

VANUATU FINANCIAL INTELLIGENCE UNIT



ANNUAL REPORT 2010 - 2012

STATE LAW OFFICE, GOVERNMENT OF VANUATU

VANUATU FIU

OUR OBJECTIVE

To positively contribute to the combating of money laundering, financing of terrorism and other financial/economic crime in Vanuatu as well as in the Pacific and broader region

OUR MISSION

To collect, analyze and disseminate financial information and intelligence to support the detection, investigation and prosecution of money laundering, financing of terrorism and financial/economic crimes.

KEY STAKEHOLDERS

Financial Institutions and their representative associations

National financial regulators – Reserve Bank of Vanuatu and Vanuatu Financial Services Commission

Law Enforcement Agencies – Vanuatu Police Force, Department of Customs and Inland Revenue, Department of Immigration and Citizenship

State Law Office, Office of the Public Prosecutor

Vanuatu Government-Office of the Prime Minister, Ministry of Finance and Economic Management, Ministry of Foreign Affairs, Ministry of Justice and Social Welfare, Vanuatu Investment and Promotion Authority

Vanuatu Financial Sector Assessment Group

Performance at the Glance: 2010-2012

Combat Money Laundering, Financing of Terrorism and other Economic offences

Collection of Information:

132	Suspicious Transaction Report (STR)
17,175	Cash Transaction Report (CTR)
43,056	International Funds Transfer Report (IFTR)
76	Border Currency Report (BCR)
23	Cash Courier Report (CCR)

Analysis and Dissemination of Information:

60,462	Processed
33	Disseminated

Collaboration with Domestic and International Law Enforcement and Intelligence Agencies:

243	Request received by Vanuatu FIU
195	Requests sent by Vanuatu FIU

Deter Money Laundering and Financing of Terrorism

Awareness of Financial Institution and Public:

3	Training workshops
7	Public awareness

Improving Compliance with FTR ACT:

14	Pocket meeting with financial institutions
37	Notification of compliance breach issued
6	Comprehensive on-site examinations
2	Follow up examination
336	Notification of compliance officer and Internal Procedure

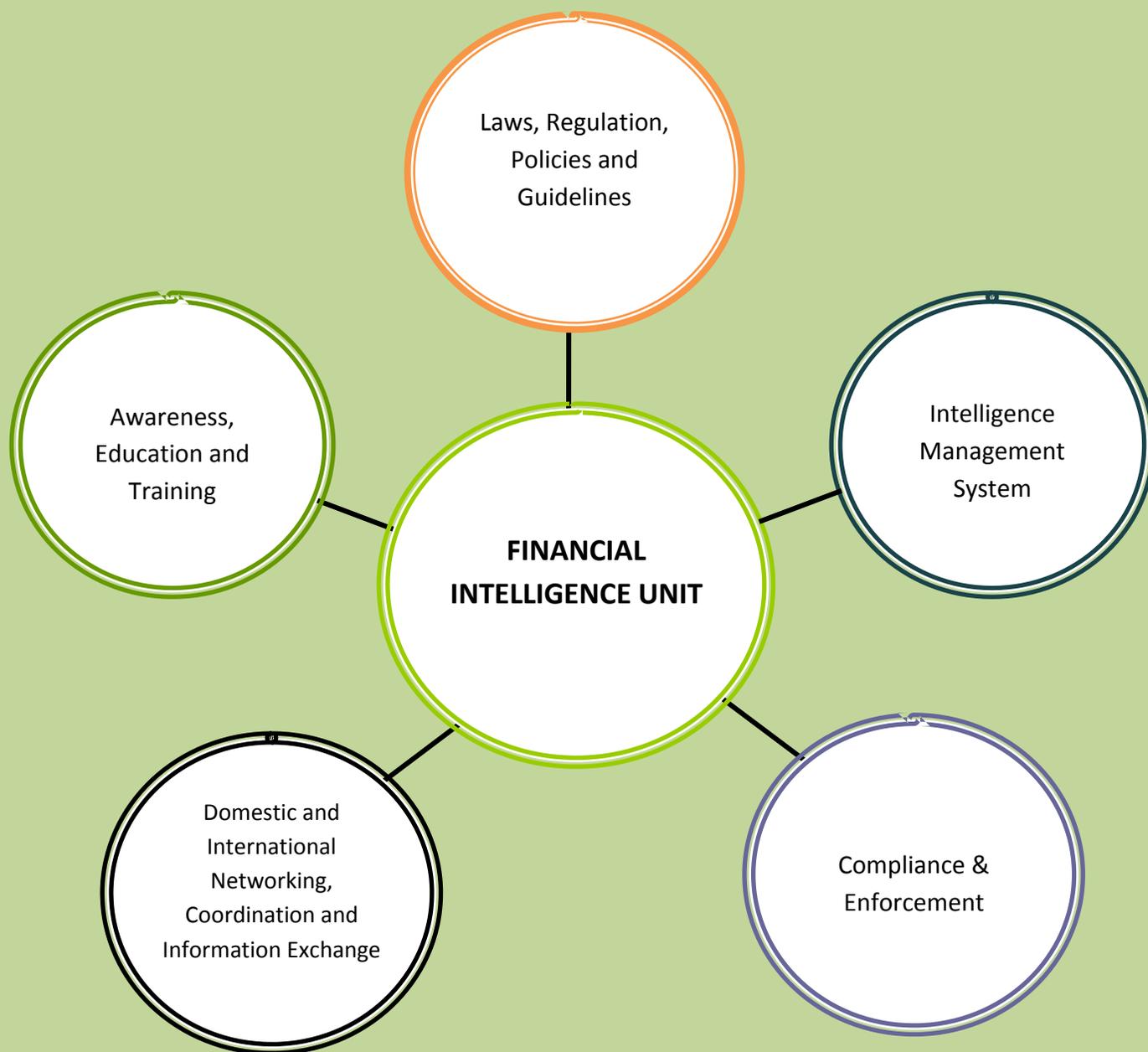
Strengthening Legislative and Regulatory Framework:

3	Legislative amendments passed by parliament and enforced
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Five Roles of the Financial Intelligence Unit





**Republic of Vanuatu
State Law Office**

Financial Intelligence Unit

28 March 2013

Honorable Maki John Simelum (MP)
Minister of Justice and Community Services
Ministry of Justice and Community Services
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Dear Honorable Minister,

Financial Intelligence Unit – 2012 Annual Report

As a requirement of the FIU under section 13H of the Financial Transaction Reporting Act [CAP 268], it is with pleasure to present FIU's annual report for 2012, combined with reports from 2011 and 2010.

Yours sincerely,

Floyd Mera
Manager FIU

Vanuatu AML/CFT Regime

1.1 Background

Money laundering is the process by which criminals disguise the illegal origin of their wealth to avoid suspicion of law enforcement authorities and to wipe the trail of incriminating evidence.

