SUMMARY

Seychelles
National Risk Assessment Report for
Money Laundering & Terrorist Financing
2017

Introduction

The National Risk Assessment (NRA) is a process of identifying and evaluating the Money Laundering and Terrorist Financing risks in a particular jurisdiction and analysing the main sources and drivers of the risks in order to develop effective and risk-based policies and actions, and allocate the available resources in the most efficient way to eliminate, control and mitigate the identified risks to Seychelles.

Seychelles undertook the task of conducting its first NRA in 2016, using a NRA methodology developed by the World Bank, as it prepared for the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Mutual Evaluation on the Financial Action Task Force (FATF) Recommendations and Compliance 2017.

Seychelles is committed to the implementation of the FATF Recommendations and is convinced that the NRA will give the country's policy-makers a clear and comprehensive view of the national risks to Money Laundering/Terrorist Financing (ML/TF) so as to inform the establishment of effective multi-agency mechanisms to coordinate local efforts to combat identified threats and vulnerabilities. Seychelles further views the NRA as a living document in that it provides the basis for continual updating and modifications to existing legislation and processes according to the changes in the existing ML/TF threats and vulnerabilities, as well as new emerging risks.

Objectives of the NRA

The objectives of the NRA include:

- Risk identification, and action plans including more efficient allocation of resources to mitigate those risks utilizing a Risk-Based Approach (RBA).
- To enable Government, Law Enforcement Agencies (LEAs), Regulators and the Private Sector to target their resource allocations to areas or services that present the highest risks and as such, ensure that actions taken by the same are informed especially in regards to the risks of Money Laundering and Terrorist Financing.
- Fulfilling Seychelles' obligation to adhere to the FATF standards and recommendations, one of which is recommendation 1 of 2012 'Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) Policies and coordination, Assessing risks &applying a RBA'; This being imperative as a Member of the ESAAMLG that is committed to implementing the FATF recommendations to combat ML/TF. Seychelles is also a member of the Egmont Group, which is an international group comprising of over 150 Financial Intelligence Units (FIUs) which works to promote international co-operation in Anti Money Laundering and Countering the Financing of Terrorism.
- Providing policy makers with a clear and comprehensive view of the national risks to ML/TF so as to inform the establishment of effective multi-agency mechanisms to coordinate local efforts to combat identified threats and vulnerabilities.

- Providing the basis for continual updating and modifications to existing legislation and processes according to the changes in the existing threats and vulnerabilities as well as new emerging risks.
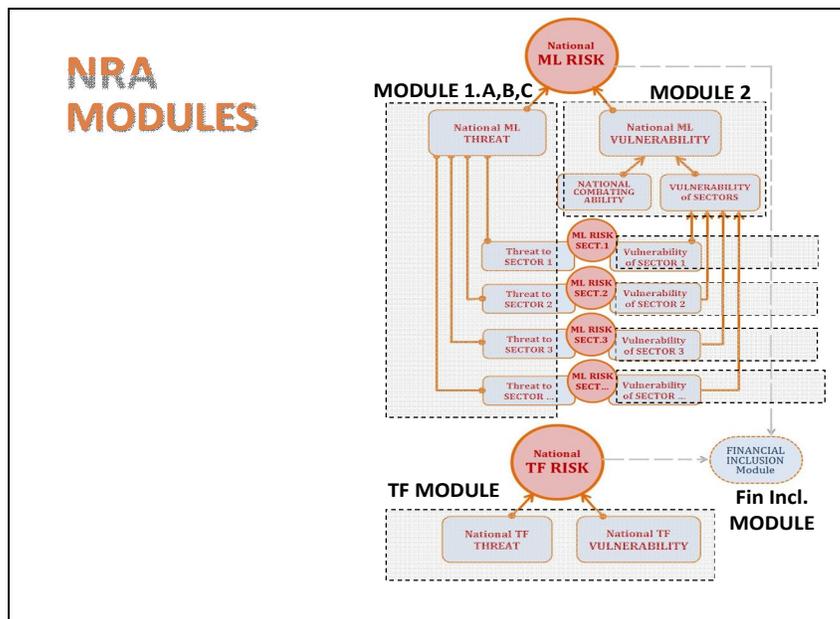
The NRA Process and Methodology

The NRA process consisted of three phases:

- Phase one which was preparation commencing in March 2015 and launch of the project (January 2016).
- Phase two being the collection of data, analysis and drafting of the report.
- Phase three i.e. finalization of the report with recommendations which are to be followed by a plan of action emanating from the NRA exercise.

