Strategic Analysis Report of FIU-Nepal

Financial Information Unit of Nepal

Baluwatar, Kathmandu

January 2021

1. Background

In many countries, Financial Information/Intelligence Unit (FIU) has been mandated to conduct Operational analysis and Strategic analysis for the prevention of money laundering and combating the terrorist financing. As per the Financial Action Task Force (FATF) recommendation 29, FIU should perform these analyses to add value in the information received. It has defined strategic analysis as a function that uses available and obtainable information, including data that may be provided by other competent authorities, to identify ML and FT related trends and patterns.

In Nepal, Policy & Planning Division (PPD) of FIU-Nepal conducts the strategic analysis. FIU-Nepal continued to undertake strategic analysis of financial information gathered from reporting entities to enable FIU-Nepal and its stakeholders to understand the patterns and trends of money laundering and related issues. The strategic analysis has also enabled FIU-Nepal to draw conclusions for the strategic prevention of money laundering and financing of terrorism and for setting operational priorities. Moreover, it is essential to develop knowledge on potential future work of the FIU-Nepal.

2. Objectives and Methodology

Objectives

The main objectives of the strategic analysis of money laundering and terrorism financing (ML/FT) risk are to explain: -

- ❖ the possible sources, sectors, schemes and/or supporting circumstances that influence ML/TF offences and their suppression in Nepal,
- ❖ the direction and efficiency of AML-CFT mechanisms while readdressing them towards higher risk factors and sectors.

Data and Information

FIU-Nepal conducts Strategic analysis on data reported by the reporting entities, prepared intelligence report and its dissemination. Furthermore, it uses data and information provided by competent authorities to identify money laundering and terrorist financing related trends and patterns.

Analysis

This information is used by the FIU or other state entities in order to determine money laundering and terrorist financing related threats and vulnerabilities.

3. Directions of Analysis

The analysis was conducted in eight directions as follows:

A. Predicate Offence

The report of National Risk Assessment Report, 2020 on ML/TF has identified the following threats:

a) **Major threats:** Corruption (bribery), tax (revenue) evasion, financial crimes such as banking offence and hundi.

b) **Threats of concerns:** Drug trafficking, organized crime, extortion, arms-related offence, domestic terrorism, fraud, counterfeiting of currency, environment related crime, robbery (theft), smuggling (including black marketing) and forgery.

c) **Low threats:** counterfeiting and piracy of products, kidnapping, illegal restraint and hostage taking, international terrorism, trafficking in stolen goods and insider trading.

B. Legal System

- ✓ Assets Money Laundering (Prevention) Act, 2008
- ✓ AML-CFT National Strategy and Action Plan (2019-2024)
- ✓ Organized Crime Prevention Act 2013
- ✓ Corruption Prevention Act, 2002
- ✓ Proceeds of Crime (Seizing, Freezing and Confiscation) Act, 2014

The level of ML/TF risks are significantly contributed by the deficiencies or inconsistencies of the legal system or the gap in effective enforcement of prevention and prosecution mechanisms against such crime. Major observed deficiencies are; Criminalization of Terrorist Financing, Criminal sanctions for offences.
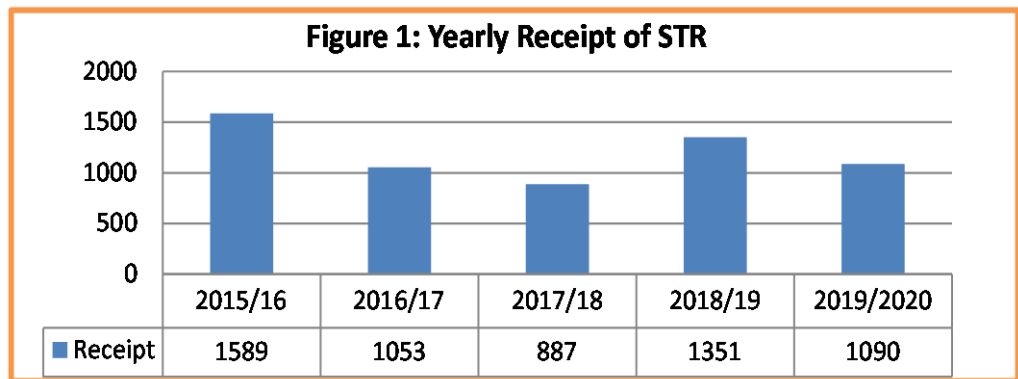
C. Institutional System