Money derived from criminal activities can pose significant risk to the local financial system and can devastate Vanuatu's social, political, cultural and economic structure in all levels. Whilst it is impossible to measure accurately the amount of proceeds generated from illicit activity globally each year, it can be estimated at around USD 3.3 trillion (World Bank) per year.

There is no one method of laundering funds. Methods can range from transferring money overseas into various accounts to purchase and resale of a luxury item, to passing proceeds through legitimate local businesses and companies.

There is, however, an agreed 3 stage of typical money laundering process which is Placement, Layering and Integration. Placement is the first stage where the illegal funds/proceeds are placed in the financial system e.g. making small deposits of cash into a bank account. Layer is the second stage which involves creating layers of transactions to disguise the origin of the funds and to obscure the audit trail e.g. quickly moving funds across different accounts and to overseas accounts. Final stage – Integration involves re-introducing the funds/proceeds into legitimate financial system and projecting them as clean funds to enable their further use e.g. setting up funds companies, purchasing luxury assets.

Financing of Terrorism is the process of collecting and providing funds for terrorists, terrorist organisations and terrorist activities.

1.2 Vanuatu AML/CFT Regime

Vanuatu has in place several legislations which form the legal AML/CFT framework, these legislations were recently enacted by the Parliament (most recent 2005). In 2000, the Financial Transaction Reporting Act ("FTR Act") was enacted which established the AML/CFT regulator/supervisor, the Vanuatu Financial Intelligence Unit ("VFIU") and spells out the AML/CFT preventive measures. In 2002, the Proceeds of Crime Act was enacted and defined Money laundering as an offence. The Mutual Assistance in Criminal Matters Act was also enacted in the same year and provided the legal channel of exchanging mutual criminal assistance between Vanuatu and other jurisdictions. And in 2005, the Counter Terrorism & Transnational Organised Crime Act was enacted, which defined terrorist and terrorism financing as offences in Vanuatu.

In addition, Vanuatu enacted several United Nations Conventions – Convention against illicit traffic in narcotic drugs and psychotropic substance, convention for the suppression of the financing of terrorism and convention against transnational organised crime.

Since 2007, VFIU imposed an AML/CFT regulatory/supervisory program, where the AML/CFT preventive measures were strictly regulated and supervised. Awareness's amongst the stakeholders were conducted and monitoring and enforcement improved.

In the three years (2010-12), Vanuatu FIU received information relating to financial crimes which were assessed and analysed. This information was disclosed to law enforcement agencies for further criminal investigation and possible prosecution.

Range of offences noted in the period were: theft (fraud), obtaining property through false pretense, obtaining money by false or misleading statement, forgery, tax evasion, corruption, abuse of legal entities and money laundering.

The Unit also received suspicious activities such as: attempts to avoid conducting transactions which would be reportable to the VFIU, unusual account/service/business relation activity, suspicious behavior of customers/potential customers, suspicious source of funds, unusual exchange of currency and adverse recording of customers/potential customers.

Vanuatu experienced an exponential rise in scams in the early period, in response, law enforcement agencies and Vanuatu FIU increased its awareness on this illegal activity and ensured financial institutions apply stringent AML/CFT measure in compliance with the FTR Act.

There were also cases of obtaining funds through false pretense e.g. hoax RSE Agent collecting funds from victims. The VFIU, in addition received cases on forgery and tax evasion (VAT offences).

Notably, Vanuatu also experienced an increasing trend on corruption or corruptible practices in the public institutions.

Offences committed were investigated by Vanuatu Law Enforcement Authorities, some of the cases are pending investigation or prosecution, and some were successfully prosecuted.

There are 21 globally accepted criminal offences related to profit-driven crimes and are: participation in an organised criminal group and racketeering; terrorism including financing of terrorism; human trafficking; sexual exploitation including sexual exploitation of children; illicit trafficking of narcotic drugs and psychotropic substances; illicit arms trafficking; illicit trafficking of stolen goods and other goods; corruption and bribery; fraud; counterfeiting currency; counterfeiting and piracy of products; environmental crime; murder, kidnapping, robbery or theft; smuggling; tax crimes; extortion; forgery; piracy; and insider trading and market manipulation.

These criminal offences are predicate offences of money laundering.

In the reviewed period, VFIU has not received any report on terrorist financing, however, the VFIU is fully aware of likely abuse of legal persons and arrangements and is aware several project are undertaken to strengthen the legal framework.

1.3 Legislative Achievements

In 2012, the Parliament passed the Counter Terrorism & Transnational Organised Crime Amendment Act No. 9 of 2012, the Mutual Assistance in Criminal Matters Amendment Act No. 11 of 2012 and the Proceeds of Crime Amendment Act No. 12 of 2012 and were published in the Official Gazette in mid-2012.

These amendments significantly strengthen Vanuatu's AML/CFT legal framework and in particular, explicitly provide for money laundering as a predicate offence and the prosecution of money laundering offence for proceeds of crime generated by a predicate offence.

A fourth piece of legislative amendment – Financial Transaction Reporting Amendment Bill will be forwarded to the Parliament in 2013 for discussion and approval. If approved, this amendment will enhance VFIU's regulatory responsibilities and foster stringent AML/CFT regimes within each financial institution.



Vanuatu FIU 10th Anniversary

2010 marked the 10th anniversary of the Vanuatu FIU since its inception in 2000. The Unit, established under the State Law Office, was initially manned by state counsels on a part-time basis. From 2004, permanent positions were created. Number of permanent staff within the Unit increased from 1 in 2004 to 4 in 2012 including a Manager FIU appointed in 2010. Since 2004, the Unit saw an exponential growth and development in its operation.

In its decade of operation, the Vanuatu FIU has received substantial information which were assessed, analysed and disseminated to relevant authorities for investigation and prosecution. Subsequently, it developed a stringent supervisory framework allowing it to ensure financial institutions are compliant with the FTR Act.

As a filtering institution, the Vanuatu FIU has requested and assisted numerous investigations which led to successful prosecutions in Vanuatu and abroad. Similarly, through tiresome awareness effort, more and more businesses providing financial services in Vanuatu are becoming aware of the Unit and their obligations under the FTR Act.



Photo: FIU team (absent: Manager) before the cake sharing to celebrate the FIU 10th anniversary.

Combating Money Laundering, Terrorism Financing and related Crimes

An integral aspect of the Unit in combating money laundering, terrorism financing and other serious offences is its ability to receive suspicious and other financial transaction reports, assess, analyse this information and disseminate financial intelligence to law enforcement and partner agencies.

Vanuatu FIU continues to play a key role between the financial institutions and law enforcement agencies in filtering and adding value to financial information received and disclosing financial intelligence to partner agencies.

