveness of Suspicious Activity Monitoring and Reporting

A detailed analysis of examinations conducted by SEC within the review period revealed that custodians, broker dealers and funds/portfolio managers have information systems that enable and facilitate the monitoring of client transactions against their profiles while the other functions do not. However reporting obligations are on all functions which require the operators to monitor and report all suspicious activities. Some CMOs also reported to have electronic archival systems that make transaction information readily available.

Chart 4.3: STRs received by the NFIU



The chart above reveals that no STRs were filed in 2011 and 2014. Interview with industry experts revealed that there were cases of possible under reporting in 2012 and 2013.

Based on interviews conducted, CMOs communicated difficulties in identifying clients that constitute PEPs. Analysis of interviews conduct shows a high degree of knowledge and

¹⁷⁰ See Rule 19 and 20 of the SEC Consolidated Rules 2013.

awareness of AML/CFT reporting obligations by the CMOs. Though, knowledge of typologies on ML/TF was alien to most CMOs. Consequently, the Effectiveness of Suspicious Activity Monitoring and Reporting is rated **Low**.

INHERENT VULNERABILITIES FACTOR

The following is an analysis of the 7 Inherent Vulnerabilities Factor for the institution types:

Broker Dealers

The assessment carried out, revealed that all secondary market transactions are consummated through Broker Dealers under the platform of the Nigerian Stock Exchange.

The total Market Capitalization as at December 2015 stood at ₦17.889 Trillion (\$59,630,000,000) while the total fund under management of Fund/Portfolio Managers as at 31st December 2014 is ₦445,099,688,565.17 (\$1,483,665,628.55) representing net assets Value of ₦178.85 Billion. Due to the volume/value of transactions through the Broker Dealers their total value/size is rated **High**,

Brokers Dealers invest largely in Equities, Bonds or Exchange Traded Funds. Interviews held with broker dealers confirmed that majority trade both proprietary fund and clients' fund in equities only. Sequel to which the complexity and diversity of their portfolio is rated **Medium Low**.

Based on responses received from 45 Broker Dealers, 137 out of total domestic clients of 164,485 are PEPs. Findings from onsite Risk Based Supervision conducted on 68 Broker/Dealers in 2013 indicated low number of PEPs accounts. Similarly, responses received, also revealed 1,227 out of a total domestic clients of 164,485 are HNIs, while 115 out of a total of 164,600 are Foreign Clients..

Multiple accounts/Anonymous accounts in fictitious names are not permitted to be kept by CMOs. However, from interviews conducted some broker/dealers admitted having clients with multiple accounts, reasons given are variation in names used by clients in acquiring shares during IPOs in the past. As directed by the SEC, the CSCS has commenced the process of reconciliation and streamlining the existing numerous accounts to single ownership/identity. . Client base profile for Broker Dealers is therefore rated **Medium Risk**.

Broker/Dealers collect funds from their clients through designated clients' accounts to buy shares on behalf of clients. Thus, the existence of investment/deposit feature is **Available and Prominent**.

The instruments traded by Brokers Dealers can be converted into cash at the exchange quoted price within T+3 (transaction day plus 3 days). This indicates that the liquidity of their portfolio is **High**.

According to the 2014 Nigerian Stock Exchange Foreign Portfolio Investment report, 57.52% of the total transactions of ₦2.675 Trillion (\$8,916,666,666.67) consummated in 2014, was foreign

while 42.48% was domestic. This shows the prevalence of international transactions associated with broker dealer operations thus, connotes a **High** frequency of international transactions.

The Broker Dealer function equally has features that accommodate nominee ownership structure. This position is supported by Section 61 & 132 of the SEC rules and Regulations 2013. A study of typologies¹⁷¹ of money laundering in the securities sector revealed that there are existing and significant typologies associated with Broker Dealers. The Broker Dealers, Fund & Portfolio Managers and Custodians require that clients be physically present during the initial account opening and KYC process. Clients have to satisfy this requirement before they can be on-boarded. However, during subsequent engagements/transactions after the account officer has become familiar with the client, the client can give instructions to his account officer via phone; accompanied by scanned mandate letter to execute buy or sell order on their behalf. From the foregoing, non-face-to-face use of products offered by Broker Dealers is **available but limited**.

Based on the discussions, the inherent vulnerability of the Broker Dealer function to money laundering is rated **Medium High**.

Funds/Portfolio Managers

The total funds under management by Funds/Portfolio Managers as at 31st December 2014 is ₦445,099,688,565.17 (\$1,483,665,628.55) while the net assets Value is ₦178.85 Billion (\$596,166,666.67). These values indicate a **Medium** rated value/size.

Fund/Portfolio Managers invest in equities funds, money market funds, fixed income, exchange traded funds, ethical funds, real estate funds etc. Given the variety of funds managed by Funds/Portfolio Managers the complexity and diversity of their portfolio is rated **High**.

Based on responses received from 21 Fund/Portfolio managers, 40 out of total domestic clients of 99,590 are PEPs while 147 from a total of 99,590 clients are foreign clients.

Based on interviews conducted, all institution types indicated that they do not have clients from FATF designated high risk jurisdictions. All institution types are prohibited from establishing any business relationship with shell companies and are required to conduct EDD on high risk clients from jurisdictions with low AML/CFT controls. The client base profile of funds/portfolio managers is rated **Medium Risk**.

However, findings revealed that Fund/Portfolio managers collect funds from their clients through designated clients' accounts to invest in various classes of funds and as such investment and deposit feature is **Available and Prominent**.

¹⁷¹ The working group leveraged on the following typologies:

MONEYVAL Typologies Research : Use of Securities in Money Laundering Schemes – July, 2008

FATF - Money Laundering and Terrorist Financing in the Securities Sector – October, 2009

Money Laundering Trends and Typologies in the Canadian Securities Sector – April, 2013

EAG Typology Report on Money Laundering Through the Securities Markets – July, 2013

Other than real estate funds, all the other funds into which fund managers invest are very liquid. The SEC rule on asset mix ratio of 60:40 ensures strict adherence to liquidity of portfolios held. Therefore, the liquidity of their portfolio is rated **High**.

FATF ML typology highlighted vulnerabilities associated with Funds/Portfolio Managers in the area of client type particularly PEPs who are reluctant to provide full CDD information and who also require that details of their transactions are kept confidential. The inherent vulnerability to ML for Funds/Portfolio Managers is rated **High**.

Custodians

Custodians operating in the capital market are all banks. They keep custody of funds/investments on behalf of their clients. Their clientele base include foreign investors, corporate investors and other High Net worth Individuals. These funds are invested in any financial instruments through Broker/Dealers or Fund/portfolio Managers based on instructions. This makes all instruments available in the Financial Market open to the Custodians. The complexity of the portfolio on offer for Custodians is rated **Medium High**.

With reference to the NSE report cited under Broker Dealers on consummated transactions of N2.675 trillion (\$8,916,666,666.67) as at December 2014, the volume/size of the institution size is rated **High**.

Furthermore, responses received indicate that 4 Custodians claimed that they do not have or maintain any PEPs account. However, the authenticity of the claim could not be ascertained. The responses further revealed that 33 out of 189 clients (domestic & foreign) maintained by Custodians are High Net-Worth Individuals (HNIs). Custodians have mostly Institutional Investors hence the low presence of HNIs. They transact through nominee accounts; a position that was confirmed during interviews. They also confirmed the existence of multiple accounts based on which Client base profile was rated **High Risk**.

Given that Custodians are basically banks that receive deposits from their clients, investment/deposit feature is **Available and Prominent**.

Custodians are also involved in both money and capital market instruments which are highly liquid. Majority of the Foreign Investors invest in the Nigerian capital market through Custodians thus, indicates a **High** frequency of international transactions.

The features of Custodial services accommodate nominee ownership structure. This position is supported by Section 61 & 132 of the SEC rules and Regulations 2013 and provides for the use of nominee accounts by Custodians.

Just as the Broker Dealers and Fund/Portfolio Managers, significant non-face-to-face use of the product in the institution type for Custodians is **available but limited**. Accordingly, the inherent vulnerability of Custodians is rated **High**.

Issuing Houses

All Public issues of Securities (equities and Bonds) are packaged by Issuing houses for a fee. The total value of issues (both Government and Corporate) by issuers of Securities in 2014 stood at ₦1,557.15 Billion (\$5,190,500,000) representing 9.23% of Total Market Capitalization. Issuing houses earn less than 1% Commission on any issue/offering which is considered very insignificant. The table below shows records of new issues in 2014:

Table 4.6: New Issues in 2014

NEW ISSUES (N'BN)	As at December 2014 (₦'BN)
Equities	399.90 (\$1,333,000,000)
Corporate Bonds	167.20 (\$557,333,333.33)
Supranational Bond	12.95 (\$43,166,666.67)
Sub-national Bonds	30.00 (\$100,000,000)
Sukuk	0
FGN Bonds (Allotted)	947.11 (\$3,157,033,333.33)
Total	1,557.15 (\$5,190,500,000)

From the foregoing, the volume/size of Issuing Houses is rated **Low**.

The primary function of Issuing Houses in Nigeria involves packaging of offers/issues and securities issued by Federal Government and Corporate Organizations usually Bonds and Shares which are not complex or diverse by their nature and therefore rated **Low**.

Issuing Houses do not offer investment products that require deposits into the financial system. However, they deal in equities and bonds which are highly liquid instruments and is rated **High**.

Though a considerable number of foreign clients invest in sovereign bonds; records of portfolio of foreign investment shows that most of these investment are consummated in the secondary market through the broker dealers, whereas the Issuing houses are involved in packaging these securities in the primary market when the securities are first issued, the Issuing houses are not involved in subsequent sale/ transfer of such securities in the secondary market where the foreign investors mostly deal. From the foregoing, it can be observed that the frequency of international transactions by Issuing houses is not significant. The frequency of international transactions for Issuing Houses is rated **Medium Low**.

Additionally, a typology report produced by the Eurasian Group (EAG) revealed that Issuing Houses are highly susceptible to market manipulation through initial public offerings (IPOs) by way of off-market transactions. However, this has been mitigated by the implementation of e-allotment by the SEC. Clients of Issuing Houses are issuers of securities and are legal entities (companies) on whom the Issuing Houses carry out KYC . All transactions are carried out by authorized agents on behalf of the company. In some instances instruction are issued by these agents without physical presence of these agents. Thus, non-face-to-face use of the product in the institution type is therefore **available but limited**.

Based on the above foregoing and analysis of available data, the inherent vulnerability of the institution type is rated **Medium**.

Registrars

Registrars play a significant role in the Nigerian capital market. They maintain register of investors, dispatch annual reports and accounts, notices of meetings as well as other functions ancillary to these. Prior to the era of e-allotment, e-dividend and dematerialization, registrars issued physical dividend warrants and share certificates to investors. Due to the significant number of unclaimed dividend warrants, the registers have large quantum of unclaimed dividends in their custody. The amount of unclaimed dividend is ₦75.676 Billion (\$252,253,333.33), as at 31st December 2014, which is 0.45% of total Market Capitalization of ₦16.875 Trillion (\$56,250,000,000) as at December 2014. Thus volume/size of Registrars is rated **Medium Low**.

Given the function of the Registrars as custodians of information relating to investors in the Capital Market, complexity and diversity of their portfolio is rated **Low**.

Registrars do not have direct contacts with clients, their function is limited to keeping records of clients. . Most bonds are subscribed for by institutional investors. Investments in the securities market are open to both resident and non-resident clients. Client base profile is therefore rated **Low Risk** for Registrars.

Registrars do not offer investment products and (or) portfolio that require deposits into the financial system. Generally, Registrars do not offer products in the capital market.

In view of the above discussions, the inherent vulnerability of Registrars is rated **Low**.

Trustees

Trustees basically monitor the activities of the fund managers, custodians and issuers on behalf of the stakeholders and in line with the Trust Deed Agreement. They ensure that the sinking fund accounts are managed in accordance with the trust deed. The aggregate sinking fund accounts under trustees as at December 2014 was ₦143 Billion (\$476,666,666.67) representing 0.847% of the Market Capitalization in 2014. This shows that the volume/size of Trustees is **Low**.

Trustees only monitor utilization of issue proceeds as stated in the prospectus approved by the Commission. Hence, they do not have portfolio under their management. This is rated **Low**.

Trustees only have corporate bodies and issuers of securities as clients and as such their client base profile is rated **Low Risk**. However, Trustees are parties to equities and bonds which are highly liquid instruments hence rated **High**.

From the foregoing discussions, the inherent vulnerability to ML by Trustees is **Low**.

RANKING PRIORITY AREAS

Table 4.7: Priority map for Broker Dealers, Fund/Portfolio Managers, Custodians, Issuing Houses, Registrars and Trustees.

PRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML Legal Framework	
Effectiveness of Supervision Procedures and Practices	
Availability and Enforcement of Administrative Sanctions	
Availability and Enforcement of Criminal Sanctions	5
Availability and Effectiveness of Entry Controls	
Integrity of Staff in Securities Firms	6
AML Knowledge of Staff in Securities Firms	1
Effectiveness of Compliance Function (Organization)	4
Effectiveness of Suspicious Activity Monitoring and Reporting	2
Level of Market Pressure to Meet AML Standards	
Availability and Access to Beneficial Ownership Information	7
Availability of Reliable Identification Infrastructure	3
Availability of Independent Information Sources	8

**Darker the color/ smaller the number higher the priority.

FINDINGS

a) It was observed that Section 9(1)(a) of the ML(P)A, 2011 (as amended) provides for the designation of compliance officers at the head office and branches of financial and designated non-financial institutions while the SEC AML/CFT Regulations,2013 for CMOs provided for the appointment of compliance officers at the head offices. There is need therefore for clarity with respect to the appointment of compliance officers by CMOs in branch offices as the SEC has stringent requirements¹⁷² which CMOs are required to comply with before their compliance officers are accredited. The limited activity in most branch offices of CMOs is not financially and administratively feasible to allow for designation of ‘compliance officers’ at the branches.

b) The cash transaction limit of ₦5,000,000 (\$16,666.67) for individuals and ₦10,000,000 (\$33,333.33) for corporate bodies prescribed by Section 1 of the ML(P)A 2011 as amended is too high for permissible cash transactions in the capital market.

c) The investigative authorities (Nigeria Police and the EFCC) do not maintain proper records of criminal sanctions. Specifically, comprehensive statistics on prosecutions and convictions related to capital market violations could not be obtained during the assessment.

¹⁷² Before the SEC approves for an individual to be a compliance officer he/she must be a sponsored individual (principal officer)

d) Broker dealers account for more than 50% of international transactions in the capital market. However, reports of FTRs sent by them to the SEC/NFIU are always nil transactions

RECOMMENDATIONS

Based on the vulnerabilities identified from the study, the working group makes the following recommendations:

Legal Framework

- a) Section 9(1)(a) of the ML(P)A 2011 as amended and the SEC Regulations should be amended to create the distinction between Chief Compliance Officers who should be at the head offices and create AML/CFT desk Officers in all branches of the CMOs to ensure ML/TF compliance.
- b) Section 1 of the ML(P)A 2011 as amended should be amended to provide for capturing of all transactions in the financial system so as to keep a trail for the purposes of ML/TF control.

Implementation issues

- c) The AML/CFT Division of the SEC should be strengthened by creating AML/CFT desk in all the zonal offices (Lagos, Kano and Port Harcourt) Desk officers will ensure compliance to AML/CFT requirements by staff of CMOs in the branch offices.
- d) Sequel to the low level of AML/CFT knowledge in the branch offices as compared to the head offices of CMOs; AML/CFT capacity building/training should be conducted for CMOs in Kano, Kaduna and Port-Harcourt respectively.
- e) The SEC and the NFIU should collaborate with a view to developing reporting templates that would be used for other categories of reports.
- f) The NFIU should provide feedback to the SEC on the status of compliance by CMOs and findings based on the analysis of CMOs' reports rendered directly to the NFIU.
- g) The Nigeria Police should enhance the centralized national criminal database so as to assist CMOs in carrying out their CDD practices effectively.

Sanction Regime

- h) While there is evidence of a robust and dissuasive administrative and criminal sanctions regime; there is need to ensure that comprehensive statistics of sanctions meted out are kept. It is therefore recommended that the capital market unit of the EFCC keep statistics on their case progressions (investigation, prosecution, conviction and recoveries).

Entry Controls

- i) Currently, compliance to AML/CFT requirements are enforced after CMOs' receive licenses for registration. Going forward, it is recommended that these requirements (submission of AML/CFT compliance manuals approved by the board) be made part of pre-registration requirements.

Integrity of CMOs' Employees

- j) Compliance with Know-Your-Employee (KYE) requirements should be carried out effectively by Management of CMOs. They should ensure that staff they intend to employ are properly scrutinized before they are engaged. Staff monitoring should be an on-going exercise and as such the compliance officers/internal control within the firms should be given adequate resources/powers to ensure that they discharge their internal audit functions effectively.

Compliance by CMOs

- k) CMOs should designate AML/CFT desk officers at their branch offices. These officers should be required to ensure compliance to all AML/CFT requirements for comprehensive and holistic control and mitigation.

Suspicious Transaction Reporting

- l) Following low level of STRs from CMOs to NFIU, it is recommended that major stakeholders in the Nigerian capital market; the SEC, NSE, CCOCIN, Trade groups and NFIU should collaborate with a view to working out measures that would aid in pooling resources to design and deploy a software solution (according to registered function) for all CMOs to aid in their client categorization, monitoring, detection of red-flags and prompt reporting of suspicious transactions when necessary.

Beneficial Ownership

- m) While there is a clear legal requirement for CMOs in Nigeria to identify beneficial ownership of corporations and legal arrangements, it is believed that this practice is not 'exhaustively' carried out by the CMOs. It is recommended that the NFIU in collaboration with the SEC develops and issue guidance documents that would aid the CMOs in carrying out this important activity.

Identification Infrastructure

- n) The BVN system employed by banks offers a unique way of identifying customers. The BVN should also be made a mandatory field in the proposed AML software solution that would be developed for capital market operators.

Function Specific Recommendations

The following are recommendations that apply specifically to some institution types:

- o) **Registrars:** Institute of Capital Market Registrars (ICMR) should collaborate with NSE and the ASHON in identifying PEPs and HNIs after which their records with the Registrars should be updated to reflect their statuses.
- p) **Issuing Houses:** The Association of Issuing Houses of Nigeria (AIHN) should put in place mechanism that would prevent incidences of market manipulation that may be occasioned by multiple subscriptions for Initial Public Offers (IPOs). This was not a vulnerability identified in the course of the assessment; however, it would be of immense benefit to have a system in place that can prevent such incidences.

CHAPTER FIVE

5. INSURANCE SECTOR VULNERABILITY TO MONEY LAUNDERING RISK

INTRODUCTION

The Insurance Industry in Nigeria is regulated by the National Insurance Commission (NAICOM) established under an Act of the National Assembly in 1997. The Act provides the relevant legal framework for the regulation and supervision of insurance companies, insurance brokering companies, insurance agents and loss adjusters.

There were 58 companies operating as insurers under the Insurance Act as at the end of the year 2014. From this number, 4 were placed on suspension on account of non-compliance with regulatory requirements. Out of the 58 companies, 12 are licensed as composite insurers to operate both life and general insurance business. 15 companies are licensed to carry on life insurance business, 29 companies are licensed as to carry on general insurance business and 2 are license as re-insurance businesses. NAICOM has also licensed about 577 insurance brokers, 55 loss adjusters and about 1,900 insurance agents as at the period under review.

Total assets held by insurance companies amounted to ₦834.97 billion (\$2,783,233,333.33) in 2014 which is less than 2% of the total assets of financial sector. Total gross written premium (GWP) generated by companies amounted to ₦284.20 billion (\$947,333,333.33) and the industry grew by 2.78% in 2014. Life insurance business recorded a premium income of ₦85.66 billion (\$285,533,333.33) while general insurance premium accounted for ₦198.55 billion (\$661,833,333.33) of all premiums recorded in 2014. Insurance penetration which is expressed by the gross written premium as a percentage of GDP stood at 1.70% in year 2014. Accordingly, penetration of life insurance business and general insurance business were 0.56% and 1.10% respectively. Insurance density, which is stated as the ratio of premium to total population has increased from ₦1, 549.18 (\$5.16) to ₦1, 592.17 (\$5.31) from 2013 to 2014. The percentage of insured populace is less than 2% out of 178.5 million people in the country.

Table 5.1: The Industry's Gross Premium by Class of Life & General Business and Growth Rate From 2010 – 2014 (in billions)

YEAR	NON LIFE (₦)	LIFE (₦)	TOTAL (₦)	GROWTH RATE (%)
2010	157,336.81 (\$524,456,033,333.33)	43,039.17 (\$143,463,900,000)	200,375.98 (\$667,919,933,333.33)	-
2011	175,756.76 (\$585,855,866,666.67)	57,996.13 (\$193,320,433,333.33)	233,752.89 (\$779,176,300,000)	16.66
2012	193,493.25 (\$644,977,500,000)	64,909.06 (\$216,363,533,333.33)	258,402.30 (\$861,341,000,000)	10.55
2013	196,008.76 (\$653,362,533,333.33)	80,520.24 (\$268,400,800,000)	276,529.00 (\$921,763,333,333.33)	7.01
2014	198,546.85 (\$661,822,833,333.33)	85,655.93 (\$285,519,766,666.67)	284,202.78 (\$947,342,600,000)	2.78

Chart 5.1: The Performance of the Industry's Gross Premium by Class of General & Life Business from 2010 – 2014

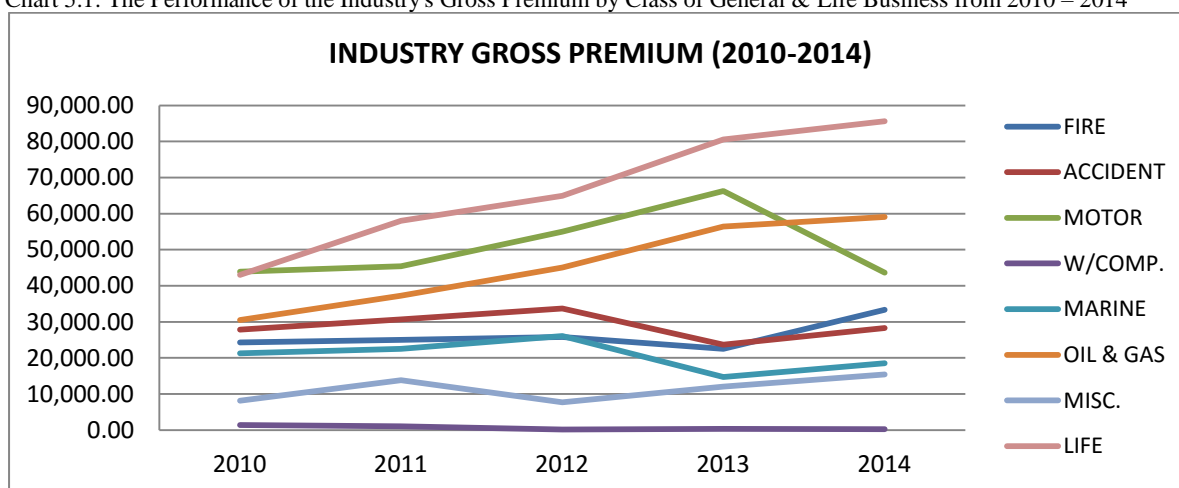


Table 5.2: Premium Income and Penetration in the Insurance Industry

	2010	2011	2012	2013	2014
Life Insurance (₦ billions)	43,039.17 (\$143,463,900,000)	57,996.13 (\$193,320,433,333.33)	64,909.06 (\$216,363,533,333.33)	80,520.24 (\$268,400,800,000)	85,655.93 (\$285,519,766,666.67)
General Insurance (₦ billions)	157,336.81 (\$524,456,033,333.33)	175,756.76 (\$585,855,866,666.67)	193,493.25 (\$644,977,500,000)	196,008.76 (\$653,362,533,333.33)	198,546.85 (\$661,822,833,333.33)
Total Premium Income (₦ billions)	200,375.98 (\$667,919,933,333.33)	233,752.89 (\$779,176,300,000)	258,402.30 (\$861,341,000,000)	276,529.00 (\$921,763,333,333.33)	284,202.78 (\$947,342,600,000)
Growth Rate in Total Premium (%)	-	16.66	10.55	7.01	2.78
GDP Growth Rate %*	0.50	0.50	0.7	0.70	0.60
Penetration % (Total Industry Premium as a % of GDP)	1.00	1.17	1.80	1.94	1.20
Penetration % (Premium of Life Insurance Business as a % of GDP)	0.22	0.28	0.45	0.56	0.51
Penetration % (Premium of General Insurance Business as a % of GDP)	0.79	0.87	1.35	1.37	1.19
Insurance Density - (Total Premium Income/population) (%)	1.26	1.42	1.55	1.59	1.59

* Source: National Insurance Commission (NAICOM)

Table 5.3: Total Assets of Insurance Companies in Billions of Naira 2010-2014

	2010	2011	2012	2013	2014
Non-Life (₦)	391,741.60 (\$1,305,805,333,333.33)	407,432.22 (\$1,358,107,400,000)	497,799.43 (\$1,659,331,433,333.33)	526,277.81 (\$1,754,259,366,666.67)	289,617.45 (\$965,391,500,000)
Life (₦)	193,274.19 (\$644,247,300,000)	213,662.92 (\$712,209,733,333.33)	212,827.81 (\$709,426,033,333.33)	267,601.93 (\$892,006,433,333.33)	127,231.64 (\$424,105,466,666.67)
Composite					418,128.82 (\$1,393,762,733,333.33)

Industry Total (₦)	585,015.79 (\$1,950,052,633,333.33)	621,095.14 (\$2,070,317,133,333.33)	710,627.24 (\$2,368,757,466,666.67)	793,879.74 (\$2,646,265,800,000)	834,977.91 (\$2,783,259,700,000)
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Chart 5.2: Total Assets in Billions of Naira 2010-2014

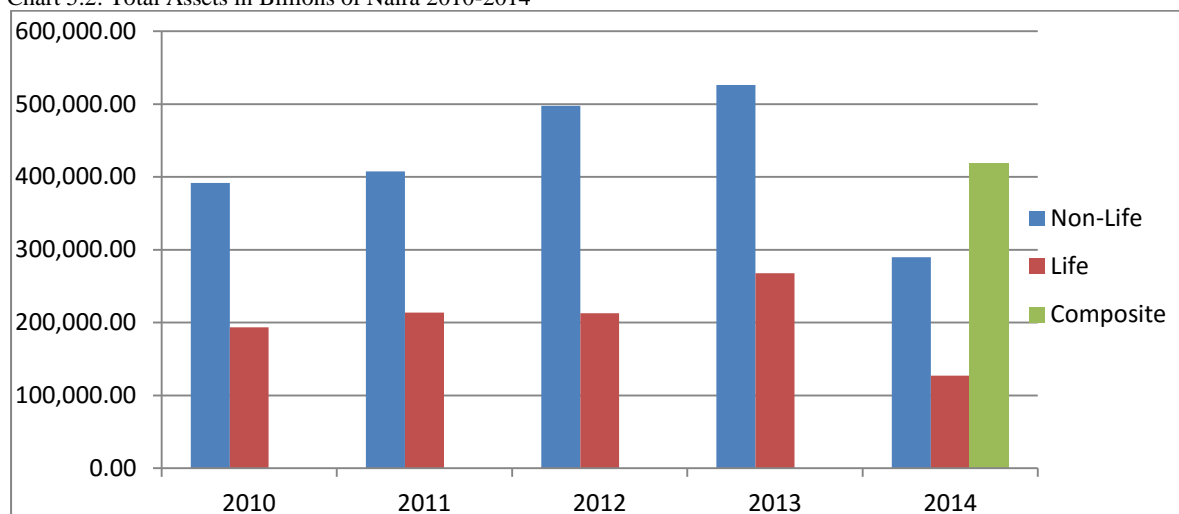


Table 5.4: Represents a Comparison of Nigerian Insurance Market with some of the Countries in the African Region.

Country	Insurance Premiums (\$bn)	Population (millions)	Density (Premiums per Capita, \$)	GDP (\$bn)	Penetration (Premiums as % of GDP)
South Africa	51.6	53.2	970.8	366.2	14.1
Morocco	3.2	32.9	96.8	103.8	3.1
Egypt	1.9	84.7	22.3	271.4	0.7
Nigeria	1.6	169.3	9.7	521.8	0.3
Kenya	1.5	41.8	36.4	55.2	2.8
Algeria	1.5	37.9	40.1	208.8	0.7
Angola	1.1	23.7	47.4	124.2	0.9
Namibia	1.0	2.2	437.2	13.1	7.2
Tunisia	0.8	10.9	77.3	47.0	1.8
Mauritius	0.7	1.3	570.3	11.9	6.0
Other Countries	4.9	628.7	7.9	652.0	0.8
Total	69.9	1,086.4	64.4	2,375.6	2.9
<i>Africa Excluding South Africa</i>	<i>18.3</i>	<i>1,033.3</i>	<i>17.7</i>	<i>2,009.3</i>	<i>0.9</i>

Source: Swiss Re

Source: Swiss Re

SECTOR OVERALL ASSESSMENT

The vulnerability of the Insurance sector may arise from weaknesses in AML general controls and product specific variables. The ML assessment of the insurance sector was conducted using Three (3) separate World Bank templates to cover major insurance players, insurance brokers and insurance agents.

At the end of the assessment the weighted average was computed and the final rating was put at **Medium** representing the overall Insurance Sector Vulnerability to ML risk.

The overall assessment result is mainly due to the quality of CDD framework with a **low** rating followed by the quality of general AML/CFT controls which obtained a **Medium Low** rating and the quality of insurance companies operations which also obtained a **Medium Low**. Other

reasons are the compliance of insurance company staff which obtained a **Medium** rating and the quality of AML/CFT supervision with a **Medium** rating.

Considering the overall vulnerability of the products/services offered by the insurance sector, the most vulnerable products are Non Life Special Risk Insurance signifying **Medium High** vulnerability. This is followed by the next highest vulnerable product Reinsurance business rated **Medium**. The least vulnerable product is Micro Insurance which is rated **Medium Low**.

QUALITY OF AML GENERAL CONTROLS

The assessment considered 13 general input variables and these have been summarized in the table below.

The justifications for the above ratings are as follows.

Comprehensiveness of AML Legal Framework

The ML(P)A, 2011 (as amended) and the AML/CFT regulations issued by the National Insurance Commission (NAICOM) in September, 2013 are the major instruments used as AML/CFT laws and regulations in Nigeria. Section 25 of the ML(P)A, 2011 (as amended) covers insurance institutions. This is in compliance with the International Association of Insurance Supervisors (IAIS) measures as well as the FATF recommendations.

Under the interpretation of “transactions” the insurance products are captured as “life insurance and other insurance related matters”. This implies that all insurance products are covered. The NAICOM Regulations under section 30 (interpretation notes) further explains reportable transactions to include; life insurance, non-life insurance, lending, financial leasing, financial guarantees and commitments, as well as other insurance related matters.

The NFIU has issued guidelines to all reporting entities on filing of statutory reports. Additional guidelines were also issued on electronic, web based filing of Suspicious Transaction Reports (STR) in December, 2014 to ensure compliance with standard reporting.

Nigeria has existing laws and regulations on Prevention of Terrorism in compliance with United Nations Security Council Resolutions (UNSCRs) 1267 (1999), 1373 (2001).

However, certain gaps and deficiencies have been identified in the prevailing AML/CFT laws and regulations to include, non availability of guidelines from NAICOM that specifically prohibit or limit cash transactions by insurance operators, absence of protection for Chief Compliance Officers (CCOs) and absence of any directive to Insurance Brokers compelling them to disclose the KYC/CDD information to Insurance Companies. That notwithstanding, certain corrective measures have already been taken to rectify the issue with disclosure by Insurance Brokers to Insurance Companies.

Accordingly, the variable is rated **Very High** based on the strength and effectiveness of laws and regulations that are currently prevailing with regards to AML/CFT measures and AML/CFT supervision in the country. This has been given the high rating because the laws cover all parameters required for a comprehensive AML/CFT regime.