The study relied on interviews and some surveys and the work groups were guided by the World Bank NRA methodology depicted in Figure 1.
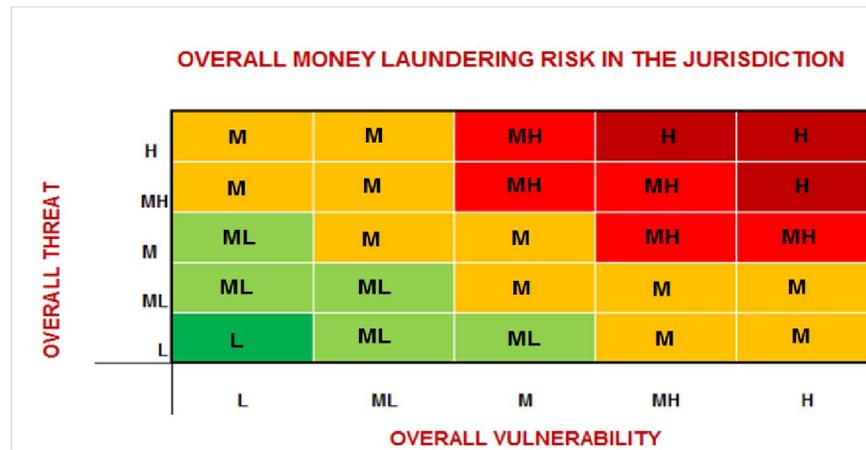
Figure 1: NRA Modules

Face to face interviews were conducted on a one-to one basis, with senior and technical personnel from the various sectors for clarification and elaboration of issues affecting the various sectors, and questionnaires/surveys were used in other instances using variables included within the World Bank methodology.

The NRA process involved six Working Groups, led by an assigned Leader under the overall coordination of a National Coordinator appointed by the Seychelles' FIU. The six groups were:

1. Threats & Vulnerabilities (Modules 1 & 2)
2. Offshore encompassing fiduciary services (Module 3) hereafter referred to as Non-Banking Financial (Offshore) and Fiduciary Services Providers (NBFFSP)
3. Banking (Module 4)
4. Designated Non-Financial Businesses and Professions (DNFBP)s –Module 5
5. Other Financials incl. Insurance (Module 6)
6. Terrorist Financing (Module 7)

In order to better identify and understand the risks at the sector level, work groups undertook assessments of organisations within their respective sectors (Banking, Securities, DNFBPs, and others), to gauge the levels of ML/TF threats, vulnerabilities and risks within the sectors and the overall risk rating of these sectors' potential ML/TF risks. Figure 2 shows the risk map for identifying the risk level, being a function of the threat and vulnerability assessments.

Figure 2: Risk map for identifying the risk level

Overall Assessment of Money Laundering Risk

Based on the NRA:
1. Overall threat of money laundering was rated as **Medium High** (MH)
2. Overall vulnerability to money laundering was rated as **Medium High** (MH)

From the risk map (Figure 2), therefore, the overall money laundering risk in the jurisdiction is **Medium High**.

Although there is the perception that the Seychelles' risk to ML should be high because Seychelles is predominantly an offshore jurisdiction, the working group concluded that

transactional element of the offshore does not occur through Seychelles and World Bank NRA methodology used in the assessment does not provide for an input on national risk of the facilitation of creation of entities and arrangements to launder money.

Overall Assessment of Terrorist Financing Risk

Based on the NRA:
1. Overall threat of TF has been assessed as **Low** (L)
2. Overall vulnerability to TF has been assessed as **Medium Low** (ML).

Accordingly from the risk-map (Figure 2), the TF risk level in the country can be rated as **Medium Low**.

Overview of the NRA Results

On the national ML threats and vulnerabilities (Modules 1 & 2), from the analysis of the threats assessment, it was found that the most prevalent predicate offences that generated illicit proceeds in Seychelles in the on-shore sector were found to be drug trafficking, tax related cases, fraud, and forgery. The level of threat posed by proceeds generated from crime was rated as **Medium High (MH)**, with Table 1 providing more information.

Table 1: Summary of Ratings for Predicate Offences

Predicate Offence	Rating	Basis
Drug trafficking	Medium High	The offence was rated as High risk but because of the mitigating factors that are in place in respect of drug trafficking such as a specific Authority investigating drug trafficking cases, the Medium High rating was given.
Corruption and bribery	Medium High	This is however not supported by statistical evidence put forward by LEAs.
Smuggling	Medium	The statistics provided by the LEAs on cases reported, investigated and prosecuted is insufficient to evidence this risk rating. The rating Medium is, therefore, allocated due to undocumented reports made and the capacity of the Competent Authorities to apply mitigating factors to prevent and detect this offence from occurring.
Theft	Low	From statistics provided by LEAs, petty theft is prevalent in Seychelles but this offence does not generate substantial proceeds of crime in comparison to other predicate offences.
Fraud/Counterfeit/Forgery	Low	The rating is based on statistics provided by LEAs in relation to financial services fraud.

Tax evasion	Medium High	It is perceived in Seychelles, that tax evasion is very prevalent. The statistics provided by Seychelles Revenue Commission is insufficient to determine whether this is a real issue for Seychelles. The perception is however supported by the statistics provided on the Suspicious Transaction Reports which show a prevalence of personal accounts being used for business purposes potentially as a mechanism to evade tax and large out of the norm cash transactions being paid by owners of legitimate businesses for purchase of other assets in Seychelles including land.