3.1 Information Collection

The FTR Act require all financial institutions to furnish information relating to prescribed cash transactions, fund transfers and suspicious transactions to the VFIU.

3.1.1 Cash Transaction Report (CTR)

FTR Act requires, banks, accountants, lawyers, car dealers, money lenders, money remitters, credit unions, insurance businesses, money exchanges, Gaming business, trust service providers, real estates, investment company to furnished to VFIU information relating to-

- All cash transactions of the value exceeding VT 1 million or its equivalent in foreign currency and
- Any single cash transaction over the reporting threshold.

Cash Transaction Report is to be reported to VFIU within a specified timeframe:

- For transactions in vatv within 15 days after transactions was conducted
- For transactions in foreign currency, within 2 days after transactions was conducted.

Trends in CTRs

There are 5,153 CTRs filed in 2010, compared to 5,321 CTRs in 2011.

It is estimated the volume of CTRs in 2012 will reached 6,712.

90% CTRs were received in 2010-12 by electronic format

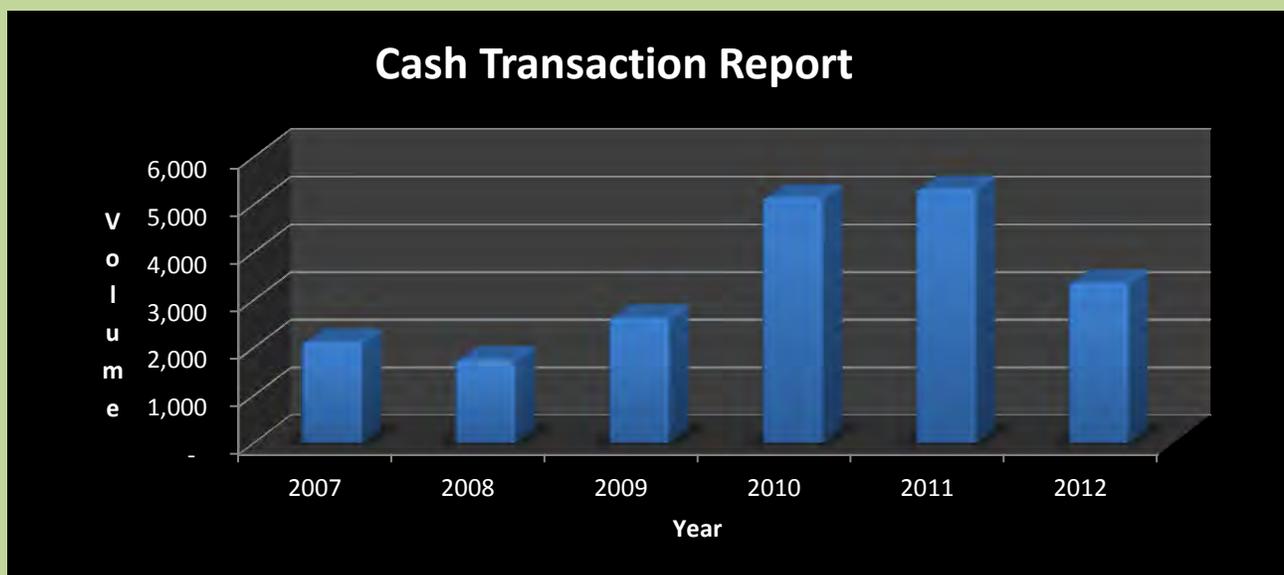
CTR from the banking sector increased from 4,736 in 2010 to 5,263 in 2011 to over 6,000 in 2012 due to increase in awareness training and visitations.

CTR from non-banking industry have drop significantly from 417 in 2010 to 58 in 2011 due to staff turnover and oversight by compliance officers.

Table 1.0 Cash Transaction Report

YEAR	2007	2008	2009	2010	2011	2012
Volume	2,116	1,745	2,620	5,142	5,321	6,712 (est.)

Graph 1: Cash Transaction Report



In 2010, the CTR submitted to VFIU doubled compared to the previous year and steadily continued its momentum into 2011 and 2012. The surge of reports was a direct result of effective awareness with financial institutions.

The banking sector contributed roughly 90 percent of the total CTRs submitted while the balance were from the non-banking sector e.g. accounting firm, law firm, insurance business, real estate, vehicle dealer sectors etc..

Notably, CTR reporting from the non-banking sector has dropped significantly after 2010. This may be due to frequent staff turnover and oversight by compliance officers.

3.1.2 International Fund Transfer Report (IFTR)

Businesses in the Banking and remittance sectors are required to submit to the VFIU information relating to:

Trends in IFTRs

There are 15,544 IFTRs were filed in 2010 compared to 13,328 in 2011.

In 2012, the IFTR reporting increased by 2%, after a slight drawback from 2010 and 5% in 2011.

98% of IFTRs received in 2010 and 2011 via electronic submission compared to previous years.

IFTRs were submitted mainly by the banking sector.

IFTRs from non-banking industry has drop due to changes to regulatory requirement for IFTR submission.

VFIU Annual Report 2010, 2011 & 2012

- The transmission out of Vanuatu or receipt from outside Vanuatu of an electronic funds transfer of an amount exceeding VT1 million or its equivalent in foreign currency in the course of a single transaction.

International Funds Transfer Report is to be reported to VFIU within a specified timeframe:

- For transactions in vatu within 15 days after transactions was conducted;
- For transactions in foreign currency, within 2 days after transactions was conducted.

In 2010, the numbers of IFTRs submitted continued the decline as first seen in 2007. In 2011, there was a regulatory amendment to IFTR reporting from non-banking sector which explained the steep decline.

Table 2.0 International Funds Transfer Transaction Report

YEAR	2007	2008	2009	2010	2011	2012
Volume of IFTRs	21,227	16,471	15,883	15,544	13,328	14,184

Source: VFIU

Graph 2: IFTRs trend received since 2007-2012



3.1.3 Border Currency Report (BCR)

Travelers coming into or going out of Vanuatu are required to declare currency or negotiable bearer instruments of VT 1 million or more.