Effectiveness of Supervision Procedures and Practices

Section 31 of NAICOM Regulation 2007 empowers the NAICOM to conduct AML/CFT supervision and examination of all insurance operators in Nigeria. This function is performed by the Inspectorate Directorate as part of their supervision programme/schedule. Section 6 of the Insurance Act 2003 established for the Commission as an Inspectorate Department which shall be responsible for carrying out the supervisory functions of the Commission in respect of insurance institutions. The Inspectorate Directorate has a total of Forty Eight (48) staff dedicated to the supervision of insurance operators, all of whom are University/Polytechnic graduates have received AML/CFT training. Four (4) out of this number hold professional qualifications on AML/CFT including the Director.

The NFIU has also participated in joint on-site examination with NAICOM in 2011. The NAICOM has developed a comprehensive Risk Based Supervision (RBS) manual¹⁷³. However, it lacks Standard Operating Procedure (SOP) to guide the field examinations in conducting the RBS. The off-site examination is mainly on regulatory reports and not on statutory reports like CTR/STR filings. The AML/CFT budget for 2014 was put at ₦12, 000,000.00 (\$40,000) which is considered grossly inadequate.

Supervision by Inspectorate Directorate

Currently, statutory routine examinations are conducted once every Two (2) years as contained in Section 29 of the NAICOM Regulation 2007 while spot examinations are conducted when necessary. In addition, off-site supervision is conducted on an on-going basis.

As stated above, all officers of the Inspectorate Directorate are involved in continuous supervision and examinations of insurance operators. However, only Four (4) desk officers are dedicated to AML/CFT offsite examinations.

Below are some of the returns received and analyzed during offsite examinations after which areas of concerns are identified and reports generated for management's actions:

1. Quarterly returns on level of AML/CFT compliance functions
2. Politically Exposed Persons (PEP) reports on a monthly basis with evidence of senior management approval before on-boarding the PEP.
3. Internal and external audit report on a quarterly and yearly basis respectively
4. Report on fraud and other related malpractices on occurrence
5. Statutory returns (STR and CTR) to NFIU and inform NAICOM on a quarterly basis
6. AML/CFT training plan for the following year consisting of the budget, staff category, date, facilitators and topics of the trainings before 31st December of the current year
7. Identify, review and record other potential ML/FT risks which may not have been specifically mentioned in the Regulations and report same on a monthly bases

Statutory onsite examinations of all Fifty Eight (58) insurance companies in Nigeria were conducted in 2011, 2012, 2013 and 2014 as contained in the table below

¹⁷³ NAICOM RBS Manual

Table 5.5: 2011 - 2014 Onsite Examinations Conducted

S/N	YEAR	CONDUCTED BY	NO OF COMPANIES VISITED
1	2011	NAICOM and NFIU	26
2	2012	NAICOM	20
3	2013	NAICOM	24
4	2014	NAICOM	16

The assessment was based on the effectiveness of their systems and processes to meet compliance with AML regulations issued by NAICOM.

Key findings from on-site examinations of 2013 and 2014 conducted by NAICOM revealed that insurance operators obtain incomplete information in KYC forms including policy holder's means of identification. In instances where the means of identification was obtained, they fail to verify same. Other findings include failure to verify the addresses of policy holders, failure to train their insurance brokers and agents on KYC procedures to update their knowledge, non-availability of Risk Assessment Report on customers, products/services and delivery channels as well as failure to subject their AML/CFT programme to external audit in ensuring compliance with the required standards.

Supervision by NFIU

The NFIU has only Ten (10) officers involved in off and on-site examinations¹⁷⁴ of reporting entities including insurance operators. As evident in table 5.6 above, onsite examinations were jointly carried out by NFIU and NAICOM examiners. These onsite examination selections were done on a risk-based approach though the procedures used did not follow a systematic risk-based approach. Insurance operators were prioritized and examined based on perceived high risk in terms of business processes, compliance function, size, volume of transactions, offsite analysis and observations etc.

The examination exercise placed emphasis on high risk products that violate basic AML/CFT concerns. Some of the main deficiencies discovered in 2011 joint examination still resurfaced in the 2013 and 2014 examinations conducted by NAICOM, they included inadequate risk assessment, lack of effective KYC/CDD procedures, inadequate training and awareness among insurance staff, inadequate staff dedicated to compliance function and non-compliance with internal audit and most materially, failure to comply with reporting requirements of filing CTRs and STRs. The findings were communicated to operators as mentioned above and operators were also requested to submit action plans and follow up procedures for effective monitoring and adherence to same. A major observation was that although examinations were conducted between 2011 to 2014, and findings communicated to the top management, no further action was undertaken.

Commitment to Good Corporate Governance

An effective corporate governance culture promotes a high level of compliance with international standards as well as local legislation and contributes to maintain public confidence in the financial system.

¹⁷⁴ Section 6(g) of the Nigerian Financial Intelligence Unit Regulations provide for collaboration with sector regulators/supervisors for onsite inspection

In 2009, NAICOM issued Corporate Governance Guidelines for Insurance operators to ensure compliance with good corporate governance. Insurance operators are required to fashion their structures against these guidelines some of which include responsibilities of the Board, Board composition, criteria to assess the fitness and propriety of Directors, management functions delegated by the Board, role of the Chairman, Board appointed committees, related party transactions and disclosures. The insurance operators are supervised and monitored for compliance and their compliance statuses are reported in the NAICOM’s audit reports/ corporate governance reports as well as risk management function.

Based on the above facts, the quality of AML supervision was rated **Medium**.

Availability and Enforcement of Administrative Sanctions

Section 28 (1,2&3) of the NAICOM AML/CFT Regulations 2013 provides for administrative sanction for erring insurance operators in Nigeria. The section clearly outlines the offences that will attract administrative sanction for the institutions and is binding on directors, senior management, managers and all other employees of an insurance institution subject to the provision of Insurance Act, 2003 and subsisting AML/CFT legislations.

In 2014 Two (2) insurance companies were sanctioned for the violation of section 3(8) of the NAICOM AML/CFT Regulation, 2013. See table below for details of the sanctions;

Table 5.6: 2014 Administrative Sanctions

S/N	Name of Company	Infractions	Amount
1	Cornerstone Insurance Plc	Failure to render AML/CFT returns for 2 nd quarter of 2014	₦1,110,000.00 (\$3,700)
2	GNI Life Assurance Limited	Failure to render AML/CFT returns for 2 nd quarter of 2014	₦1,000,000.00 (\$3,333.33)

It is observed that the sanctions are not adequately enforced and not dissuasive enough to deter erring operators. Based on the above this variable is rated **Medium High**.

Availability and Enforcement of Criminal Sanctions

This variable assesses whether the country takes criminal enforcement steps against an insurance institution, individual management member or staff in case of non-compliance with AML obligations.

Sections 15 and 16 prescribe criminal penalties for non-compliance with the ML(P)A, 2011 (as amended) and also section 14 & 18 of the EFCC Establishment Act, 2004 provides for same. This implies that Nigeria has satisfactorily criminalized money laundering and terrorism financing. These legislations have fully provided for a range of money laundering predicate offences and other ancillary offences relating to financial malpractices and crimes.

The sanctions are applicable to both directors and senior management of insurance institutions and thus, the management and staff of the insurance institutions completely understand and believe that the criminal sanctions regime in the country is sufficiently dissuasive to positively influence individual behavior patterns. This was substantiated by practitioners as they have continued to take proactive measures against the occurrence of criminal activities by their

employees most especially at the point of employee engagement. The sanctions are therefore sufficiently proportionate and dissuasive to positively influence individual behavior patterns

The prevailing legislation in the country on money laundering and terrorist financing also provides the framework to enforce action but there has not been any criminal investigation, prosecution or conviction on any insurance or employees of insurance institution in Nigeria during the period under review. Consequently, this variable is rated **Medium Low**.

Availability and Effectiveness of Entry Controls

Section 6,7and 8 of Insurance Act, 2003 made explicit provisions for the application, licensing requirements and conditions necessary for approvals for all intending insurance operators in Nigeria. The Authorization and Policy Department is tasked with the responsibility of implementation of the foregoing sections of the Insurance Act.

From the result of the interviews conducted, the department has 30 officers deployed to carry out these functions, all of whom are University/Polytechnic graduates with requisite knowledge and experience to effectively carry out their duties. More than 10 of the officers are professional members of the Chartered Insurance Institute of Nigeria (CIIN) while others possess the professional qualifications like ICAN, ANAN, NIM, CAMS etc. The department comprises of the following Units; Corporate Governance, Brokers Registration, Licensing and Regulation, Security Analysis & Special Risk, Micro-insurance, Compulsory Insurance, Takaful Insurance, Market Conduct, Actuarial, Intermediaries and Loss Adjusters Units.

All the 30 officers have received basic training on AML/CFT to enable them carry out their job functions effectively including the followings:

- A fit and proper test policy that is strictly adhered to (which include among others clearance of all sponsored individuals by all operational departments within NAICOM and clearance by other financial sector regulators (CBN, SEC, PENCOT), law enforcement agencies and previous employers)
- Pre and post registration inspection
- A competency framework that requires minimum qualification (educational and relevant experience) for certain key staff including the AML/CFT Chief Compliance Officers to ensure that only staffs with appropriate qualifications are employed to hold key positions within the insurance institution
- All sponsored individuals must attend pre-registration training and pass the registration examination and interview before they are registered
- All sponsored individuals must submit sworn undertaking to abide by all rules and regulations prescribed
- Sworn undertaking to keep proper records and render returns as may be specified by the Commission from time to time (to be notarized)
- Submission of a valid professional indemnity policy
- In addition all insurance institution's Chief Executive Officers (CEOs) must be qualified members of CIIN (have passed the final examination of the Institute and its fit and proper test) and are required to abide by the code of conduct of the Institute.

In 2014, a total number of 35 insurance brokers licensing applications were received by NAICOM out of which 22 received positive recommendations. These 22 applicants were further subjected to Enhanced Due Diligence (EDD) test and 4 of the applicants failed the test and only 18 were eventually approved. Following the recapitalization of insurance companies in the sector initiated in 2007, no fresh application for licensing was received by NAICOM from insurance companies.

In view of the foregoing, the outcome of the interview with the regulators and some selected senior management of insurance operators and professional bodies, this variable is rated **High**.

Integrity of Staff in Insurance Companies

The MLPA 2011 (as amended) requires all staff of insurance institutions to be subjected to background screening before they are recruited and this was evident during on-site visit to the insurance institutions during the assessment. NAICOM also examines the effectiveness of staff vetting programs including verification of the necessary documentation obtained from staff during onsite examination.

NAICOM has issued directives on Fit and Proper Person's test on Directors and key management staff which are issued in line with the international standards. But there have been instances where few cases of fraud and theft were reported by insurance operators. The insurance companies have mechanisms in place to detect these offences and report them to the regulator accordingly.

In the year 2013, there were 12 cases of internal fraud events reported, but the amount involved was provided for only 6 out of the 12 reported cases. The total sum involved amounted to ₦6.09 million (\$20,300). Similarly, for the year 2014, there were 6 cases of internal fraud events reported, totaling ₦3.1 million (\$10,333.33) and disciplinary actions taken against the staff involved. Therefore, it can be inferred that insurance operators have effective strategies for recruiting staff with good integrity.

In reference to Nigeria's mutual evaluation report of 2008, the country was rated largely compliant (LC) in relation to tipping off and confidentiality (FATF Recommendation 21). This indicates that the country has mechanism in place for the insurance operators on the said recommendation. However, the findings under effectiveness of STR reporting revealed that most insurance institutions apply willful blindness in their STR reporting even when such transactions are flagged by their systems.

Furthermore, the integrity of staff handling AML/CFT compliance issues cannot be rated the same with other operational staff within the insurance sector due to their inability to submit STR to the NFIU. Interview conducted with CCOs and data received from the NFIU revealed that their inability to file STRs is hinged on their lack of legal protection which leaves them vulnerable to victimization by their superiors (Board and Management).

In view of the foregoing discussions, the variable is rated **High**.

AML knowledge of Staff in Insurance Companies

The insurance operators have well developed training programs on AML Laws, policies and procedures. This includes training given at the induction as well as training given periodically to upgrade staff knowledge. The questionnaire sent to all insurance operators confirmed this position with responses indicating good understanding of AML/CFT knowledge by the compliance team. All the insurance operators also responded affirming good level of understanding on the AML enforcement measures. In 2014, 66 operators and brokers conducted AML/CFT trainings for the staff of their respective companies.

However, it was observed that employees other than the compliance officers received only basic AML/CFT trainings as against the required specialized training for other insurance functions. The NFIU has also conducted training and awareness programs jointly with NAICOM for all operators in the insurance industry. Accordingly, enhanced AML/CFT knowledge is said to reside mostly with the compliance team.

In year 2013, Two (2) trainings were organized jointly by the NFIU and NAICOM for all CCOs as well as internal auditors of insurance companies and in October 2013, trainings were organized for all insurance brokers which had about 500 brokers in attendance. Similarly, in 2014 trainings were conducted for all insurance companies, reinsurance companies and insurance brokers. NAICOM and NFIU incorporate all recent developments in the AML/CFT regime in their training programs continuously to upgrade the participants' knowledge. Considering all these facts, this variable was rated **High**.

Effectiveness of Compliance Function (Organization)

Nigeria has the necessary regulatory framework to support sound AML/CFT compliance function. Section 9 of ML (P) A 2011 (as amended) and Section 20 of the NAICOM AML/CFT Regulations 2013 made it mandatory for each insurance institution to have a designated Chief Compliance Officer at the senior management level.

Accordingly, all the licensed insurance operators are required to have a sufficiently resourced independent officer at the senior management level as the Chief Compliance Officer (CCO) who will report to the Board of Directors of the institution. It was observed that the operators have officers designated as CCOs, but most of them report to the MD/CEO of their organizations and not directly to the Board or any of its committees.

The CCOs have been given a lot of responsibilities under the AML/CFT laws and regulation but there is no existing law or regulation that protects them against their institutions. This lack of protection of CCOs is a hindrance to effective compliance functions and therefore, needs to be addressed. The CCOs also have a joint committee called the Committee of Chief Compliance Officers (CCCOs) where they discuss all compliance issues affecting individual companies.

Regulation 5 of the AML/CFT Regulation, 2013 for insurance industry in Nigeria provides for the insurance operators to have documented AML/CFT policies designed on a risk based approach to satisfy the requirements of the NAICOM towards an effective AML/CFT compliance function. Our findings revealed that all the insurance companies have this in place.

The analysis of the questionnaires also revealed that the AML/CFT compliance officers and the other staff are trained internally and by external facilitators to a satisfactory level. But more specialized trainings are required in order to further strengthen their AML/CFT knowledge and understanding.

The existing legislation in the country requires the insurance operators to carry out an audit function to test the procedures and systems and ensure compliance with the provisions of the NAICOM. Hence, all insurance operators perform internal AML/CFT audits. It was however observed that insurance operators do not subject their compliance program to external audit. Furthermore, the internal AML/CFT policies are generally partially implemented and no evidence exists of any sanction applied to erring staff for non compliance with the said internal policies.

Additionally, Regulation 3 of the AML/CFT Regulation 2013 obligates insurance companies to integrate their insurance brokers and agents into their AML/CFT framework in order to ensure and monitor compliance with the program. However material exceptions observed during onsite examinations indicated that insurance brokers were responsible for the insurance company's inability to get detailed client information from the Broker that introduced the business.

Efforts are being made by the operators to improve client records as some of them have deployed automated document management systems although some client's files are still seen in hard copies in a few companies. Additionally, different insurance institutions maintain different proposal forms with inadequate information provision thus, rendering statutory reporting ineffective. This practice negatively affects the AML/CFT implementation framework in the insurance sector most especially the CDD framework.

Additional improvement is still required specifically in implementation and enforcement of existing laws and regulation; hence this variable is assessed **Low**.

Effectiveness of Suspicious Activity Monitoring and Reporting:

In line with the current legislature in the country, section 6 of the MLPA 2011 (as amended), Section 14 of the Terrorism (Prevention) Act 2011 (as amended) and Regulation 4 and 17 of the AML/CFT Regulations, 2013 for insurance industry in Nigeria requires reporting entities to report known or suspected violations of law or suspicious activity to the NFIU. While Section 7 of the MLPA requires all financial institutions to preserve and keep at the disposal of the authorities, the records of customer identification and transactions including the information filed on STRs for a minimum period of 5 years after severance of the relationship

The NFIU, as a coordinating body for AML/CFT in Nigeria, monitors the activities of insurance institutions through the review of the suspicious transaction reports (STR) filed by operators in order to assess compliance level of the insurance institution. The NFIU also conducts regular offsite compliance checks, generate Annual/Quarterly assessment of AML/CFT software deployed by insurance institutions, generates exception reports to NAICOM on infractions etc. insurance operators are also required to file other monthly and quarterly reports such as Politically Exposed Persons report, Currency Transaction Reports (CTRs) - a threshold based report as required by MLPA, in addition to the STR reporting. The NFIU also disseminates STR related

intelligence to relevant LEAs for investigation and possible prosecution. It also generates reports on AML/CFT monitoring and control effectiveness of reporting entities.

To this end, insurance institutions operating in Nigeria have put in place proper information systems (AML solutions) to collect record in an XML format that enables supervision and monitoring of transactions which supports AML screening and monitoring, identification and reporting of STRs, identification and recording of all complex & unusual transactions, PEPs and sanction lists screenings. These applications are used in part with the prevailing manual systems.

Although, the insurance operators have an effective system for monitoring transactions, but they apply willful blindness in the reporting of STRs as there was no single STR filed with NFIU during the period under review. For example, goods insured in transit in the case of petroleum products by insurance companies are alleged to be cited physically in connivance with the insured while nothing exists in the real sense of it. Meanwhile the documents were used to obtain claims from the federal government fraudulently without the insurance companies raising any suspicion. In fact, no single STR was ever filed to the NFIU from its inception by any insurance operator to date. All the operators have been filing nil STR to the NFIU.

In view of the foregoing, we are constrain to rate this variable **Very Low**.

Level of Market pressure to Meet AML Standards

The insurance operators are being pressurized by their commercial partners such as correspondent insurance operators to meet their AML standards at the time of establishing the business relationship as well as on the ongoing business practice. Furthermore, peer pressure exerts the force on insurance operators to adhere to AML/CFT regulations and to operate in a level playing field.

Analysis revealed that there is immense pressure from the international rating agencies as well as foreign investors to meet the AML standards. This has a direct impact on establishing business relationships with the investors and also in maintaining the relationships with the existing customers. The pressure has made the insurance operators to become very sensitive to domestic and international reputational risk that might impact on their institutions.

In conclusion therefore, considering the immense pressure by the market forces and the response of the insurance institution management to meet the AML standards, the variable is rated **High**

PRODUCT AND SERVICES SPECIFIC INPUTS

PRODUCT SPECIFIC INPUTS

Vulnerabilities emanating from product or services in the Insurance sector are discussed below:

Table 5.7: Industry Net Premium by Class of Business in Billions from 2010 - 2014

	FIRE (₦)	ACCIDEN T (₦)	MOTO R (₦)	W/COM P. (₦)	MARIN E (₦)	OIL & GAS (₦)	MISC. (₦)	LIFE (₦)	TOTAL (₦)
2010	16,796.18 (\$55,987,266,666.67)	23,028.98 (\$76,763,266,666.67)	41,599.28 (\$138,664,266,666.67)	1,238.56 (\$4,128,533,333.33)	15,071.67 (\$50,238,900,000)	12,852.21 (\$42,840,700,000)	6,541.95 (\$21,806,500,000)	37,976.85 (\$126,589,500,000)	155,105.68 (\$517,018,933,333.33)
2011	17,366.19 (\$57,887,300,000)	25,281.78 (\$84,272,600,000)	42,735.82 (\$142,452,733,333.33)	875.73 (\$2,919,100,000)	16,680.44 (\$55,601,466,666.67)	15,643.54 (\$52,145,133,333.33)	10,303.06 (\$34,343,533,333.33)	52,508.18 (\$175,027,266,666.67)	181,394.74 (\$604,649,133,333.33)
2012	18,607.72 (\$62,025,733,333.33)	27,957.38 (\$93,191,266,666.67)	45,618.60 (\$152,062,000,000)	135.53 (\$451,766,666.67)	16,636.39 (\$55,454,633,333.33)	24,240.47 (\$80,801,566,666.67)	5,295.17 (\$17,650,566,666.67)	50,264.48 (\$167,548,266,666.67)	188,755.73 (\$629,185,766,666.67)
2013	12,545.89 (\$41,819,633,333.33)	18,831.11 (\$62,770,366,666.67)	58,502.21 (\$195,007,366,666.67)	181.18 (\$603,933,333.33)	9,561.03 (\$31,870,100,000)	23,478.33 (\$78,261,100,000)	7,724.36 (\$25,747,866,666.67)	73,679.32 (\$245,597,733,333.33)	204,503.43 (\$681,678,100,000)
2014	19,855.33 (\$66,184,433,333.33)	21,378.54 (\$71,261,800,000)	41,015.33 (\$136,717,766,666.67)	41.61 (\$138,700,000)	12,930.84 (\$43,102,800,000)	20,398.67 (\$67,995,566,666.67)	9,871.91 (\$32,906,366,666.67)	77,849.52 (\$259,498,400,000)	203,341.75 (\$677,805,833,333.33)

Chart 5.3: The performance of the Industry Net Premium of Non Life and Life Business Class by Class from 2010-2014

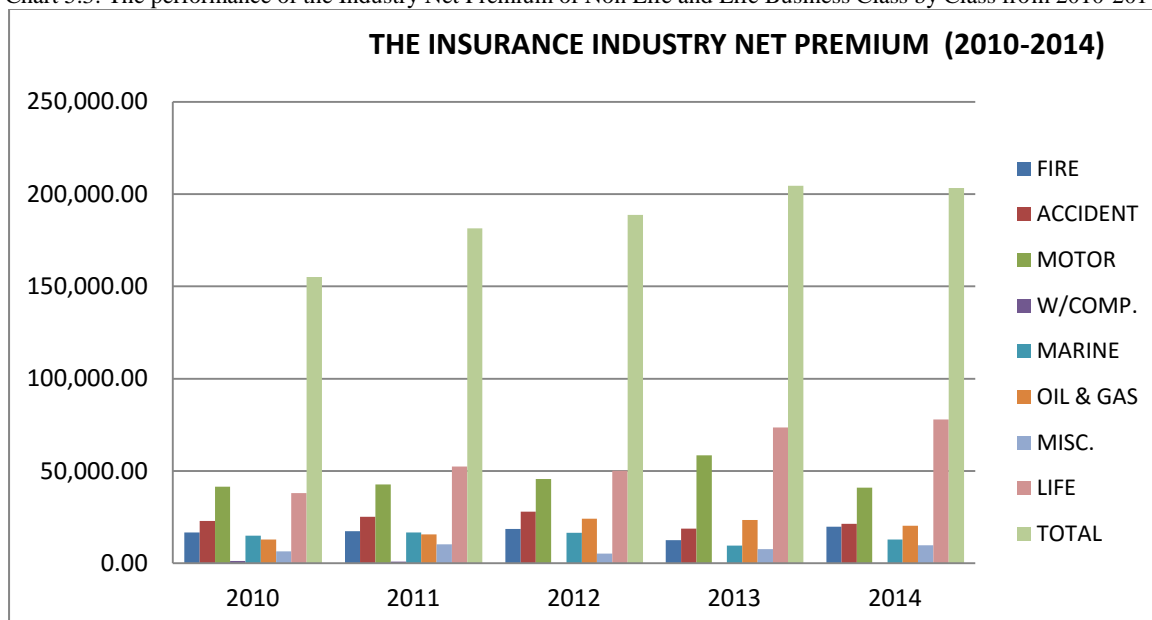


Chart 5.4: Industry Performance Net Premium Retained in 2014

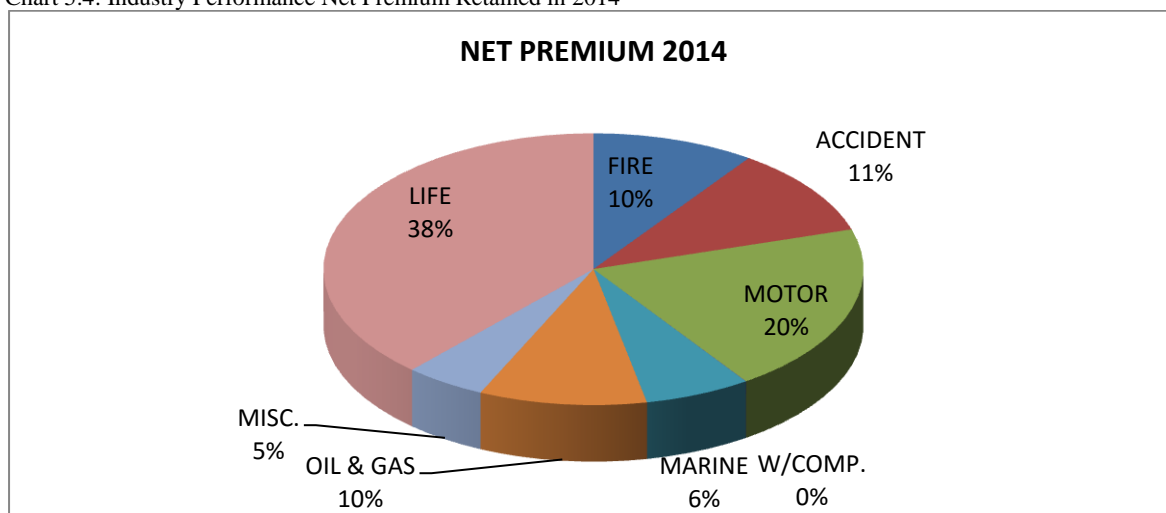


Table 5.8: 2014 Annual Individual Life Insurance Business

S/N	Company	Reg No	GP Received	Premium	NET
			Locally (₦)	Ceded (₦)	Premium (₦)
1	African Alliance Ins. Co. Ltd.	RIC002			0
2	Alliance & Gen Life Ass Plc	RIC001			0
3	Capital Express Ins Co Ltd	RIC116	459,520,000 (\$1,531,733.33)	2,831,000 (\$9,436.67)	456,689,000 (\$1,522,296.67)
4	CUSTODIAN LIFE ASS(Crusader)	RIC009			0
5	Arm Life Plc(Crystal Life)	RIC012	127,453,000 (\$424,843.33)	14,070,000 (\$46,900)	113,383,000 (\$377,943.33)
6	Uba Metro Life Ins Co Ltd	RIC042	221,157,000 (\$737,190)	0	221,157,000 (\$737,190)
7	Spring Life Assurance Plc	RIC015			0
8	Mutual Benefit Life Ass Co Ltd	RIC027			0
9	Old Mutual Life Assurance	RIC-032	891,048,000 (\$2,970,160)	417,278,000 (\$1,390,926.67)	473,770,000 (\$1,579,233.33)
10	Royal Prud Life Ass Plc	RIC035	2,154,192,000 (\$7,180,640)	336,544,000 (\$1,121,813.33)	1,817,648,000 (\$6,058,826.67)
11	Standard Allin Life Ass Co Ltd	RIC040	120,937,000 (\$403,123.33)	0	120,937,000 (\$403,123.33)
12	Unic Insurance Plc	RIC092	6,031,000 (\$20,103.33)		6,031,000 (\$20,103.33)
13	Wapic Life Assurance Ltd	RIC046	651,449,000 (\$2,171,496.67)	105,567,000 (\$351,890)	545,882,000 (\$1,819,606.67)
14	Zenith Life Assurance Ltd	RIC048	82,000 (\$273.33)	0	82,000 (\$273.33)
15	Fbn Life	RIC050	7,109,362,000 (\$23,697,873.33)	273,397,000 (\$911,323.33)	6,835,965,000 (\$22,786,550)
	TOTAL		11,741,231,000 (\$39,137,436.67)	1,149,687,000 (\$3,832,290)	10,591,544,000 (\$35,305,146.67)

Table 5.9: Annual Group Life Insurance Business

S/N	Company	Reg No	GP Received	Premium	Net
			Locally (₦)	Ceded (₦)	Premium (₦)
1	African Alliance Ins. Co. Ltd.	RIC002	679,812,000 (\$2,266,040)	75,163,000 (\$250,543.33)	604,649,000 (\$2,015,496.67)
2	Alliance & Gen Life Ass Plc	RIC001			0
3	Capital Express Ins Co Ltd	RIC116	2,409,552,000 (\$8,031,840)	38,731,000 (\$129,103.33)	2,370,821,000 (\$7,902,736.67)
4	Custodian Life Assurance Ltd	RIC009	2,517,091,000 (\$8,390,303.33)	306,520,000 (\$1,021,733.33)	2,210,571,000 (\$7,368,570)
5	ARM Life (Crystal Life)	RIC012	2,355,646,000 (\$7,852,153.33)	0	2,355,646,000 (\$7,852,153.33)
6	Uba Metro Life Ins Co Ltd	RIC042	1,400,661,000 (\$4,668,870)	171,794,000 (\$572,646.67)	1,228,867,000 (\$4,096,223.33)
7	Spring Life Assurance Plc	RIC015			0
8	Mutual Benefit Life Ass Co Ltd	RIC027	3,812,728,000 (\$12,709,093.33)	110,262,000 (\$367,540)	3,702,466,000 (\$12,341,553.33)
9	Old Mutual Life Assurance	RIC-032			0
10	Royal Prud Life Ass Plc	RIC035	438,327,000 (\$1,461,09)	0	438,327,000 (\$1,461,09)
11	Standard Allin Life Ass Co Ltd	RIC040	2,873,491,000 (\$9,578,303.33)	1,160,318,000 (\$3,867,726.67)	1,713,173,000 (\$5,710,576.67)
12	Unic Insurance Plc	RIC092	96,497,000 (\$321,656.67)	96,497,000 (\$321,656.67)	0
13	Wapic Life Assurance Ltd	RIC046			0
14	Zenith Life Assurance Ltd	RIC048	2,393,076,000 (\$7,976,920)	576,200,000 (\$1,920,666.67)	1,816,876,000 (\$6,056,253.33)
15	FBN Life	RIC050			0
	Total		18,976,881,000 (\$63,256,270)	2,535,485,000 (\$8,451,616.67)	16,441,396,000 (\$54,804,653.33)

Table 5.10: 2014 Annual Group Life Pension Insurance Business

S/N	Company	Reg No	GP Received	Premium	Net
			Locally (₦)	Ceded (₦)	Premium (₦)
1	African Alliance Ins. Co. Ltd.	RIC002	4,939,107,000 (\$16,463,690)	0	4,939,107,000 (\$16,463,690)
2	Alliance & Gen Life Ass Plc	RIC001			0
3	Capital Express Ins Co Ltd	RIC116			0
4	Custodian Life Assurance Ltd	RIC009			
5	Arm Life Plc	RIC009	9,439,000 (\$31,463.33)	5,789,000 (\$19,296.67)	3,650,000 (\$12,166.67)
6	Uba Metro Life Ins Co Ltd	RIC042	191,190,000 (\$637,300)	22,807,000 (\$76,023.33)	168,383,000 (\$561,276.67)
7	Spring Life Assurance Plc	RIC015			0
8	Mutual Benefit Life Ass Co Ltd	RIC027			0

9	Old Mutual Life Assurance	RIC-032			0
10	Royal Prud Life Ass Plc	RIC035	46,922,000 (\$156,406.67)	0	46,922,000 (\$156,406.67)
11	Standard Allin Life Ass Co Ltd	RIC040	0	0	0
12	Unic Insurance Plc	RIC092	96,497,000 (\$321,656.67)	0	96,497,000 (\$321,656.67)
13	Wapic Life Assurance Ltd	RIC046			0
14	Zenith Life Assurance Ltd	RIC048			0
15	Fbn Life	RIC050			0
	Total		5,283,155,000 (\$17,610,516.67)	28,596,000 (\$95,320)	5,254,559,000 (\$17,515,196.67)

Individual Life with Investment

Individual Life with Investment Insurance product provided by insurance operators in Nigeria entails a kind of life insurance policy where a single contract covers a single insured. The product comes with some form of investment elements. The product recorded a net premium of ₦6.35 billion (\$21,166,666.67) in 2014 out of the consolidated figure of ₦10.59 billion (\$35,300,000) made up of Individual Life with Investment and Individual Life without Investment. The total size of the product is low and currently only 15 companies are licensed to underwrite the policy in Nigerian including 12 others who are licensed to underwrite composite insurance business. This type of policy is not usually as cheap as term assurances but the policy holders are entitled to have their savings back and more at the end of the agreed term.