- ✓ Department of Money Laundering
- ✓ Financial Information Unit
- ✓ Ministries
- ✓ Law Enforcement Authority
- ✓ Competent Authority
- ✓ Reporting Entities
- ✓ National Coordination Committee (NCC)

Stakeholders in AML/CFT Regime
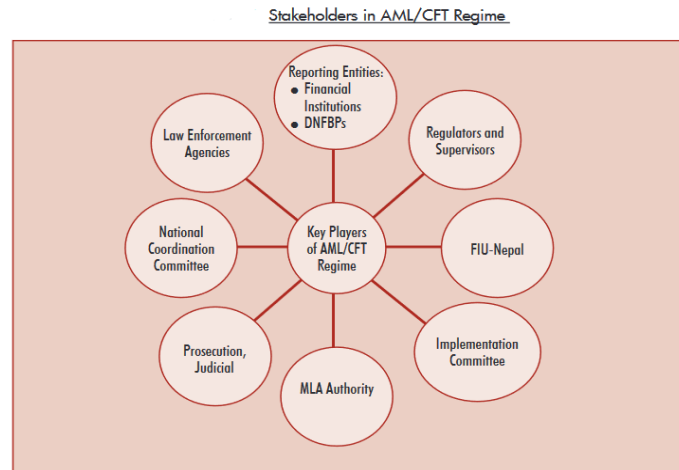
D. Suspicious Transaction Report
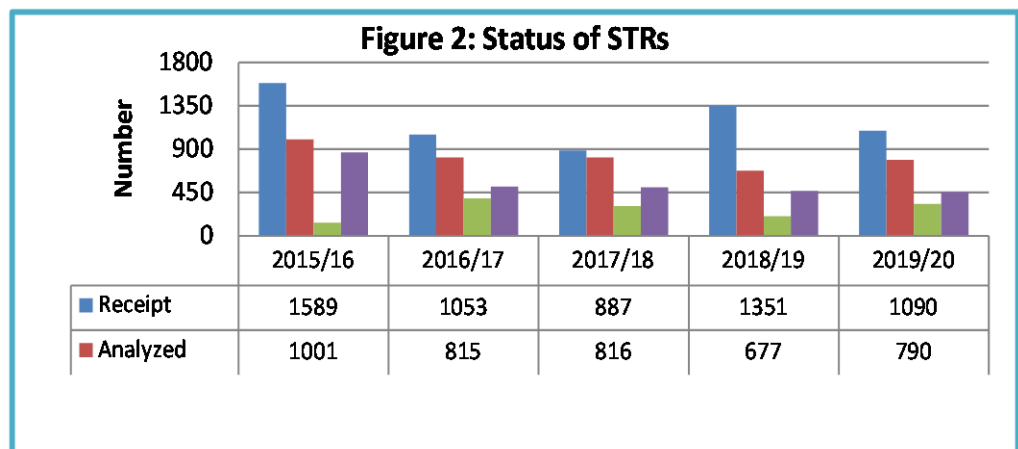
i. Number of STR Received yearly

FIU Nepal received 1589 STRs in the fiscal year 2015/16 which is the highest number of STRs compared to other years. The number of STRs receipt decreased in the subsequent two years. FIU Nepal received 1351 and 1090 STRs in fiscal year 2018/19 and 2019/20 respectively.