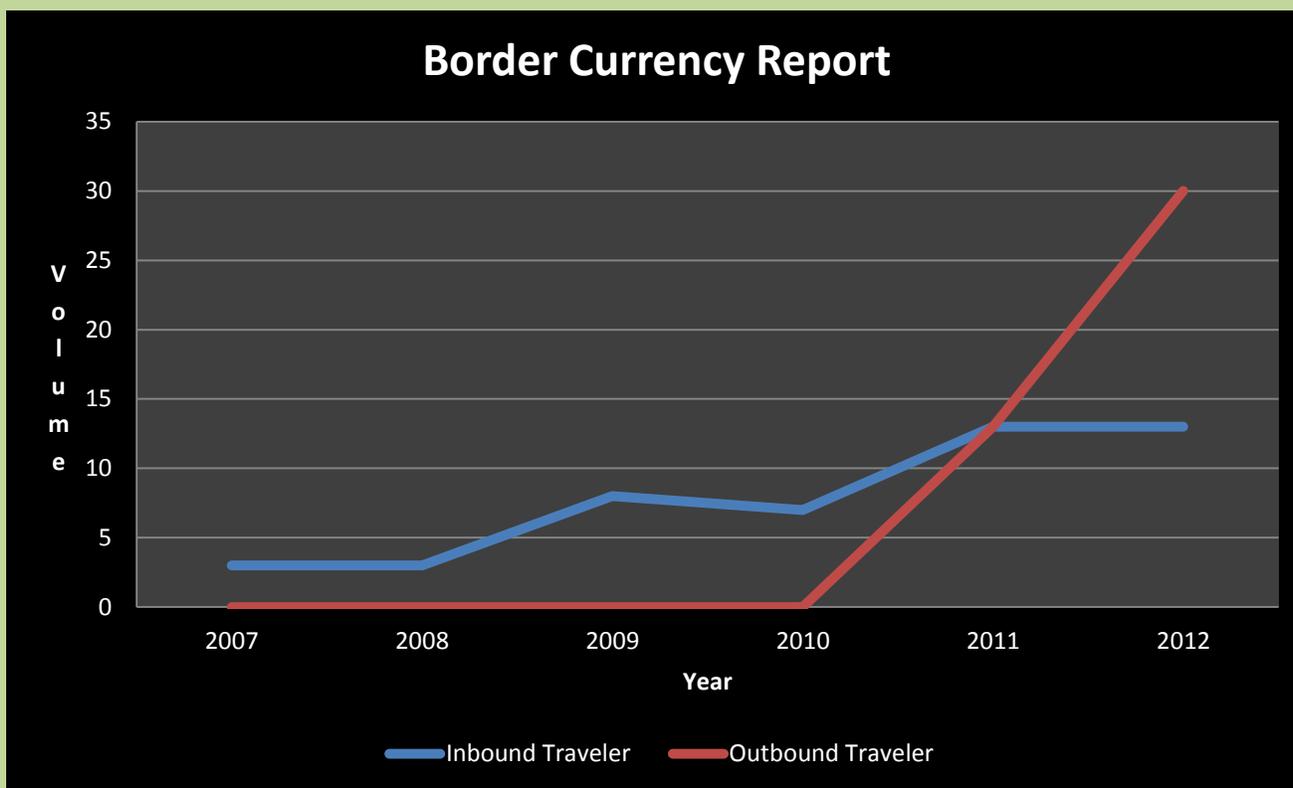
Vanuatu has implemented a currency declaration regime where inbound and outbound passengers are required by section 79A of the Proceeds of Crime Act [CAP 264] to declare to border officials any currency or negotiable bearer instruments exceeding VT1 million.

The BCRs are collected by Customs officials at the ports of entry and submitted to the VFIU for central recording and for its intelligence purpose.

Table 3.0 Border Currency Report

Persons Declaring	2007	2008	2009	2010	2011	2012
Inbound Travelers	3	3	8	7	13	13
Outbound Travelers	0	0	0	0	13	30

Graph 3: Border Currency Report



From 2010, the statistics of declaration at the port of entry/departure has increased and most importantly, the outbound statistic.

This may be due to increased awareness amongst the border officials and greater confidence in enforcing the legislation.

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VANUATU PASSENGER ARRIVAL CARD

Passenger (except on the same day) bring the same process as you do on other countries. You must provide: Immigration, Biosecurity, Border Security, Health, Customs, Police and Cemetery Laws. The information is collected by immigration and will be processed by agencies administering and entities to regulate a border Vanuatu on. This includes the purpose of date matching between those agencies. Once issued, permission may be used for multiple entries by Vanuatu Resident Departures.

- The Arrival Card is a legal document – false declarations can lead to penalties including deportation of goods, fines, prosecution and imprisonment.
- A separate Arrival Card must be completed for each passenger, including children.
- Please answer in English and fill in BOTH sides.
- Print in capital letters like this: VANUATU or mark answers like this:

1 Flight number/name of ship: _____ Aircraft seat number: _____

Overseas port where you boarded this aircraft/ship: _____
 Passport number: _____
 Nationality as shown on passport: _____
 Family name: _____
 Given or first names: _____
 Date of birth: day _____ month _____ year _____
 Country of birth: _____
 Occupation or job: _____
 Full contact or residential address in Vanuatu: _____
 Email: _____
 Mobile/phone number: _____

2a Answer this section if you live in Vanuatu. Otherwise go to 2b

How long have you been away from Vanuatu? years _____ months _____ days _____
 Which country did you spend most time in while overseas? _____
 What was the MAIN reason for your trip? _____ business _____ education _____ other _____
 Which country will you mostly live in for the next 12 months? Vanuatu _____ other _____

2b Answer this section if you DO NOT live in Vanuatu.

How long do you intend to stay in Vanuatu? _____ permanently _____ 3-12 months _____ days _____
 If you are not staying permanently what is your MAIN reason for coming to Vanuatu?
 visiting friends/relatives _____ business _____ holiday/vacation _____
 conference/convention _____ education _____ other _____
 In which country did you last live for 12 months or more? _____
 State, province or prefecture: _____ Zip or postal code: _____

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15 Did you pack your own bag? Yes No

16 Please declare if you have:

- Goods that may be prohibited or restricted, for example medicines, illicit drugs or drug paraphernalia, firearms (including parts and accessories), weapons of any kind, Pornographic materials or any items of obscene nature. Yes No
- Alcohol over the personal concession (2 Litres of Wine and 2 Litres of Spirits and 9 Litres of Beer) and tobacco products over the personal concession (250 Cigarettes or 100 Cigars or 25 Cigars). Yes No
- More than 100ml of Perfume (EDP) or 250ml of Toilet Water (EDT). Yes No
- Any other new or unused items, including gifts but excluding prohibited or restricted goods, obtained overseas and/or purchased duty free in Vanuatu, the total value of which is more than 20,000VT. Yes No
- Goods carried for business or commercial use. Yes No
- Goods carried on behalf of other persons. Yes No
- Cash, currency or negotiable bearer instrument amounting to 1,000,000VT or equivalent in foreign currency. Yes No
- In the last 30 days visited a farm, abattoir, meat picking plant or beach in contact with farm animals outside Vanuatu? Yes No
- Food of any kind (except biscuits, confectionery, cakes, beverages). Yes No
- Plant, fruit, seed, spices, vegetables including flowers (fresh or dried), raw nuts, straw, bamboo, wooden articles or artifacts, cutting, other plant products and specimens. Yes No
- Farm machinery and camping equipment including any equipment used with animals, plants or insects. Yes No
- Soil, or articles with soil attached. Yes No
- Animal/Fish/Crustaceans (alive or dead), animal products including food of any kind, meat, skin, feathers, honey, hair, scales also animal medicines, insects and specimens. Yes No
- Used materials e.g. second hand or used materials and tools. Yes No

17 I declare that the information I have given is true, correct and complete. I understand that failure to answer any questions may have serious consequences. This statement applies to the Immigration, Biosecurity and Customs Departments on this Arrival Form.