ML typologies on the abuse of the product as well as the use of the product in insurance fraud or tax evasion schemes exists because it allows for withdrawals and loans from life insurance policies which may be subject to fees, penalties, and income taxes depending on the specific life insurance policy and the policyholder's tax situation. Withdrawals reduce the policy value and death benefit. Loans taken from the policies also accrue interest, which will further decrease the policy's cash value and death benefit. The level of cash activity and the cross border use of this policy are low.

The NAICOM has mandated the application of CDD before on-boarding and during payouts to ensure that the customer profile is reviewed and assessed for ML Risks. Tracing the transaction records of this policy is easy due to low cash activities involved as payments are made via bank. Therefore, the overall vulnerability of this product is **rated Medium**.

Individual Life without Investment

Individual Life without Investment product is an insurance policy offered in Nigeria which provides life cover to policy holders without any form of investment elements. The insurance industry in Nigeria in 2014 recorded net premium written for this policy totaling ₦4.24 billion (\$14,133,333.33) out of the consolidated figure of ₦10.59 billion (\$35,300,000). Life insurance policy contributes approximately 25.3% to the composition of the total premium of the insurance sector in Nigeria. Hence the policy volume and the average transaction size can be considered low.

Interviews with industry experts revealed that this type of insurance policy is usually cheap and affordable. The claim on this type of policy is paid to the beneficiary on the death of the insured. The premium taken on this policy is usually small. Thus, it can also be considered as endowment policy where premiums are paid through the life and sum insured becomes payable only on death of the insured.

The product does not have a term as it lasts until the person dies. All customers are subject to normal KYC/CDD. Considering the client base profile and low level of cash activity involved, and for the fact that it cannot be used for cross border transactions nor be purchased on grounds of anonymity, the final vulnerability is given a **Medium Low**.

Group Life

The NAICOM is set out in the Insurance Act 2003 to reinvigorate insurance practice in Nigeria has made this product along with 5 others, a compulsory insurance product. It requires that all employers make up group insurance payments so as to maintain the life insurance policy to protect an employee for up to minimum of 3 times the total yearly emolument of the employee. In 2014, the Net premium written was ₦16.44 billion (\$54,800,000) for group life and ₦5.25 billion (\$17,500,000) for group life pension, totaling ₦21.69 billion (\$72,300,000) generated as premium for this product in the country.

The result of the interview conducted indicates that group life has high percentage in volume when compared with the other life products and the average transaction size is also significantly high. Since it caters for only employees, its clientele is strictly corporate entities both public and private; the client base profile is considered low risk as no direct dealings with individuals are required. The regulator has made it essential to perform KYC/CDD on these products. Verification of the source of funds may be quite easy as this will only be done on the corporate entity and not on individuals, and the transactions are carried out strictly on cheques, transfers and other means of e-payment rather than by cash making transactions easy to trace.

Furthermore, this product does not allow anonymous or omnibus use in the sense that the customer does not need any direct interface with the insurance institution to proceed with a transaction. This has therefore been rated **Medium**

Non Life Special Risk

This comprise of insurances of oil and gas, marine (hull), aviation, and engineering. According to the 2014 Insurance Industry Report, non life insurance product (oil and gas, special risk, marine and aviation, engineering) continue to contribute a significant portion of the industry's Gross Domestic Product (GDP) at 74% compared to 25.3% for life business. 29 companies underwrite this product as a unique function in Nigeria while 12 composite companies who also underwrite both life and non-life products equally underwrite this product. Interviews with industry experts revealed that the volume and average transaction size are significant and is quite high.

This policy can be purchased by ordinary customers, residents, foreign nationals, high net worth individuals, PEPs etc. therefore the client base profile can be assessed as high risk. Non-face to face transaction without any need for identification and verification at the period of use is almost

impossible. However, the vulnerability factor manifests in the high volume of international or cross border transaction and the high amounts involved. This product can also be easily used in insurance fraud or tax evasion schemes due to the high level of cross border transactions which are usually in high amounts. There might also be inadequate verification of source of funds by the marketers due to the credit worthiness of the customers. Again, in terms of controls, only the general AML/CFT controls are in place for this product with no specific controls. This variable is therefore rated **Medium High**

Non Life

This class of policy may include insurance policy against medical emergencies when travelling abroad, motor vehicle, fire, third party liability, residential insurance, or even corporate assets etc. The money transfers can either be high or low value depending on the nature of the transaction and or whether international or domestic fund transfers.

The volume and average transaction size is high. The product's net premium written in 2014 was ₦79.64 billion (\$265,466,666.67) excluding the value from composite business. Client profile is mixed, from the low to high income earners and high net-worth individuals. This services the flow of funds through money transfer both in and out of the country. 29 companies are licensed in Nigeria to sell non life policies including 12 companies which are licensed as composite to sell both life and non life insurance policies.

The product features allow non-face to face transactions whereby customers can simply purchase the policy online without necessarily visiting the insurance institution. Although there is prominent use of insurance agents, there are no ML typologies on the abuse of the product. Tracing the transaction records for this product is not difficult because there is limited use of cash for all transactions. KYC/CDD rules are applicable to all products sold under this category. The variable is therefore rated **Medium**

Reinsurance

In recent times, the practice of reinsurance in Nigeria has come under strict scrutiny. Article 4.0 of the operational guidelines on insurers and reinsurers in Nigeria issued by NAICOM in 2009 requires reinsurers to adhere to all AML/CFT requirements. There are only 2 companies offering the reinsurance business in Nigeria. The total liability of the 2 reinsurance companies in 2013 was put at ₦28.271 billion (\$94,236,666.67).

Reinsurance business involves high rate of cross border transactions. However, the client base profile is strictly from one regulated insurance institution to another with AML/CFT procedures and systems in place thereby reducing the risk. The variable has therefore been rated **Medium**

Takaful

Takaful insurance is a form of insurance which incorporates the elements of mutuality and ethical finance considerations and is open to all people regardless of faith and background. This insurance product is compatible with the principle of the Shari'ah (Islamic Law). The NAICOM

issued the Takaful Guidelines in 2013 as part of its ongoing pursuit to increase insurance penetration in Nigeria for the benefit of people who do not patronize conventional insurance instruments on the basis ethical/religious considerations.

The provisions of the guidelines require the operators to comply with NAICOM AML/CFT regulations. Additionally, all products under the Takaful insurance must each be approved by the regulator. This product is offered by only 3 companies in the country. It employs the services of independent companies as agents of all the participants at a fee depending on the model (Wakala, Muzaba or hybrid). It is considered as a financial inclusion product. The ML/TF risk for Takaful insurance in Nigeria is assessed to be low. Tracing the transaction records of the product can be easily achieved. Therefore this product is given a **Medium**

Micro-Insurance

Micro-insurance products are insurance products that are designed to be appropriate for the low income market in relation to cost, terms, coverage and delivery mechanisms¹⁷⁵. It is the extension of insurance services to the very low income earners who are mostly in the remote areas and typically lack a verifiable means of identification. The volume and transaction size are very low. Client profile is of a very low risk. Local money transfer is insignificant and the product is more cash based but in small amounts. The sum insured under micro insurance is not more than ₦1 million (\$3,333.33) (this include single, bundled and combined policies) both Life and General. This implies the premium does not exceed ₦1, 000.00 (\$3.33). Considering all these factors it can be assessed that the product is very low risk to money laundering. Hence the product is given **Medium Low**

SERVICE (INTERMEDIARIES) SPECIFIC INPUTS

Insurance Brokers

Insurance brokers are those who sell, solicit or negotiate insurance for compensation. They act as intermediaries between clients and insurance companies. They use their in-depth knowledge of risks and the insurance market to assist clients in properly assessing their insurance needs, shop for the best value in insurance coverage and help in the event of claims. They are the retail side of insurance and some insurers underwrite insurance only through the brokers who obtain raw data from customers and fill the complex forms which the insured need in order to assess the risk thoroughly.

The Nigerian insurance market has about 530 licensed insurance brokers as at 2014. The volume of businesses generated by brokers in Nigeria is very high and the average transaction size is equally very high. This is due to the fact that about 80% of insurance businesses in Nigeria are brought in by the brokers as evident in NAICOM's AML/CFT onsite 2014 inspection reports, and they have no transaction limit nor limit on customer/client base.

¹⁷⁵ NAICOM Guidelines for Micro Insurance 2013

Brokers are involved in high level international transactions, more especially in reinsurance businesses. Insurance brokers in Nigeria are required to comply with NAICOM AML/CFT Regulations. Specifically, Regulation 3 of the AML/CFT Regulations mandates insurance companies to integrate their brokers into their AML/CFT framework in order to ensure and monitor compliance with the program.

Insurance institutions rely mostly on the CDD conducted by insurance brokers on clients. The brokerage business is conducted on a face to face basis only. Tracing transaction records can be very easy because of article 5 and 6 of the circular on Insurance Premium Collection and Remittance issued by NAICOM in 2013 which mandates brokers to keep proper records of all collected premiums on behalf of the insured and remit same to the insurer within a maximum of 30 days from the date of the collection.

Insurance Brokers use agents in rendering services to their clients. They also use other brokers to introduce or get businesses both locally and internationally. The intermediary is rated **Medium High**

Insurance Agents

Insurance agents are individuals who are licensed by NAICOM to sell insurance for one or more specific insurance companies. As at 2014 there were 1,900 agents registered to sell insurance products in Nigeria.

The volume and average transaction size may be difficult to ascertain, however the industry practice revealed that insurance business is only sourced by brokers and agents and that the brokers bring in more than 80% of the total insurance business and this implies that less than 20% is brought in by the agents. The agent's client base comprises of individuals and a few corporate customers and are usually small ticket transactions thus giving the client profile a low AML risk. There are adequate controls in place in dealing with agents as most companies limit cash transactions to ₦5,000.00 (\$16.67) only. Additionally, where cash transactions exceed the ₦5,000.00 (\$16.67) limit, Point of Sale (PoS) terminals are provided to prevent premium diversion.

NAICOM has mandated insurance companies to involve their agents in all AML/CFT trainings on an ongoing basis for their understanding of compliance with the AML/CFT regime. The variable has therefore been rated **Medium**

RANKING OF PRIORITY AREAS

Priority areas have been identified from the assessment as follows.

Table 5.11: Main Priority Areas in the Insurance Sector

PRIORITY RANKING - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML Legal Framework	
Effectiveness of Supervision Procedures and Practices	1
Availability and Enforcement of Administrative Sanctions	5
Availability and Enforcement of Criminal Sanctions	5
Availability and Effectiveness of Entry Controls	
Integrity of Staff in Insurance Companies	
AML Knowledge of Staff in Insurance Companies	
Effectiveness of Compliance Function (Organization)	2
Effectiveness of Suspicious Activity Monitoring and Reporting	3
Level of Market Pressure to Meet AML Standards	
Availability and Access to Beneficial Ownership Information	7
Availability of Reliable Identification Infrastructure	4
Availability of Independent Information Sources	8

The Darker the colour/ the smaller the number higher the priority

RECOMMENDATIONS

In order to reduce the vulnerability emanating from the Insurance sector, the following recommendations are proffered in order of their priority;

- a) Improve the quality of AML/CFT supervision: This should include but not be limited to having sound AML/CFT regulatory framework, method of supervision, frequency thereof, and qualified AML/CFT supervisors. NAICOM should review their existing policies of conducting on site routine examination of insurance institutions once in every Two (2) years to every One (1) year and there should be more punitive measures for non-compliance on statutory requirements rather than limiting sanctions on regulatory issues as earlier stated in this report.
- b) NAICOM should make adequate financial provisions for AML/CFT activities in their annual budget for effective and efficient supervisory functions.
- c) After each supervisory visit, feedback should be communicated to both the top management of the institution visited and the responsible officers for necessary action.
- d) NAICOM to review its AML/CFT regulations and issuance of new specific guidelines should be done to address identified gaps.
- e) It is advised that the regulators should introduce a uniform and updated proposal forms that would ensure that required information is collected from the insured at the point of on-boarding and at the point of pay out to the beneficiaries.
- f) The NAICOM should adopt a Risk Based Approach in their supervision processes and procedure.
- g) NAICOM AML/CFT Unit should develop a standard operating procedure (SOP) to guide the staff in carrying out their functions.

- h) Furthermore, supervisors need to have a clear understanding of ML/TF risks identified in the NRA process so as to effectively mitigate them.
- i) Insurance operators should improve on their compliance functions and ensure that all unusual transactions are reviewed and any qualified STR is reported promptly to the NFIU while maintaining strict confidentiality.
- j) Reliance on Brokers to provide KYC information and to conduct CDD measures should be discouraged as it is the responsibility the insurer and not on Brokers and agents. Although NAICOM instructed all brokers to conduct CDD on their clients, it is still incumbent on the insurer to conduct CDD on its clients, brokers and agents.
- k) There is the need to also improve the country's identification infrastructure to enable the operators identify and verify their policy holders and ultimate beneficial owners.
- l) More effective and dissuasive administrative sanction is required to punish erring operators and to serve as deterrence to others in order to ensure full compliance to AML/CFT laws and regulations.
- m) Criminal sanction should also be evoked against those entities that continue to violate statutory AML/CFT requirements to serve as additional deterrence
- n) A review of the existing laws and regulations or issuance of new specific guidelines should be done to address the following identified gaps:
- Lack of prohibition or limit on cash transactions by insurance operators
 - Absence of legal protection for CCOs
 - Absence of any directive to insurance brokers compelling them to disclose the KYC/CDD information to insurance companies.
- o) It is also advised that the regulators come up with uniform and updated proposal forms to ensure that required vital information is collected from the insured at the point of on-boarding and at the point of pay out to the beneficiaries.

CHAPTER SIX

6. OTHER FINANCIAL INSTITUTIONS VULNERABILITY TO MONEY LAUNDERING RISK

INTRODUCTION

The Working Group (WG) covered all categories of regulated Other Financial Institutions (OFIs) and one unlicensed operator. They comprise of microfinance banks (MFBs), primary mortgage banks (PMBs), finance companies (FCs), development finance institutions (DFIs), bureaux de change (BDCs) and international money transfer service operators (IMTSOs). The WG also assessed the activities of other regulated entities including pension fund administrators (PFAs) and pension fund custodians (PFCs). The National Union of Road Transport Workers (NURTW) and cooperative societies were assessed due to the nature of their activities.

The objectives of the WG are:

1. To identify the ML/TF threats and vulnerabilities in the OFI categories
2. To identify high vulnerability Other FI categories,
3. To identify on a needs basis, the products/services/channels offered by these Other FI categories with high ML vulnerability), and
4. To prioritize action plans to strengthen anti-money laundering controls (AML controls for the Other FI categories.

OVERVIEW OF THE OFIs SECTOR

The OFIs sector in Nigeria comprises the Primary Mortgage Banks, Microfinance Banks, Development Finance Institutions, Finance Companies, Bureaux de Change and International Money Transfer Service Operators. These institutions are regulated and supervised by the Central Bank of Nigeria in line with the CBN Act, 2007 and Banks and Other Financial Institutions Act (BOFIA), 1991 (as amended). As at 31st December 2014, the total number of licensed OFIs stood at 3,516 with a combined (except IMTSOs) total assets of ₦1.69 trillion or 1.76% of GDP (2010 Rebased) as analyzed below:

Table 6.1: Summary of OFIs in Nigeria as at 31st December, 2014

OFI Category	Total Number Licensed	Minimum Capital Required (\$)	Total Assets (\$)	Total Assets/GDP (%)
BDC	2,523	116, 666.7 (₦35 m)	N/A	
DFIs	6	33, 333, 333.3 ₦ (10b)	2, 938, 333, 333.3 (₦881.5b)	0.9
FCs	64	333, 333.3 (₦100m)	398, 633, 333.3 (₦119.59b)	0.12

MFBS	Unit	825	66, 666.6 (₦20m)	1, 091, 733, 333.3 (₦327.52b)	0.32
	State	54	333, 333.3 (₦100m)		
	National	5	6, 666, 666.6 (₦2b)		
	Total	884			
IMTSO		3			
PMBs	State	26	8, 333, 333.3 (₦2.5b)	1, 378, 900, 000 (₦413.67b)	0.41
	National	10	16, 666, 666.6 (₦5b)		
	Total	36			
Total		3,516		5, 633, 333, 333.3 (₦1,690.80t)	1.76

Source: CBN Consolidated Banking Supervision Annual Report (2009 – 2014) and other CBN in-house reports – www.cbn.gov.ng

Note: Nigeria Rebased GDP = USD\$510 billion (Source: National Bureau of Statistics (NBS): www.nigeriastat.gov.ng)

OVERALL ASSESSMENT OF OTHER FINANCIAL INSTITUTIONS SECTOR

The vulnerability of the OFIs sector results from weaknesses in AML general controls especially in the areas of AML/CFT knowledge of business and institution staff, inadequate AML compliance function and effectiveness of supervision. The vulnerability is assessed based on the variables provided in the World Bank tool. The overall OFIs sector vulnerability to ML risk is rated **Medium**. This is mainly due to the weaknesses and deficiencies in the quality of AML controls, quality of operations, compliance level of staff and effectiveness of AML supervision particularly in the BDC sub-sector. Furthermore, the availability of beneficial ownership information was rated **Low**, availability of reliable identification infrastructure was rated **Low** and the availability of independent information sources obtained a **Low** rating. These are poor ratings considering the importance of the variables.

The OFI category with the highest level of vulnerability is the BDCs followed by IMTSOs with, FCs and PMBs have lower vulnerability ratings. The MFBS and DFIs are considered least vulnerable.

Majority of the products offered by the OFIs were not considered highly vulnerable and, therefore not included in the assessment.

QUALITY OF AML CONTROLS FOR OTHER FINANCIAL INSTITUTIONS

The justification for the ratings is as follows:

Comprehensiveness of AML Legal Framework

The AML/CFT regime governing the OFI sub-sector comprises of laws and regulations as well as circulars issued by the CBN from time to time in line with the relevant provisions of BOFIA 1991 (as amended). The following AML/CFT laws and regulations exist which apply to other financial institutions (OFIs) in Nigeria:

1. The Money Laundering (Prohibition) Act, 2011 (as amended) – Source: www.nfiu.gov.ng
2. The Terrorism Prevention Act, 2011 (as amended) - Source: www.nfiu.gov.ng
3. The Economic & Financial Crimes Commission (Establishment) Act, 2004 – Source: www.efccnigeria.org
4. The CBN “Know Your Customer” Manual 2003 issued to licensed banks and other financial institutions vide circular No. BSD/3/2003 dated March 10, 2003. (Source: www.cbn.gov.ng)
5. The CBN “Three Tiered Know Your Customer” Requirements 2013 issued to licensed banks and other financial institutions vide circular No. FPR/DIR/GEN/CIR/02/001 dated January 18, 2013. (Source: www.cbn.gov.ng)
6. The CBN AML/CFT Regulations 2013 issued to licensed banks and other financial institutions vide circular No. FPR/DIR/GEN/CIR/03/003 dated May 3, 2013. (Source: www.cbn.gov.ng)

Specifically, Sections 3, 6, 7, 9 of MLPA, 2011 (as amended); Section 14 of TPA, 2011 (as amended); Sections 58 and 59 of BOFIA, 1991 (as amended); CBN AML/CFT Regulations, 2013 - Regulations 7, 13, 16, 18, 21, 23, 27, 28, 30, 31, 33 and 45 cover various aspects of AML/CFT compliance .

The scope of AML compliance covered includes: KYC, CDD, EDD for Politically Exposed Persons (PEPs), risk profiling of customers,; record-keeping; reliance on CDD by third parties; suspicious transaction reporting; currency transaction reporting; registration and licensing; whistle-blowing tipping-off and confidentiality; Internal controls; Foreign branches/subsidiaries; money/value transfer services (MVTS), sanctions and regulation and supervision of other financial institutions.

In addition, the following laws and regulations apply to other financial institutions in Nigeria (Source: www.cbn.gov.ng):

- Banks and Other Financial Institutions Act, 1991 (as amended)
- Revised Guidelines for the Regulation and Supervision of Microfinance Banks in Nigeria
- Revised Guidelines for Primary Mortgage Banks in Nigeria 2011
- The Revised Guidelines for the Regulation and Supervision of Finance Companies in Nigeria 2014 (also known as Revised Guidelines for Finance Companies)
- The Revised Operational Guidelines for Bureaux de Change in Nigeria 2015
- The Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria 2015
- CBN Guidelines on International Money Transfer Services in Nigeria 2014
- The CBN Risk Based Supervision Framework 2011
- Circulars and Guidance Notes issued from time to time by the CBN addressing AML/CFT compliance issues, implementation of targeted financial sanctions to comply with United Nations Security Council Resolutions (UNSCR) 1267 (1999) etc.

Furthermore, an analysis of the qualitative and quantitative data based on responses to interviews and questionnaires by the key stakeholders (CBN and the OFIs) showed that the AML/CFT laws and regulations were comprehensive.

A major deficiency identified in the extant laws and regulations for banks and OFIs is the absence of strong provisions for administrative sanctions that are proportionate, dissuasive and effective. Section 60 of BOFIA 1991 (as amended) provides for a maximum monetary penalty of N2 million which is considered not dissuasive enough to deter money laundering and other regulatory breaches by OFIs. These have been identified and in order to address these deficiencies, an administrative sanctions framework is being developed in line with the FATF recommendations. In addition, a comprehensive review/amendment of BOFIA 1991 (as amended) is being undertaken to bring it in line with contemporary realities in the Nigerian financial system. Also, the Proceeds of Crime Bill (POCB), 2016 and other relevant Bills when passed into law will further strengthen the AML/CFT Regime in the country.

Accordingly, the variable was rated **Very High** for all OFIs representing comprehensiveness of the extant laws and regulations with regard to the AML/CFT regime in Nigeria.

Effectiveness of AML/CFT Supervision/Oversight

The CBN is clearly identified as the authorized body responsible for regulation/supervision of OFIs in the extant legislation and regulations of: BOFIA 1991 (as amended) - Sections 2, 3, 57 and 61; CBN Act, 2007 - Sections 43 and 44; ML(P)A, 2011 (as amended) - Sections 8 and 13; T(P)A, 2011 (as amended) - Section 4; CBN AML/CFT Regulations 2013. There are other CBN guidelines (as listed above), circulars and policies that govern the regulation and supervision of OFIs.

The CBN has adequate capacity in terms of technical knowledge and material resources but they lack adequate manpower for the AML/CFT supervision of OFIs. There are over 3, 500 licensed OFIs as at December 2014 with 173 core examiners which translates to a ratio of 1 :20. The CBN conducts training programs for Examiners on AML/CFT. In 2014, CBN sponsored various AML/CFT training for 108 Examiners.

The CBN supervises all OFIs through off-site surveillance and on-site examinations. Each OFI is subjected to on-site examination at least once every year. The CBN conducts AML/CFT compliance and risk based supervision of the OFIs using the Regulatory and Supervisory Guidelines for respective OFIs and the CBN AML/CFT Regulations, 2013. It also uses the ML(P)A 2011 (as amended) and the T(P)A 2011 (as amended).

Supervisory findings and concerns are discussed with the OFIs and formally communicated to the institutions via a Supervisory Letter. Post examination monitoring and enforcement procedures are in place to ensure full implementation of examiners' recommendations. Although the extant laws and regulations provide for sanctions against regulatory breaches, this is usually applied generically for non-compliance with regulatory requirements which also covers AML/CFT breaches.

Total number of MFBs examined in 2014 stood at 834. Others were not examined due largely to closure of shop and other administrative reasons. Furthermore, in 2014, 64 Finance Companies, 168 BDCs, 32 PMBs, 6 DFIs and 19 agents IMTSOs were examined on-site. This means about one-third of the total number of OFIs were examined in 2014 alone.

:Table 6.2 On-site Examinations Conducted on OFIs in 2014

OFI Category	No. of OFIs examined on-site	Total number of licensed OFI category	Percentage of OFI category examined on-site
BDCs	168	2,523	6.7%
IMTSO	19 (agents)	3 IMTSOs (19 agents)	100%
MFBs	834	884	94%
PMBs	32	36	89%
DFIs	6	6	100%
FCs	64	64	100%

Supervision by the NFIU

The NFIU conducts off-site supervision of other financial institutions by the Nigerian Financial Intelligence Unit (NFIU) generates exception reports and forwards to the CBN for investigation and remedial action where necessary. The Off-site examination is both routine and periodic using a risk based approach which entails daily offsite checks of the statutory reports filed to the NFIU as they are received to determine their quality, validity and timeliness with the NFIU online reporting format (XML schema) and other reporting formats since not all OFIs have the technical capacity to commence online reporting.

OFIs are therefore mandated to render monthly, quarterly and half year reports as discussed under the banking sector vulnerability, however, not all reports are applicable to every OFI category depending on the nature of their operations. For example, DFIs do not accept deposits from individuals or corporate bodies, therefore, they may not be required to provide monthly reports on public sector accounts.

The NFIU has also developed and provided guidelines on reporting of suspicious transactions and statutory currency transactions to the NFIU for BDCs, PMBs, DFIs, MFBs, FCs and agents of IMTSOs. The compliance level of these operators in reporting has improved considerably as the NFIU continues to provide hands-on support to these OFIs.

Furthermore, the NFIU applies a risk based approach in assessing the OFIs taking into consideration open source reports on their activities, the nature of their products and permissible activities and statutory reports available on the NFIU database. The assessment revealed that BDCs were highly vulnerable to money laundering, followed by the PMBs and DFIs due to their on-lending activities which were not reported to the NFIU. Also FCs involved in asset management were considered vulnerable since the umbrella investments done on behalf of clients may conceal their true identities.

For the period covering 2011 to 2016, the NFIU conducted targeted onsite examination for only BDCs out of all the OFIs.

Specifically, in November 2012, the NFIU conducted spot checks in 21 randomly selected BDCs based on the findings of the off-site assessment. The spot checks revealed that the BDCs had improper record keeping practice, lack of KYC/CDD on clients, non-screening of clients against the sanctions list, non-designation of a chief compliance officer, weak internal controls, lack of staff training and awareness on AML, non-filing of statutory reports (STR/CTR) and non-filing of regulatory reports.

These findings alongside recommendations were shared with the CBN for further action. The CBN took steps to address the issues raised; however, there is need for serious improvement in supervision of BDCs and other financial institutions.

Given the characteristics and weaknesses highlighted above, this variable was rated **Medium** for **MFBS, PMBs, FCs and DFIs; IMTSOs were rated Medium High** and **BDCs** were rated **Low**.

Main weaknesses identified during the spot examinations of OFIs are:

BDCs: weaknesses include lack of effective AML/CFT compliance function, weak or lack of Board-approved AML/CFT policies and programs as well as poor AML/CFT knowledge and skills due to lack of or inadequate training of Board, Management and staff. These weaknesses may be evident in other BDCs, majority of which were not covered in onsite inspections in 2014.

PMBs: weaknesses are poor AML/CFT knowledge and skills due to lack of or inadequate training of Board, Management and staff on AML/CFT. Other weaknesses include poor risk management and lack of effective AML/CFT compliance function

MFBS: lack of Board-approved AML/CFT policies and programs as well as poor AML/CFT knowledge and skills due to lack of or inadequate training of Board, Management and staff on AML/CFT. Other weaknesses include poor risk management and lack of effective AML/CFT compliance function due to non-appointment of chief compliance officers. AML/CFT compliance by MFBS consists mainly of display of AML/CFT caution notice in the banking halls as well as currency transaction report (CTR) and suspicious transaction report (STR) reporting to the NFIU, which are mostly NIL reports.

DFIs: weaknesses include poor risk management, lack of Board-approved AML/CFT policies and programs as well as poor AML/CFT knowledge and skills due to lack of or inadequate training of Board, Management and staff.

FCs: weaknesses include poor risk management, lack of effective compliance program, lack of Board-approved AML/CFT policies and programs as well as poor AML/CFT knowledge and skills due to lack of or inadequate training of Board, Management and staff.

The AML/CFT supervision of IMTSOs and their agents (DMBs) is carried out by the Trade and Exchange Department as well as the Banking Supervision Department of the CBN, as part of their supervision programmes/schedules for OFIs. The supervision function is carried out in two dimensions of off-site and on-site. The off-site involves analysis of returns rendered by the

IMTSOs and the agents on their operations, while on-site involves examination, investigations and spot-checks at agent locations only. The findings of the routine on-site examination and recommendations are usually communicated solely to the agent. The IMTSOs, as part of ensuring effective supervision of their agents, apply a risk-based approach to conduct annual AML review of their operations covering policies, compliance programs, report of CBN Examiners, physical visit etc. During the annual review, the IMTISO would request to sight the portion of the CBN examination report regarding their international money transfer operations to take note of relevant recommendations and follow up with the agent on the implementation of the recommendations. For low risk agents, the IMTSOs conduct AML reviews at least once every 48 months. The IMTSOs also undertake continuous monitoring of their agents' activities. Remedial actions are taken against any agent that breaches standing policies and procedures.

The CBN also holds bi-annual meetings with the Committee of Microfinance Banks in Nigeria (COMBIN) to discuss issues, sensitize and encourage compliance with extant laws and regulations which include AML/CFT. The CBN holds similar meetings with the Mortgage Banking Association of Nigeria (MBAN), Association of Bureaux de Change Operators in Nigeria (ABCON), international money transfer service operators (IMTSOs) and Finance Houses Association of Nigeria (FHAN) annually.

Availability and Enforcement of Administrative Sanctions

This variable assesses whether the country takes administrative enforcement steps against a financial institution or individual member of management or staff in case of non-compliance with AML obligations. The extant AML/CFT laws and regulations provide an Administrative Sanctions Regime for the OFIs.

The CBN AML/CFT Regulations 2013 (Regulations 31 (5) and (6) & 34 and Schedule 1) and the Revised Guidelines for respective OFIs have provisions for sanctions for non-compliance with or breaches of these laws and regulations. The CBN can apply administrative sanctions such as monetary penalties, removal of board member or senior management officer and revocation or suspension of license. From the survey carried out, 76% of the OFI respondents believe CBN has in place an Administrative Sanctions Regime that penalizes OFIs as well as the individual directors, management and staff for non-compliance with provisions of extant AML/CFT laws and regulations. In addition, 60% of respondents believe the sanctions regime is effective, proportionate and dissuasive enough to discourage ML/TF.

However, the application of the prescribed penalties on the OFIs is limited to the maximum monetary penalty of \$6,666.6 (₦2 million) provided in Section 60 of BOFIA 1991 (as amended) and it is not robust to adequately cover individual directors, management and staff of OFIs. In recognition of this deficiency, a framework on administrative sanctions is being developed by the CBN in conjunction with the FMOJ. There is also need to update or amend BOFIA 1991 to empower the CBN to impose stiffer sanctions that are robust, effective, proportionate and dissuasive. Another deficiency is the existence of a one-size-fits-all approach in applying sanctions addressing both prudential and AML/CFT compliance breaches.

Non-compliance with AML/CFT laws and regulatory provisions discovered in the course of routine examinations are highlighted in supervisory letters to the OFIs for corrective action to be taken. A total of 88% of OFIs respondents indicated that their institutions have not been penalized by the CBN for breaches of AML compliance requirements.

A total of 168 penalties were imposed on BDCs operators by the CBN in 2014 for sundry offences including AML/CFT breaches. Following recommendations in a report from the NFIU on AML breaches by BDC operators in 2013, the licenses of 20 BDCs were revoked by the CBN in September 2013¹⁷⁶. The affected BDCs were handed over to the EFCC for investigation and prosecution of indicted persons. Earlier in January 2013, the CBN revoked the licenses of 236 BDCs¹⁷⁷. Data on the reason for the revocation was not available during the assessment,, however it is evidence of the effectiveness of the CBN in enforcing administrative sanctions on erring OFIs. Sanctions were also imposed on one PMB for breaches including AML/CFT compliance issues during the period under review.

In 2015, the CBN issued the guidelines for the licensing and operations of DFIs which included provisions on administrative sanctions applicable to mostly prudential breaches, however, information on record of sanctions imposed on DFIs for AML/CFT breaches was not accessible. The same challenge applies to information on microfinance banks and finance companies.

In the case of IMTSOs, Sections 7 and 8 of the CBN stipulate sanctions for erring IMTSOs though the applicable sanctions for specific breaches are not clearly outlined, distinguishing prudential breaches from AML compliance breaches. On the other hand, IMTSOs affirmed that disciplinary measures are taken against erring agents which may range from restriction of operation, to suspension to non-renewal of contract depending on the severity of the AML compliance breach. There are cases where the IMTSO will request that the front desk officer employed by the agent to attend to clients on is removed. The agent is at liberty to move the front desk officer to a different department or sanction the officer.