Figure 1: Yearly Receipt of STR

	2015/16	2016/17	2017/18	2018/19	2019/2020
Receipt	1589	1053	887	1351	1090

Based on the reporting entities, financial institutions are main reporting entities which account more than 95 percent of total received.

ii. Status of STRs
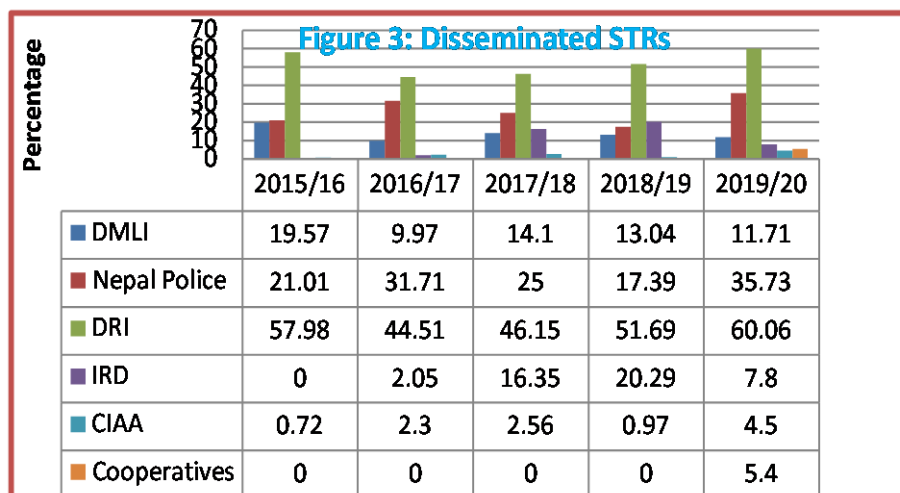
In the fiscal year 2015/16, 1001

Figure 2: Status of STRs

	2015/16	2016/17	2017/18	2018/19	2019/20
Receipt	1589	1053	887	1351	1090
Analyzed	1001	815	816	677	790

STRs were analyzed which is the highest number of STRs analyzed in a single fiscal year. In the year 2017/18 and 2018/19, 816 and 677 cases were analyzed out of which 312 and 207 cases were disseminated to the Law Enforcement Agencies respectively. In the year 2019/20, 790 cases were analyzed and 333 cases were disseminated to the Law Enforcement Agencies. The number increased as compared to its previous fiscal year.

In the given five fiscal years, more than 50% of the STRs were disseminated to the Department of Revenue Investigation. The STRs relating to tax evasion were disseminated to the Department of Revenue Investigation or Inland Revenue Department. Not a single STR was disseminated to IRD during 2014/15 and 2015/16, however its number increased gradually in the upcoming fiscal years.

Figure 3: Disseminated STRs

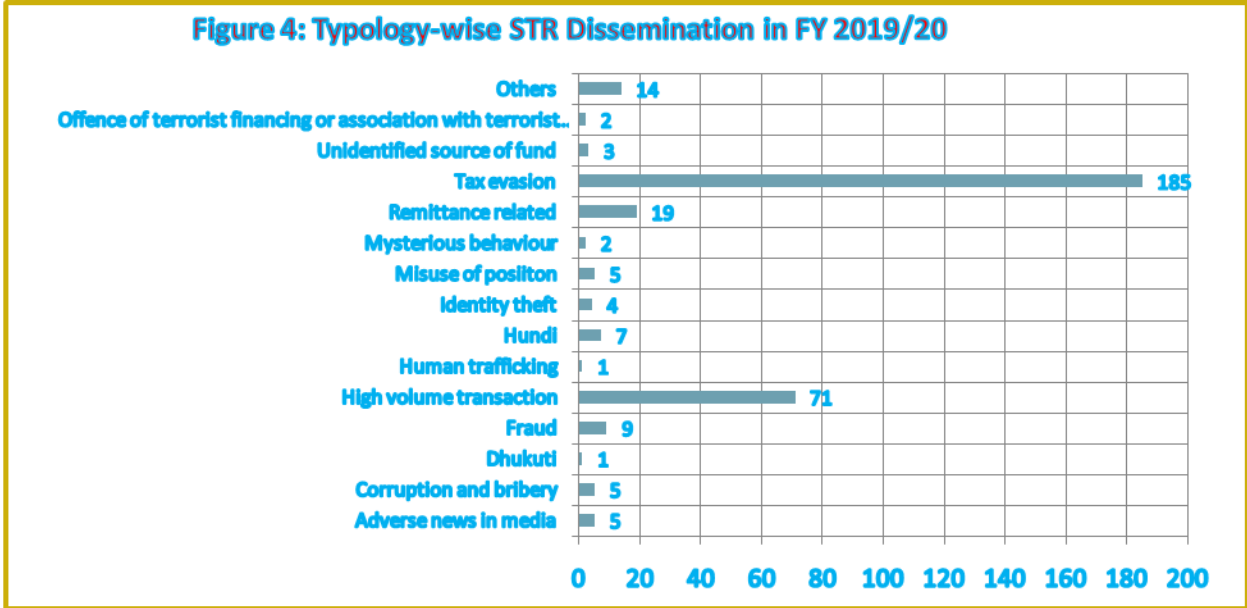| Percentage	2015/16	2016/17	2017/18	2018/19	2019/20
DMLI	19.57	9.97	14.1	13.04	11.71
Nepal Police	21.01	31.71	25	17.39	35.73
DRI	57.98	44.51	46.15	51.69	60.06
IRD	0	2.05	16.35	20.29	7.8
CIAA	0.72	2.3	2.56	0.97	4.5
Cooperatives	0	0	0	0	5.4