Signature _____ Date _____

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3.1.4 Cash Courier Reports (CCR)

Financial Institutions are required to submit to the VFIU information relating to:

- The transmission out of Vanuatu or receipt from outside Vanuatu of any funds transfer of an amount exceeding VT1 million or its equivalent in foreign currency in the course of a single transaction.

Cash Courier Report is to be reported to VFIU within a specified timeframe:

- For transactions in vatu within 15 days after transactions was conducted;
- For transactions in foreign currency, within 2 days after transactions was conducted.

The CCRs reporting commenced in 2011 with only 3 reports received and in 2012 there were 20 reports submitted by the financial institutions.

3.1.5 Suspicious Transaction Reports (STR)

Financial institutions are required to submit to the VFIU information relating to:

- Suspicious transaction or attempted transaction if it forms a reasonable suspicion on a transaction or attempted transaction that is or may be relevant to detection, investigation or prosecution of a person for a money laundering offence, a financing of terrorism offence or any other serious offence.
- STR submission must be within two days of forming the suspicion.

Table 4.0 Suspicious Transaction Report

Years	2007	2008	2009	2010	2011	2012
Number of STRs	19	34	34	42	40	50

Source: VFIU

From a 6 year period since 2007, the statistic confirmed an increasing trend of STRs submitted to the VFIU and in particular from a wide spectrum of financial institution sectors.

Table 5.0 Distribution of STRs submitted to VFIU in 2010, 2011 and 2012

Years	Bank Sector	Non-Bank Sector	Others
2010	32	8	2
2011	30	6	4
2012	34	10	6

Source: VFIU

3.1.6 Other Information

VFIU is obliged to receive any information whether or not it has been requested by VFIU from any person that could assist VFIU in the detection, investigation or prosecution of a person for a money laundering offence, terrorist financing offence or other serious offence.

VFIU received significant information from financial institutions, supervisory institutions, law enforcement agencies and the general public that assisted VFIU in its analytical process as well as reasonably authenticate any offences.

3.2 Analysis

3.2.1 Tactical Analysis

Information submitted to the VFIU was assessed on the level of risk. In addition, STRs submitted to the VFIU were analysed on the basis of ground/reason of suspicion.

Table 6.0 Reasons for suspicion as reported by financial institutions

SUSPICIOUS INDICATORS	2007-8	2009-10	2011-12	TOTAL VOLUME
Avoidance of reporting obligation	1	4	5	10
Unusual customer/account activity	9	4	10	23
Questionable source of fund	11	7	7	25
Suspicious customer behavior	1	2	3	6
Unusual exchange of cash	1	4	8	13
Customer adverse record/implication	9	30	22	61
Non-compliant with FTRA requirement	6	2	4	12
Scam/counterfeit/fraudulent activity	4	11	12	27
Structuring of fund	6	5	6	17
Large cash transaction	3	4	5	12
Other	3	3	8	14

Source: VFIU

The information is added value by confirming whether a suspicion is genuine, identifying possible offences arising from the suspicion and converting the information into reasonable intelligence.

From analysis of this information, the VFIU identified several criminal offences allegedly committed by the customers/persons.

These alleged offences are penal code offences: theft (fraud), counterfeit currency, obtaining property/money by false pretense, false statement, forgery; leadership code offences: conflict of interest, bribery, interest in govt. contract, bribery, undue influence; Immigration related offences; VAT related offences; FTR Act related offences; proceeds of crime and money laundering.

3.2.2 Strategic Analysis, Research

The VFIU is required to conduct research into trends and development in areas of money laundering and financing of terrorism.

Detail of VFIU research into AML/CFT trends in Vanuatu is annexed.

3.3 Dissemination

The VFIU disseminate the intelligence to relevant authorities if it has reasonable grounds to suspect that the intelligence is relevant to the detection, investigation or prosecution of a person for money laundering offence, a financing of terrorism offence or any other serious offence.

Relevant authorities in receipt of VFIU intelligence reports are law enforcement agencies within Vanuatu and outside Vanuatu, supervisory bodies within Vanuatu and outside Vanuatu, international organisation established by the government of foreign states and bodies outside of Vanuatu with functions similar to the VFIU.

In the reviewed period, VFIU disseminated 20 reports to the local Law Enforcement Agencies, 10 reports to international Law Enforcement Agencies and 3 reports to supervisory bodies.

3.4 Feedback

VFIU has a responsibility of providing feedbacks to financial institutions and other relevant persons regarding the outcomes of reports or information given to the VFIU.

Of all intelligences disseminated to relevant authorities, VFIU conduct regular follow up and request material feedback on the intelligence. It also request assessment on the quality and usefulness of these intelligence to the authority.

Any feedback received from the assisting authorities, VFIU timely disclosed to the reporting financial institutions.

In the reviewed period, VFIU has provided relevant feedback to all financial institutions that have raised and submitted information to the VFIU.

3.5 Global Partnership in AML/CFT

The global adverse impact of money laundering and financing of terrorism has brought the international community together and implementing greater emphasis on exchange of information and development expertise of AML/CFT issues.

3.5.1 Asia Pacific Group on Money Laundering (APG)

The Vanuatu Government via its relevant departments and statutory bodies is a founding and active member of the APG. The objective of the APG is ensuring all its members comply and implement the necessary FATF standards and pledge its support and commitment toward the global fight against money laundering and financing of terrorism. The APG also conduct evaluation on each member's implementation effort.

Vanuatu has under gone two significant mutual evaluations in 2000 and 2006 respectively. From the recent evaluation, Vanuatu was noted to require further improvement in its compliance effort and a list of recommendations was suggested to Vanuatu.

In addition, the APG has assisted the various Vanuatu government departments and agencies in capacity building and compliance trainings and assistance, by seeking and coordinating available resources and technical assistance from sponsor agencies.

3.5.2 Egmont Group of FIUs (Egmont Group)

The Vanuatu FIU has been an active member of the Egmont Group of FIUs since 2003.

Egmont Group is an international association of FIUs with the goal to provide a forum for FIUs to improve and support their respective national anti-money laundering and counter-financing of terrorism program and outreach. All members foster the widest possible cooperation and exchange of information amongst them on the basis of reciprocity or mutual agreement.

In the reviewed period, Vanuatu FIU continued to receive and action requests from Egmont members. Reciprocally, Vanuatu FIU sends requests to its colleagues to assist its analysis purposes.