Considering the availability of the necessary legal and regulatory framework for administrative sanctions in the OFIs sector and the weaknesses highlighted above, it was concluded that its enforcement and deterrent effect needs improvement. Hence, the variable was rated **Medium** for **MFBs, FCs, PMBs and DFIs**. For **BDCs** the variable was rated **Medium High**, while IMTSOs were rated **High**.

Availability and Enforcement of Criminal Sanctions

There are appropriate criminal sanctions in place for non-compliance with AML /CFT obligations as provided in the ML(P)A 2011 (as amended) – Sections 6(9), 10(3), 11(4), 12, 16, 17, 18, 19 and 22. Some of the sanctions include heavy fines for each day a suspicious transaction or threshold currency transaction is not reported, prison term for directors and employees of the financial institution, ban from professional practice and suspension or revocation of operating licenses of the financial institution. The respondents to administered questionnaires consider the criminal sanctions in the ML(P)A 2011 (as amended) and EFCC

¹⁷⁶ <https://www.cbn.gov.ng/out/2013/fprd/revocation%20of%20operating%20license%20of%2020%20bdcs.pdf>

¹⁷⁷ <https://www.cbn.gov.ng/Out/2013/CCD/Revocation%20of%20Operating%20License%20of%20236%20BDCs.pdf>

Establishment Act 2004 to be proportionate and dissuasive. However, records of convictions and penalty for non-compliance with AML/CFT obligations could not be obtained from relevant law enforcement agencies in the country.

Sixty-six percent (66%) of respondents believe that there are appropriate criminal sanctions in place for non-compliance with AML/CFT obligations. In addition, 69% of respondents regard the criminal sanctions regime as sufficiently dissuasive to prevent ML/TF and ensure compliance with AML/CFT laws and regulations. Also, a total of 93% of respondents ensure that staff and Management of their institutions are aware of their compliance obligations under the AML/CFT laws and regulations, and that sanctions will be imposed on them for non-compliance.

There was no reported case of criminal breaches and sanctions, based on the responses which may be indicative of weak enforcement or lapses in record keeping. About 88% of respondents do not have records of prosecutions, convictions, and criminal enforcement actions that have been taken in the past by law enforcement agencies regarding breaches of AML obligations by their staff, clients or institution. Conversely, 5% of respondents mainly composed of BDCs and a few PMBs affirm they have such records, though it is unclear whether it refers to prosecution, convictions or criminal enforcement actions.

For IMTSOs, this is first applicable to their agents which are strictly DMBs in Nigeria and the operators themselves. However, there are no records of prosecution of these operators for contravention of AML laws in the course of their operations.

A major challenge in the prosecution of criminal AML/CFT breaches is that they are only punishable upon conviction by a court of competent jurisdiction which usually involves legal delays. There is therefore the need for special courts to speedily try economic and financial crimes such as money laundering and related offences. In addition, there is need for judicial reforms to accelerate or facilitate the speedy dispensation of justice in Nigeria.

Given the above details, this variable is rated **Medium for DFIs, FCs, PMBs, MFBs IMTSOs and BDCs.**

Availability and Effectiveness of Entry Controls

Section 43 of the CBN Act, 2007 and Sections 2, 3 and 61 of the BOFIA 1991 (as amended) empower the CBN to license and regulate banks and OFIs in Nigeria.

The CBN has comprehensive guidelines for licensing all OFIs with detailed requirements for application and approval. The licensing requirements are contained in the Regulatory and Supervisory Guidelines for respective OFIs in Nigeria. However, the DFIs were for the first time brought under the licensing control of the CBN in 2014 following the issuance of the regulatory and supervisory guidelines, even though they had been under the supervisory purview of the CBN. The licensing procedures for OFIs are vigorously followed before entry into the industry is allowed.

The CBN has an approved persons regime contained in “CBNs Assessment Criteria for Approved Persons Regime for Financial Institutions” issued in 2011 which ensures that "Fit and Proper" test are conducted on board and senior management appointees as part of the conditions

precedent to licensing and this is strictly adhered to. In addition, the CBN has issued a Competency Framework that stipulates the minimum educational and/or professional qualifications and experience for certain key positions in the banking and OFIs industry including the Internal Auditor and Chief Compliance Officer.

The criteria for licensing of some of the OFIs do not explicitly include the availability of AML compliance control as a mandatory requirement. However, for BDCs and DFIs, it is a mandatory requirement to have an AML policy and compliance manual prior to CBN granting license. Every OFI is required to put in place their AML compliance control after the grant of final license as all licensed OFIs are subject to the ML(P)A, 2011 (as amended), T(P)A 2011 (as amended) and the CBN AML/CFT Regulations 2013. The CBN conducts capital verification of amounts invested by prospective owners of OFIs to among others ensure they are not from illegal or borrowed sources.

The CBN has a dedicated division within the Financial Policy & Regulation Department responsible for licensing and approval of new banks and OFIs. The Division is adequately resourced with competent staff that screen, vet and approve all applications.

Conversely, IMTSOs are licensed by the Trade and Exchange Department of the CBN. The licensing requirements are of two categories- one for the licensing of existing international money transfer service operations who are licensed in a foreign jurisdiction and the other for indigenous international money transfer service operators. There is currently no licensed indigenous international money transfer service operator in Nigeria. The requirements for licensing are listed in Sections 2.0 to 2.5 of the CBN Guidelines on International Money Transfer Services in Nigeria 2014 (Source: www.cbn.gov.ng). It is clearly stated in the guidelines that the operator is to comply with the CBN AML/CFT Regulations, 2013.

In view of the facts stated above, the variable is rated **Very High** for **MFBS, PMBs, DFIs, FCs, IMTSOs and BDCs**.

Integrity of Business/ Institution Staff

The CBN and the OFIs have a mechanism for screening of banks and OFIs employees and senior management staff before recruitment. A survey of all OFIs shows that 65% of the respondents indicated that their institutions have a mechanism for screening of OFIs employees before recruitment.

In line with Section 48 of BOFIA 1991 (as amended) and the CBN Approved Persons Regime, OFIs and agents of IMTSOs are required to ensure that only “fit and proper” persons with integrity are engaged in or appointed to board and management positions. This involves the screening of the OFIs staff during the recruitment or engagement process. In addition, the ML(P)A 2011 (as amended) and CBN AML/CFT Regulations 2013 provide for screening of financial institutions’ employees before recruitment. As part of its on-site examination, the CBN reviews the personal files of directors and staff particularly the Senior Management team including verification of the necessary documentation obtained.

Section 48 (4) of BOFIA 1991 (as amended) prohibits a person whose appointment is terminated for dishonesty or fraud from being employed by another bank or financial institution in Nigeria. In line with this provision, the CBN maintains a “Black Book” which contains details of black-listed bank and OFIs staff who are barred from working in or holding any position in any financial institution under the purview of the CBN. All appointments and promotions of employees at top management level require prior CBN approval and these appointments are screened against the Black Book. Furthermore, the CBN conducts status enquiry on the appointees with other relevant regulatory agencies as part of the necessary due diligence to ensure their ‘fitness and propriety’.

On the part of the OFIs, many (79%) of the OFIs respondents indicated that they conduct periodic checks on staff to vouch for their integrity. In addition, 94% of the OFIs indicated that they have a code of conduct and ethics for staff which will strengthen the ethical environment in those institutions. Furthermore, the ML(P)A 2011 (as amended) protects employees that make reports on suspicious transactions in good faith.

The CBN AML/CFT Regulations 2013 and CBN Code of Corporate Governance have provisions for whistle blowing. Seventy-six percent (76%) of the OFIs assessed have a whistle blowing policy in place and 75% indicated that their whistle-blowing policies protect employees that make reports on suspicious transactions in good faith. However, of all the OFIs, only 9% of MFBs indicated that there are incidences where their employee(s) were victimized based on whistle blowing. BDCs operators and FCs interviewed did not provide evidence of a whistle blowing policy.

Regulation 38 of the CBN AML/CFT Regulations 2013 requires banks and OFIs to monitor the conduct and accounts of their employees for potential signs of money laundering and report findings to the CBN. When the CBN receives these reports, it conducts inquiries to determine the culpability of reported employees.

There were few (9%) reported cases of externally induced frauds involving staff of the OFIs, specifically few MFBs and PMBs. Where any fraud involving staff occurs, OFIs are required to appropriately discipline such staff and report same to the CBN. Indeed, OFIs are required to render monthly returns on frauds and forgeries. From the cases of fraud and serious unethical practices reported to the CBN by OFIs, the number of indicted former employees of each specific OFI subsector was not ascertained, though cases of fraud seem to be on the rise. Any staff reported for involvement in fraud and other unethical practices is subjected to the necessary disciplinary procedures and appropriate action is taken.

IMTSOs do not have any influence over the disciplinary action or vetting of staff employed by their agents. However, where there is evidence of AML breaches by the agent’s staff responsible for conducting money transfer services, the IMTSO will recommend to the agent the removal of the staff from handling money transfers.

Therefore, it is clear that effective mechanisms are in place to ensure that only staff with integrity are recruited or appointed by OFIs. Consequently, considering the current mechanism

in place to promote staff integrity, this variable was rated **Medium High** for **PMBs, MFBs, FCs and DFIs. Medium Low** for **BDCs and High** for **IMTSOs**.

AML Knowledge of Business/Institution Staff

Overall, 42% of respondent OFIs believe their staffs have high AML/CFT awareness. Some OFIs sub-sectors are more exposed and educated on AML/CFT than others. In some cases, the knowledge gap within a specific sub-sector is very wide. There are instances where some operators within a subsector have far higher knowledge of AML/CFT than other operators in the same subsector. Respondents' level of knowledge of AML/CFT compliance and reporting obligations was generally assessed as Medium and was observed to have been largely limited to CTR and STR reporting.

Although, 79% of the MFB respondents indicated that they expose their staff to AML/CFT training, available information by the CBN and from the interviews with the MFBs showed a pervasive dearth of AML/CFT knowledge and skill in the sub-sector. NAMB has made efforts in the past to conduct AML/CFT training for its members however; it lacks adequate resources for training of its members. Many MFBs do not have training plans or budget and have not conducted AML/CFT training for their staff largely due to lack of awareness of their compliance obligations in this regard and funds to conduct the training. Most MFBs relied on and only attended occasional training programs organized by the CBN, which are mostly general trainings covering other areas of MFBs' operations and not specifically focused on AML/CFT. Participation is also limited to one or two officers from each MFB which is inadequate. One of such training programs was held for the MDs/CEOs of MFBs at the bi-annual COMBIN meetings held at three locations in Abuja, Lagos and Calabar in December 2015. Some MFBs interviewed do not have an AML/CFT policy that requires staff members to undergo ongoing training to ensure that their knowledge of AML laws, policies, and procedures are appropriate and up-to-date.

In addition, 61% of BDC respondents indicated that they expose their staff to AML/CFT training. Available information by the CBN and NFIU showed lack of AML/CFT knowledge and skill in the sub-sector. Spot checks conducted by the NFIU revealed that BDC staffs are not exposed to AML/CFT training. BDCs do not have board approved AML training plans and budget. ABCON on the other hand has put in efforts to develop and distribute an AML/CFT manual for its members (BDCs) and few training programs were organized on AML/CFT. However, the level of AML knowledge is quite low for a significant percentage of BDC operators.

Majority of respondent PMBs stated that they have a board approved annual training plan and have exposed their board and senior management to AML/CFT training. The PMBs added that they expose their staff to AML/CFT training and about 67% of respondent PMBs opined that their staffs are highly knowledgeable in AML/CFT. MBAN has organized two (2) AML/CFT training programs for its members (PMBs) and considers its members knowledgeable in AML/CFT within the period under review.

Several respondent FCs stated that they have a board approved annual AML/CFT training plan. About 70% of the respondent Finance Companies stated that they expose their board, senior management and staff to AML/CFT training. The quality and frequency of the AML/CFT training and number of staff and senior management officers trained were not ascertained. In gauging the level of AML/CFT awareness of staff of FCs, 50% of respondent FCs rated as high the level of staff awareness on AML/CFT, 40% of the respondent FCs rated their staff as having medium level awareness and 10% rated their staff as having low awareness. Majority of respondent FCs stated that their staffs have a good understanding of the consequences of AML/CFT breaches. FHAN on the other hand has not organized AML/CFT training for its members in recent times rather it has focused more on sector specific training programs.

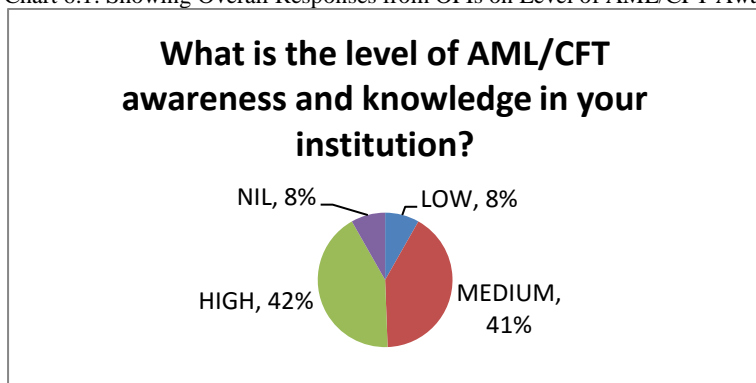
The quantitative responses from sample DFIs revealed an appreciable level of AML/CFT knowledge by staff. Assessors field interview of one of the DFIs revealed that DFI considers AML/CFT knowledge and awareness for its board, management and staff a priority, therefore, the institution has a board approved AML/CFT training plan and budget. This may not be applicable to all other DFIs.

IMTSOs affirmed that their staff are exposed to regular AML trainings with greater emphasis on compliance officers. The trainings are mandatory with time frames within which they have to be completed. The AML training is mandatory and any staff that fails to attend any scheduled training is not paid his/her bonus and may attract disciplinary action. The banks as agents of the IMTSOs that carry out the international money transfer services are subject to the obligatory training requirements of the CBN and render periodic returns on AML/CFT training as required in the CBN AML/CFT Regulations 2013. IMTSOs consider it mandatory for their agents' staff responsible for money transfers participate in AML/CFT training and provide support to agents in this regard in the form of AML training facilitation and training materials.

Most of the respondents interviewed except IMTSOs were not aware of the legal consequences of AML/CFT compliance breaches. There is therefore need for mass sensitization on AML/CFT by the CBN and the NFIU to create awareness among all OFIs. The CBN should also enforce regular training by the MFBs, BDCs, PMBs, FCs and DFIs in line with the requirement of the ML(P)A 2011 (as amended) and CBN AML/CFT Regulations 2013.

Given these weaknesses, the variable was rated **Medium Low for MFBs, FCs and BDCs, Medium for PMBs, and DFIs and High for IMTSOs.**

Chart 6.1: Showing Overall Responses from OFIs on Level of AML/CFT Awareness



Effectiveness of Compliance Function

The ML(P)A 2011 (as amended) {Section 9 (1)(a)} and the CBN AML/CFT Regulations, 2013 {Regulations 7 (1), 42,43 and 44} mandate banks and OFIs to establish compliance functions and appoint dedicated Compliance Officers (COs). Many OFIs have appointed COs and where they are not appointed usually due to cost considerations, the internal audit unit is saddled with the responsibility of compliance.

Although 79% of the MFBs assessed based on the questionnaires indicated that they have AML Compliance function and policies in place, conversely, the interviews conducted and information obtained from the CBN indicate otherwise. In instances where a compliance function is in place, it is not independent and adequately resourced. In addition, 79% of the MFBs indicated they have Compliance Officers appointed by the Board, however, in some cases where the compliance officers are appointed, they are not senior level officers and are not knowledgeable to man the compliance functions. They also do not possess professional AML/CFT qualifications nor undertake specific AML/CFT trainings to enhance their capabilities. The outcome of our interviews also showed that periodic compliance reports were not generated and escalated to top management and the Board for appropriate decision making.

81% of the OFIs respondents subject the compliance function to periodic internal audit review, however, it is uncertain how often and to what extent they test or evaluate the effectiveness of the AML/CFT compliance function.

In spite of the requirement of an AML policy as a licensing requirement for BDCs, it is uncertain if a compliance function exists in BDCs. 61% of respondent BDCs stated that they have board approved AML/CFT compliance policies in place, however, it is unclear if staff are aware of this policy and understand their roles in line with the policy and applicable penalties to address breaches. 50% of respondent BDCs stated that their institutions have risk classification system in place, however, it is not certain if this risk classification system is comprehensive. The spot checks by the NFIU revealed non-designation of a chief compliance officer in BDCs, however, 28% of respondent BDCs submitted that they have compliance officers at the senior management level. Other findings from the NFIU spot checks on BDCs include no board approved AML/CFT compliance policy and program, limited customer identification program, non filing of statutory reports and regulatory reports, weak internal controls, poor record keeping, poor record preservation and retrieval practices.

All respondent FCs stated that their institutions have an internal compliance program and risk classification system in place, however, due to limited information available to the assessors, it is not certain if the compliance program and risk classification system are comprehensive. 70% of respondent FCs responded that they have board approved AML/CFT compliance policies in place. 80% of respondent FCs have compliance officers at the senior management level. Majority of the FCs stated that the compliance function is subjected to periodic internal audit.

Also, all respondent PMBs stated that their institutions have risk classification system in place, however, due to inadequate information available to the assessors it is uncertain if this risk classification system is comprehensive. The PMBs added that they have board approved

AML/CFT compliance policies in place that are subjected to periodic internal audit and have appointed a senior level officer as a compliance officer. Furthermore, 83% of respondent PMBs state that disciplinary actions are taken against staff that breach compliance policy.

The deposit money banks as agents of the IMTSOs are in compliance with legal and regulatory requirements to establish compliance function. The comprehensiveness of the compliance function is discussed in-depth under the banking sector vulnerability chapter. The CCOs of the banks have constituted the CCCOBIN and meet on monthly to discuss issues on AML/CFT. The forum, which is endorsed by CBN, has enhanced the country's AML/CFT regime since its establishment in 2011.

IMTSOs, in response to the survey affirmed that they have in place board approved AML/CFT compliance function/policies. The compliance function is subjected to periodic internal audit; and the operators have appointed AML/CFT Compliance Officers at Senior Management levels. Part of the prerequisites for the renewal of agents' contract with the IMTSOs is the adequacy of the agents' compliance program in line with legal and regulatory requirements.

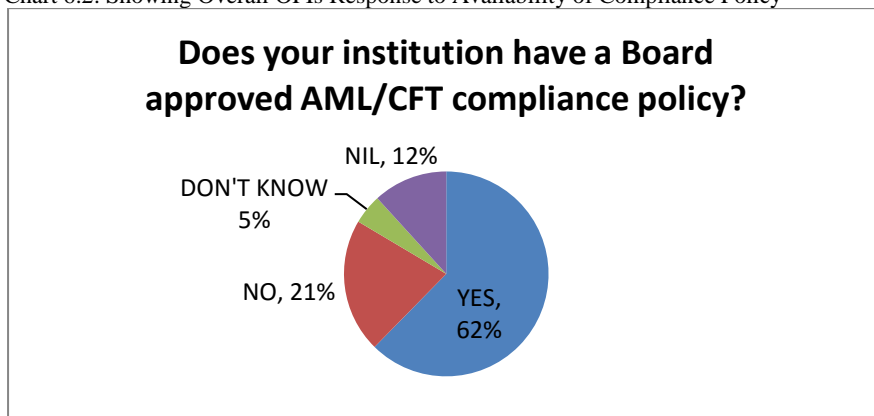
DFIs in response to questionnaires administered, 67% stated that their institutions have risk classification system in place, however, it is not certain if this risk classification system is comprehensive due to limited information. The DFIs added that they have board approved AML/CFT compliance policies in place that are subjected to periodic internal audit and have appointed a senior level officer as a compliance officer. They added that disciplinary actions are taken against staff who breach compliance policy.

As at 2015, about 23 out of the 64 licensed FCs, 297 out of over 800 MFBs, 2 out of 6 DFIs, 27 out of 36 PMBs, majority of the IMTSOs agents and over 1000 BDCs submitted threshold-based currency transaction reports to the NFIU in compliance with Section 10, ML(P)A 2011 (as amended). Most BDCs and MFBs submitted nil reports.

The field survey indicated that there is a general low level of awareness and knowledge of AML/CFT in the OFIs subsectors, which hampers effective compliance.

As a result of the above details, the variable is rated **High** for IMTSOs, **Medium** for MFBs, **Medium low** for FCs, DFIs and PMBs, and **Low** for BDCs.

Chart 6.2: Showing Overall OFIs Response to Availability of Compliance Policy



Effectiveness of Suspicious Activity Monitoring and Reporting

Section 6 of ML(P)A, 2011 (as amended) requires all financial institutions to monitor transactions and render suspicious transaction reports (STR) to the EFCC (NFIU). Regulations 30 and 31 of the CBN AML/CFT Regulations, 2013 also requires banks and OFIs to monitor suspicious transactions and render STRs to NFIU.

Fifty percent (50%) of respondent DFIs and 83% of respondent PMBs indicated the deployment of IT solutions for AML/CFT screening and monitoring of clients' transactions. Conversely, many FCs, MFBs and BDCs do not have a system that effectively facilitates AML/CFT screening and monitoring of clients transactions. They, however, keep records of returns rendered or use simplified computerized means (such as MS Excel files) to keep records of customers' transactions. Though 61% of respondent OFIs state that their IT systems assist in effective identification and recording of all complex and unusual large transactions, many OFIs do not have systems that effectively perform PEPs screening and sanctions screening.

Furthermore, most of the OFIs that comply with the requirements to file STRs, render mostly nil reports to the NFIU. Out of the respondent OFIs, 75% of DFIs, 90% of FCs, all PMBs, 79% of MFBs and 72% of BDCs indicated that STRs are rendered to the NFIU as required by the law. For a period covering 2010 to 2014, one STR was reported to the NFIU by a BDC in 2013.

Two IMTSOs with headquarters located in the USA affirmed that they render STRs to the Financial Crimes Enforcement Network (FinCEN), the USA financial intelligence unit. They also collaborate with deposit money banks (agents) on suspicious transaction monitoring and reporting to the NFIU. A transaction monitoring system is embedded in the service platform of the IMTSOs which the agents use. Clients are screened against the UN sanctions list, the OFAC list and a list of clients previously flagged for suspicious transactions. Also, unusual transaction patterns are flagged for further investigation and reporting to the NFIU as suspicious transactions. However, the IMTSOs do not restrict their agents to using only this monitoring system thereby allowing agents to use any other sophisticated and effective monitoring system. One hundred and seven (107) STRs were filed by an IMTISO agent for a period covering January to December 2014

In view of the points highlighted above, the variable was rated **Very High** for IMTSOs; while **MFBs, DFIs, PMBs, BDCs and FCs were rated Low.**

GENERAL INPUT VARIABLES FOR THE PFAs and PFCs

Comprehensiveness of AML/CFT Legal Framework

In addition to the ML(P)A, 2011 (as amended), the following guidelines apply to PFAs and PFCs in Nigeria:

- 1.The Pension Reform Act, 2014 (www.pencom.gov.ng);
2. Guidelines for the Operations of Pension Fund Administrators and Custodians;
- 3.Guidelines for the Registration of Contributor/Member;
- 4.Guidelines for Risk Management Framework for Licensed Pension Operators;

- 5.Guidelines for Cross Border Arrangements under the Pension Reform Act; and
- 6.Revised Regime of Sanctions;
- 7.Relevant circulars and guidance notes issued to PFAs and PFCs from time to time by PenCom, among many others.

These laws, guidelines and circulars cover oversight and regulation of PFAs and PFCs, licensing, internal controls, risk management and investment.

Based on the foregoing, this variable was rated **Very High** based on the level of the comprehensiveness of the AML/CFT laws, regulations and guidelines to address ML/TF prevention and AML supervision of OFIs in the country.

Effectiveness of Supervision/ Oversight Activities

Section 23 of the Pension Reform Act 2014 empowers PenCom to regulate and supervise PFAs and PFCs. Sections 92 and 93 of the Pension Reform Act, 2014 further empower PenCom to conduct periodic supervision and examination of PFAs and PFCs operations under its purview. The Surveillance Department of PenCom in collaboration with other departments carries out the on-site examination exercise for all PFAs and PFCs at least once annually and conducts spot checks as the need arises.

PenCom carries out daily off-site supervision through analysis of daily financial reports filed by the PFAs and PFCs. Both on-site and off-site examinations do not include assessment of AML compliance. PenCom conducts risk based supervision using the guidelines for risk management framework for licensed pension operators and compliance supervisory framework¹⁷⁸. In addition, the result of the inspection is recorded and published through quarterly and annual publications and has adequate capacity in terms of material resources and manpower to supervise all the PFAs and PFCs.

In summary, the identified areas undermining the effectiveness in supervision of PFAs and PFCs include lack of comprehensive regulatory supervisory framework for AML/CFT and the belief that the laws and policies guiding the sector insulates it from ML/TF threat, provides for no specific AML/CFT training for staff as well as not having a dedicated AML/CFT desk.

In view of these weaknesses, this variable was rated **Medium** for effectiveness of supervision of PFAs and PFCs.

Availability and Enforcement of Administrative Sanctions

The Pension Reform Act, 2014 empowers PenCom to sanction PFAs and PFCs for non-compliance with operational or investment guidelines. The administrative sanctions include monetary fines, suspension of license and revocation of operating license. PenCom has, in the past, removed the entire board and management of a PFA. The shortcoming identified in considering this variable is that both the Pension Reform Act, 2014 and the PenCom guidelines and circulars do not provide sanctions for non-compliance specifically with AML/CFT

¹⁷⁸Section 2.2 of PenCom Second Quarter Report 2015

regulations rather it addresses non-compliance with investment and operational legal provisions, guidelines and policies.

This variable was rated **Medium Low** owing to the fact that the administrative sanctions provided for were not specifically targeted at AML/CFT.

Availability and Enforcement of Criminal Sanctions

Section 6 (9), 10 (3), 11 (4) and 16 of the ML(P)A 2011 (as amended) provides for criminal sanctions following conviction for willful negligence or non-compliance with serious AML obligations by financial institutions and designated non-financial institutions.

Some of the sanctions include heavy fines for each day a suspicious transaction or threshold currency transaction is not reported, prison term for directors and employees of the financial institution, ban from professional practice and suspension or revocation of operating licenses of the financial institution.

The criminal sanctions are considered dissuasive to positively influence greater possibility of compliance by PFAs and PFCs to AML/CFT obligations. Sections 17, 18 and 19 of ML(P)A 2011 (as amended) provide for applicable criminal sanctions for ancillary offences to money laundering offence.

For the period under review there were no records to ascertain if PFAs and PFCs, their employees, senior management and Board members were investigated, prosecuted or convicted for AML compliance breaches or ML. The rating assigned to this variable in light of the facts given above is **Medium**.

Availability and Effectiveness of Entry Controls

Section 60 and 62 of the Pension Reform Act, 2014 empowers PenCom as solely responsible for licensing of PFAs and PFCs. PenCom, therefore, licenses PFAs and PFCs and there are clear guidelines that must be followed to obtain license as contained therein. The criteria for licensing of PFAs and PFCs do not include the availability of AML compliance control. The PFAs and PFCs are required to appoint a chief compliance officer with the approval of PenCom. The rating assigned to this variable is **High**.

Integrity of Business/Institution Staff

Section 73 of the Pension Reform Act, 2014 requires PFAs and PFCs to render returns to PenCom of any fraud, forgery or theft which occurs in their organizations in an approved format. Similarly, Section 74 also requires PFAs and PFCs to notify PenCom of their employees that were dismissed or had their appointments terminated on grounds of fraud, forgery or theft while PenCom is mandated to compile the list of all disengaged staff on account of fraud, forgery or theft and circulate such list to all PFAs and PFCs. Section 75 of the Pension Reform Act, 2014 prohibits a person whose appointment is terminated on account of fraud, forgery or theft from being employed by any other PFA or PFC.

No fraud case has been recorded since the coming on board of the Pension Reform Act, 2004 (as amended). Accordingly, the variable is rated as **High**.

AML Knowledge of Business/Institution Staff

Information obtained from PenCom stated that AML/CFT knowledge is not prevalent among PFAs. However, PFCs are deposit money banks that have very high awareness level of AML/CFT. These institutions also have annual AML training plan and budget for their staff.

Therefore this variable is rated **Low**.

Effectiveness of Compliance Function

This variable assesses whether businesses/institutions within the Other FI category being assessed have effective compliance functions that are comprehensive, risk-based, and well resourced, with independent AML compliance functions. Section 80 of the Pension Reform Act, 2014 mandates PFAs and PFCs to employ a chief compliance officer who shall be responsible for compliance with the provisions of the Pension Reform Act, 2014 and other regulations to be issued from time to time by PenCom. Accordingly, all PFAs and PFCs have compliance officers at senior management levels that ensure compliance with operational and investment guidelines. However, the Act does not specifically provide clear guidance to the chief compliance officer and the PFAs and PFCs compliance measures on AML/CFT. Thus, the **variable was rated Low**.

Effectiveness of Suspicious Activity Monitoring and Reporting

PenCom has a mechanism in place to monitor and request for report on suspicious activities of the PFAs and PFCs. while they in turn, have a monitoring mechanism, however, due to lack of information, it is not certain that the monitoring mechanism is targeted at clients. The indirect interaction between this subsector and its clients makes it almost full proof of suspicious activity by clients. Within the period under review there was no STR filed to the NFIU from this subsector.

Therefore when considering the positives and the negatives of this area, this variable is rated **Low**.

INHERENT SUB-SECTOR VULNERABILITY

BDCs are financial institutions licensed CBN to conduct small scale foreign exchange business in Nigeria on a stand-alone basis. The CBN in 2014 implemented an upward review of the capital requirement and caution deposit to operate a BDC in Nigeria from ₦10million and \$20,000 to \$116, 000 (₦ 35 million).

BDCs are permitted to deal in bank notes and coins, plastic cards and such other activities that may be approved by the CBN from time to time. They mainly serve small end-users of foreign currencies and offer Personal Travel Allowance (PTA) and Business Travel Allowance (BTA) to clients subject to a maximum amount of \$4,000 and \$5,000 respectively per quarter. The total number of licensed BDCs stood at 2,523 as at 31st December, 2014. All licensed BDCs were hitherto mandatorily required to register with the Association of Bureaux de Change Operators of Nigeria (ABCON). ABCON is the umbrella body of all BDCs in Nigeria which serves as a Self Regulatory Organization (SRO). ABCON maintains a register of its members and monitors, disciplines and guides the conduct of its members. BDCs are not deposit taking institutions.

BDCs source foreign currency in line with the policies of the Central Bank of Nigeria (CBN). Previously, they were permitted to purchase \$50,000 from the CBN on a weekly basis. However, the CBN changed this policy in recent times as the country experienced recession. In July 2016, the CBN released a circular stating that the foreign currency proceeds from inward money remittances through IMTSOs should be sold to BDCs¹⁷⁹. In August 2016, CBN further placed a limit of \$30,000 as the maximum amount of foreign currency to be sold to each BDC per week through the Authorized Dealers (agents of IMTSOs)¹⁸⁰. This implies that a BDC can only purchase a maximum \$30,000 from only one Authorized Dealer in a week. They are also permitted to purchase foreign currency from autonomous sources, and render returns to CBN on all foreign exchange purchases and sales. Information on the amount of foreign currency BDCs purchased from autonomous sources was not available. Clients of BDCs include individuals and corporate bodies who pay monies into BDCs accounts in exchange for the equivalent required currencies.

The BDC guidelines limit their activity to the service of small scale end-users and restricted to mainly PTA and BTA with a maximum limit of \$4000 and \$5000 respectively. However, investigation records from various law enforcement agencies (LEAs) and data from the NFIU showed that the BDCs transact beyond the limits provided in the guidelines. Furthermore, the BDC clients go beyond the small scale end-users as defined in the guidelines. This means that their transactions are well beyond the limits of the PTA and BTA and the level of cash activity is **High** in the sub-sector. Thus, the risk profile of the BDC clients is rated **High risk**.