Note: Data are not additive.

Higher numbers of STRs were disseminated to the Centre Bureau of Investigation or Nepal Police and Department of Money Laundering Investigation. Fewer numbers of cases were disseminated to CIAA and others.

### iii. Number of TTRs Received from Reporting Entities

S.N.	Reporting Institutions	2016/17	2017/18	2018/19	2019/20
1.	BFIs	45,64,413	44,52,585	51,81,200	22,56,163
2.	Cooperatives	23,633	8,885	11,447	44,360
3.	Insurance Companies	58,508	89,966	1,24,789	139,015
4	Securities Companies	60,961	34,783	33,912	32,846
5.	Others	6,055	7,598	13,601	12,977
	Total	**47,13,570**	**45,93,817**	**53,64,949**	**24,85,361**

FIU Nepal receives TTR from reporting entities. Among them, most of the TTRs are received from Bank and Financial Institutions. Insurance companies are the second highest sender of TTR. It is followed by Cooperatives, Securities Companies and others.

Figure 4: Typology-wise STR Dissemination in FY 2019/20

Typology	Value
Others	14
Offence of terrorist financing or association with terrorist..	2
Unidentified source of fund	3
Tax evasion	185
Remittance related	19
Mysterious behaviour	2
Misuse of posiiton	5
Identity theft	4
Hundi	7
Human trafficking	1
High volume transaction	71
Fraud	9
Dhukuti	1
Corruption and bribery	5
Adverse news in media	5

Out of the total 333 disseminated cases in fiscal year 2019/20, more than half (185 cases) were related to the tax evasion. In most cases, the personal saving accounts were being used to route the business transactions for the purpose of tax evasion. Similarly, 21.32 percent disseminated cases were related to high volume transaction done through the personal account where there is mismatch of transaction with the customer's profile. It created the ground for suspicion and FIU-Nepal disseminated such cases to the LEAs as per the nature of the case and jurisdiction of LEAs. Other 13 typologies were found while disseminating the cases in fiscal year 2019/20(**Annex II).**

Figure 5 depicts the predicate offense-wise STRs disseminated from July 2020 to 13 January 2020. Out of the total 75 disseminated cases, 45.3 percent were related to Tax Evasion (including direct and indirect) as mentioned in ALPA, 2008. Similarly, 22.7 percent were related to fraud (Annex II- 1).