3.5.3 International Network

Simultaneously, Vanuatu FIU has established networks with international law enforcement and supervisory bodies in information exchange.

Since 2010, the Vanuatu FIU has supported various exchange of information which led to successful money laundering and financing of terrorism investigations and prosecutions.

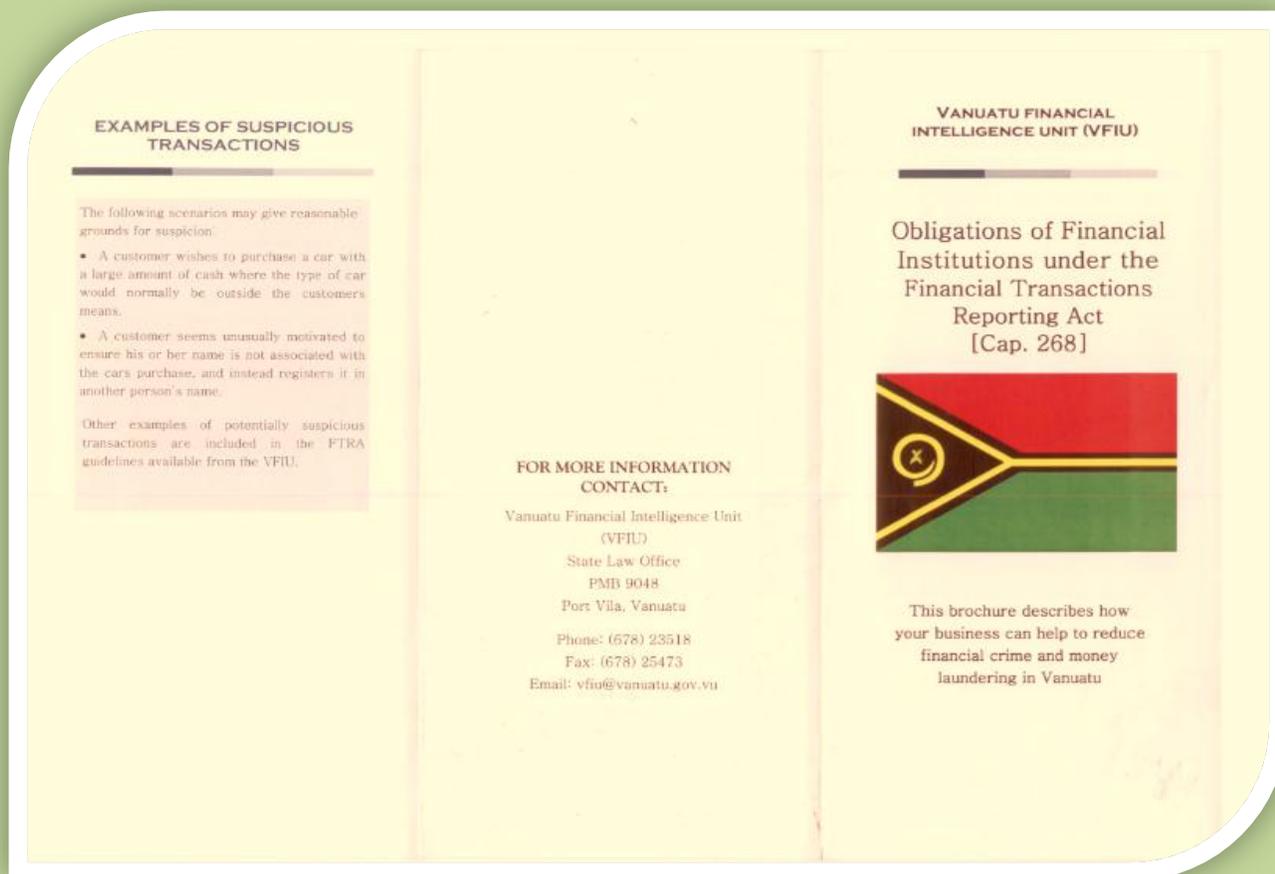
3.6 Exchange of Information

In the three years (2010 - 2012), Vanuatu FIU has received and sent requests:

Table 7.0

Period	VFIU Receive Request	VFIU Approve Request	VFIU Send Request	VFIU Receive Response
2010	126	120	53	53
2011	48	48	64	62
2012	69	69	78	69

Source: VFIU



Deterring Money Laundering, Financing of Terrorism and Other Crimes

VFIU is responsible for Vanuatu's AML/CFT supervision and regulation. It ensures financial institutions implement certain measures to identify and deter launderers, terrorist financiers and criminals from exploiting and abusing Vanuatu's financial system.

Since 2007, the VFIU has executed its supervisory and regulatory framework, which comprises the identification and engagement of new financial institutions, educating and guiding new and existing financial institutions and monitoring and enforcing compliance against the FTR Act.

Any person carrying on a business of: acceptance of deposit and other repayable funds from the public, lending, financial leasing, money or value transfer services, issuing and managing means of payment, financial guarantees and commitment, trading in money market instruments, foreign exchange, exchange, interest rate and index instruments, transferable securities, commodity futures trading. Participation in securities issues and provision of financial services relates to such issues, individual and collective portfolio management, casino, real estate agents, bullions, law firm, accounting firm, trust and company service provider, cooperative society, gaming, insurance business or electronic business is defined as a financial institution under the FTR Act.

These businesses are required by the FTR Act to implement certain AML/CFT preventive measures.

4.1 Awareness of Financial institutions and Public

VFIU has a responsibility of creating awareness and educating financial institutions and public on matters relating to money laundering and financing of terrorism.

As the VFIU does not impose obligatory registration or licensing on financial institution, the VFIU has implemented a program to identify and engage financial institutions; these financial institutions are educated and guided in implementing necessary AML/CFT measures.

4.1.1 Financial Institutions - Identification and Engagement

Annually the VFIU identify any businesses conducting any financial services under section 2 of the FTR Act and engage the business management and staff.

Identified businesses are required to submit basic information of their business, particularly on the financial services provided and VFIU engaged the management and staff on matters relating to money laundering and terrorist financing.

In the reviewed period, VFIU focused on identifying businesses providing the following services: insurance, money exchange and remittance, bullion, formation of legal persons, Co-operative societies, money brokering, fund management and dealing in property exceeding VT1 million. VFIU identified over 400 businesses and engaged most of these businesses by informing them of their requirements under the FTR Act.

4.1.2 Financial Institutions - Education

VFIU has a responsibility of creating awareness and annually, VFIU educates the financial institutions on AML/CFT matters via its education program. Financial institutions enrolled for AML courses provided by the UNODC/VFIU Training Centre or VFIU conducted specific training modules with financial institutions.

A total of 36 staff from the financial institutions enrolled for the UNODC/VFIU Training Program.

VFIU conducted some 3 sector-wide compliance workshops in the reviewed period.