Records obtained from the NFIU showed individuals who act as ‘agents’ to BDCs receiving large volume of local currency from accounts of other individuals and corporate bodies, and transferring the funds into the accounts of BDCs. The BDCs then pay the equivalent amount in foreign currency to the individuals and companies directly or through the agent, who may be located in Nigeria or in other jurisdictions. Some BDCs conduct international transfers through deposit money banks to assist clients in payment of school fees, medical bills, mortgage payments and payment for goods and services. There were reported cases where BDC operators were used as cash couriers of huge amounts of foreign currency on behalf of their clients to other jurisdictions or within the country. With respect to record keeping, BDCs keep records of transactions with clients, however, not all transactions are recorded and in cases where records exists, they are unreliable, thus, this makes it difficult to trace and in traced cases leads to false findings.

To address the reliability of records, the CBN mandates bureau de change operators to maintain bank verification number (BVN) of clients and all relevant documents and details for each transaction conducted by BDCs. The inherent vulnerability of BDCs is rated **Very High**.

Unlicensed Foreign Exchange Parallel Market Operators

Interview responses from ABCON showed the existence of unlicensed foreign exchange parallel market operators. ABCON believes that the number of these unlicensed operators is higher than

¹⁷⁹ CBN Trade and Exchange Department Circulars, Ref TED/FEM/FPC/GEN/01/004 dated 22nd July 2016

¹⁸⁰ CBN Trade and Exchange Department Circulars, Ref TED/FEM/FPC/GEN/01/006 dated 9th August 2016

the licensed ones. They do not have a permanent physical address where they conduct businesses. Their clients do not need to provide any form of identification to exchange foreign currency and they can sell or buy any amount of foreign currency from their clients. It is widely believed that these unlicensed operators act as agents of the licensed BDCs, however, the ABCON disagrees with this claim. There is high level of cash activity in the parallel market and most times transactions are conducted on a face to face basis. There are no records kept on these transactions, thus making it difficult to trace. The activities of these unlicensed operators provide a channel for the laundering of illegally obtained funds. A few years ago, the CBN in collaboration with law enforcement agencies such as the Nigeria Police Force and the EFCC coordinated a task force to disrupt and stop the activities of the unlicensed foreign exchange operators. This exercise led to the disappearance of these operators from the streets, however, it was not sustained, thus the re-emergence of these operators on the streets again. In view of the aforementioned, the inherent vulnerability of unlicensed parallel market operators is rated **Very High**.

DFIs are specialized financial institutions established with a special mandate to develop and promote key sectors of the Nigerian economy considered to be of strategic importance to the overall socio-economic development objectives of the country¹⁸¹. There were 6 DFIs in Nigeria with a total asset size of \$2, 938, 333, 333.3 (₦881.5 billion) at the end of 2014. The DFIs clients are corporate bodies which are mainly deposit money banks and supranational organizations. Also, development finance institutions do not receive deposits, therefore, their level of cash activity is considered **Low** thus the clients' risk profile is rated **Low**. The sources of funds of DFIs include paid up share capital, reserves, long term loans, preference shares, debentures, bonds, loans from national and supranational governments and other bodies, funds from development partners, gifts, grants and donations, as well as any other source that may be approved by the CBN. DFIs do not conduct anonymous transactions and do not use agents in the course of their activities. DFIs transactions keep transaction records which are traceable and there are no recorded cases of the abuse of DFIs for money laundering. Also, there were no recorded cases of fraud within the period under evaluation. There is likelihood of undue political interference in the activities of DFIs resulting from their ownership structure with government being a significant shareholder. In view of the above, the inherent vulnerability is **Low**.

FCs are licensed to operate within the middle tier of the financial system to offer financial products and services to MSMEs. The products and services FCs offer include consumer loans, funds management, asset finance (which includes Finance Lease and Hire Purchase), project finance, local and international trade finance, debt factoring, debt securitization, debt administration, financial consultancy, loan syndication, warehouse receipt finance, covered bonds, and issuing of vouchers, coupons, cards and token stamps. As at 31st December 2014, there were 64 licensed FCs in Nigeria with a total asset size of \$398, 633, 333.3 (₦119.95 billion). Finance companies are not deposit taking financial institutions, they are however, permitted to manage funds on behalf of customers/clients based on agreed tenor and rate. This

¹⁸¹ The Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria 2015

fund management function involves some elements of deposit taking with associated money laundering risk. FCs' level of cash activity is **Low** since they do not receive deposits directly and transactions are routed through the deposit money banks where the accounts of finance companies are domiciled. The clients mainly targeted by finance companies are high net worth individuals and corporate bodies, therefore, their client risk profile is **High**. Some transactions of FCs are conducted on a face to face basis as these clients majorly apply for funds to execute local and international purchase orders. Use of agents is common for clients seeking medium and long term investments or seeking for fund management services. FCs products cannot be used anonymously. The frequency of international transactions is low as FCs are allowed to source for funding from foreign sources subject to CBN approval. FCs maintain transaction records which are easily traceable. Information on money laundering typologies on the use of FCs was not available. Services provided by FCs such as funds management can be abused by money launderers because FCs can commingle proceeds of illegal activities with legitimate funds for investment without revealing the beneficial owners of the funds. Also, FCs may be vulnerable to fraud when handling consumer loans. As a result assessors rated the inherent vulnerability of this sub-sector as **Medium Low**.

MFBs are licensed by the CBN to conduct the business of savings and deposits, loan, domestic funds transfer, other financial and non-financial services to their clients. MFBs are categorized into three, namely Unit, State and National with minimum capital requirement of \$66, 666.7 (~~₦~~20m), \$333, 333.3 (~~₦~~100m) and \$6, 666, 666.7 (~~₦~~2b) respectively as contained in the Revised Guidelines for the Regulation and Supervision of MFBs in Nigeria, 2013. As at 31st December 2014, there were 884 licensed MFBs in Nigeria with a total asset size of \$ 1, 091, 733, 333.3(~~₦~~327.52b). MFBs primarily target low income earners, low income households, the un-banked and under-served individuals. MFB clients are mostly low income earners and they rarely use other sophisticated means of conducting transactions like those found in the deposit money banks. Most transactions of microfinance banks are face to face transactions, except for transfers by existing clients through deposit money banks and withdrawals using Automated Teller Machines (ATMs). Responses from administered questionnaires on targeted participants indicate low level of cash activity, thus, the client profile of MFBs is rated low. MFBs do not engage in international transfers and their products cannot be used anonymously. Most of the MFBs transaction records are traceable. Also no information could be found on the use of MFBs in relation to fraud and tax evasion schemes, however, there were cases of stolen Dividend Warrants deposited into MFBs. Furthermore, while ML typologies exist elsewhere in the world no information could be obtained as it relates to MFBs in Nigeria. The inherent vulnerability of this sub-sector is, therefore, rated **Low**.

PMBs are licensed to carry out primary mortgage banking business in Nigeria. The business covers: mortgage finance; real estate construction finance (within the permitted limits); acceptance of savings and time\term deposits; acceptance of mortgage-focused demand deposits; drawing from mortgage funds (e.g. National Housing Fund Facility) for on-lending; financial advisory services for mortgage customers and other activities the CBN may approve from time to time. The total size of the PMBs in relation to the size of the financial sector of Nigeria is

rated medium. As of 31st December, 2014, the total number of licensed PMBs stood at 36 with a total asset size of \$1, 378, 900, 000 (₦413.67b).

The level of cash activity is considered **Medium Low** as many transactions are routed through clients' accounts. Clients range from real estate developers to low income earners who can access the products and services for the development and acquisition of properties. Transactions do not include anonymous clients and PMBs do not require agents to provide services to clients. Non face to face transactions are available but limited to clients who hold accounts with the PMBs. Therefore, PMB clients' risk profile is rated **Medium**. PMB transactions are recorded in formats that are easy to trace. ML typologies exist but are limited. Also, the use of PMBs in fraud schemes exists but is limited. Thus, this sub-sector's inherent vulnerability is rated **Medium Low**.

IMTSOs are institutions licensed by the CBN to render the business of funds transfer (out of or into, Nigeria) through agents (deposit money banks) that conduct the service on their behalf, using the agent's premises, staff and/or technology. IMTSOs are not allowed to carry out money transfer services except through a bank which has been registered with the CBN as an agent of the operator. The permissible transactions of an IMTISO are limited to: acceptance of funds for the purpose of transmitting them to persons resident in Nigeria or another country; cross-border personal money transfer services for such purposes as family maintenance, foreign tourists visiting Nigeria, e.t.c. An IMTISO is not permitted to: act as an authorized dealer in gold, or other precious metals; engage in deposit taking and/or money lending; maintain current accounts on behalf of customers; establish letters of credit; act as custodian of funds on behalf of customers; engage in institutional or corporate transfers; and buy foreign exchange from the domestic foreign exchange market for settlement.

The IMTSOs operating in Nigeria under the regulatory/supervisory purview of the CBN as at 31st December, 2014 are 3 in number. The total size of IMTSOs in relation to Nigeria is medium low since the IMTSOs strictly operate through the DMBs who serve as agents. Currently, about 19 deposit money banks serve as agents to IMTSOs with branches in every state of the country. All IMTSOs currently operating in the country have their headquarters in a foreign jurisdiction with a strong AML regime. Also, they do not operate in jurisdictions placed under international sanctions. With respect to direction of international transfers, inflows are significantly higher than outflows. Previously only inward transfers were permitted in Nigeria, until September 2014 when the CBN permitted outward transfers with limitations. The outbound transfer amount per transaction is a maximum of \$2,000 or its equivalent as may be reviewed by the CBN from time to time; however, there is no restriction on amount of inbound transfers.

Most outward transfers are usually small amounts (in recent times \$1,000 per individual per quarter) and only individuals who are walk-in clients or account holders can make outward transfer through face to face interaction with the agent. Therefore, the product cannot be used anonymously, and the use of cash is medium high. Only "person to person" transfers are allowed. The clients of IMTSOs agents are low risk since beneficiaries of inward transfers are strictly individuals subjected to customer due diligence measures who are account holders in the deposit money banks. Clients can also receive funds through mobile money wallets. Transaction

records are available and easily traceable. There are cases of individuals who allegedly engage in internet scams and have received funds from their victims through international money transfer services, though the IMTSOs have put measures in place to curb this problem and impress upon their agents to monitor and prevent these activities. No information on tax evasion activities using this medium could be found, however, fraudulent transactions particularly advance fee fraud cases reported to LEAs are relatively high, thus the inherent vulnerability of this sub-sector is rated **High**.

A Cooperative Society is a semi-regulated institution that mainly engages in savings and loan disbursements strictly to its members. There are two (2) categories of cooperative society, thrift and credit which is a single purpose cooperative and multipurpose cooperative society which gives a cooperative society the legal backing to engage in business. In addition, majority of the cooperative societies in Nigeria are government programmed cooperatives societies that are formed for specific projects such as Agricultural interventions while others are staff multipurpose cooperative societies operated by staff of different government and private agencies.

In Nigeria, each state has a Department of Cooperative Societies that is responsible for registration, arbitration, enquiries, liquidation, amalgamation, monitoring and auditing of operations of cooperative societies within its territory. Although there is no provision targeted as preventing money laundering and terrorist financing specifically in the guidelines for the registration of a cooperative society, the experts' opinion in that regard is that the risk of using the societies for ML is very limited, as only cases of fraud have been identified. This opinion is predicated on the fact that most cooperative societies know their members and are aware of the source of funds of their members. In line with their bylaws, the cooperative society conducts periodic meetings for members to elect new executive members to run the affairs of the cooperative. Other meetings are held to declare the annual financial report of the cooperative or to apply disciplinary action on erring members. In order to monitor the activities of cooperative societies, the Department of Cooperative Societies has field inspectors that conduct periodic inspection of all cooperative societies and report back any infractions observed and discovered to the department for necessary action.

The main source of funds of cooperative societies is members' monthly contribution. Furthermore, regular contribution to cooperatives and loan repayment are mostly deducted directly from members' salaries. Usually, cooperative societies own bank accounts which are used in managing their funds and most transactions are conducted via transfers, thus, their level of cash activity is medium low. They do not have anonymous members, do not conduct foreign transfers and do not use agents in their operations. Therefore, cooperative societies are not attractive to money launderers, and have very low vulnerability to money laundering.

The National Union of Road Transport Workers (NURTW) is a trade union organization affiliated to the Nigeria Labour Congress (NLC). The NURTW was established in 1987 to protect the interest of drivers, and to promote unity and discipline amongst members. Its members are vehicle operators though some operators also own cars/vehicles. The NURTW has a chapter in all states of the Federation with over 10,000 registered members in each state

chapter. The NURTW has several designated locations within states commonly called “motor parks” where members pick up passengers and their luggage to various intra-state and inter-state destinations. In few motor parks, security officials use hand scanners to ensure passengers are not a security risk and other fixed scanners are used to examine the content of passengers’ luggage. Though the Union is not an OFI, the informal inter-state courier activities of its members led to its inclusion in the risk assessment. Some members of the Union informally courier goods and small amounts of cash, based on private, face to face agreement between the member and a sender. Before the member accepts the items for courier, he physically examines them to ensure they are not dangerous items, and collects the name and phone number of the sender and beneficiary from the sender. Most times, this information is not properly documented before and after the items are delivered. Moving huge amounts of cash through public transport may raise suspicion, draw attention and may result in losses. Thus, this informal courier service may be unattractive to a money launderer. Assessors were not able to obtain information on cases where the informal courier services of NURTW members were used for ML. Hence, the inherent vulnerability of this sub-sector to ML is rated **Very Low**.

Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs) Sub-Sector Vulnerability

Nigeria currently runs 2 pension schemes in both the public and private sectors- the **derived benefit pension scheme** (old pension scheme) and the **contributory pension scheme** (new pension scheme). Reports of pension-related corruption cases in the past were directly connected to the derived benefit pension scheme. Many government agencies have transited to the contributory pension scheme which has blocked all the loopholes that exist in the derived benefit pension scheme. At the state level, 25 states have enacted their pension laws and only 9 out of 36 states had commenced the contributory pension scheme as at June 2015. (Source: www.pencom.gov.ng, April 2016). The other states that are yet to commence and the government agencies that are still operating the derived benefit pension scheme are at risk of corrupt practices which provide avenues for money laundering and leakages in the system.

The Pension Reform Act, 2014 was enacted to provide a legal framework for regulating, supervising and ensuring the effective administration of the contributory pension scheme in Nigeria. The Act created the PenCom as a regulatory agency with the sole authority to register, regulate and supervise the operations and activities of all PPFAs and PFCs in Nigeria. PFAs hold the pension assets on paper and instruct the PFCs on investment of pension funds in line with the provision of the Pension Reform Act 2014, while the PFCs are strictly custodians of the pension funds and they receive and review instructions from PFAs to ensure they are in line with the Act. Both PFAs and PFCs constitute pension funds management classified as financial institutions in Section 25 of the ML(P)A 2011 (as amended). Therefore, these institutions are mandated to comply with provisions of the ML(P)A, 2011 (as amended).

At present, there are 21 PFAs, 7 Closed Pension Fund Administrators (CPFAs) and 4 PFCs totaling 32 players in the industry that are duly registered, regulated and supervised by PenCom as provided by the Pension Reform Act 2014. All the 32 operators within the industry are

subjected to off-site supervision through daily analysis of their financial reports and risk based on-site inspection at least once every year by the Surveillance Department in collaboration with other relevant departments of PenCom.

As at 30th June, 2015, the total pension contribution from both public and private sectors stood at N3.04trillion (\$15.43billion), the total value of pension assets stood at \$ 16, 533, 333, 333.3 (~~N~~4.96trillion) while the membership/client size stood at 6,696,793¹⁸².

The market share of PFAs is higher than that of any OFIs category in the regulated sector. Since all financial transactions are conducted through electronic fund transfer channels, the proportion of cash involvement is negligible. On the other hand, international transactions involved in equities and money market instruments are relatively low. Products offered by PFAs/PFCs are restricted to a specified group of individuals under a specific employer, who are sufficiently identified and profiled. PenCom is currently concluding on modalities to incorporate the informal sector into the contributory pension scheme. Anonymous use of the products is not available and non-face to face use of the product is available but limited to clients. There is no record of ML abuse of PFAs and PFCs in Nigeria. Thus, the overall inherent vulnerability is **Medium Low**.

As the supervisory authority, PenCom has issued various circulars, codes, frameworks, guidelines and regulations that govern the operations of PFAs and PFCs and they are subject to supervision to ensure that they operate in accordance with these regulations. Section 72 of the Pension Reform Act of 2014 mandates PFAs and PFCs to render returns on frauds and forgeries that occur in their organizations. Furthermore, appointment of Chief Executive Officers, Directors and Management Staff of PFAs and PFCs are subject to the approval of PenCom.

Rules issued by PenCom to PFAs and PFCs do not specifically cover AML/CFT but the Pension Reform Act of 2014 mandates PFAs and PFCs to appoint Chief Compliance Officers who are responsible for ensuring compliance with operational and investment guidelines. Since most of the transactions are done through the electronic fund transfer platforms and the PFCs are subsidiaries of DMBs which are heavily regulated and/or supervised by both the CBN and Nigeria Deposit Insurance Corporation (NDIC), the possibility of money laundering is very low. Therefore, the level of vulnerability in the sector is rated as **Medium Low** with a score of **(0.39)**.

¹⁸² Source: http://www.pencom.gov.ng/docs/1454338391_Second_Quarter_2015.pdf

RANKING OF PRIORITY AREAS IN OFIS SECTOR

Priority areas have been identified from the assessment as follows

Table 6.3: Main Priority Areas in the OFIs Sub-sectors

Priority Ranking	MFBs	PMBs	FCs	DFIs	BDCs	IMTSOs
Comprehensiveness of AML legal framework						
Effectiveness of Supervision/Oversight Activities	2	2	2	2	2	1
Availability and Enforcement of Administrative Sanctions	6	6	6	6	9	
Availability and Enforcement of Criminal Sanctions	7	7	7	7	7	3
Availability and Effectiveness of Entry Controls						
Integrity of Business/Institution Staff	8	8	8	8	5	
AML Knowledge of Business/Institution Staff	1	1	1	1	1	
Effectiveness of Compliance Function (Organization)	4	3	3	3	3	
Effectiveness of Suspicious Activity Monitoring and Reporting	3	4	4	4	4	
Availability and Access to Beneficial Ownership Information	9	9	9	9	8	4
Availability of Reliable Identification Infrastructure	5	5	5	5	6	2
Availability of Independent Information Sources	10	10	10	10	10	5

Table 6.4: Main Priority Areas in the PFAs and PFCs Category

PRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS	
Comprehensiveness of AML Legal Framework	
Effectiveness of Supervision/Oversight Activities	3
Availability and Enforcement of Administrative Sanctions	5
Availability and Enforcement of Criminal Sanctions	7
Availability and Effectiveness of Entry Controls	
Integrity of Business/Institution Staff	
AML Knowledge of Business/Institution Staff	1
Effectiveness of Compliance Function (Organization)	2
Effectiveness of Suspicious Activity Monitoring and Reporting	4
Availability and Access to Beneficial Ownership information	8
Availability of Reliable Identification Infrastructure	6
Availability of Independent Information Sources	9

RECENT DEVELOPMENTS

During the NRA exercise, some OFI sub-sectors increased or decreased in number as a result of recapitalization, withdrawal of licenses and issuance of licenses to new operators. 11 licenses were issued to International Money Transfer Service Operators (IMTSOs) bringing the total number to 14 from the 3 that were initially licensed. Licensed MFBs and BDCs also increased in number and are currently 974 and 2998 respectively.

RECOMMENDATIONS

In order to address the deficiencies identified in the course of the assessment and thus mitigate the ML/TF risks in the OFIs sector, the following recommendations are proffered in order of their priority:

- a) The dearth of AML/CFT knowledge needs to be addressed as a matter of urgency by OFIs through regular training and re-training of Board, Management and staff on AML/CFT, with particular attention to quality, frequency of training and involvement of all categories of staff.
- b) There is need for the CBN and the NFIU to organize and sustain AML/CFT training for operators of OFIs in collaboration with the operators' respective umbrella associations. The CBN should also ensure and enforce effective compliance on training in line with the requirement of the MLPA 2011 (as amended) and CBN AML/CFT Regulations 2013 through a combination of moral suasion and sanctions where necessary.
- c) There is need to enhance the capacity and effectiveness of AML supervision of OFIs through robust enforcement of compliance and sanctions as well as adequate and skilled manpower to effectively supervise the institutions
- d) There is need for OFIs to put in place adequate and effective compliance functions that meet legal and regulatory requirements including the appointment of suitably qualified compliance officers.
- e) The CBN should also ensure that OFIs take the issue of compliance seriously with emphasis on KYC, CDD/EDD, PEPs/FEPs screening/profiling, training, record keeping, sanctions screening, suspicious transactions monitoring and reporting etc.
- f) The CBN should up-scale the AML/CFT technical knowledge and capacity of Examiners through regular and structured AML/CFT training to enable them understand the unique risks associated with customers, products and services of the OFIs subsector.
- g) The CBN should consider increasing the number of Examiners supervising the OFIs and also enforce compliance through imposition of appropriate sanctions where breaches occur.
- h) The CBN should speedily put in place and implement an AML/CFT administrative sanctions regime that is proportionate and dissuasive and applies to individuals..
- i) In developing an enhanced administrative sanctions framework, the CBN should consider outlining applicable sanctions for prudential breaches as distinct from breaches of AML/CFT compliance.
- j) The CBN should in conjunction with the relevant law enforcement agencies such as the EFCC and the Nigeria Police put in place measures to address and prevent the activities of the unlicensed parallel foreign exchange market operators through robust enforcement of the law, information sharing, moral suasion to obtain license and public enlightenment on the adverse effects and consequences of money laundering.
- k) There is need for NFIU to engage PenCom on the AML/CFT concept so that PenCom may understand the risk that ML/TF may pose to its subsector and mitigate it as well as undertake training for all operators in the pension management industry.

l) In improving the effectiveness of supervision, PenCom should consider including the AML/CFT knowledge of Examiners to understand the specific risks associated with customers, products and services of the pension subsector.

m) PenCom should consider amending the functions of the PFAs and PFCs Chief Compliance Officers to include monitoring and ensuring compliance with AML/CFT requirements.

CHAPTER SEVEN

7. DESIGNATED NON-FINANCIAL BUSINESSES & PROFESSIONS VULNERABILITY TO MONEY LAUNDERING RISK

INTRODUCTION

In Nigeria, Designated Non-Financial Institutions (DNFIs), referred to as Designated Non-Financial Businesses and Professions (DNFBPs) Internationally, are regulated and supervised by the Special Control Unit against Money Laundering (SCUML) in compliance with the ML(P)A 2011 (as amended)¹⁸³. These Businesses and professions play a vital role in the economic and financial activities of Nigeria, as they provide essential services in both the formal and informal sectors of the economy.

Presently, the legal, institutional, and operational framework for the supervision of DNFBPs have been identified as weak, and poses a significant threat to the international financial system. This makes the sector very vulnerable to ML and TF. The vulnerability is compounded by the largely informal nature of the sector. However, measures taken by SCUML through the provision of Regulations¹⁸⁴ and Guidelines¹⁸⁵ have brought about some formality and improved ML/TF knowledge and AML/CFT compliance to the sector.

OVERVIEW OF THE DNFBPs SECTOR IN NIGERIA

Designated Non-Financial Businesses and Professions are regulated by the Federal Ministry of Industry, Trade and Investment through SCUML under the following legal and institutional framework in Nigeria:

- a). Money Laundering Prohibition Act 2011 (as amended)
- b). Federal Ministry of Industry, Trade and Investment (FMITI) (Designation of Non-Financial Institutions and other Related Matters) Regulation, 2013
- c). Terrorism Prevention Act (2011)
- d). Terrorism (Prevention) (Amendment) Act 2013

Mandate of SCUML

SCUML has the responsibility to carry out the statutory role of the Ministry under the provisions of the Money Laundering (Prohibition) Act 2011 (as Amended), to monitor, supervise and regulate the activities of all DNFBPs in Nigeria in compliance with the country's Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime.

¹⁸³ Section 25 ML(P)A 2011 (as amended)

¹⁸⁴ Federal Ministry of Industry, Trade and Investment (Designation of Non-Financial Institutions and Other Related Matters) Regulations 2013, Guidelines for Precious Metals and Jewelry Dealers, 2013

¹⁸⁵ Casino Operational Guidelines, 2009.

The functions of SCUML are as follows:

- i. Register, certify and sensitize DNFBPs in Nigeria.
- ii. Monitor, regulate and supervise the activities of DNFBPs as it relates to AML/CFT regime.
- iii. Conduct onsite, off-site and spot check Inspections on DNFBPs.
- iv. Collection of statutory report; Cash Based Transaction Reports (CBTRs) and Currency Transaction Reports (CTRs) for analysis.
- v. Provide a database of DNFBPs and their financial transactions to support tactical, operational and strategic policy options in combating ML/TF. This supports the identification of emerging trends and patterns in money laundering and terrorist financing.

DNFBPS OVERALL ASSESSMENT

According to available information and data, the overall level of vulnerability of the DNFBP sector is assessed **High** largely due to the fact that the sub-sectors are not subjected to adequate ML/TF control measures.

ASSESSMENT OF GENERAL CONTROL VARIABLES

Comprehensiveness of AML Legal Framework

The ML(P)A 2011 (as amended) and the Federal Ministry of Industry, Trade and Investment Regulation for Designated Non-Financial Institutions, 2013 (DNFBPs), have both domesticated the FATF recommendations as it relates to supervision of DNFBPs. The law made provision for customer due diligence, records keeping, enhance due diligence of PEPs and high risk countries, reliance of CDD by third parties, suspicious transaction reporting, tipping off and confidentiality, internal controls, foreign branches and subsidiaries and licensing and supervision for AML compliance. Additionally, Sections 5.1 through 5.10 of the Regulation explained extensively on measures to be taken for verification of ownership and control structure of legal persons(Sec.5(4)), verification of identity of persons acting on behalf of other persons(Sec.5.(2)(i), (5).3), and updating customer's records (Sec.(5).8) among other things. **Since the legal framework is the same for all the subsector operators, the rating for this variable is high across the DNFBP sector.**

Effectiveness of Supervision/Oversight Activities

Section 5(4) of the Money Laundering Prohibition Act, 2011 (as amended), empowers FMITI (SCUML) to supervise DNFBPs in Nigeria. In the course of its supervisory activities, SCUML has developed guidelines for the DNFBPs, on CDD, record keeping, filing of STRs and other statutory reports, training, internal control mechanism and a host of others as required by the extant AML/CFT laws. SCUML also has an examination manual for its compliance officers that equip them with the necessary skills for both on-site, off-site and spot check examinations. The Compliance officers are also trained on examination of specific sub-sector operations in addition to the general AML/CFT examination training. SCUML has also developed a ML risk assessment matrix with the support of the International Monetary Fund (IMF), which it uses to

grade the DNFBPs risk level. This risk grading also provide a basis for the conduct of all its examinations and it uses several criteria such as volume of transactions of the DNFBP, number of staff, annual gross income, geographical location, number of clients and their profile etc. As at December, 2014 one thousand four hundred and sixty three DNFBPs (1, 463) were examined out of the total 27,133 registered. SCUML has staff strength of 67 officers with 40 as examiners. This gives a ratio of 1:97 institutions per examiner.

Analysis of available data reveals that not all DNFBPs incorporated by the CAC are registered with SCUML. **This variable is rated low** in line with the Banking sector assessment. The size of the sector presents challenges in conducting comprehensive AML/CFT supervision and examination of all incorporated DNFBPs. An example is the Non-Profit sub-sector, where assessors observed the total number of incorporated NPO by the Corporate Affairs Commission as over 60,000 (sixty thousand) as against a total 3,869 registered with SCUML. See table below for the annual breakdown of the DNFI registration by SCUML.

Table 7.1: Statistics of DNFI Registrations

DNFIs REGISTRATION									
Sector	2007	2008	2009	2010	2011	2012	2013	2014	Total
Hotels	81		83	48	48	85	1192	807	2344
Car Dealers	39		38	77	48	150	984	539	1875
Estate Surveyor	27		21	56	41	404	5273	3803	9625
Supermarkets	24		7	2	7	35	2445	207	2727
Law Firms	12		4	7	8	111	756	525	1423
Accounting/Tax const	17		7	1	17	33	1387	681	2143
Casino/Pool Betting	5		1	2	1	7	15	35	66
Jewelry Dealers	0		1	0	6	7	168	134	316
Clearing and Settle.	0		0	0	5	3	166	170	344
NPOs	0		0	0	0	91	2202	1576	3869
Trust & Coy Service Provider	0		0	0	0	116	1859	385	2360
Mechanized Farming	0	0	0	0	0	0	0	41	41
Total	205		162	193	181	1042	16447	8603	27133

Source: SCUML HQ, Abuja

Additionally, SCUML has had a few challenges in discharging its supervisory role such as when the Nigerian Bar Association (NBA) challenged their reporting obligation under the law. The Bar charged SCUML to court and obtained a judgment barring SCUML from examining the operation of its members, although SCUML has appealed against the judgment and the case is presently being heard by the appeal court. Similarly, a challenge was noted with the car dealership association. However, judgment was given in favor of SCUML.

Records from SCUML showed a total of 2,109 accounting firms registered with 87 entities inspected as at the end of 2014. Additionally, the Corporate Affairs Commission database shows a total number of fifty five (55) casinos registered while SCUML record has 35 casino registrations, out of which 17 were inspected in 2014. The assessors' field survey shows that the supervision of dealers in Jewelry is poor due to the low number of dealers registered with SCUML as 81.8% of them stated that they have not been inspected. As at the end of 2014, a total number of 1,587 hotels, 3,915 real estate operators and 1,596 trust and company service providers were examined by SCUML.

Consequently, the effectiveness of supervision/oversight activities was rated **low** for the Legal firms, Accounting firms, Casinos and Car dealership subsectors. The assessed variable is rated **medium low** for the hotel sector while the NPOs and the real estate sub-sectors showed a rating of **medium**. The rating for the TCSPs is **Very Low**, while the jewelry dealers are rated **close to nothing**.

Availability and Enforcement of Administrative Sanctions

The DNFBP sector in Nigeria is both formal and informal in nature. The formal sector is made up of the SRO professions and businesses. These bodies have powers to impose administrative sanctions on their erring members ranging from suspension to withdrawal of operating license. For example section 10(1) of the Legal Practitioners (Amendment) Act, 2010, charged the Legal Practitioners Disciplinary Committee with considering and determining case against any person that has been called to the Nigerian bar while Section 11(1) C (i-iii) of the same Act, provides for administrative sanctions such as removal of name from the roll, suspension for a specific period and admonishment.

In similar view, section 2 of the Estate Surveyors and Valuers (Registration, Etc.) Decree No 24 of 1975, now CAP E.13, LFN 2007, charge the Estate Surveyors and Valuers Registration Board of Nigeria, with duty to regulate and control the practice of estate surveying and valuation in all its ramifications. This was further reinforced under section 16(1) of the same Act. Also section 11(1) of the Institute of Chartered Accountants of Nigeria Act No. 15 of 1965, now CAP 185 LFN, 1990, created the Accountants' Disciplinary Tribunal, charged with the responsibility of considering and determining any case refer to it by the Accountants' Investigating Panel (created by section 11(3) of the same Act) and any other case which the Tribunal has cognizance of under the Act. However, no powers could be found conferred to these SROs in relation to AML/CFT compliance breaches by their members.

Table 7.2: Number of Accountants sanctioned for breach of professional ethics

BREACH OF ETHICS/PRACTISE	NUMBER OF PROFESSIONALS
SUSPENSION	27
LICENSE WITHDRAWN	7
FINE (COST OF PROCEEDINGS AWARDED)	7
CAUTIONED	9

For sectors such as car dealers, hotels, jewelry dealers, casinos, construction companies, mechanized farming etc, administrative sanction from government bodies or SROs is almost non-existent while the entire sanctions provided in the Money Laundering Prohibition Act 2011(as amended) are convictions based. **Consequently, the rating of this variable for Accountants, Legal Profession and TCSPs is medium, while all other sub-sectors are rated low, with the exception of the car dealership sector, which shows close to nothing because of the peculiar challenge of high level of informality.**

Availability and Enforcement of Criminal Sanctions

Sections 16 through 19 of the Money Laundering Prohibition Act 2011 (as Amended) provided for diverse criminal sanctions for the sector. However, SCUML does not have power of its own to investigate and prosecute erring DNFBPs. The unit can only make recommendation to law enforcement agencies such as EFCC, NPF, NDLEA, etc. to investigate and prosecute. During the assessment period, some DNFBP sub-sectors such as real estate and supermarkets have been reported to Law Enforcement Agencies, especially the EFCC in the past. Additionally, analysis of response to the survey questionnaires showed that no DNFBP had been sanctioned for AML/CFT breaches. Consequently, the ratings for Accounting, hotels, NPOs, real estate, law firms and TCSPs is **low** while casinos, car dealers and Jewelry dealers **very low**.