Figure 5: Predicate-offence wise STR Dissemination in Last six months
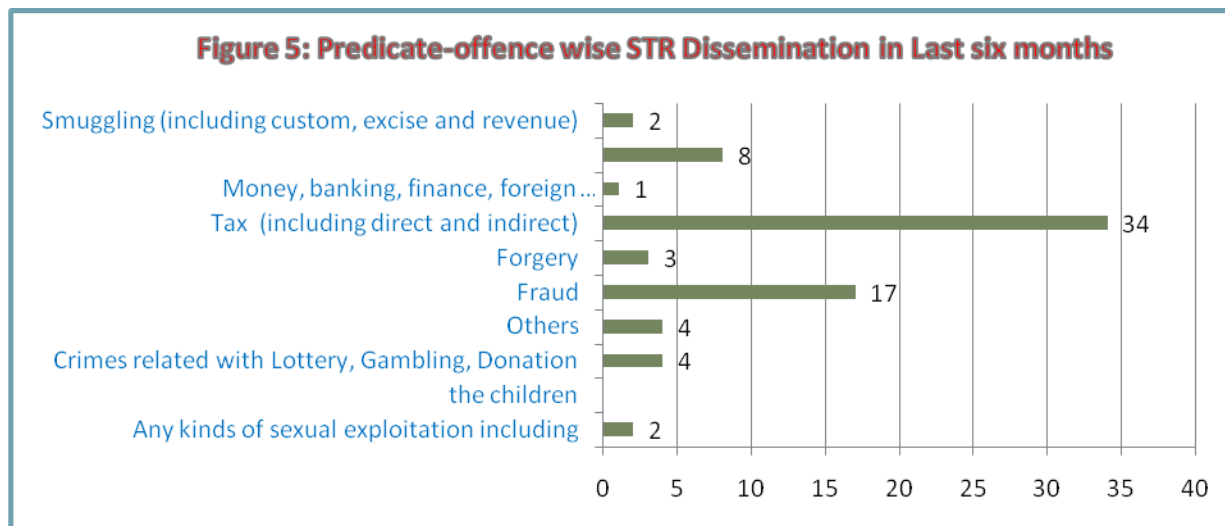
Information shared with Foreign FIUs

FIU-Nepal requests for information to other member jurisdictions by the Egmont Secure Web (ESW). It receives requests for information from other member jurisdictions. FIU Nepal has executed all the requests received from member jurisdictions.

Table -3: Information shared with Foreign FIUs

	2015/16	2016/17	2017/18	2018/19	2019/20
Foreign Request to FIU-Nepal					
Requests received	10	11	13	33	4
Request executed	10	11	13	33	14
Requests refused	0	0	0	0	0
Requests pending	0	0	0	0	0
Spontaneous sharing of information received	0	0	1	13	10
Total	**10**	**11**	**13**	**33**	**14**
FIU-Nepal request to foreign Entities					
Foreign requests made	3	13	12	21	24
Response received	3	13	12	18	24
Refused	0	0	0	0	0
Number of Pending requests	0	0	0	3	
Spontaneous sharing of information provided	3	1	1	5	1
Used in analysis	0	13	12	18	25
Total	**3**	**13**	**12**	**21**	**25**

E. Financial System

The money laundering and terrorist financing risks of the private sector are mainly concentrated in the financial system as the flow of financial assets often through the financial system. Also, there are variety of financial transactions based on different characteristics such as types of financial market, volume and governance, transparency.

There are 144 banks and financial institutions, 40 insurance companies, an employee provident fund, a citizen investment trust and a Postal Saving Banks operating as at mid-January 2021.Moreover, there are more than 34837 cooperatives are operating in Nepal.

F. Non-financial system

Real Estate Business/Agents: A significant portion of real estate buying and selling transactions is conducted through intermediation.

Casinos or Internet Casino Business: There are five casinos operating in Nepal. Only foreigners can enter and involve there in gambling.

Dealers in precious stones and metals, Trust and Company Service Providers, Auditors and Accountants, Notary Public and Law Practitioners are other reporting entities. The reporting from these entities remained almost nil.

G. Non-Commercial Segment

In general, non-commercial organizations (NPOs, charities) are considered to pose higher risk as they involve in FT schemes. Though, there are no cases where NPOs are found to have been abused for TF, the key threats facing them are largely associated with misappropriation or deviation of funds and fraudulent activities (NRA 2020).

- ✓ In general, harmonious relation among ethnical group and people from different geography do not let favorable environment for terrorist environment for terrorist organization to operate fund. Nepal does not pose such risk significantly.
- ✓ At the end of October 2019, 50814 NGOs got affiliated with Social welfare Council and their approve budget is Rs 42.9 billion.
- ✓ There is around 30 % grant moves through off budgetary channels.

H. Economic, Geographic and Demographic Segment

The economic structure, geographical location and demographic structure have influence on the ML/TF risks of the country.