Photo: FIU Manager (right), during a certificate presentation ceremony to a law enforcement officer at the Vanuatu Police Station.



Year	Workshop
2010	AML/CFT Risk Assessment Workshop, VFSC, 15-19 November
2012	AML/CFT Risk Assessment Workshop, Warwick Le Lagoon, 13- 14 August
	Internal Procedural Write Up Workshop, Warwick Le Lagoon, 16-17 August

Source: VFIU

Attendees in these compliance workshops were from the insurance sector, real estate sector, vehicle dealership sector, trust and company service provider sector and credit union sector.

4.1.3 AML/CFT Public Awareness

VFIU also provide awareness to the public on matters relating to money laundering and financing of terrorism.

In 2010-12, VFIU issued 3 media releases on scams, conducted 4 public awareness's to schools around Efate and presented at the Vanuatu law week in August 2012.

4.1.4 Financial Institution - Guidance

The VFIU regularly issue guidance to implementing financial institutions to facilitate compliance with the FTR Act.

VFIU has conducted guidance workshops and meetings to assist financial institutions on their compliance implementation. In addition, VFIU issued advisory notes to financial institutions on specific queries or issues arising during their implementation. VFIU issued 145 advisory notes to financial institutions ranging.

Table 9.0 FIU Compliance Meetings with FIs

Month & Year	Description	Participants
March 2010	One-on-one compliance meeting with commercial banks	1
July 2010	One-on-one compliance meeting with commercial banks	1
August 2010	One-on-one compliance meeting with commercial banks	1
November 2010	Risk Assessment meeting with Insurance, Money remitters & Accountants reps	3
April 2011	Cash Transactions Reporting Refresher Training with commercial banks	3
August 2011	Banking industry quarterly meetings	4
January 2012	Compliance Meetings	4
April 2012	Customer Identification and Verification	1
September 2012	STR reporting	1

Source: VFIU

4.2 Improving Compliance with FTRA

VFIU is responsible to ensure financial institutions are, at all times, compliant with the FTR Act. It monitors the compliance level of financial institutions off-site and on-site. Any compliance concerns are promptly raised with the financial institution. Alternately, VFIU enforced any compliance breach identified and may hold financial institutions liable for prosecution.

4.2.1 Compliance Monitoring

Under the VFIU supervisory/regulatory framework, annually, VFIU conducted its off-site monitoring or review of financial institutions' compliance level. In addition, VFIU conducts on-site review of financial institutions for specific concerns.

In the reviewed period, VFIU conducted off-site reviews on 350 financial institutions, raised 37 letters of compliance concerns and physically examined 9 financial institutions.

Year	Financial Institution	On-site examination type
2010	2 Domestic Banks	Joint & Comprehensive
	1 Trust & Company Service Provider	Comprehensive
	1 Accounting Firm	Follow-up
	1 Money Exchange	Follow-up
2011	2 Insurance Businesses	Joint & Comprehensive
	1 Money Remitter	Comprehensive
2012	2 Insurance Business	Joint & Comprehensive
	1 Accounting Firm	Comprehensive
	1 Trust & Company Service Provider	Specific

Source: VFIU

VFIU conducted several on-site examinations jointly with the Reserve Bank of Vanuatu and undertook the AML/CFT examinations.

4.2.2 Compliance Enforcement

The VFIU enforces compliance of financial institutions against the FTR Act. It issues steps to financial institutions to implement any compliance obligations and to produce written action plan in implementing these obligations.

In the reviewed period, VFIU issued enforcement notices to 336 financial institutions. Further, it has identified several breaches of the FTR Act with possibility of prosecution in the Courts.

Table 11.0 Compliance measures imposed on Financial Institutions

Year	Compliance Matter	Financial Institution Type Engaged	Compliance Received
2010-2011	<i>Appointment of Compliance officer</i>		
	✓	Casino	2
	✓	Accountants	2
	✓	Law Firms	3
	✓	Real Estate	4
	✓	Car Dealers	2
	✓	Insurance	3

	✓	Money Transfer Services	1
	✓	Credit Corporation	1
	✓	Trust & Companies Services Providers	1
2012	Internal Procedure & Policy on AML & CFT		
	✓	Insurance	2
	✓	Law Firm	2
	✓	Real Estate	3
	✓	Money Remitters & Money Exchange	2
	✓	Vehicle Dealership	8
	✓	Credit Corporation	1

Source: VFIU

Other matters also raised in the reviewed period as to be fully enforced by Financial Institutions are:

- Documentation of AML/CFT policies, processes and procedures;
- Staff AML/CFT training and awareness; and
- Establishment of AML/CFT audit system and AML/CFT Risk Management system.

Building and Strengthening Organizational Capacity

5.1 Organisation

5.1.1 Organisational Structure

Vanuatu FIU currently has 4 staff. In February 2010, the Attorney General appointed Mr Floyd Mera as Manager to the Vanuatu FIU and is responsible for the management and execution of the Vanuatu FIU's functions as set out in sections 13A and 13B of the FTR Act.

In addition, due to the vacant FIU Financial Analyst position, the Attorney General appointed Mr Josiah Kuatpen as the new Financial Analyst.

With the recent appointments, Vanuatu FIU has a dedicated manager to oversee its operation and improve its delivery of functions and powers.

5.1.2 Organisational Capacity Building

Due to the dynamic AML/CFT environment, in the three years Vanuatu FIU ensured it is kept abreast of the evolving AML/CFT forces and the international best practices.

FIU Officers attended several trainings and conferences to improve the Unit's capacity.

Table 12.0 FIU trainings and Conferences attended.

Training/Capacity Building Initiative	Date	Venue
Environmental Crime Workshop	22-26 February 2010	Sydney,
APG SIP Pilot Workshop	15-17 March 2010	Kuala Lumpur
AML/CFT Leadership Conference	21-23 June 2010	Kuala Lumpur
APG ME Assessor Workshop	23-27 August 2010	Singapore
Improving DNFBPs Compliance	8-11 March 2011	Brisbane
Revised FATF Standards	25-27 April 2012	Kuala Lumpur
Cross Border Movement of Cash	14-18 May 2012	Nuku'alofa
NPO Workshop	4-7 December 2012	Sydney

Source: VFIU

5.2 Processes

5.2.1 Quality of Reports

In ensuring all reports submitted to the VFIU are useful to the analysis process, various trainings were conducted with major financial institutions on report quality and consistency.

VFIU placed great reliance on appointed AML compliance officers within each financial institution to review and verify report details before submission to the VFIU.

In addition, amendments are currently drafted to be user-friendly and convenience to financial institutions. The new templates will be disseminated to financial institutions in early 2013.

5.2.2 VFIU Management Information System

VFIU has implemented an automated MIS database for its high volume of data received since 2007. The MIS has guaranteed enhanced data security and storage.