Availability and Effectiveness of Entry Controls

Entry controls into the different DNFBPs sub-sectors vary according to the extent of its formality, which is determined by the provisions in the relevant legal framework. This includes competency (fit and proper test), professional certification and an undertaking to abide by certain code of professional ethics. This only applies to **accountants, lawyers, and the Estate Surveyors and Valuers**. Also, only these three sub-sectors are SROs recognized by the law. In view of this, the variable is rated **very high** for both Accounting and the Legal Firms, Real Estate and Valuers are rated **medium low**. The Trust and Company Service Providers being mostly operated by accounting and legal firms who are subjected to strict entry controls **are rated high**.

Constitutionally, powers to license and regulate casinos are concurrently shared by both the Federal and State Governments in Nigeria. This provision makes it legal for both levels of Government to license and regulate casinos. Specifically Lagos State has established the Lagos State Lottery and Other Games Board, which licenses and regulates casinos in Lagos State.

Primary regulation of the NPO sector in Nigeria is largely fragmented among various agencies of Government. The Corporate Affairs Commission holds some supervisory powers over the incorporating entities. NPOs like other incorporated entities are also obliged to file annual returns to the agency. Similarly, States' Ministry of Social Development (the nomenclature do varies across states) also do register and license Community Based Organizations and other small size NPOs working in their jurisdictions. SCUML is responsible for AML/CFT compliance.

Furthermore, registration with SCUML serves as an additional entry control for DNFBPs. The SCUML registration requirements include CAC certificate, forms CO2(Statement of share

capital and return of allotment) and CO7 (particulars of first Directors), Tax identification number as well as memorandum and article of association which serves as a complimentary entry control measure. **Thus, the variable is rated medium for Hotels, Casinos, Car dealers and NPOs. Jewelry business is an informal sector** which does not require professional qualification before starting the business. Although, majority (81.8%) of the dealers claimed to have registered with Corporate Affairs Commission (CAC) as required by law, this does not in any way provide a reliable entry control measure. **Therefore, the variable is rated very low.**

Integrity of Business/ Profession Staff

Responses to questionnaires and field interviews conducted showed no reported cases of staff integrity issues. It further showed that internal control mechanisms exist to dissuade staff from indulging in fraudulent practices. **This variable therefore is rated high for the Accounting sector, Hotels and law firms.** It is confirmed that there are provisions stipulated in their professional codes of conduct to ensure that staff members act with utmost integrity and professionalism, even though the parameters do not dwell strongly on AML/CFT compliance. In the case of Car and Jewelry dealers, cases of fraud involving staff was observed, **thus this was rated low.** No record of staff integrity breaches could be found in the Casino, real estate and NPO businesses, thus assessors rated this variable **medium.** The Variable is **rated medium high for the TCSPs** due to the composite effect of both the Law and Accounting Firms, who largely operate the TCSPs in Nigeria.

AML Knowledge of Business/Profession Staff

This requires all FIs and DNFbps to develop programs to combat money laundering. Specifically, Section 9 (C) of the ML(P)A 2011 (as amended) listed regular training of employee as one of the core component of the aforementioned programme. Responses from the field questionnaires show a fair awareness of AML/CFT requirements. However, knowledge of specific issues of compliance is grossly inadequate. Initiatives by one of the SROs (ICAN) of the accounting firms to incorporate an AML/CFT module in its Professional Level examination curriculum, has gone a long way in enhancing the AML/CFT knowledge in the sub-sector. 80% of respondent Accounting firms stated that they were exposed to AML/CFT general knowledge while 67% of this population admitted to have had formal AML/CFT training. To this end the variable is **rated high for the Accounting firms sub-sector.**

Response obtained from administered questionnaire showed a considerable knowledge of AML/CFT in Law firms with 88.9% of responses showing general knowledge of AML/CFT, however, 27.8% of these responses admitted to have had formal AML/CFT training. 82.6% Real estate firms confirmed awareness of AMLCFT while 47.8% of these responses confirmed to have had formal AML/CFT training. **Thus the variable was rated medium-high for Law firms and Real estate firms** while TCSPs were rated **medium high** given the fact that the sub-sector is driven by lawyers and accountants. 75% of respondent NPOs stated that they were exposed to AML/CFT general knowledge, however, 25% of these responses admitted to have had formal AML/CFT training. 66.7% of respondent Casinos stated that they were exposed to AML/CFT general knowledge, however, 33% of these responses admitted to have had formal AML/CFT training. 70.8% of respondent Car dealers stated that they were exposed to AML/CFT general

knowledge while, 33.3% of these responses admitted to have had formal AML/CFT training. 80% of respondent Hotels stated that they were exposed to AML/CFT general knowledge of which 33.3% of these responses admitted to have had formal AML/CFT training. 45.4% of respondent Jewelry dealers stated that they were exposed to AML/CFT general knowledge, however, 10% of these responses admitted to have had formal AML/CFT training.

Table 7.3: Responses on the two major questions on AML Knowledge of Business/Profession Staff as returned from the field Questionnaires

	Are you aware of Anti-Money Laundering (AML) law in the country?		Have been sensitized or trained as a firm on your obligations within the ML (P) A by your professional body, SCUML or others? (yes/No)	
	yes	No	Yes	No
Jewelry Dealers	45.40%	54.50%	10%	90%
Real Estate	82.60%	17.40%	47.80%	52.20%
NPO	75%	25%	25%	75%
Law Firm	88.90%	11.10%	27.80%	72.20%
Casinos	66.70%	33.30%	33%	67%
Car Dealers	70.80%	29.20%	33.30%	66.70%
Accountants	80%	20%	67%	33.30%
Hotel	80%	20%	33.30%	66.70%
TCSP				

Source: computed from Group 7 analysis of field Questionnaires

Given the above statistics, NPOs were rated **medium-low**, Casinos and Car dealers were **rated medium** and Hotels were **rated medium-high**, Jewelry dealers were **rated very low**.

Effectiveness of Compliance Function (Organization)

Except in very few cases, the businesses and professions within this DNFBPs sub-sector are of small sizesole proprietorship or partnership firms. The implication of this structure translates to override of internal control measures and lack of independence of the compliance officers. These implications grossly undermine the effectiveness of the compliance function within the DNFBP sector. This is further compounded by the lack of documented AML/CFT policies and procedures, as well as the non-appointment of Compliance officers. The table below depicts the findings of the assessors from the questionnaires and field interviews.

Table 7.4: Responses on the two major questions on Effectiveness of Compliance Function (Organization) as returned from the field Questionnaires

	Do you have a documented AML policy/control measure in place?		Does your firm have a compliance officer	
	Yes	No	Yes	No
Jewelry Dealers	0	100	0	0
NPOs	20	80	52.6	47.4
Law	16.7	83.3	11.1	77.8
Hotel	32.4	67.6	58.8	41.2
casino	66.7	33.7	66.3	33.7

Car Dealers	8.3	91.7	29.2	70.8
Accounting firms	20	80	46.7	53.3
Real Estate	0	0	34.8	65.2
TCSP	12.5	87.50	25	75

From the foregoing, the rating for the variable is assessed as **medium-high** for Casinos **medium-low** for Hotels, NPOs and Accounting firms **low** for Law firms and TCSPs, **very low** for Real estate firms and **close to nothing** for Car & Jewelry dealers.

Effectiveness of Suspicious Activity Monitoring and Reporting

DNFBPs are mandated by Section 6 of the Money Laundering Prohibition Act, 2011 (as amended) to put in place mechanisms for identifying and reporting suspicious transactions to the Nigerian Financial Intelligence Unit (NFIU). However, effectiveness of Suspicious Activity Monitoring and Reporting within the DNFBP sector is particularly poor. The Nigerian Financial Intelligence Unit (NFIU) has records of 2 STRs filed by the Casino sub-sector within the period under review. This goes to buttress the lack of AML/CFT compliance function in the DNFBP sector and the poor understanding of what constitutes a suspicious transaction. The prevalent owner-management structure within most of the sub-sectors facilitates willful blindness to suspicious activity by their clients. An average of 80% of respondents across the industry claimed not to have ever encountered a suspicious activity. The sub-sectors are rated as **low for Casinos while Law firms, Accounting firms, Hotels, Car dealers, Jewelry dealers, Real Estate firms, NPOs and TCSPs are all assessed to have a rating of close to nothing.**

SECTORAL INHERENT VULNERABILITY

Dealers in Real Estate

In recent years, the Real estate sector has recorded an unprecedented growth, emerging as a significant contributor to the economic and social transformation of Nigeria through the provision of employment, goods and services. The sector is chiefly funded through Primary mortgage institutions, development finance institutions, capital market, loans from deposit money banks, public funding, private individuals and corporate bodies and foreign direct investments. The Money Laundering (Prohibition) Act 2011 provides for the supervision of Estate Surveyors and Valuers, and real estate developers. The scope of supervision was expanded through the Federal Ministry of Industry, Trade and Investment Regulations for Designated Non-Financial Institutions, 2013 to include construction companies and dealers in real estate. However, due to inadequate regulation and the informality of the country's economy in general, other professionals and business people not yet designated for AML/CFT supervision have become operators in the sector. The above mentioned professions are not restricted by law to conduct sales or transfer of property from one party to another; hence technically, they all play the role of 'real estate agents'. They act as agents for either buyers or sellers and are members of recognized associations such as Real Estate Developers of Nigeria (REDAN) or Nigerian Institution of Estate Surveyors and Valuers (NIESV). Informal agents however exist and control

over 95% of the market¹⁸⁶, some real estate agencies that operate in this sub-sector are registered in foreign Jurisdictions and some of these jurisdictions are regarded as Tax Havens. Growth of the real estate sector is largely driven by commercial properties in major cities of Lagos, Abuja, Port-Harcourt and Kano. Statistics from SCUML show that a total of 9, 625 Real Estate firms were registered as at December, 2014. In view of the above, **the total size/volume of this sub-sector is rated high.**

A typology study conducted by GIABA in 2008¹⁸⁷, identified Politically Exposed Persons as the major clients of this sub-sector. While field assessment confirms this position, it also showed that proceeds of corruption are mostly channeled through the Real Estate Sub-Sector. Therefore, **the client base profile of the real estate sector in Nigeria is rated high.** In addition to level of cash transaction, SCUML statistics showed low volume of cash transaction within the real estate sub-sector. The statistics reveal that 10 cash based transactions, amounting to \$168, 349.9 (₦58, 504,969) were filed by 7 real estate firms as at December 2014. This is expected as it confirms the vulnerability of the sector to ML due to significant use of cash in foreign currency (especially USD) to pay for transactions. While local currency transactions are conducted mostly through financial institutions due to the large amount of currency involved. **Thus, this sub-sector has low level of local currency cash activity.**

The Real estate sub-sector employs the use of Agents frequently in carrying out their day to day business activities of buying and selling of Land and landed properties. 90% of respondents confirmed that they use agents regularly for real estate related transactions. Therefore, **the use of agents in this sub-sector is high.**

Most of the real estate entities based in the country do not have foreign affiliation in and their services are limited to Nigeria as affirmed by 95% of the respondents. Although most of them claimed not to have carried out any cross border transactions, SCUML off-site and on-site inspection reports confirms increasing exposure of the sector to the international property market. Therefore, **the level of cross border activity in this subsector is rated medium.**

In the real estate sub-sector, anonymous use of the product is available due to the nature of its clients' base which includes the use of fronts that buy and sell properties on behalf of PEPs. From the anonymous usage of the product, proper tax assessment and application will not be ascertained, thus providing valid ground for fraud and tax evasion. Survey responses revealed that over 30% of the sector is dominated by informal and unregistered operators. It further showed that about 30% of the entities particularly the registered professionals have comprehensive internal control measures in place. Therefore, this variable is rated **low.**

In the real estate sub-sector, transactions conducted through the professional players are retrievable but not easily traceable. Moreover, based on the responses obtained from the

¹⁸⁶ NIESV 2011 Annual Report

¹⁸⁷ Typologies of Money Laundering through the real estate sector in West Africa

respondents, 72.7% stated that their transactions are untraceable. However, examination records from SCUML show otherwise. The inherent vulnerability score is rated as difficult/time consuming. **In view of the above, the overall inherent vulnerability is rated very high.**

Accounting Firms

The Accounting firms sub-sector in Nigeria is composed of domestic and international firms. The international firms are few in number and control a lesser percentage of the subsector. Notable among these are PriceWaterhouseCoopers, KPMG and Deloitte. A greater percentage of the subsector is controlled by the domestic accounting firms. Records obtained from ICAN and ANAN indicates that the number of licensed accounting professionals in Nigeria to be 6,462 with ICAN and 25,702 with ANAN as at December 2015 while SCUML database showed a total of 2,143 registered accountants. The disparity between these figures is because not all registered members are into professional practice. Therefore, **this variable is rated medium high.** Corporate entities form majority of the clientele. with about 93.3%. This fact was corroborated by reports of the off-site and on-site examinations conducted by SCUML. Due to unavailability of information, assessors were unable to determine whether the beneficial owners of those corporate clients include politically exposed persons, non-residents, high net-worth individuals, Clients with foreign business or personal interests or clients with business links to known high-risk jurisdictions. The possibility of this scenario cannot be ruled out. Thus, **the rating for this sub-sector is Medium Risk.**

SCUML data base showed that 54 cash based transactions amounting to ₦2,113,425.09 (\$4,044.8) were filed by 78 Accounting firms as at December 2014. This shows that the sub-sector **has low level of cash transactions** given the formal nature of its business. In the accounting firms sub-sector, the use of agents exists but limited. From the field survey conducted, 30% of the respondents indicated that they use agents in conducting their business. Thus, **the rating for this variable is low.**

The services of accounting firms are not limited to Nigeria largely due to the existence of international accounting firms. Record from the survey showed that 20.7% of the respondents stated that their services are not limited to Nigeria since they have affiliates in other countries thus they offer both domestic and international services. Therefore, **this variable is rated high.** Assessors were unable to obtain any information to show the existence of money laundering activities or the abuse of business/profession in accounting firms. Additionally, the identity of their clients can be concealed due to the nature of the business and services offered by this subsector. This implies that the sub-sector can be used in fraud or tax evasion schemes. In this sub-sector, informal operators do not exist due to the professionalism and formal nature of its operations.

The existence of internal control measures is a prerequisite for membership of the profession. Records from the field survey conducted show that 70% of the entities have internal control measures in place. Therefore, **this variable is rated high.**

Reports from SCUML on-site examinations reveal that operators maintain transaction records. However, in most cases they are not stored in a format that facilitates easy retrieval thus, tracing of transaction records is difficult and time consuming. **In view of the overall inherent vulnerability of this sub-sector, the variable is rated Medium high.**

Legal Firms

In Nigeria, legal practitioners can be involved in civil, criminal, business, financial and other matters with little or no restriction. Their services include real estate transactions, particularly leasing, purchasing or selling of commercial properties, and other financing agreements. Other services include creation, administration or management of corporate vehicles. They can act as promoters of companies, trustee of an express trust or simply provide other legal arrangements for their clients.

The Council of Legal Education and the body of benchers are responsible for determining the eligibility for lawyers, solicitors, and barristers admission to practice law in Nigeria while the legal practitioner disciplinary committee is responsible for the discipline of the legal practitioners. However, the practice of the profession is guided by the Legal Practitioners Act which establishes the Nigeria Bar Association (NBA) that acts as SRO for the profession. The Nigerian Bar Association maintains a list of about 18, 000 registered lawyers. NBA has 36 state chapters with 109 branches nationwide. It regulates the activities of its members, provides continuing education program and applies disciplinary action on erring members. Thus, the rating for the size/volume of the legal firm sub-sector is high.

The field survey conducted showed that 61.3% of their clients are individuals while 38.7% are corporate clients. The sub-sector enjoys Lawyer-Client confidentiality privileges, which makes them attractive to PEPs, non-resident Nigerians, resident foreigners and other high net worth individuals. In view of this, the sub-sector's clients are rated high risk while Law firms have low level of cash transactions due to the formal nature of the sub-sector. SCUML records show that 45 law firms filed 15 cash based transactions (CBTRs) amounting to ₦11, 674,876.56 (\$38, 916.3) as at December 2014. Legal firms deal directly with their clients, thus, the use of agents in the subsector does not exist.

Legal firms can be licensed to practice both in Nigeria and in foreign jurisdictions, provided they fulfill the requirements for practice in those jurisdictions. They offer services irrespective of the client's jurisdiction. 83.3% of survey respondents said that their services are limited to Nigeria, while 16.7% stated that they offer both domestic and international service. Therefore, **this variable is rated High.**

The nature of the business and services offered by this subsector allows for the identity of their clients to be concealed. This increases the vulnerability of the sub-sector to fraud or tax evasion schemes. It is widely believed that this activity exists although data was unavailable to substantiate its existence. More so, there is no record that shows the existence of money laundering typologies on the abuse of legal firms in Nigeria. Informal operators do not exist in this sub-sector due to its formal nature. Records from survey show that 70% of the entities do not

have comprehensive internal control measures in place thus, the variable is rated low. Also, Field survey conducted shows that 72.2% of law firms regard their transactions as traceable. However, access to the records may be difficult due to the practice regulation of client confidentiality. **In view of the above, the overall inherent vulnerability is rated high.**

Car Dealers Sub-Sector

The Nigerian automobile market is mainly divided into two categories ‘New’ and ‘Used’. The new car segment’s profit margin is being eroded by the increasing patronage of the used car market. The Used Car market industry is dominated by cash transactions, perhaps due to the source of the cars which are sometimes smuggled into the country. This sub-sector is attractive to money launderers due to absence of effective supervision, weak border controls and the fact that it is easily convertible to cash. It is easy to set up used-car sales outlet from proceeds of crime due to the cash based and informal nature of transactions. The KPMG 2015 global Automotive Summary Survey projected that the automobile industry across Africa will increase in volume and global sales over the 100 million mark and continues to rise till the end of the decade. Nigeria’s automobile sector may contribute at least 4.5% of 2016 global automobile sales as a result of the country’s increased investment in the automobile sector in 2015, which encouraged local production.

The registered car dealers are a fraction of the total number of operators in the country. Records from SCUML show a total of 1,875(one thousand, eight hundred and seventy five) registered car dealers as at December 2014. A visit to any of the major vehicle markets in Nigerian cities such as Lagos, Kano and Abuja, would prove that these statistics are largely short of the real situation. Therefore **the variable of this sector is rated high.**

For the car dealers, the responses obtained from the field questionnaires showed a fair distribution of customer types across the different classifications, however, it is notable that the responses showed 91.7% of the customers are Politically Exposed Persons. Observations from the Currency and CBTRs submitted by the car dealers show some level of high exposure of the sector to PEPs patronage. The dominance of the second-hand car sales in this sector also supports these statistics.

A report prepared by Deloitte, affirmed that the second-hand Vehicles dominates the Nigerian vehicle market¹⁸⁸. Furthermore, the report suggests that the clientele of the market in Nigeria is dominated by PEPs. Therefore, the risk posed by **Client-Base Profile of the Car dealership sector is rated high.**

The prevalence of cash transactions across the DNFBP sector as deduced from sectorial rendition of Cash Based Transactions Reports (CBTR) shows that car dealership sector has the highest exposure to cash transactions in terms of the Naira value of total rendition. This is expected given the high level of informality of the sector. A total of 518 cash based transactions were filled by 55 Entities amounting to the sum of \$17, 270, 361.8 (₦5, 181,108,544.70). The Sector

¹⁸⁸ Deloitte Africa Automotive Insights: Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria¹⁸⁸

is therefore rated HIGH. Responses obtained from the survey conducted showed that 60% of the respondents engage in business transactions through agents. Thus, **the rating for this sub-sector is high.**

Furthermore, 66.7% of the car dealers interviewed claimed their operations extend across the borders especially in the West African region. **The rating for this sub-sector is high** while no record could be found on the use of the business/profession in fraud or tax evasion schemes. However this position does not totally eliminate the possible occurrence of tax fraud through in car dealership given the nature of the business and its main clientele, Also, no information could be found on the existence of ML typology on the abuse of the business /profession in the car dealers' sub-sector. Thus, ML typology in the sub-sector does not exist. Although, there is no record to show but informal operators in this business/profession exist. No record could also be found on the existence of comprehensive internal control measures although; a few formal operators within the sub-sector have comprehensive internal control measures in place. Thus the rating for this sub-sector is Low. Record of transaction in this sub-sector of the DNFBP's is traceable but difficult and time consuming due to the peculiarity of the sector.

In view of the above, the overall inherent vulnerability is rated very high.

Hotels Sub-Sector

PricewaterhouseCoopers (PwC's) Hospitality Outlook 2015 report¹⁸⁹ forecast that the number of hotel accommodation in Nigeria is expected to more than double in the next five years. Accordingly, the hotel industry in Nigeria which has attracted significant investment of over US\$3 billion in the past five years, is getting stronger with an increase in the number of indigenous partnerships taking advantage of the rebasing of the economy to grow their businesses. The vulnerability of the Hotel industry to money laundering was based on the cash intensive nature of the economy and also identification of Hotel businesses among properties recovered in Money Laundering. A typical example of how hotels can be used to launder the proceeds of crimes is where criminals use proceeds of crime to set up hotels and lodge back proceeds into the system as legal funds or where proceeds from the hotel business are kept in safe deposit boxes in the hotel instead of lodging at the banks. In other instances, hotels are used as front businesses for other criminal activities while others provide international currency exchange, making the hotel business cash intensive. It is also important to note that hotels can be involved in money laundering.

A report on the Hotel industry in Nigeria for the year 2015, prepared by Augusto & Co¹⁹⁰, shed considerable light into the size of the Hotel Industry in Nigeria. The highlights of the report showed that there are 7,000 hotels with 245,000 standard rooms as at 2014. The report also put the estimated turnover of the sector at ₦562 billion (\$1, 873, 333, 333.3), out of which 63% comes from hotel rooms at an average occupancy rate of 50-65% for the year¹⁹¹. As at the end of

¹⁸⁹ <https://www.pwc.co.za/en/assets/pdf/hospitality-outlook-2015.pdf> (sited 30-12-2016)

¹⁹⁰ a renowned credit risk rating agency in Nigeria,

¹⁹¹ www.agustoresearch.com/2015-Hotels-Industry-Report

2014, the SCUML's registration of hotels stood at 2,344. Therefore, the variable of this sector is rated **HIGH**.

Additionally, 50% of the operators in the Hotel industry claimed they offer services to politically exposed persons, the risk posed by the client's base profile is therefore moderated by the low risk of the services offered by the hotels, which is largely accommodation. **The sector's client base profile risk is rated Medium.**

The prevalence on use of cash to transact within the industry is medium due to wide usage of electronic payments platforms such as debit and credit cards. Statistics from SCUML show that 4,186 cash based transactions amounting to ₦3,490,387,861 (\$1, 163, 462.9) were filed by 85 Hotels as at December, 2014. The rating for this sector is Medium High. The use of agent in conducting business within the DNFBP sector is significant. Data from field work showed 60% of respondents indicating that they carry out transactions through agents. The subsector is therefore rated **medium high**. While cross border are not prevalent with hotel services even though, their services extend to non-Nigerians. This position was further supported by responses from the questionnaires served which, showed that 97% of the respondents said that their services are limited in Nigeria. Thus, the inherent vulnerability score is rated as **Low**.

Anonymous use of the product is possible given the product clients' base which includes patronage by PEPs the practice of group booking. Thus, the inherent vulnerability score is rated as **available**. The hotel sub-sector is associated with so many factors that can lead to the usage of its business/profession for fraud or tax evasion amongst others due to the size and volume of transactions. Lax record keeping process was observed by SCUML during examinations as evident in under declaration of sales records. Record shows that there is no money laundering typologies on the abuse of business/profession in Hotel sector. Thus, the inherent vulnerability **does not exist for ML typologies**. Based on the responses from the interviews, the statistics showed that 30% of these entities have comprehensive internal control measure in place, thus the inherent vulnerability score is rated as **low**. Also, Responses from the interview show that the existence of informal operators in the business accounts for 35% of the sub-sector. The inherent vulnerability score is rated Low. Records of transactions are traceable because the sector files report to the DSS office daily and CBTRs/CTRs to SCUML weekly. Based on the responses obtained from the respondents, 80.7% answered that transactions are traceable. The inherent vulnerability score is rated as **difficult/time consuming**. **In view of the above, the overall inherent vulnerability is rated very high.**

Casino Sub-Sector

The Casino Industry in Nigeria is not as pronounced as some other DNFBPs sub sectors. PriceWaterHouse Coopers Report¹⁹² on Gambling Outlook: 2015-2019 for South Africa, Kenya and Nigeria, affirmed that since 2009, "gross casino gambling revenues in Nigeria rose from \$39.1 million in 2013 to \$45.8 million in 2014"¹⁹³

¹⁹² <http://www.pwc.co.za/en/assets/pdf/gambling/-outlook-2015-2019.pdf> (sited 30-12-2016)

¹⁹³ figures computed at N163.591/\$)

Table 7.5: Growth of Gross Casino Gambling Revenue in Nigeria

Year	Gross Casino Gambling Revenue(\$millions)
2010	24.3
2011	27.4
2012	32.7
2013	39.1
2014	45.8

Adapted from: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates: Taking the odds Gambling outlook: 2015–2019 South Africa – Nigeria – Kenya, December, 2015

According to the information obtained from the Corporate Affairs Commission, Sixty (60) casinos were incorporated in Nigeria as at May, 2016 while record of registration with SCUML shows a total of 35 casinos as at December, 2014. However, some operators in the sub-sector opined that casino business in Nigeria is heavily prone to the activities of “underground” or informal operators, who intend to evade both AML supervision and taxes¹⁹⁴. Thus, the existence of informal operators is rated **Medium**.

The Association of Casino Operators of Nigeria (ACON) recently re-incorporated as Nigerian Gaming Association, serves a major non trade association for the industry. Notably, this association has been active in partnership with SCUML towards educating its members on AML/CFT and promoting compliance with the AML/CFT regime in Nigeria. No ML typology study has been done in the sub-sector. However, SCUML supervision reports have uncovered attempts to evade KYC procedures by customers using fictitious names. Therefore, the variable of this sector is rated **Low**.

The responses obtained from the field questionnaires, showed that majority of casinos’ customers are foreign nationals. This was affirmed during focus group discussion with operators in the sub-sector, particularly individuals lodged in the hotels where the casinos are housed. SCUML CTR/CBTR records show the activities of some fictitious representations within the sub-sector.¹⁹⁵ **In view of this, the Casino sub-sector client base is rated medium risk.**

The Casino sub-sector also recorded some significant exposure to cash transactions. In most instances, players at casinos usually use cash in hand and bank cards to buy chips. Statistics from SCUML show that 1,567 cash based transactions amounting to ₦693, 224,675 (\$231, 0748.9) were filed by 13 entities as at December 2014. Thus, the level of cash activity is rated HIGH. Responses from the field survey indicate that 100% of casino respondents neither use agents nor engage in cross border activities. Thus, the exposure of casinos sub-sector to cross borders activities does not exist. The anonymous use of casinos does not exist in Nigeria unlike Fraud and tax evasion which is common amongst the unlicensed Casinos operators since their activities are not subjected to supervision. Thus, fraud and tax evasion exists but limited within the sub-sector. Furthermore, the internal control measures in the Casino sub-sector is not comprehensive, thus this variable is rated as LOW. In Casino sub-sector, transaction records are traceable;

¹⁹⁴ This was mentioned by the President of the Nigerian Gaming Association (formerly Association of Casino Operators of Nigeria) in an Interview session.

¹⁹⁵ CTR/CBTR received by SCUML have seen high occurrences of suspected fictitious names such as “chief red cap” etc.

however, SCUML onsite examination revealed that tracing record is difficult and time consuming.

In view of the above, the overall inherent vulnerability of the Casino sub-sector is rated Medium.

Non-Profit Organizations Sub-Sector

Non Profit organizations in Nigeria are entities incorporated or set up for the advancement of any religious, literary, scientific, social development, cultural, sporting or other charitable purpose. The scope of this description covers Non-Governmental Organizations, Civil Society Organization, Religious Institutions, philanthropic foundations etc. Two broad categories of NPOs operate in Nigeria – the Domestic NPOs and the International NPOs. The domestic NPOs are higher in number than the international NPOs.

A typology report by the FATF and GIABA in 2013, titled “Terrorist Financing in West Africa” (pages 20-21), identified some cases of Non Profit organizations or other charitable causes being used for the financing of terrorism. An example is an International NGO based in the Middle East which sought to open a bank account in Nigeria and was flagged. NPOs may be vulnerable to abuse by terrorists for a variety of reasons. NPOs enjoy the public trust, have access to considerable sources of funds and are often cash-intensive. They have a global presence that provides a framework for national, international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity. Subsequent investigation revealed that the NGO had operated in Nigeria over a period of time, with bank accounts in different banks. Furthermore, the International NGO had links with another NGO known to have supported terrorist groups. The frequency of withdrawals from the NGO’s accounts, especially in the states known for the insurgency, raised concerns about the ultimate use of these funds.

CAC has registered more than 60,000 Incorporated Trustees (Non-Profit Organizations), whereas 3,869 NPOs were registered with SCUML as at December 2014. Therefore the total size of this sub- sector is rated **High**.

The NPOs in Nigeria are mainly established to provide support to the less privileged individuals including the sick, educationally-deprived, victims of natural disasters, individuals without access to primary healthcare services, etc. Other clients include corporate bodies such as NPOs, schools, hospitals, etc. Thus, the client base profile of NPOs are rated **low risk**. The NPO subsector showed some significant exposure to cash transactions because the use electronic payments are not common in rural areas where the NPOs mostly offer services. Statistics from SCUML show that 232 cash based transaction reports amounting to ₦512, 645,200.55 (\$1, 708, 817.3) were filed by 42 NPOs as at December 2014. Therefore, the level of cash activity is **High**.

Responses from the field survey showed that 30% of the respondents indicated that they accept donation through agents thus, the rating for this variable is low. The existence of international NPOs operating in Nigeria is indicative of cross border activities within the subsector. Responses from the field survey showed that 95% of NPOs interviewed are locally incorporated, while 75%

stated that their donors are foreign entities. Thus, cross border activity in the NPOs sub-sector is rated high. In NPOs sub-sector, the true beneficiaries of donations or projects can be concealed through the use of fictitious names thereby indicating possible use of, NPOs to commit fraud where funds are received from donors and are diverted or siphoned using fictitious names as beneficiaries of the siphoned funds.

Informal operators exist due to the ineffective entry controls into the sub-sector. Responses from the field interview showed that informal operators account for 30% of the NPOs subsector. Therefore, this variable is rated **Low**.

SCUML on-site examinations reveal that most domestic NPOs do not have comprehensive internal control measures, however International NPOs have comprehensive internal control measures. Furthermore, responses from the field survey showed that some international NPOs have internal control mechanism in place. Therefore, this variable is rated low.

Responses from the field survey, showed 75% of respondents, indicated that transactions are traceable but time consuming. Also, an on-site examination conducted by SCUML confirms that the traceability of NPOs transaction records is difficult and time-consuming. **In view of the above, the overall inherent vulnerability is rated high.**

Trust And Company Service Providers Sub-Sector

Trust and Company Service Providers in Nigeria are mainly legal and accounting professionals that provide services such as company secretarial services, arrangement of nominee directors for companies, acting as formation agents, provision of registered office, business address, and other correspondence for companies acting as nominee shareholder or arranging for nominee shareholders, and setting up of shell companies in foreign jurisdictions. Trust and company Service Providers are concentrated in major commercial cities in Nigeria. Given the ethical concern that may arise from offering non-legal services to clients, professional law and accounting firms often incorporate their Trust and Company Services as a separate legal entity from their professional services

Trust and Company services in Nigeria could be described as a sub-sector within the legal and accounting services. Estimates of its size could be said to be proportionate to these primary industries as well. Information obtained from the Corporate Affairs Commission, estimates that there are 859 Trust and Company Service providers in Nigeria. The field survey showed that, 25% of the respondents estimated their annual income within the range of 1 and 11 million naira (\$3, 333 to \$36, 666.6). Therefore, the total size of this sub-sector is rated **Medium High**.