✓ The economic structure shows that around one fourth of country's economic activities depends on agriculture. Agriculture in Nepal is seasonal in nature and gives employment to more than half of the active population of the country. Also, economic activities are concentrated mainly to Baghmati Province, capital of Country locates, which accounts more than one-third in country's GDP.

✓ Many estimates show the volume of shadow economy in Nepal is around one third of the GDP, which poses higher than average risk in terms of ML/FT. On the opposite side, cash in circulation is Rs. 500 billion and the volume of cash per resident is Rs. 17 thousands.

✓ The balance of payments (BoP) statement shows small volume of remittance outflows from country whereas mirror data shows annual remittance outflows is more than 3 billion US dollars. Also, miscellaneous (errors and omissions), is significant in size, also indicates cross border transactions is not justify with banking system.

✓ Geographical location shows that Nepal shares 2926 km long open border with China and India. Also, it ranges from Mountain to Plain Terai. Terai accounts 17 percent of total area where around 50 percent of total population. Furthermore, Nepal and India shares free movement to either side.

✓ Demographic segment shows that population of age 15-59 years account around 57 percent of total population. Around 60 percent of active population is getting employment from unorganized sector. Furthermore, one of five in total population is below the poverty level.

4. General Observations

Based on the analysis of available information, FIU-Nepal has identified the following general observations:

- Out of the two broad categories of the Reporting Entities; financial institutions are the main reporting entities while DNFBPs are in a nascent stage of reporting. Among the financial institutions, BFIs cover more than 90% of the STR/TTR reporting. Such percentage is low for the entities other than the banks and financial institutions.

- Tax evasion was the highest number of STR disseminations based on the classification of Typology. High Volume transaction and remittance related STRs take the second and

third position respectively in terms of dissemination. Predicate offence wise classification also shows the number to be the highest in tax related STRs.

- Corruption (bribery), tax (revenue) evasion, financial crimes such as banking offence and hundi are the predicate offences which are classified as high risk (NRA 2020).

- FIU Nepal is gradually integrating the reporting entities into the goAML system. Banks and financial institutions (A, B and C) are currently reporting through goAML online reporting system. Rest of the institutions is outside the online reporting system. Analysis of general trend and typologies will be assessable once all the reporting entities are integrated in the system when information becomes accessible.

- Awareness regarding AML-CFT needs to be enhanced in order to identify, assess and monitor the ML/TF risks in Nepal. Banks and financial institutions are comparatively stronger in terms of awareness while DNFBPs are still weak.

- Covid 19 has increased the need and importance of online transactions. As a result, the need for new dimensions of risk management has also been changed rapidly.

- Other sources of risks are the size of informal economy, open and porous border, awareness regarding AML-CFT and the initial stage of development of AML-CFT regime. Gradual integration of reporting entities into the FIU database will contribute towards the identification, assessment and management of the ML/TF risk in Nepalese context.

5. Conclusion

This strategic analysis has been conducted by FIU- Nepal to locate the possible sources, sectors, schemes and/or supporting circumstances that influence ML/TF offences. Also, it has helped for better understanding the trend, typologies and cases of ML/TF which will contribute in combating money laundering and terrorist financing in the nation. This analysis has tried to present the direction and efficiency of AML-CFT mechanisms but inadequate information/data has limits the scope of strategic analysis. Furthermore, all reporting entities are still not in the reporting net especially DNFBPS and the online reporting system yet to expand to all reporting entities. So it is hard to draw conclusion concisely about the ML/TF direction and trend.

CASE STUDY:

CASE 1

SWIFT Hack of a commercial bank

Swift heist of one of the big commercial bank in Nepal was a series of unauthorized transactions made from the Swift system of the Bank. The fraudulent SWIFT transactions were made using bank's user accounts that had been compromised by external attackers as part of a highly complex, multi-layered cyber attack. Total 33 unauthorized transactions were routed from 8 different Nostro of the Bank through unauthorized access of swift system of the Bank in October 2017. Funds were transferred to 21 different International Banks accounts of 9 different countries across world. The bank informed the central bank of Nepal and sent correspondence with Nostro Banks for stopping payments and recall of funds. In the mean time, STR was filed to FIU-Nepal and FIU-Nepal sought support of Egmont Group. FIU-Nepal created the case and reported to domestic LEAs as well.

