

Lessons to be learned from Abacha

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Lessons to be learned from Abacha

- ▶ Sums withdrawn from Central Bank of Nigeria on instructions from General Sani Abacha between March 1994 and April 1998 "for security purposes":
 - cash US\$ 1,001,704,943
 - TTs 328,469,028
 - TCs 43,342,950
 - US\$ 1,373,516,921
 - plus £416,400,000
 - transfers to England, Switzerland, France and Jersey to banks and bureaux de change

Lessons to be learned from Abacha

- ▶ 23 Banks were investigated by the Financial Services Authority in the UK where accounts linked to the Abacha family members and close associates were identified. The FSA found:
 - 15 of the 23 banks investigated had "significant anti-money laundering control weaknesses"
 - 42 personal and corporate account relationships were linked to Abacha; the turnover on these accounts totalled US \$1.3 billion
 - 98 per cent of the US\$1.3 billion went through the 15 banks with significant control weaknesses

Lessons to be learned from Abacha

- ▶ Weaknesses identified by the FSA:
 - inadequate senior management oversight of the account opening process for customers who could be classified as higher risk;
 - ▶ Abacha, like any person wishing to launder funds, had difficulties in trusting advisers to handle large sums on his behalf;
 - ▶ how is it that he was able to establish accounts with such substantial deposits?

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- ▶ Deficiencies found by the FSA (cont)
 - weaknesses in the verification of the identify of beneficial owners of companies;
 - over reliance on introductions by existing customers;
 - inadequate understanding of the source of the customer's wealth – need to make proper use of existing business information;
 - remember Abacha's salary was US\$10,005 per annum!

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- ▶ Deficiencies identified by the FSA (cont'd)
 - shortfalls in following industry guidance on reporting suspicious transactions to the National Criminal Intelligence Service;
 - weaknesses in record retrieval and retention:
 - ▶ what needs to be recorded?
 - ▶ how long for?
 - ▶ criminal sanctions

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- ▶ Section 150 of the Financial Services and Markets Act 2000 gives victims of money laundering the statutory right to sue for losses resulting from a breach of the FSA's rule
- ▶ On the basis that 98 per cent of the US \$1.3 billion Abacha moneys was sent to accounts with 15 banks, that is an average of US \$85 million for each bank!
- ▶ Can your organisation afford to pay US\$85 million to a victim of money laundering because the organisation failed to have in place adequate money laundering systems and control?

What needs to be done?

- ▶ The Basel Committee Customer Due Diligence Paper (published October 2001) and the draft Third EU Money Laundering Directive defines Politically Exposed Persons ("PEPs") as *"natural persons who are or have been entrusted with prominent public functions and whose substantial or complex financial or business transactions may represent an enhanced money laundering risk and close family members or close associates of such persons"*.
- ▶ PEPs need to be put into higher-risk category, taking a risk-based approach
- ▶ Problems of identifying PEPs, their official family, close associates and businesses (incorporated or unincorporated) with which they have a relationship

What needs to be done? (cont)

- ▶ Additional due diligence to include:
 - appropriate risk management systems to determine whether a customer is or has become a PEP: essential to have written policy and to follow that;
 - obtain senior management approval for establishing or maintaining business relationships with such customers;
 - taking reasonable measures to establish the source of wealth and source of funds of such customers;
 - conducting enhanced ongoing monitoring of a business relationship with such customers.

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