Responses from the field showed that, 35% of respondent TCSPs in Nigeria are mostly patronized by domestic corporate entities. The corporate entities could be owned by politically exposed persons and high net worth individuals. Results from the field surveys also showed that 28.6% of the TCSPs' clients are Foreign Corporate entities and non-Resident Individual. Therefore, **the rating for this variable is High**

The legal and accounting firms would rather use the formal financial institutions in conducting transactions so the level of cash activity is low for TCSPs. In this sub-sector, conducting business using agents exists but to a limited extent as responses from the field show that 30% of TCSPs conduct business through agents, hence the rating for this variable is low. The TCSPs sub-sector carry out cross border activities, therefore the exposure to cross border activity is rated high. Due to the nature of the services offered by TCSPs, the beneficial owners are always identified. Anonymous use of the product does not exist and use of TCSPs in fraud or tax evasion schemes exists but limited. There is no record that shows the existence of money laundering typologies on the abuse of TCSPs in Nigeria. Reports from interviews have shown that informal operators do not exist due to the formal nature of the sub-sector. Responses from the field survey show that 70% of the entities have comprehensive internal control measures in place. This variable is rated as **High**. In this sub-sector, tracing of transaction records is possible and easy. **The overall rating for this sub-sector is high.**

Jewelry Dealers Sub-Sector

Jewelry business is one of the informal sectors of the Nigeria economy. The dealers in Jewelries are mostly found in cities like Kano, Lagos, Ibadan, Port-Harcourt and Abuja. The majority of the customers that patronize dealers in Jewelries are mostly women, who may consider them as portable items of value that are easily exchanged for cash. This sector has no SRO that provides operating guidelines for its members. The field survey conducted shows that 81.8% of the dealers revealed that their business is not subject to an SRO. Though, dealers in the Jewelry sub-sector are captured in the MLPA 2011 (as amended), 54.5% responded that they are not aware of its existence. In addition, 90.9% of the dealers in Jewelry are not registered with SCUML.

Since domestic gold production in Nigeria is low, majority (63.6%) of the dealers get supplies from Asian countries (Dubai (UAE), Saudi Arabia, India, China etc). the vulnerability in the sector's exposure to cross border operations lies in payments made to foreign-based dealers via bank transfers. The field survey shows that majority of the dealers prefer carrying old jewelries abroad either in melted form or to be melted and restyled than paying cash to their suppliers. Thus, cross border activities is high.

The Jewelry dealership subsector in Nigeria is largely composed of sole proprietorship businesses (72.7%), Although there is no reliable record of the volume of transaction within the sector or its contribution to GDP, the observation from the field survey indicated that the estimated annual income of Jewelry dealers ranges between ₦500, 000.00 to ₦12,000,000 (\$1, 666.6 to \$40,000), while number of customers range from 10 to 1,500. Therefore the variable of this sector is rated **MEDIUM**.

Customers of jewelry dealers are mostly medium income individuals (90.9%) and very few high net-worth customers (9.1%). Thus, the rating for this variable is medium.

Responses from the field survey showed that jewelry dealers prefer cash payment to the use of bank instruments when transacting with customers. The survey showed that 81.8% of the respondents accept cash payment while 72.7% do not observe the statutory cash limitation requirement in their businesses. Thus the level of cash activity is high. The use of agents in

jewelry dealers’ sub-sector exists. The field survey showed that 70% of the jewelry dealers transact business through agents. Therefore, the rating for this variable is **high**. The beneficial owners of jewelry purchased or sold to the Jewelry dealers are not always known thus the possibility of anonymity exists. No information could be found on the use of the business/profession in fraud or tax evasion schemes in Nigeria. There is no ML typology on the abuse of the Jewelry business in Nigeria, however, the business can be used to launder funds. Responses from the field survey showed that majority of the respondents do not have internal control measures in place while transaction records in the business of jewelry dealers are traceable but difficult and time consuming because of its informal nature. **In view of the above, the overall inherent vulnerability is rated high.**

RANKING PRIORITY AREAS

Table 7.6: Priority Ranking for Accounting, Legal Firms, TCSPs, Car Dealers, NPOs, Jewelry Dealers, Hotels, Casinos and Real Estate

PRIORITY RANKING FOR GENERAL INPUT VARIABLES/ AML CONTROLS - LAST CASE/SCENARIO	ACCOUNTING	LEGAL FIRMS	TCSPs	CAR DEALERS	NPOs	JEWELERY DEALERS	HOTELS	CASINOS	REAL ESTATE
Comprehensiveness of AML Legal Framework									
Effectiveness of Supervision/Oversight Activities	1	1	1	1	2	2	1	1	3
Availability and Enforcement of Administrative Sanctions	6	7	7	5	5	7	5	4	6
Availability and Enforcement of Criminal Sanctions	4	5	5	7	6	8	6	5	7
Availability and Effectiveness of Entry Controls				8	6	4	6	6	5
Integrity of Business/ Profession Staff			8	6	8	6		7	8
AML Knowledge of Business/ Profession Staff		4	4	2	1	1	3	2	4
Effectiveness of Compliance Function (Organization)	3	2	2	2	4	3	3	9	1
Effectiveness of Suspicious Activity Monitoring and Reporting	2	2	2	4	3	5	2	3	2
Availability and Access to Beneficial Ownership information	7	8	9	10	10	10	9	10	10
Availability of Reliable Identification Infrastructure	5	6	6	9	9	9	8	8	9
Availability of Independent Information Sources	8	9	10	11	11	11	10	11	11

RECOMMENDATION

In order to resolve the challenges faced during the assessment, the following recommendations are made:

- a) FMITI should demonstrate more commitment to and provide enhanced support in the operations of SCUML.
- b) The legal framework of SCUML should be reviewed and transferred from the FMITI to EFCC for a streamlined and proper coordination of its activities, and to leverage on them for enhanced operational efficiency.
- c) SCUML should be adequately equipped to supervise the DNFI sector, in terms of, human resources, finance, technical capacity, tools and logistics.
- d) SCUML should apply a risk-based approach in reorganizing the DNFI sector and ensuring their compliance with the AML/CFT regime of the country.
- e) SCUML should proactively engage in continuous discussions with the SROs as a platform for increasing AML/CFT knowledge and for moral suasion to enhance compliance of their members. The MLPA 2011 (as amended) should be reviewed to empower SCUML to sanction erring entities following clear and objective guidelines.
- f) Develop a comprehensive AML/CFT training manual which outlines the process for monitoring and reporting of suspicious transaction reports, training of officers, etc.
- g) SCUML should develop comprehensive guidelines specifically for each DNFI sub-sector for the establishment of an effective compliance function which includes the appointment of a Chief Compliance Officer, development of an AML/CFT internal control system as well as preservation of records.
- h) Develop a comprehensive supervisory framework to cover all the sub sectors within the DNFI.
- i) SCUML should encourage the establishment of a centralized and secure digital land registry in each state of the country.

CHAPTER EIGHT

8. TERRORISM/TERRORISM FINANCING THREAT & VULNERABILITY TO MONEY LAUNDERING RISK

INTRODUCTION

Terrorism is an increasingly global problem that requires concerted global action; this is seen from the global effort exhibited in the fight against Terrorism. Widespread occurrences of extreme violent acts committed by terrorist organizations around the world can only be explained through the unique funding streams terrorist operate, thus, it is imperative that cutting off the source of terrorist finances be critical and number one priority in the fight against terrorism as it continues to pose a major threat to international peace and security.

Terrorism can be described as criminal acts, including against civilians, committed with intent to cause death or serious bodily injury, or taking of hostages with the purpose of provoking a state of terror in the general public or in a group of persons or particular persons, intimidate a population or compel a government or an international organization to do or to abstain from doing any act.¹⁹⁶ In Nigeria, the Terrorism (Prevention) Act 2011 (as amended), defines a terrorist as any person involved in the offences under sections 1-4 of the Act and includes his sponsor.¹⁹⁷

As mentioned earlier, they are aimed at destabilizing governments and undermining the economic and social development of a Nation. Furthermore, given the complex and constantly changing nature of its financing methods and target of attacks, it makes counter measures against it difficult. Terrorist acts often defy national borders; one act of terrorism can involve activities and actors from numerous countries. Given this complexity, strong coordination and cooperation within national governments and between States and organizations at the regional and international level is essential to effectively combat terrorism, especially through the sharing of best practices and lessons learned in the investigation and prosecution of terrorism cases.¹⁹⁸

Activities of deadly terrorist groups around the world have grown over the years. In Nigeria, terrorist activities perpetrated by groups like “Jama’atu Ahlis Sunna Lidda’Awati Wal-Jihad” popularly known as Boko Haram have continued to cause devastating human and material effect. In 2014, Nigeria witnessed the highest increase in terrorist deaths ever recorded by any country, increasing by over 300% to 7,512.¹⁹⁹ from 1826²⁰⁰ deaths previously recorded in 2013. The group became the deadliest terror group in the world, pledging their allegiance to ISIL/ISIS in March 2015²⁰¹

¹⁹⁶ United Nations Resolution 1566

¹⁹⁷ Terrorism (Prevention) Act 2011 (as amended)

¹⁹⁸ www.UNODC.org

¹⁹⁹ Global terrorism index by Institute for Economics and Peace 2015 report, page 2, and 22

²⁰⁰ Global terrorism index by Institute for Economics and Peace 2014 report, page 19

²⁰¹ <https://www.theguardian.com/world/2015/mar/12/isis-welcomes-boko-harams-allegiance-and-plays-down-coalition-victories>

Nigeria has shown serious commitment in the fight against terrorism and terrorist financing and as such has domesticated the various United Nations Security Council resolutions for the prevention and suppression of terrorism and terrorist financing and the government has remained resolute in continuing the fight until a total eradication of the terror group is achieved.²⁰²

OVERALL ASSESSMENT OF TERRORISM THREAT IN NIGERIA

Nigeria remains vulnerable to terrorism related activities at the national and regional levels and terrorist elements still seek to direct funds from abroad to support terrorism activities in Nigeria. This is proven by activities of the Boko Haram terrorists group, transcending Nigerian borders and having camps and members in neighboring countries of Niger Republic, Chad, Cameroun and Mali. This also reflects their funding pattern as the terrorist group is believed to have sources of funds from outside Nigeria. However, the renewed commitment of the Federal Government to fight the deadly Boko Haram Sect through the military has significantly reduced the threat of terrorism in country. The Nigerian military has decimated the sect's ability to seize any territory in Nigeria and is now at the mop-up stage of the counterinsurgency. The sect's capacity has been degraded thus, limiting their activities to attacks on pockets soft targets. Given the foregoing discussion, the national terrorism threat in the country is assessed to be medium.

TERRORISM THREAT ANALYSIS

Summary of the level of the underlying terrorism threat and its characteristics

Terrorism in its present form is relatively new in Nigeria although history suggests that pockets of terror related acts occurred in the 1950s in Kano and again in 1982 when the Maitatsine religious uprising was recorded. However, the incidents were dismissed as mere violent crimes or externally sponsored extremist acts that were promptly nipped by in bud. Some schools of thought believe these events sowed the seeds for the growth of the current threat posed by Boko Haram and Ansaru. Both groups (Boko Haram and Ansaru) are believed to have drawn inspiration from the defunct Taliban Government of Afghanistan and Al-Qaeda/Salafist Doctrine.

As a response to the threat posed by Jama'atu Ahlus-Sunnah Lidda'awati Wal Jihad (Boko Haram) and Jama'atu Ansarul Mislimina Fibiladis –Sudan (JAMBS) the Nigerian Government proscribed both groups in June 2013²⁰³, this was reinforced by another proscription of both groups as foreign terrorist organizations by the United States Government²⁰⁴

Boko Haram activities spur disunity in the country particularly the near pitching of Christians and Muslims against each other via the primordial sentiments that their activities have evoked²⁰⁵. The sect's ultimate mission, as it declared is the pursuit of an absolute Islamic state, where Islamic codes would dictate the process for conduct of affairs, official and otherwise, and totally devoid of any element of western values. Apparently considering the realities and ethno-religious

²⁰² President Muhammad Buhari Speech at the World Nuclear Summit in Washington, USA in April 2016

²⁰³ Terrorism (Prevention) (Proscription Order) Notice, 2013

²⁰⁴ <https://www.state.gov/j/ct/rls/other/des/123085.htm>

²⁰⁵ Source: unspecified intelligence source)

groupings in Nigeria, it is only logical to conclude that this ideology pitched the group against the Nigerian state and its people. The enormous threat from this single terrorist group constituted the chunk of terrorism and terrorist financing activities in the country in the period of under assessment

Level of the overall terrorism threat

Terrorist activities from 2009 to 2016 have resulted in loss of several lives and displaced millions of Nigerians who are now living in camps for the internally displaced persons while some have become refugees in neighboring countries. Damage to infrastructure and properties recorded is about USD 9 billion.²⁰⁶ The use of very high caliber weapons and coordinated attacks including suicide bombings and use of improvised explosive devices (IEDs) were observed. They also engaged in kidnappings for ransom, cattle rustling and armed robbery. Attacks such as the UN bombing, the Nyanya Motor Park explosions, the kidnap of the Chibok girls, invasion and capture of territories in the North-East led to the death, destruction of properties as well as the displacement of about 2,233,506 (Two million two hundred and thirty-three thousand five hundred and six)²⁰⁷. The impact of the scourge also severely affected economic activities as many investors, businesses, multi-national corporations relocated to other countries on grounds of insecurity thus depriving the North-East from the usual economic and social development. (\$9b)²⁰⁸

RECENT INITIATIVES OF THE NEW ADMINISTRATION

However, recent initiatives and measures under taken by the Administration in power from 2015 to date have greatly reduced the threat faced by the country. This is evident in the reduced number of attacks recorded in recent times which witnessed several months with no terrorists' attacks in the country. The military command and control centre was relocated to Maiduguri, Borno State in support of the existing military's new government efforts and initiatives. This singular action accounts for the recent successes recorded by the military and by December 2015, the Boko Haram sect was degraded.²⁰⁹ The North East has therefore witnessed and enjoyed relative peace and the internally displaced persons have started relocating back to their homes.

Given the foregoing discussions and analysis of available data, coupled with the Federal Government initiatives in countering the activities of the terrorist groups operating in the country thereby securing our land, air and maritime territories, the terrorism threat is rated **medium** while the vulnerability has been significantly reduced to **medium**.

IDENTIFIED TERRORISTS GROUPS IN NIGERIA

There are two main terrorist groups that are proscribed by the Federal Government of Nigeria with powers drawn from the Terrorism (Prevention) (Proscription Order) Notice, 2013 made

²⁰⁶ <https://www.bloomberg.com/news/articles/2017-03-06/boko-haram-caused-9-billion-damage-in-nigeria-s-north-un-says>

²⁰⁷ United Nations High Commission for Refugees hand book

²⁰⁸ <https://www.bloomberg.com/news/articles/2017-03-06/boko-haram-caused-9-billion-damage-in-nigeria-s-north-un-says> and <https://guardian.ng/news/boko-haram-caused-9b-damage-in-northeast-un-says/>

²⁰⁹ <http://guardian.ng/features/full-text-of-president-buharis-independence-day-speech/>

pursuant to the Terrorism (Prevention) Act, 2011 (as amended). The two terrorist groups under reference are-

1. Jama'atu Ahlus-Sunnah Lidda'awati Wal Jihad (Boko Haram)

Jama'tul Ahlus Sunnah Lidda'a Wati Wal Jihad (a.k.a Ahlis-Sunnah Jama'a and Nigeria Taliban) came into existence as an association of Muslim youths under the leadership of Mohammed YUSUF (late) at Indimi Mosque along Damboa Road, Maiduguri, Borno State in the year 2000. At the onset, the group gained prominence among illiterate young men mostly engaged in petty trading and later attracted the interest of other individuals including university under graduates led by one Mohammed ALI (late), a medical student from the University of Maiduguri. One of the cardinal teachings of the sect is their assertion that the Nigerian Constitution, democracy, Government employment and even western education are forbidden (Haram) in Islam. The group vowed to establish a country that will be governed under strict Islamic laws. This idea earned the group the epithet "Ahlus Sunnah Wal Jama'aila Takfir Wal Hijra interpreted to mean migrating from the land of infidels to an Islamic community.

2. Jama'atu Ansarul Mislimina Fibiladis –Sudan (JAMBS)

This group is a breakaway faction of the Jama'atu Ahlis-Sunnah Lidda'a Wati Wal Jihad" (Boko Haram) formed by aggrieved members. The Arabic name means, "Vanguard for protecting Muslims in Black African Countries". The group emerged as a result of a leadership tussle within the Boko Haram sect. The group is mostly followers of one Abu Mohammed (late), a factional leader of Boko Haram who died of gunshot wounds in a shoot-out with security agents in Zaria, Kaduna State on 7th March, 2012.

OTHER VIOLENT GROUPS IDENTIFIED IN NIGERIA

Some organizations whose activities tend towards terrorism in the country include but not limited to the following:

Muslim Brotherhood or Shiite Sect (The Islamic Movement of Nigeria)

This group which is led by Yakubu EL-ZAKZAKY, came into existence shortly after the Iranian revolution of 1979. They propagate the enthronement of Iranian mode of Islamic government as its ultimate goal. The group is known for violent demonstrations and confrontations with constituted authorities. The Islamic Movement of Nigeria (IMN) is regarded as a security threat to sovereignty of Nigeria²¹⁰ This was stated by John Shiklam, former vice chancellor of the Ahmadu Bello University at the judicial commission of inquiry investigating the December 12-14, 2015 clashes between the movement and the Nigerian army in Zaria, he maintained that the IMN thrives on violence, saying that the group operates a state within a state. Generally, they operate in cells, in complete secrecy, the cells are spread across many parts of the country, especially in Northern Nigeria. "There is a kind of Central Working Committee which meets frequently under the leadership of El-Zakzaky. At the state level, each state has a governor and a secretariat. "At the central and the state levels, they have committees such as education, finance, recruitment

²¹⁰ <http://www.thisdaylive.com/index.php/2016/04/20/shiite-is-a-threat-to-security-sovereignty-of-nigeria/>

and logistics. This group has currently been incapacitated by the Nigeria Military. The leader of the group and his wife are still in the custody of the military.

Movement for the Emancipation of the Niger Delta (MEND)

The group is one of the largest militant groups in the Niger Delta region of Nigeria. It has the likes of Henry OKAH, Asari DOKUBO, John TOGO and Ateke TOM at its leadership. The group portrays itself as a political organization that wants a greater share of Nigeria's oil revenues allocated to the region from where the oil is produced. MEND has been linked to series of violent attacks on oil installations in the Niger Delta. The group was responsible for the 1st October 2010 Independence Day bombing near the Eagle Square, Abuja, where several lives were lost including law enforcement officers and several vehicles damaged. The mastermind behind the attack, Mr. Henry Okah was convicted for acts of terrorism by a South African High Court. He is currently serving his jail term while his assets have been frozen and are under forfeiture proceedings. The group was granted Amnesty during the President YARA'ADUA Administration as part of the cease-fire agreement in 2007 which include some academic and vocational training given to the restive youth of the region.

Niger Delta Avengers

There have been renewed attacks on oil facilities in the Niger Delta region of Nigeria from February 2016 by a new militant group called the Niger Delta Avengers (NDA). Their activities have negatively impacted on the socio-economic situation of the country.²¹¹ The militants' activities poses significant security threat to the country. The group has made multiple attacks on infrastructure and oil facilities of Nigerian National Petroleum Corporation (NNPC) and major oil companies like **Shell, ENI** and **Chevron**. They vowed to reduce Nigeria's oil output to zero unless its demands were met. The Group is demanding for a sovereign state of the Niger Delta

The group's activities led to a reduced output of Nigeria's oil to less than 1Million barrels per day (bpd), in 1st and 2nd quarters of 2016 and well below the 2.2 million bpd budgeted in the 2016 national budget. The group's action is as an regarded as economic sabotage and has led to significant loss of Government revenue. Additionally, the continued attacks on the oil facilities present health hazards to the people of the communities where these attacks are carried out. According to the Group Managing Director of the NNPC, Mr. Maikanti Baru, a total \$7 billion (N2.1 trillion) is said to have been lost to the activities of militants and vandals in the Niger Delta Region.²¹²

Findings from the field interviews conducted during this assessment (see Port Harcourt interviews) showed that the renewed attacks are attributed to the following reasons-

- lack of implementation of local content policy by the OIL Companies operating in the region-

²¹¹ <http://naija247news.com/2016/05/niger-delta-avengers-militants-blow-up-nnpcs-gas-oil-pipelines-community-leader/>

²¹² <http://pulse.ng/local/niger-delta-nigeria-lost-n2-1-trillion-to-militants-vandals-in-2016-nnpc-id5674626.html>

- lack of vocational training centers for skills acquisition to cater for active youth population and
- poor implementation of the Amnesty program leading
 - abrupt termination of study/trainings abroad,
 - Non-payment of amnesty allowances since June 2015 to January 2016 and
 - Non-inclusion of many other armed militant groups in the amnesty program.

Although the Federal Government has reached out to the group severally through their representatives, in an attempt to restore peace to the region, the group has continued to attack oil facilities regardless of Government's efforts. While stakeholders of the region are agitating for national federalism which they claim has not been comprehensive and inclusive, the NDA insist that they want a sovereign state and not pipeline contracts. These contradicting demands have continued to serve as a divide amongst the people of the region and a cause of confusion to the Government of Nigeria.

In June 2016, the Government made an unprecedented commitment to actualize the cleanup of Ogoniland over a 25-year period in line with the United Nations Environment Programme (UNEP) which published in 2011 the most detailed report on the spread and scale of oil pollution in Ogoniland and its residents. This is in addition to the previous Governments efforts made at developing the region through the establishment of the Niger Delta Development Commission (NDDC). This Commission gets 17% of Nigeria's annual budget in addition to the budget of the Ministry of the Niger Delta. The 2 agencies were established to specifically address the developmental challenges of the region such as infrastructural development and the gainful engagement of the restive youth. It is worthy to note that the ministry of the Niger Delta which was created in 2008, has received the total sum of N516.8 billion between 2009 and 2016 as stated in the table below:

Table 8.1 Federal Government allocation to the Ministry of Niger Delta (8 years allocation)

2009	2010	2011	2012	2013	2014	2015	2016
47bn	61.3bn	52bn	57bn	64.8bn	111.1bn	56.2bn	67.4bn

Source: Budget Office

The Government is still making efforts to reach out to the stakeholders and representatives of the people of the region and the militants so as to find a lasting solution to the problems of the region.

Odua People's Congress (OPC)

This group with different factions is led by Frederick FASEHUN and Ganiyu ADAMS came into existence in August 1993 in apparent reaction to the annulment of the 1993 Presidential election which M.K.O Abiola was acclaimed to have won. The group became violent and clashed with the security forces, during which about two hundred security officers lost their lives.

The OPC was involved in the ethnic clash that occurred in Sagamu, Ogun State, in 1999 leading to the death of over fifty people. OPC was also responsible for the KETU riot in Lagos on 26th November, 1999 between Yoruba and Hausa ethnic groups, resulting to about thirty (30) deaths,

among other casualties. The group has become largely inactive of recent as some of its leaders started hobnobbing with politicians and enjoying some “democracy dividends”.

Movement for the Actualization of the Sovereign State of Biafra (MASSOB)

This secessionist movement operates in the South East of Nigeria with the aim of reviving the defunct State of Biafra. The group is led by Ralph UWAZURUIKE and has its Headquarters in Okwe, Okigwe, Imo State. The group has clashed severally with security forces, recording a number of casualties. Apart from hoisting Biafran flags and insistence on reintroduction of Biafra currencies and passports, it engages in kidnapping and other violent crimes. On May 31, 2013, President Goodluck JONATHAN declared the group as an extremist group.

Indigenous People of Biafra (IPOB)

The group, which is an offshoot of MASSOB, is also a secessionist movement clamoring for the actualization of the Sovereign State of Biafra. It is led by one Nnamdi KANU. The group seeks to merge the South East and South-South as a country through the use of violence. The group has been soliciting for funds from Igbos within and outside the country to purchase arms. Currently, KANU is facing treason charges. His detention has spurred mass protest in parts of South East and South-South by misguided and uninformed elements.

NATIONAL TERRORIST FINANCING RISK

In Nigeria, the lethality, capability and coordination of terrorist groups as well as the increasing tactical sophistication of its operations in recent times lay credence to the belief or suspicion that the groups receive support from some unscrupulous politicians or “powerful” individuals and sympathizers within the country and have ties with some international terrorist organizations as evidenced by a recent pronouncement by Boko Haram of having affiliation with ISIL/ISIS. Consequently apprehending, investigating and prosecuting the financiers and supporters of terrorist groups and terrorist acts will assist in cutting off the source of support and may force the beneficiaries to consider abandoning their criminal activities.

Terrorist financing funds are raised through abuse of legitimate or clean sources like trading, charity organizations, and donations including alms giving. Financing is required not just to fund specific terrorist operations, but to meet the broader organizational costs of developing and maintaining a terrorist organization and to create an enabling environment necessary to sustain their activities.

They use a wide variety of methods to move money within and between their organization and other terrorist organizations, including; the financial sector, physical movement of cash by couriers and movement of goods through the trade system. It has been established that over 80% of the funding for terrorists’ attacks take place outside the formal financial system while only about 20% or less was routed through the financial sector.²¹³

²¹³ Trends And Typologies Report On Terrorism Financing In Nigeria 2013

Estimated Level of terrorist financing and Major contributing factors

The volume or impact of the terrorist/terrorist financing threat **is also adjudged to be Medium**. The following sources of funds were observed as major ways through which Terrorists particularly Boko Haram generate funds for their activities.

a). A wide array of illegal and criminal activities such as kidnapping extortion, armed robberies, smuggling etc that yields high returns to the sect.

B). Sympathizers and member's levies and contributions.

See the full Discussion on Overall Vulnerability of Nigeria to Terrorist Financing and methods for raising funds for terrorism.

Domestic Financing/External Financing of Domestic Terrorism

The TF threat facing Nigeria can be said to be emanating from domestic financing rather than from any other source. The assessment did not establish any link of domestic financing for foreign acts, however there are strong indications that there exist some external financing of domestic terrorism. It is strongly believed that Boko Haram was supported by AQIM at the beginning of its operations in Nigeria. Unconfirmed source put it that AQIM and AL-SHABAB contributed to the take-off of the sect with a contribution of about Forty million naira (circa USD 250,000). However, no proof of this could be found in the field during the assessment.

TERRORIST FINANCING TYPOLOGIES

The GIABA typology Report on Terrorist Financing (year) in West Africa and the Nigerian FIU Trends And Typology report on terrorist financing in Nigeria (2013), provided methods used by financiers to assist terrorists in carrying out acts of terrorism.²¹⁴

Both reports identified the following four categories as sources of terrorist financing:

- a). terrorist financing through trade and other lucrative activities
- b). terrorist financing through NGOs, charity organizations, and levies
- c). terrorist financing through smuggling of arms, assets and currencies by cash couriers; and
- d). Terrorist Financing through drug trafficking

In addition to the above, the NFIU's Trends and Typology report provided additional sources of terrorist financing employed by the Boko Haram and some of the most vulnerable sectors used in facilitating the financing of terrorism, these include the following;

- a) Terrorist financing through arms smuggling

²¹⁴ www.giaba.org (Source: Trends and Typology report on terrorist financing in Nigeria 2013).

- b) Kidnapping for Ransom, Illegal restraint and hostage taking
- c) Goods Smuggling
- d) Extortion
- e) Blackmail

Countries that Nigeria presents the highest TF threat

The activities of Boko Haram in the country present some terrorism financing threat to neighboring countries like Chad, Niger Republic and Cameroon. This is largely due to their proximity to Nigeria and the existence of many porous, illegal border and routes connecting the countries. Niger was identified as fertile ground for terrorist activity due to its weak government, socio-economic challenges and the marginalization of certain components of society. Furthermore, the existence of Al-Qaeda in the Islamic Maghreb (AQIM) suggests the presence of Salafist ideology

While Cameroon's vulnerability to terrorism is not as substantial as Niger's, socio-economic malaise and dissatisfaction with the government do exist. If left unchecked, the combination of these two elements might allow for fundamentalist ideology to thrive and result in the sprouting of terrorist activities in the country. It is therefore crucial to prevent further movement and infiltration of any elements such as Boko Haram into both countries.²¹⁵

The transnational nature of these criminal elements is a contributing factor; as a matter of fact, Boko Haram has been reported to have carried out attacks in some of these countries. For example on 19th February, 2013 Boko Haram kidnapped seven (7) French family members in northern Cameroon. This clearly shows that the threats of terrorism activities by the sects respect no boundaries and affect these countries. The activities of the sect have also thrown up a huge problem of internally displaced persons that have taken refuge in these countries with many posing refugee problem to these nations. For instance between 220,00-260,000 internally displaced persons by Boko Haram are living in Cameroon²¹⁶.

TERRORIST FINANCING

For the Boko Haram group to have operated and carried out the numerous attacks recorded, it requires significant funding. No terrorists' activity is possible without funds. This is vital, as it requires money to finance and maintain its organizational structures, sustain its ideology of terrorism propaganda, recruit and train its members, and to carry out operations. This is one of the major security challenges confronting our nation today. Financing terrorism is done in such a secretive way that detecting it is not only confusing, but also time consuming. Some of the method of doing this, with particular reference to the Boko Haram sect, include but not limited to the following:

²¹⁵ <https://www.issafrica.org/iss-today/border-porosity-and-boko-haram-as-a-regional-threat>

²¹⁶ See: National Counter-Terrorism Strategy (2014) Nigeria Situation-UNHCR Regional Update

No 19, 19 November -17 December, 2015

National Emergency Management Agency (NEMA)

DRR/130/1- 1st February, 2016. Response to NRA request

IOM/NEMA Displacement Tracking Matrix (DTM) Round VII report-December, 2015

- a). Legitimate Methods; and
- b). Illegitimate Methods.

METHODS FOR RAISING FUNDS

Information obtained from the field survey (Kano, Maiduguri) revealed that the major sources of terrorist financing occur outside the formal financial sector such as cattle rustling, sale of dry fish across the borders, bank robberies, use of legitimate front businesses etc.

Legitimate Methods

- a) **Voluntary membership contribution.** Individual members are tasked to make periodic financial contributions, which is not fixed. A member could contribute as low as fifty Naira (N50);
- b) **Compulsory levies imposed on members.** The hierarchy of the sect, from time to time imposes heavy levies on members, which must be made or defaulters are considered disloyal, the consequences of which is grave.
- c) **Use of legitimate proxy business outfits:** One of the ways the sect uses to generate funds is the donation of profits from well established legitimate business outfits or profits from businesses run by proxies. It is instructive that many members of the Boko Haram sect are engaged in well established businesses that are duly recognized by law.
- d) They also raise fund for their operation through sale of dried fish along the lake Chad Basin.

Illegitimate Methods

- a) **Extortion:** Targeted prominent Northern Nigerians, Muslims and Christians have been extorted by threat to their lives and families. The funds generated are moved in cash and/or through financial institutions to the leadership.
- b) **Violent Robberies:** The Boko Haram sect attack banks, financial institutions and related facilities (Bullion vans/Automated teller Machines (ATMs), and others to generated funds. Open markets, super stores, travelers are also targets of such attack. Car snatching for the sect is most lucrative and rewarding.
- c) **Begging:** Begging in our status books is illegal. But socially, and to an extent religiously, begging is acceptable in most parts of Nigeria, especially in some Northern parts of the country. Coincidentally, the activities of Boko Haram terrorist sect are prevalent in these Northern parts. The sect, has, however, unashamedly exploited this unfortunate situation to raise funds for its terrorist activities. They exploit the compassionate nature of Nigerians to succeed.
- d) **Smuggling:** Boko Haram engages in arms smuggling to raise funds for their activities.
- e) **Human Trafficking:** The sect also engages in Human Trafficking. Parents of young persons, especially males, are tricked by recruiters for the sect to allow them take their children to the big cities to learn the Quran and some forms of trade. However, these kids are smuggled out of the country to the “Sahara” (Northern Mali) to be trained as terrorists while attending to

the daily chores of AQIM members. AQIM lords, in turn give monetary compensation to the recruiters.

f). **Protection fee:** The sect also generate funds from offering protection to willing and unwilling individuals, corporate bodies and even governments.

g). **Payment of Zakkat:** The payment of Zakkat is an Islamic injunction mandating the Muslim Ummah to pay 2.5% of their earnings when due either in kind or in cash to the needy and poor. However, payments made by members of the sect are not to the poor, but to the sect. By the account of debriefed sect members, some payments are also made from the proceeds of the armed robberies committed.

h). **Kidnapping for ransom money:** This is perceived as source of revenue for the Boko Haram. High profile kidnaps had been perpetrated by the sect, under the directive and supervision of AQIM. The French family kidnap saga is speculated to have yielded about five hundred million Naira (N500,000,000) for the sect.

j). **Local sympathizers:** These are fees given to Boko Haram by people who are in support/sympathetic to their beliefs/cause.