As the immediate action was required, FIU also contacted foreign counterparts at that time via telephone and all other available means of communication were used at that very moment. With the joint cooperation of FIU-Nepal and Central Investigation Bureau (special investigation division of Nepal Police), the cooperation request was sent to various national and international agencies, central banks FIUs. Foreign FIU also cooperated to call respective FIUs, countries, and LEAs for the support and the related bank informed FIU-Nepal that most of the funds were blocked in the respective account in respective countries. Addition to this, the bank itself approached KPMG for fact finding investigation of the case.

As part of the cyber attack, credentials of windows operating system of multiple users including network administrator, maker accounts used for creating request of SWIFT transactions, checker account used to verify the transaction requests and their USB hardware tokens used to carry out anti-money laundering checks/approvals were compromised by the attackers. Reverse connections of the malware identified with the IP addresses which belonged to Romania. Similarities were observed in cyber attack on NIC Asia Bank with respect to the SWIFT heist Taiwan Bank as per the report submitted by KPMG.

The total value of funds that were successfully transferred however recovered was around NPR 264 Million. Further NPR 64.7 Million is yet to be recovered from the beneficiary country.

Continuous chasing and coordination from the FIU with its counter parts is under process. If the case was not handled carefully by the FIU-Nepal total value of money laundering might be used in other criminal activities could have been large and total impact could have been of NPR 460 Million.

CASE 2

Routing donation amount in personal account and religion promotion

FIU-Nepal received a STR in the name of Mr. X for routing the donation amount through personal bank account and using it for promoting religion. Upon the analysis of Know Your Customer (KYC) form, he declared himself as a monk and holds the position of a Secretary and a Treasurer of two different Monasteries situated at Nepal. He also mentioned the source of income as donations in his KYC Form. Going through his bank statement, the huge amount transaction was found.

Upon the analysis of the case, it is suspected that he may have used his personal bank account for routing the donation amount received in promoting the religion. Whether the amount had been used for promoting the religion needs to be investigated. However, it is highly likely that he received donation amount in his account. An Intelligence Report has been disseminated to Department of Money Laundering Investigation and Nepal Police (law enforcement agencies of Nepal) for investigation and appropriate legal action.

CASE 3

Embezzlement of fund of a co-operative by its employee

Ms. A declared herself as a manager of a co-operative in Know Your Customer (KYC) form while opening the account at XYZ Bank. FIU-Nepal received STR in her name indicating Embezzlement of fund of a co-operative by its employee.

Upon the analysis of bank statement and her association with the related parties, it was noted that her account was frequently used for co-operative where she is in managerial position. Though she opened a saving account, she used it for other purpose. The frequent transaction of huge amount in her account in the name of the co-operative clearly shows that embezzlement of fund of a co-operative by Ms. A. Based on the analysis, an intelligence report with supporting documents was disseminated to Revenue Investigation Department (one of the law enforcement agency of Nepal) for further investigation and necessary legal actions as per ALPA, 2008.

CASE 4

Hundi transaction through personal saving account

Three persons, Mr. B, C and D were suspected to have engaged in Hundi business by using their bank account maintained at XYZ Bank.

Based on the STR reported by the bank, FIU-Nepal conducted thorough analysis that revealed the following facts:

- Huge amount of transaction in their personal saving accounts
- They deposited funds to other parties in the name of various remittance companies.
- Altogether, they were using the name of seven remittance companies namely; California Remit, Chhaya Remit, Kathmandu Remit, Dordi Sub Remit, Shivam Money Transfer, Shankar Traders, Sita Remittance.

It was suspected that Mr. B, C and D had formed an organized group, used them for depositing the funds to other parties by using the name of various remittance companies, ultimately they were engaged in Hundi business. Finally, an intelligence report with supporting documents was disseminated to Revenue Investigation Department (one of the law enforcement agency of Nepal) for further investigation and necessary legal actions as per ALPA, 2008.