Module 3 examined the NBFFSP Sector where it found that within the Offshore Sector the vulnerability and threat of the overall ML risk for Seychelles Trust or Company Service Providers (CSPs) is considered to be **Medium High** and that the nature of the CSP business is prone to misuse by individuals for illegitimate purposes. The NRA assessment has exposed some critical points of concern. The sector poses certain probable risks and the NRA assessment has revealed that the Seychelles CSP sector is prudently regulated and supervised.

The Securities Sector was assessed as a sub section of the NBFFSP. The ML threat to the Securities Sector was assessed as **Medium Low**. This reflects the small size of the sector in Seychelles and the fact that there is strong and robust AML framework in place which appears to act as a deterrent to those wishing to launder criminal proceeds through the sector.

Assessment of Module 4 - With regards to the Banking Sector, the NRA revealed that a review of the existing laws and regulations in place in Seychelles, are mostly in line with the requirements of the FATF, specifically the AML Act (2006). An overall rating of **Medium** was given for ML risk, however, it was found that with regards to Compliance with International Standards variable a rating of **High** was given, while the Effectiveness of Supervision Procedures and Practices variable was rated **Medium Low** and the variable for Availability and Enforcement of Administrative Sanctions was rated as **Low.**

The Assessment of Module 5 - the DNFBPs (includes motor vehicle dealers, casino operators, real estate agents, lawyers and legal professionals, dealers of precious metals and stones, boat and yacht dealers, accountants/auditors) revealed that the domestic perception of the risk of ML within the DNFBP sector in Seychelles is **Medium High** amongst some of the entities. This is because most of the business activities are being conducted in cash, while internationally, Seychelles is perceived as a high-risk jurisdiction in terms of its reputation as an offshore haven, and this is reflected in the higher levels of scrutiny on transactions involving

Seychelles banks. In sum the overall threat of ML within the DNFBP sector has been assessed as **Medium High** and overall vulnerability to ML has been assessed as **Medium-High**.

The last Sector to be assessed for ML threats and vulnerabilities within the first part of this NRA is the Other Financial Institutions-- Module 6. The overall vulnerability of the Other Financial Institutions Sector has been considered to be **Medium High** in view of the highly cash intensive nature of activities in this sector such as buying and selling of foreign exchange and remittance activities. In general, as the sectors do not have the resources to put in place the necessary internal controls and resources to mitigate against ML and TF risks, this implies a high exposure to such risks.

Part 2 of the NRA assessed the TF threats and vulnerabilities at the National and Sectoral levels. Of note, the domestic perception of the risk of terrorism and of TF in Seychelles is low. There are no known terrorist groups or cells currently active in Seychelles and no entities domestically designated under the Prevention of Terrorism Regulations. Additionally, there are no known cases of funds generated in Seychelles being used to finance terrorism domestically or abroad, and no known cases of Seychellois foreign terrorist fighters. Internationally, Seychelles is also perceived as a low-risk jurisdiction in the terrorist financing context. From a geographical perspective, the main TF threat, if any, would most probably emanate from Somalia, Madagascar and Yemen where there is evidence of terrorism and deficiencies in AML/CFT emanating from a lack of robust institutional control. Controls are in place in Seychelles to mitigate these risks. Vigilance is, nevertheless, necessary as a precaution given developments in the region including the resurgence of Piracy.

RECOMMENDATIONS

ML/TF risk remains evident in many sectors of the business environment. Reasons cited include: a general lack of knowledge of AML/CFT issues on the part of the supervisors and accountable institutions; and ineffective enforcement of laws by the regulators and supervisors.

Based on the NRA findings, recommendations were made, which included the following, and for which detailed action plans have been prepared, to be implemented largely within one year:

- Reviewing existing law / Enacting new laws to be in line with international requirements. E.g. the AML Act and Financial Institutions Act to provide for administrative sanctions, Tackling the issue of information on ultimate beneficial ownership in the Companies Act, Modernizing the Associations Act especially with regards to supervision of the Non-Profit Organisations, Creation of an Accountancy body,
- Policy decisions to be taken as to the extent of involvement of regulatory bodies in AML/CFT activities, considering the constraints of FIU to reach all supervised

institutions e.g. some sectors onsite inspections have not been performed. FIU to review its scope of inspections in terms of widening its scope and depth of analysis;

- Set and implement standards e.g. minimum qualification to be a Compliance Officer;
- Reviewing the current data and information available to enhance risk assessment/ adherence to legal framework;
- LEAs, supervisory authorities and industry participants to build capacity/intensify ML/TF training for their staff, to allow for better understanding and appreciation of Money Laundering risks associated with the business which may enable faster detection of ML risk/threats;
- AML/CFT supervision needs to be strengthened through the adoption of a RBA;
- Increasing transparency and understanding on predicate offence to encourage filing of Suspicious Transaction Reports;
- FIU to update its policies, procedures and manuals for supervision in line with international best practice, and provide more support to the reporting entities;
- Formalising the AML/CFT Committee with highest level representation and greater involvement from the private sector.