K). **Cattle rustling:** The sect has raised funds by stealing cows from Fulani herdsmen and from local communities and transported them to other parts of the country and neighboring countries to raised funds. Cattle's rustling at Abbadam is of concern as the rustle cows have links with Boko Haram (Source: Field Interview with Nigeria Army, Kano, CJTF, and Community Leaders).

l). **Raiding of Villages for consumables:** The sect embarks on raiding villages and local communities and super market/food stores for food. They are also known to have raided trucks conveying food items as well as filling stations to source their fuel

FUNDS MOVEMENT

Methods of Moving Funds

a). **Movement of physical cash:** Use of trusted courier by public or private vehicles, including motorcycles (Okada) and tricycles (Keke-NAPEP)

b). **Bank transfers:** Use of proxy accounts belonging to friends, relations, sympathizers. It is noteworthy that the permission to use accounts are subtly obtained in such a way not to raise suspicion. Lately, several arrests have been made involving Boko Haram elements transacting business through various banks. In one instance, a particular account had been credited to the tune of three hundred and twenty million (N320,000m) or USD 2 million within a year period.

c). **Money laundering:** Items are bought with illicit funds in a particular location and moved to other locations and sold. They money realized is then used in purchasing other physical items,

which are moved to the originating point. This ensures that physical cash is not moved on transit²¹⁷.

d). Intelligence from investigating agencies however revealed that Other Financial Institution sector (use of bureau de change) is also exploited by the Boko Haram terrorists to move funds.

UTILIZATION OF FUNDS

The Boko Haram sect uses its fund in three (3) broad ways, viz:

a). Operations:

- i. Training
- ii. Purchase of arms and ammunition and IED materials purchase of poisons and poisoning making ingredients;
- iii. Procurement of operational houses, vehicles etc; and
- iv. Propaganda items.

b). Administration

- i. Salaries
- ii. Acquisition of secretariat, furnishing and procuring office equipment and materials;
- iii. Disbursing free interest loans to members and those targeted for recruitment; and
- iv. Giving succor to orphaned children and widows of deceased members.

c). **Diversion of funds to private use:** This simply means misappropriation of misapplication of funds. This is financial corruption in the enclave of the so-called Islamic puritans. Debriefing of some members of the sect has brought to fore the fact that there were instances where monies given to certain individuals for operations and/or administrative expenditure, were diverted to private use.

TYOLOGIES ON SOURCES OF TERRORIST FUNDS

Records obtained from relevant competent authorities²¹⁸ revealed that between 2010 - 2013 the major source of TF was noted as kidnapping for ransom, armed robberies of banks.

However, from 2014-date, the current method of terrorist financing by Boko Haram which is also the main source of TF is largely is **cattle rustling, raiding of villages for consumables, arms smuggling, and sale of Gold**. Cattle Rustling is the activity where criminals steal cows from their legitimate owners and sell them off at a giveaway prices.

²¹⁷ Source: TRIPLE S Publication January 2015,page 31,ISSN 2006-1382 vol.8)

²¹⁸ CJTF, Community Leaders, Victims of terrorism, Security agencies

Case studies on terrorist financing in Nigeria

USE OF CONSCRIPTED MEMBERS

In May 2016, Security forces arrested a fleeing conscripted BH member who is an old man in Borno State. Upon interrogation he disclosed he was forced to support the activities of the sect including the concealment of a cache of arms and ammunition.

However, his support was secured for as little as ₦4,000 (\$13.33) to dig a hole for concealment of the arms. He further confessed that he has been leaving with them for over one year

SALE OF COLD COINS

In October 2015, a BH member was arrested at a checkpoint in North Eastern town in Nigeria by Law Enforcement Agents with assistance from the CJTF. The BH member was found to be in possession of 341 pieces of Gold coins. He informed that the gold was sourced from the raids conducted at the nearby villages and towns. The Gold coins were to be sold later at nearby markets or exchanged for other commodities

USE OF FARM PRODUCE

Investigation by Law enforcement Agencies revealed that a man who supplies Kolanuts and other items to Boko Haram was arrested in North Eastern Town of Nigeria. Upon arrest he had a cash of ₦1.1 Million which he made from the sale of kola nuts and uses the funds to support the activities of Boko Haram.

SALE OF DRY FISH

In April 2016, LEAs/CJTF arrested 11 BH members were arrested at a market in North West with 463 bags of fish. Upon arrest, they confessed that they are engaged in legitimate business of fish selling in order to raise funds and support the activities of BH.

- ▶ Each bag of fish cost ₦50,000
- ▶ **Total = ₦23,150,000**
=USD 77,166

USE OF CATTLE

In July 2016, BH members rustled 20,000 cattle from village one village to another in Maiduguri, Borno State. The cows are usually transported to a market in Jigawa State through the Republic of Niger in order to hide their trace and make them look legitimate.

Cost of cows

Small cows: ₦50,000 - 80,000 (USD 167- 267)

Medium Size: ₦150,000 -180,000 (USD500 – 600)

Big Size: ₦300,000 - 350,000 (USD 1,000 – 1,167)

Estimated value of rustled cows

₦150,000*20,000=₦3billion

USD 500*20,000=USD 10,000,000 (Exchange rate: Naira to USD=₦300 to 1 USD)

OVERALL VULNERABILITY OF NIGERIA TO TERRORIST FINANCING

The vulnerability of Nigeria to terrorist financing is rated **Medium**. However, measures have been taken by the Nigerian Government to mitigate the vulnerabilities. There are specific vulnerabilities that terrorist organizations can exploit to raise, move, and utilize funds, into the financial and non-financial system. Nigeria faces TF risk from vulnerabilities associated with various types of regulated and unregulated financial institutions, as well as DNFBPs.

The following areas were identified as vulnerable to terrorist financing-

- **Cash based nature of economy and large Informal sector:** In Nigeria, Payments for most trading activities are usually conducted using cash, and this obliterates the trail of the money flow. This makes it difficult for investigators of TF to follow the money, thus the makes the entire economy vulnerable to TF.
- **Informal/semi-formal nature and inadequate supervision of the DNFBP sector:** The DNFBP sector is also vulnerable to TF due to the large size with businesses spread across the country. The supervision and regulation of the sector is weak due to limited number of officers compared to the size of the sector. This challenge has contributed to the low count and poor quality of suspicious transaction reported from the sector.
- **Flow of funds through Porous and numerous illegal Borders:** There are numerous porous and illegal borders which are not secured and is being exploited by smugglers who carry out trading activities and generate funds to perform their illicit activities including terrorist financing.
- **Limited domestic cooperation** among relevant stakeholders treating Terrorism and TF cases, agencies are often guided by the principle of “need to know” which limits their capacity to share timely intelligence
- **Non functional targeted financial sanctions regime:** The non functional sanctions Committee to domesticate the provisions of UNSCR 1267 and UNSCR 1373 as well as compile a comprehensive National terrorists list is a weakness in the counter terrorism regime.
- Lack of centralized database for intelligence sharing on terrorism/terrorist financing by agencies makes it difficult for quick retrieval of data.
- **Unavailability of Data on TF in the required format:** The lack of data on TF and where available not in the right format serves as a vulnerability. The lack of data is occasioned by the fact efforts/attention was focused on combating terrorism by the law enforcement agencies.
- **Inadequate technical capacity for LEAs/FIU/Judiciary:** Trainings provided were generic in nature and was not comprehensive and excluded some personnel resident in

hinter states. Their capacity should also be enhanced with modern technological tools for efficiency.

- **Delay in the prosecution of Terrorism/Terrorist Financing cases:** There is often delay in prosecuting terrorist financing cases in courts, this is due to the fact that Judges are assigned other (criminal and civil cases) which is time consuming.

THE MAIN DRIVERS OF THE LEVEL OF THE NATIONAL VULNERABILITY TO TF

1. **Quality of Financing of terrorism Legislation:** The following laws have been enacted to address the offense of Terrorism/Terrorist Financing,
 - a. the Terrorism (Prevention) Act 2011 (as amended);
 - b. the Terrorism Prevention (Freezing of International Terrorist Funds and other related measures) Regulations 2013;
 - c. AML/CFT Regulations issued separately by CBN, SEC, NAICOM and SCUML²¹⁹ (see the NFIU website)
 - d. EFCC Act 2004

Strength of Legislation

- The various legislations and Regulations criminalizes the offence of terrorism/terrorist financing in Nigeria and mandates financial and non financial institutions to monitor and report suspicious transaction report relating to TF
- TPA Regulations (2013) stipulates measures to implement the UN resolutions 1267,1373,1988,1989 and successor resolutions.
- S.14 of the TPA (2013) clearly designates the NFIU as the sole agency to receive STR on TF.
- TPA Regulations (2013) provides for the establishment of the Nigeria Sanctions committee which is responsible for compiling an indigenous list of terrorists/ freezing of properties.

Weaknesses

The Nigeria sanctions committee is however not functional at the moment Which is the responsible body for the designation of terrorist entities and persons

2. **Availability and effectiveness of TF crime definition in penal code or other relevant law(s):** The above stated laws and Regulations issued separately by CBN, SEC, NAICOM and SCUML adequately defined TF as a crime and mandates all financial and other financial institutions to promptly report all STRs relating to TF to the NFIU.
3. Availability and effectiveness of laws and regulations regarding targeted financial sanctions regimes to comply with United Nations Security Council resolutions relating to TF

²¹⁹ www.nfiu.gov.ng

- a). There are adequate laws and regulations as enshrined in S.5 of the Terrorism Prevention (Freezing of International Terrorists Funds and Other Related Measures) Regulations 2013 on measures to implement the UN resolutions 1267,1373,1988,1989 and successor resolutions.
- b). Section .14 of the TPA 2011 (As Amended in 2013) clearly designates the NFIU as the sole agency to receive STR on TF
- c). Nigeria established a Sanctions committee which is responsible for compiling an indigenous list of terrorists/ freezing of properties.

Weaknesses

4. Quality of Intelligence

There are various specialized units responsible for gathering Terrorism and Terrorism Financing related intelligence in Nigeria. The agencies are as follows:

- a). The Office of the National Security Adviser
- b). The Department of State Security Services
- c). The Nigeria Police Force
- d). The Directorate of Military Intelligence
- e). The National Intelligence Agency
- f). The Nigerian Financial Intelligence Unit

Strengths

The quality of intelligence shared by the above agencies has led to several arrests and prosecution and convictions of terror suspects and their financiers (see case 1) below involving charity organization. This has served as a booster to the confidence LEAs have on the quality of intelligence shared by the NFIU and thus, has increased the number of request received by the NFIU on TF related cases. there is also awareness amongst agencies to jointly share intelligence.²²⁰. Joint trainings and de-briefings between agencies on the field (NAIC, DSS, EFCC and the NFIU) has further impacted on the quality of Intelligence produced and shared by the different agencies.

The quality of intelligence is also impacted by the wide array of sources of information available to analysts for producing intelligence reports including access to the Secured platform which links the NFIU to information from over 150 FIUs around the world, the Regional Intelligence Fusion Unit and the Interpol.

Weaknesses

- a) The current process of domestic intelligence sharing is done hand to hand and not through a secured online platform, which causes delay in transmission.
- b) Lack regular Joint inter-agency de-briefs
- c) Agency wide spontaneous disclosures to all operational and intelligence agencies working on Terrorism and Terrorism Financing

²²⁰ Source: NACTEST 2014).

d) Lack of prompt action of spontaneous disseminations received

5. Effectiveness of domestic cooperation on CTF

There are various platforms on domestic cooperation on combating terrorist financing namely:

- a) There is cooperation at operational level between the relevant intelligence and law enforcement agencies in conducting joint analysis and investigations on terrorist financing. E.g the October 1,2010 -Charles Okah Case, the Amigo Supermarket case etc.
- b) Terrorism is being fought by multi security –agencies in the country comprising the Army, Airforce, Police, and the DSS. The fight also includes the use of Local Vigilante.
- c) There is coordinated joint public awareness communication dissemination by the relevant agencies to the general public. This is to ensure that the information is centrally managed and disseminated centrally to the public.
- d) The prosecution of all Terrorism/Terrorist financing cases is prosecuted by the Department of Public Prosecution of the Federal Ministry of Justice in collaboration with the relevant law enforcement agencies.
- e) The monthly Interactive session of the various law enforcement/intelligence agencies on Operational Level Intelligence coordinated by ONSA of holds to discuss challenges encountered on the field and proffer solutions.
- f) The Authorized Officers Forum of LEAs organized by the NFIU to discuss on feedback on intelligence disseminated and other issues.
- g) The monthly meeting of the Committee of Chief Compliance Officers of Banks in Nigeria (CCCOBIN) collaborates with regulators and law enforcement agencies in the fight against money laundering and terrorist financing risks in Nigerian banks in particular and the Nigerian financial services industry in general. The meeting holds once in a month.
- h) The Inter ministerial Committee (IMC) is at a strategic level of policy makers of key agencies and regulators. The meeting focuses on drawing up policies that will help tackle money laundering and help to eliminate terrorism financing in Nigeria. The meeting holds on a quarterly basis²²¹.

Weaknesses

- a) There still exists rivalry amongst agencies which hinders the sharing of intelligence.
- b) The principle of “need to know” which guides operations of LEAs often limits their willingness to share sensitive information.
- c) Bureaucratic bottlenecks exist and have been found to sometimes impede information sharing

221 Source: (IMC Charter)

6. Effectiveness of TF related Suspicious Transaction Reporting, Monitoring and Analysis: Number of STR related to TF analyzed

Strengths

- a). The NFIU has analyzed 31 STRs on TF²²² from inception to date. These STRs led to dissemination of intelligence which initiated/supported investigation on TF by the relevant agencies.
- b). The NFIU has sensitized financial institutions on how to identify TF related STR using list of indicators. This has led to better detection of TF related STRs.

Weaknesses

- a). Dearth of Terrorism Financing knowledge on the part of reporting entities.
- c). No record of TF related STRs was found to have been reported from the DNFBP sector which, is the sector identified for over 80% of funds raising and movement of terrorist funds in the country.

7. Number of cases forwarded to LEAs / investigation related to TF cases

Strength: Feedback from LEAs shows that the cases forwarded to them were investigated. A total of 31 feedbacks were received by the NFIU from LEA on investigation of cases.

Weaknesses

- a) Dearth of knowledge in Financial Investigation
- b) Inadequate knowledge of Terrorism Financing issues

8. Capacity and commitment of reporting institutions to comply with UN Sanctioning Regime screening requirements.

Strength

- a). R.11(1) of the Central bank of Nigeria (CBN) AML/CFT in banks and other Financial institutions in Nigeria) Regulations, 2013 mandates Financial institutions to report any assets frozen or actions taken in compliance with prohibition requirements of the relevant United Nations Resolutions
- b). The NFIU has sensitized all relevant reporting institutions and they comply by sending the list on the NFIU on a monthly basis.

9. Adequacy of human resources for CTF (incl. specialized investigators, FIU and intelligence officers, prosecutors, and judges.

Strength

- a) There are well trained analysts, investigators, prosecutors and judges on Terrorism Financing.
- b). There are specialized Judges trained on terrorism cases at the Federal High Court.

²²² Source: (NFIU database)

c). Joint trainings between analysts, investigators, and prosecutors were conducted during the period under review.

Weaknesses

a). The available human resources is inadequate in relation to the volume of work.

10. Adequacy of the financial resources allocated to terrorism financing investigations and broader research on terrorism financing in the country context.

Strength

a) Responses received from the relevant stakeholders showed that there is adequate financial resource, however the assessment team was unable to obtain data to support the assertion..

Weaknesses

a) Inadequate coordination amongst agencies to conduct national research.

11. Effectiveness of International cooperation

There is exchange of intelligence between domestic agencies and their international counterparts.

Strength

a). Secure platform for the exchange of information by the NFIU.

b). Secure platform for the exchange of information by the Nigeria Police

c). The DSS/NIA exchanges information with other secret services across the world. The DSS exchanges information with foreign counter parts like the CIA, FBI through the exchange of information relating to terrorism/terrorist financing.

d). It leads to quick exchange of information

Weaknesses

a) Some jurisdictional laws do not allow some international counterpart to provide required information needed.

12. Awareness and Commitment to fight TF: Political commitment to fight TF and terrorism

Strength

a). Nigeria has demonstrated significant political commitment in the fight against terrorism and terrorism financing through the implementation of the following measures.

Administration of criminal justice system

The purpose of the Administration of Criminal Justice Act (ACJA) Act is to ensure that the system of administration of criminal justice in Nigeria promotes **efficient management of criminal justice institutions, speedy dispensation of justice**, protection of the society from crime and protection of the rights and interests of the suspect, the defendant and the victim. The Act has 495 sections with detailed provisions on arrest, warrants, investigation, trial, conviction,

imprisonment, plea bargain, community service, parole, suspended sentence, etc. The Act which came into force on May 13, 2015 is expected to revolutionize the criminal justice system.²²³

Although discussions between the assessors and officers of the Federal Ministry of Justice revealed that the ACJA has led to improved speedy trials of terrorism/terrorist financing cases in Courts, no record could be found to support this.

Practice Direction (Federal High Court) to speed up trials

The purpose of this practice Direction is to establish, a system of case management that will provide for the fair and impartial administration of criminal cases and the rules made under this practice direction shall be construed and applied to eliminate unnecessary delay at the expense for the parties involved in the Court justice system.²²⁴ The rules made under this practice Direction shall apply mutatis mutandis to criminal cases and to the extent possible:

- a). Ensure that at trials the parties focus on matters which are genuinely in issue;
- b). Minimize the time spent at trials dealing with interlocutory matters
- c). Ensure that possibilities of settlement is explored before the parties go into hearing.
- d). Ensure that hearings are not stalled by unpreparedness of Court or the parties and that the case is fully ready for trial before hearing dates are agreed;
- e). Minimize undue adjournments and delays.

Training

Training for Law enforcement officers which emphasized the need to secure evidence independent of confession as well as to comply with pre-trial custody time limits have been extensively conducted. The Prosecutors have equally been exposed to the required trainings on Terrorism/Terrorism Financing while the establishment of **specialized prosecution unit** within the Department of public prosecution's office (the Complex Casework Group) has further supported skills development. Special trainings have also been conducted for the Judiciary with the designation of **specialized cadre of Counter Terrorist judges** to try terrorism/terrorist financing cases. This specialized prosecution unit also cover other cases of Corruption, Money Laundering and other serious crimes.

The above stated laws and reforms resulted in the following achievements in the Counter terrorism process in **2013**:

- a). Trials beginning and ending in the same calendar year.
- b). Video recording of suspect's interview placed in evidence for the first time in a trial.
- c). Witness protection measures being used.

²²³ <http://guardian.ng/opinion/the-administration-of-criminal-justice-act-2015-1/>

²²⁴ <http://lawnigeria.com/RULES-OF-COURTS/FEDERAL-HIGH-COURT-PRACTICE-DIRECTIONS.html>

d). First terrorism convictions in the recent era of terrorism.

Weaknesses

- a.) Lack of proper and accurate disbursement of funds for the designated purpose
- b.) Lack centralized database for T/TF cases.

13. Awareness and commitment among the policy makers, law enforcement, FIU and intelligence community to fight TF

STRENGTH

- a). There is awareness and commitment amongst policy makers
- b). The Inter ministerial committee on AML/CFT is a platform that drives policy decisions relating to the fight against terrorism and TF.
- c) what about the Joint Intelligence board, the fusion centers and all those offices at the office of the ONSA

Weaknesses

- a.) Inadequate funding poses a challenge to aggressive awareness campaign programs.

14. Geographic and Demographic Factors

The geographical situation of the North-East and the attendant homogeneity of the tribes and cultures of the population serve as an opportunity for terrorists as it provides for ease of disappearance within the general population thus making it more difficult to track individual suspects. Furthermore, the prevalence of the use of cash as a medium of exchange coupled with the ease of exchanging currencies amongst the contiguous countries within the region facilitates the financing of terrorist operations. Additionally, the availability of the unemployed group of youths and middle aged men is regarded as vulnerable facilitating factor for easy recruits and conscription by BH (Interview with AG, NA). The proximity to neighboring countries and porous borders make it easy for BH to migrate to the countries for trading and other activities to raise funds for their activities without any suspicion.

However, knowledge of the terrain by the local populace is aiding the military and law enforcement in identifying suspects, identifying commercial/trades routes and hideouts of suspects. Thus, tracing commercial activities related to the terrorist terrorism and terrorist financing.

15. The Almajiri System

The almajiri system is predominantly practiced in the Northern Nigeria where children of little age are kept in custody of an Islamic scholar for Islamic education. The Children are often times, not catered for as they end up fending for themselves. The children are usually large in number and roam the streets in search of food thus, constituting a nuisance and becoming easy targets or victims for recruitment for terrorism and other violent crimes. According to field interview , respondents noted that if the practice is not checked, their activities may portend greater danger for the future.

SECTORAL VULNERABILITY TO TERRORIST FINANCING

The Designated Non- Financial Institutions (DNFI)

The Designated Non- Financial Institutions sector was adjudged to be highly vulnerable to the financing of terrorism. This was contained in the Trends and Typologies Report on Terrorism Financing in Nigeria published by the NFIU in April 2013²²⁵. This couple with inadequate supervision and regulation provides a fertile ground for the Boko Haram sect to engage in fund raising through this sector through the sale of used cars and other commodities. Couple with the use of cash within the sector further compounds the problem as it obliterates the trail of the money which makes it difficult for investigators of TF to follow the money. **The size of the sector also makes it difficult for effective supervision by SCUML** thus, leading to inefficient monitoring of its activities and lack of reporting of suspicious transaction (STR) on TF.

Banking Sector

The vulnerability to terrorist financing from the banking sector is adjudged to be low as found by the 2013 NFIU Trends and Typologies Report on TF 2013. It indicates that less than 20% of funds pass through the formal financial system. Consequently, there have been few (31) Suspicious Transaction Reports(STR) filed by the banks on TF in the period under review 2010-2014. This rating is considered low as there is high supervisory and regulatory framework, comprehensive AML/CFT Policies and Systems which ensures prevents, monitors and reporting of Suspicious Transaction Reports.

Counter Measures to Terrorist Financing

The National Counter-Terrorism Strategy (NACTEST) forms a key part of Nigeria's Terrorism Counter Measure. The NACTEST is aimed at reducing the terrorist threat to the country by depriving terrorists and violent extremist groups of the financial resources and systems required for terrorism-related activity. Nigeria's approach to countering terrorism/terrorist finance is through a multi-agency initiative coordinated by the Office of the National Security Adviser (ONSA) and includes Agencies like Department of State Service (DSS), the National Intelligence Agency (NIA), the Nigeria Police Force, the Armed forces and other relevant law enforcement agencies. The intelligence agencies which are led by the DSS are expected to drive the intelligence and information process and update the National Database on terrorism.²²⁶ Other measures employed include deportation, asset freezing and seizing, and proscription of terrorist organizations. The NFIU is solely responsible for receiving STRs on terrorist/terrorism from financial institutions and DNFBPS, analyze the STR and disseminate intelligence to relevant law enforcement agencies for the support or initiation of investigation (sec 14 of the T(P)A 2011 (as amended)).

Nigeria has enacted the following legislations to counter the financing of terrorism:

- a). Economic and Financial Crimes (Establishment) Act 2004 – defined the offence of terrorism for the first time (s 15)

²²⁵ Please see www.nfiu.gov.ng for the full report

²²⁶ National Counter Terrorism Strategy Document 2014

- b). Terrorism (Prevention) Act 2011 (as amended)
- c). Terrorism Prevention (Freezing of International Terrorists Funds and Other Related Measures) Regulations, 2011
- e) AML/CFT Regulations issued separately by CBN, SEC, NAICOM and SCUML²²⁷ (see list of regulations on NFIU website)

MEASURES ADOPTED BY THE GOVERNMENT TOWARDS COUNTERING THE ACTS OF TERRORISM IN NIGERIA

Establishment of Chad Basin FIUs Network in Contiguous countries

The NFIU initiated the establishment of a Group of Heads of Financial Intelligence Units (FIUs) in the contiguous countries of Nigeria, Niger, Mali, Chad, Cameroun and Benin. The network was formed 2015 for the purpose of intelligence sharing amongst the FIUs as it relates to Boko Haram as well as collecting intelligence from local law enforcement agencies for onward dissemination to the respective agencies in the locality to enhance operational efficiency. One of the benefits of the Group is exchange of Information on terrorist financing between Nigeria FIU and the Niger FIU²²⁸.

Establishment of Multi National Joint Task Force on Boko Haram

The Multi National Joint Task Force on Boko Haram was established following the African Union directive for the contiguous countries in the lake Chad Basin Commission (Nigeria, Niger, Chad, Mali) as well as Benin Republic to deploy 7500 military and non-military staff, for an initial period of 12 months, which can be renewed. The purpose was amongst others to:

- a). Create a secure environment,
- b). Restore state authority and facilitate humanitarian assistance in the affected areas.
- c). Conduct military operations, achieving coordination at inter-state level, conducting border patrols,
- d). Trace and rescue abducted persons,
- e). Stop the flow of arms,
- f). Reintegrate insurgents into society and bring those responsible for crimes to justice.²²⁹

Successes recorded by the Joint Task Force include the destruction of the logistics base of Boko Haram across the borders of the contiguous countries.²³⁰

Training of Officers

According to field interview result with ONSA, it stated that prior to terrorist attacks and for a period that it endured, the country had taken proactive steps by organizing various trainings on

²²⁷ Source: www.nfiu.gov.ng

²²⁸ See Memorandum of Understanding between countries

²²⁹ http://www.europarl.europa.eu/RegData/etudes/ATAG/2015/551302/EPRS_ATA%282015%29551302_EN.pdf

²³⁰ <http://www.premiumtimesng.com/news/more-news/197875-nigerian-air-force-destroys-boko-haram-logistics-base.html>

counter terrorism operations for Officers,. The training, by extension, has been accorded to the Nigerian Military on a larger scale for capacity development, E.g some were trained and kitted in Belarus, night flying operations for the Air force.

Establishment of the Regional Intelligence Fusion Unit

The Regional Intelligence Fusion Unit (RIFU) was established to complement the military approach in the war against Boko Haram. The RIFU serves as a key component of the National Counter Terrorism Centre which is a processing point for all source intelligence. Due to the regional threat posed by Boko Haram to the neighboring countries of Cameroon, Niger, Chad and Benin, RIFU was set up to share intelligence as well as personnel in joint border patrols as well as through a multinational task force of the countries to deal with the terrorists. RIFU is located in Niger Republic and is headed by a law enforcement agent from Nigeria who coordinates its activities.

Dynamism in the government/citizenry approach

Law enforcement agencies changed their approach in tackling/combatting Boko Haram terrorists group by adopting a soft approach which seeks to improve and strengthen the relationship between the law enforcement agencies and the governed, to include the governed in the fight against terrorism by instituting the concept of community policing and community engagement programs, organizing de-radicalization programs and programs aimed at re-integrating BH victims into society and most importantly insisting on education.

Establishment of Civilian Joint Task Force

In order to ensure a cordial relationship between the Nigerian Military and the affected communities and also seek assistance in identifying Boko Haram suspects and divulging useful, privileged and timely information to security forces in combating terrorism, the indigenous members of the communities galvanized themselves into a vigilante group which gained the acceptance of the Federal Government and state governments. The CJTFs and vigilante groups have been instituted, financed, and co-opted in combat operations. This synergy has furthermore improved the cordial relationship between the security operatives and the communities.

High Morale of the Nigerian Military

In a bid to boost the morale of military officers, the leadership of the Nigeria Army introduced various welfare enhancing initiatives. This includes establishment of scholarship schemes (from primary to university level) for children of deceased officers, Skills acquisition programs for widows of deceased officers. Mental health policy for managing post war trauma and Group Life Assurance policy for officers, e.t.c. The value of these incentives can be linked to the renewed vigor and commitment exhibited by officers in renew offensive against BH Sect. This is buttressed by the successes recorded by the military as seen in the recapture of territories hitherto occupied by BH.²³¹

²³¹ A documentary titled "Boosting the morale of the troops" produced by the Nigerian Army aired on Nigerian Television Authority on Wednesday August 23rd, 2016.

RECOMMENDATIONS

- a) The Federal Ministry of Justice should as a matter of urgency ensure the inauguration of the Nigeria Sanctions Committee in line with provisions of the TPA 2011 as amended. The inauguration would ensure the effective operation of the committee.
- b) The Office of the NSA should initiate a process of creating a centralized database for intelligence sharing on terrorism/terrorist financing by the relevant LEAs.
- c) The Central Bank should intensify efforts to ensure proper regulation and supervision of other financial institutions (OFIs) like the BDCs, with a view to ensuring that they are not exploited because of their weak record keeping process for terrorism financing.
- d) The cashless policy of the central bank must be pursued vigorously to ensure that easy movement of physical cash which often occurs without trail is discouraged thus, reducing the vulnerability to terrorist financing.
- e) The various stakeholders in the financial institutions and Other Financial Institutions should develop products to bring on board the financially excluded persons in the country to reduce the prevalent use of cash in the economy.
- f) The problem of porous and illegal borders of the country must be looked into by the Government through an interagency approach with the relevant agencies with a view to enforcing measures against the existence of illegal border operators. Otherwise, it will continue to serve as an avenue for the movement of small and light weapons as well as physical cash in and out of the country through these routes by terrorists and other criminal elements.
- g) The federal Government should ensure adequate funding and human resource capacity of the relevant LEAs fighting terrorism in the country.
- h) Relevant stakeholders should collaborate with international development partners for training and capacity building on terrorism/TF for Prosecutors, judges and LEA officers. It is crucial to ensure proper investigation and prosecution. The capacity of the reporting entities (FIs and DNFI) on how to identify and report STR on TF should also be enhanced.
- i) Improved domestic inter-agency collaboration and international cooperation must be ensued. Competent authorities to improve inter-agency collaboration especially in information and intelligence sharing as well international cooperation to effectively address terrorism/terrorism financing.
- j) The Government must ensure investment in technology. It must acquire equipment for LEAs to contain the threat of terrorism and terrorism financing. Examples are more arms and ammunition of the security agencies, improved platform for the Airforce. More counter terrorism equipment, technology to provide intelligence and clearing of mines,

IEDs; night fighting capability for the Air-force, surveillance equipment, CCTV. These will assist in easy prevention, detection and investigation of terrorism/terrorist financing.

- k) The Federal Government through the Niger Delta Development Commission (NDDC), the Ministry of Niger Delta and the Presidential Initiative for the North East (PINE) must ensure the gainful employment of the restive Youths within the respective regions through
 - a. Establishment of adequate skills acquisition and vocational centers within the region
 - b. Strict compliance with local content policy within the Niger Delta Region by the oil servicing companies in employment process.
- l) NDDC and PINE to partner with the relevant Development Finance Institutions such as Bank of Industry, Bank of Agriculture etc in order to assist the women and youths who have acquired skills access the necessary loan to set up small and medium scale enterprises.
- m) The PINE should ban the almajiri system of education and introduce free and compulsory education in the north east in order to engage the vulnerable children and reduce the likelihood of their recruitment as child soldiers and suicide bombers for the terrorists.
- n) Federal Government to ensure strict and timely adherence with the Ogoni land clean-up project in order to address the environmental degradation challenges within the Niger Delta region.
- o) The Federal Government should review the current amnesty program with a view to introducing timelines, effectively utilization of acquired skills through gainful employment or business enterprise, regular checks & updates on beneficiaries in school and after school thus ensuring effective implementation of the program.
- p) NDDC to ensure infrastructural development within the Niger Delta Region in line with its mandate.
- q) The Federal Ministry of Justice should ensure the transfer of SCUML legal mandate to the EFCC for effective regulation of the DNFBP sector and STR reporting to the NFIU

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