In 2013, the MIS will be further developed to enable direct electronic information submission. This will surely improve data efficiency in VFIU.

5.2.3 Official VFIU Website

The VFIU website was delayed since 2009 due to funding constraint until late 2012, with the kind financial support of the Office of the Chief Information Officer, VFIU was able to purchase necessary software to build its website.

Building work is currently under way and should be tested and launched in June 2013. The Website will contain necessary information and awareness on money laundering, financing of terrorism and other crimes for both the public and stakeholders particularly financial institutions.

5.3 Partner Agencies

The VFIU is required to establish agreements and arrangements with any assisting entity so to effectively and efficiently coordinate the sharing of information on AML/CFT issues.

In 2010, VFIU signed a Memorandum of Understanding with the Reserve Bank of Vanuatu. The MOU will enhance the sharing of information on their supervisory roles.

In 2012, VFIU signed a Memorandum of Understanding with the Vanuatu Police Force on 9 March. On 9 August, VFIU signed a Memorandum of Understanding with the Department of Customs and Inland Revenue. Both MOUs are to ensure better coordination of information sharing between VFIU and the two law enforcement agencies.



Signing of MOU:

Vanuatu FIU and Reserve Bank of Vanuatu, 2010

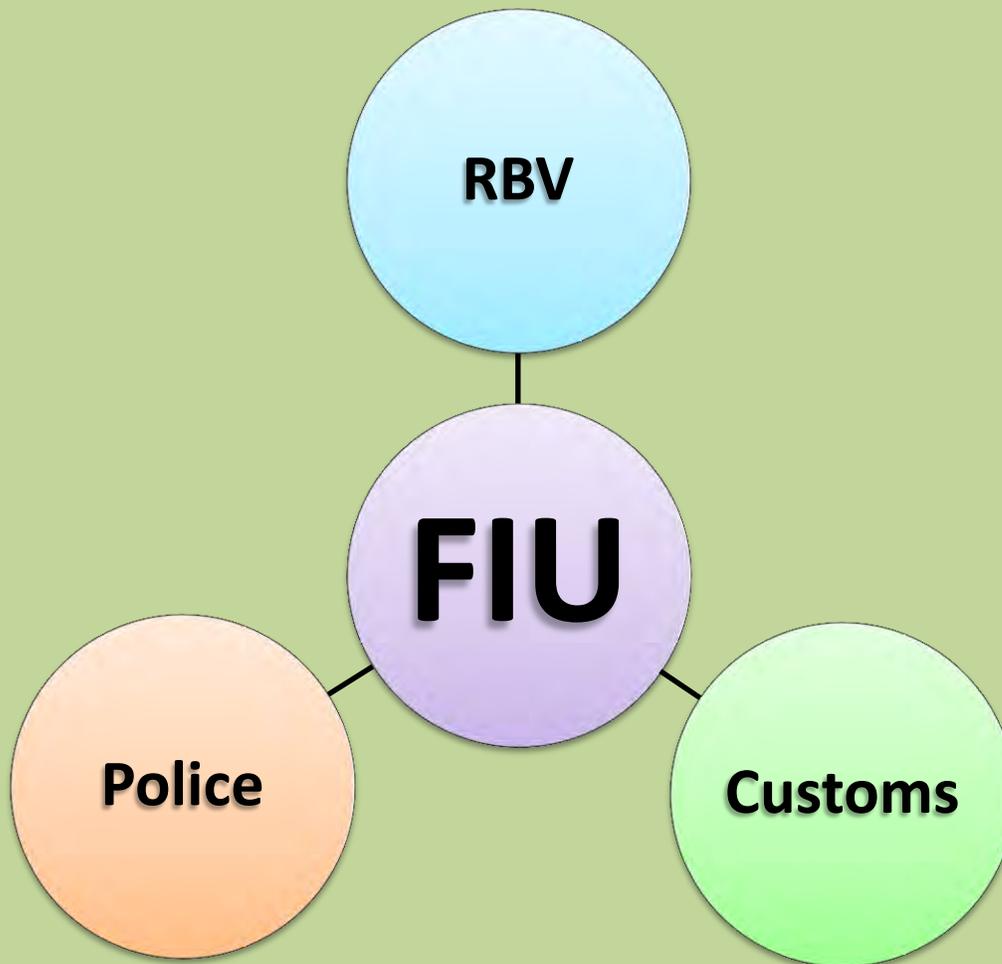
Signing of MOU:

Vanuatu FIU and Customs and Inland Revenue, 2012



Signing of MOU:

Vanuatu FIU and Vanuatu Police, 2012



Similarly, VFIU has signed several agreements with its overseas partners. In the same period, VFIU signed an Memorandum of Understanding with PNG FIU and Solomon Island FIU respectively. These MOUs further strengthen the sharing of information on transnational organised crimes and money laundering.

In 2011, the association of pacific island FIU was formally signed into existence and VFIU was a founding signatory.

Appendix

A. Strategic Analysis-Trend

The VFIU is required by the FTR Act to conduct research into trends and development in areas of money laundering and financing of terrorism.

Money Laundering Trends

Cyber Crime

Advance Fee Fraud (419 Fraud) – is a global cybercrime and is a continuous threat to Vanuatu. The VFIU has noted an increased participation of the general public in this scam. Victims usually receive unsolicited messages (traditionally via email, recently via SMS and postal letters) requesting help in transferring substantial funds. In return, the sender offers a commission. If responded to, the sender (scammer) would request that some funds be remitted to pay for costs associated with the funds transfer. When money are sent or information provided, the sender or scammer immediately disappear or use the information for another fraud activity.

Identity Fraud – Vanuatu recently experienced a surge of unsolicited email messages purportedly sent by local (Ni-Vanuatu) requesting financial assistance as he\she is stranded in a foreign country. VFIU noted that personal information may have been easily exposed by the identity victim, resulting in scammers obtaining such information and hacking into email accounts (public email providers).

Money Mule – in recent times, VFIU noted local participation as money mule in scams or fraudulent activities. Mules usually facilitated the transactions and remit the funds overseas to the scammers. Mules retain a 10-20% commission for facilitating the transactions.

Predicate Offence

Theft or obtaining money through false pretense, false statement – VFIU noted an increased trend in this offence where offenders pretending as government officials, RSE agents obtain money from the general public. VFIU also noted an increase in institutional theft or internal theft.

Tax Evasion – The VFIU continues to note trend of VAT evasion whereby businesses usually transact funds using employees' personal accounts to evade VAT obligation.

Corruption – VFIU noted a continuous increased trend on public office corruption or corruptible practices particularly, receiving of funds with no legitimate purpose.

Structuring – VFIU noted continuous attempts of customers wishing to establish business relationships with financial institution but refuses to complete the customer due diligence checks. The relationships were terminated but customers moves to the next financial institution.