Annex I: -STRs Disseminated to Different Agencies

1. STRs Disseminated to Department of Revenue Investigation (DRI)

Year	Analyzed STRS	Disseminated STRs	Disseminated to DRI	Percentage of Dissemination to DRI
2014/15	228	133	56	42.11
2015/16	1001	138	80	57.98
2016/17	815	391	174	44.51
2017/18	816	312	144	46.15
2018/19	677	207	107	51.69
2019/20	790	333	200	60.06

2. STRs Disseminated to Inland Revenue Investigation(IRD)

Year	Analyzed STRS	Disseminated STRs	Disseminated to IRD	Percentage of Dissemination to IRD
2014/15	228	133	0	0
2015/16	1001	138	0	0
2016/17	815	391	8	2.05
2017/18	816	312	51	16.35
2018/19	677	207	42	20.29
2019/20	790	333	26	7.80

3. STRs Disseminated to DMLI

Year	Analyzed STRS	Disseminated STRs	Disseminated to DMLI	Percentage of Dissemination to DMLI
2014/15	228	133	38	28.57
2015/16	1001	138	27	19.57
2016/17	815	391	39	9.97
2017/18	816	312	44	14.10
2018/19	677	207	27	13.04
2019/20	790	333	39	11.71

4. STRs Disseminated to Nepal Police

Year	Analyzed STRS	Disseminated STRs	Disseminated to CIB/Nepal Police	Percentage of Dissemination to Nepal Police
2014/15	228	133	41	30.83
2015/16	1001	138	29	21.01

2016/17	815	391	124	31.71
2017/18	816	312	78	25.00
2018/19	677	207	36	17.39
2019/20	790	333	119	35.73

5.   STRs disseminated to Commission for the Investigation of Abuse of Authority (CIAA)

Year	Analyzed STRS	Disseminated STRs	Disseminated to CIAA	Percentage of Dissemination to CIAA
2014/15	228	133	2	1.50
2015/16	1001	138	1	0.72
2016/17	815	391	9	2.30
2017/18	816	312	8	2.56
2018/19	677	207	2	0.97
2019/20	790	333	15	4.50

6.   STRs Disseminated to Department of Co-operatives

Year	Analyzed STRS	Disseminated STRs	Disseminated to Dept. of Co-operatives	Percentage of Dissemination to Cooperatives
2019/20	790	333	18	5.40

7.   STRs Disseminated to Other Competent Authorities

Year	Analyzed STRS	Disseminated STRs	Disseminated to Others	Percentage of Dissemination to others
2014/15	228	133	0	0
2015/16	1001	138	1	0.72
2016/17	815	391	37	9.46
2017/18	816	312	19	6.09
2018/19	677	207	2	0.97
2019/20	790	333	2	0.60

Annex II: - Number of STR Dissemination

1. **Number of STR Dissemination in last six months (16 July, 2020 - 13 January, 2021) (Predicate offence-wise)**

S.N.	Predicate offence	Number of Dissemination
1	Any kinds of sexual exploitation including the children	2
2	Crimes related with Lottery, Gambling, Donation	4
3	Fraud	17
4	Forgery	3
5	Tax (including direct and indirect)	34
6	Money, banking, finance, foreign exchange, negotiable instruments, insurance, cooperatives	1
7	Other offence as designated by the Government of Nepal by publishing a notice in the Nepal Gazette	8
8	Smuggling (including custom, excise and revenue)	2
9	Others	4
	Total	**75**

2. **Number of STR Dissemination in FY 2019/20 (Typology-wise)**

S.N.	Typology	Number of Dissemination
1	Adverse news in media	5
2	Corruption and bribery	5
3	Dhukuti	1
4	Fraud	9
5	High volume transaction/Mismatch of transaction with customer's profile/Multiple transaction/ Suspicious transaction/Unusual transaction	71
6	Human trafficking	1
7	Hundi	7
8	Identity theft	4
9	Misuse of position	5
10	Mysterious behavior	2
11	Remittance related	19
12	Structuring	109
13	Tax Evasion (including Direct and Indirect)	76
14	Unclear source of fund	3
15	Offence of terrorist financing or association with terrorist organization	2
16	Others	14
	Total	**333**