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Financial Intelligence
Unit of Latvia

KLEPTOTRACE TRAINING

Early-detection of high-level corruption schemes as part of EU banks' AML/CFT due diligence

February 25

ANTI-CORRUPTION OBJECTIVES IN ANTI-MONEY LAUNDERING ACTIVITIES: The perspective of a Financial and Insurance Intermediary

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February, 25th 2025

FINANCIAL CRIMES INTERRELATIONS

- Financial crimes are not isolated incidents; they form a complex network of illicit activities that undermine the integrity of financial systems and erode public trust.

MONEY
LAUNDERING

CORRUPTION

SANCTIONS



Corruption is both a **cause**
and a **consequence** of financial crimes.

GOVERNANCE IN GENERALI

GAFC is organized with both “vertical” and “horizontal” units to provide focused support and guidance to the **global network** and to develop effective **strategies, methodologies and tools** to combat the interconnected nature of these crimes.



THE MAGNITSKY CASE

The **Magnitsky case** revolves around Sergei Magnitsky, a Russian tax advisor who uncovered in 2008 a **massive tax fraud scheme** involving Russian officials.

Key events leading to the scandal

- **Uncovering Fraud: embezzled \$230 million from the Russian Treasury**
- **Magnitsky Arrested and Imprisoned, died in custody.**
- A significant portion of the money **was transferred to Switzerland**, where it **was subject to investigations and seizures.**
- Part of the funds **was laundered** through a Russian company, and its subsidiaries, which were **prosecuted in New York.**
- The case led to **international sanctions** against Russian officials.
- **Swiss Investigation:** Switzerland froze 18 million francs in accounts of three Russian citizens but only confiscated 4 million. **The rest of the funds were returned to the account holders.**
- The investigation was criticized for **lack of transparency** and for ties between Swiss and Russian officials. The decision to return the funds was contested by international experts
- The U.S. Helsinki Commission **called for sanctions against the involved Swiss officials.**

- **International Response: Magnitsky Act by the United States** in 2012 imposes **sanctions on individuals involved in human rights abuses and corruption**, barring them from entering the U.S. and using its banking system
- **Global Impact:** The Magnitsky Act **has inspired similar legislation** in other countries (e.g., Latvia)

Lessons learnt

- **Importance of Transparency**
- **International Cooperation to track illicit funds**
- **Targeted Sanctions**
- **Robust Legal Frameworks & enforcement mechanisms**
- **Whistleblower Protection**

THE IMPORTANCE OF STANDARDS & COMMON OBJECTIVES

Corruption and money laundering are intrinsically linked. A proper **culture of compliance with AML/CFT standards** creates an environment in which it **is more difficult for corruption** to thrive undetected and unpunished. Anti-money laundering (**AML**) and counter-terrorist financing (**CFT**) **measures** are powerful **tools** that are effective in the **fight against corruption**.

Advantages

By effectively implementing standards (FATF) the countries can:

- **better safeguard the integrity of the public sector**
- **protect private sector institutions**
- **increase transparency of the financial system**
- **facilitate the detection, investigation and prosecution of corruption and money laundering, and the recovery of stolen assets**

Common Objectives

Effective **AML programs** can help detect and prevent **corrupt activities** by identifying suspicious transactions and patterns

- **Synergies between AML and Anti-Corruption**
- **Regulatory Frameworks**
- **Risk Assessment**
- **Internal Controls, Procedures, Training**
- **Continuous Dialogue and Cooperation**

GENERALI GROUP RISK APPETITE FRAMEWORK



**ZERO TOLERANCE APPROACH
TOWARDS FINANCIAL CRIMES**

**DOING BUSINESS IN AN HONEST
AND ETHICAL MANNER**

**THIRD PARTY ENGAGING
EXCLUDED HIGH-RISK PROFILE**

EMPLOYEES AWARENESS

**INTERRILATED RISKS TO BE CONSIDERED DURING THE DUE DILIGENCE PROCESS OF CLIENTS AND
COUNTER PARTIES TO PREVENT, DETECT AND REACT TO SAID RISKS**



RISK FACTORS

Geography

COUNTRY



ADVERSE MEDIA



Client/counter party

**UNCLEAR OWNERSHIP
STRUCURE**



PEP RELATIONSHIP

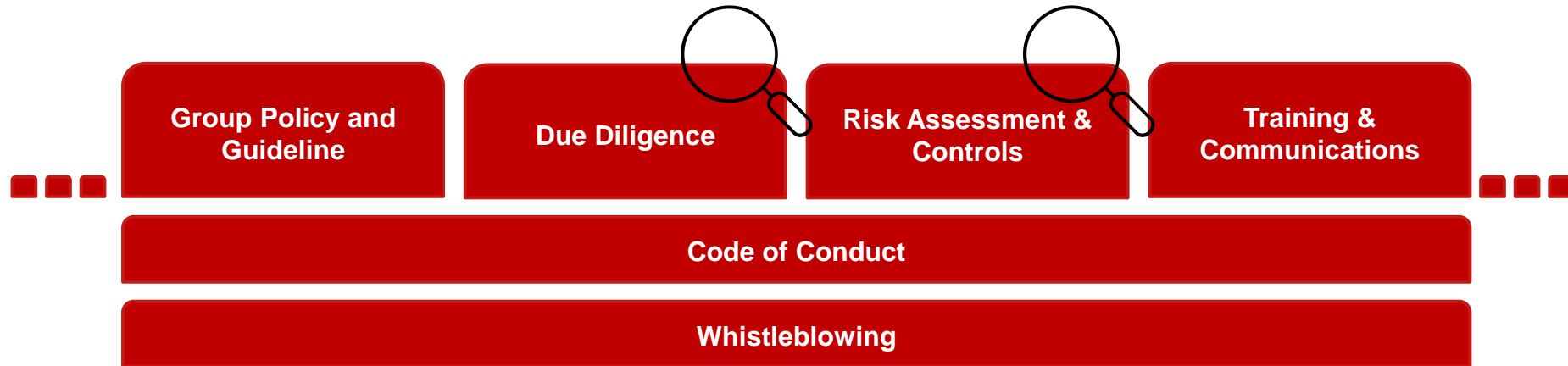


NOT EXHAUSTIVE



GENERALI GROUP AFC PROGRAM (1/4)

Corruption detected through a robust AFC framework, where controls and presidia holistically detect AFC risks for their prompt mitigation



NOT EXHAUSTIVE

GENERALI GROUP AFC PROGRAM (2/4)

Due Diligence

Due Diligence

Data collected and risk factors measured through supporting tools (Screening, Transactions Monitoring, Client Risk Rating, etc) to **calibrate the depth/frequency of Due Diligence (DD) according to the detected risks (risk-based approach)**

DD Form

The diagram shows a rectangular box representing a 'DD Form'. Inside the box, there are four rows, each consisting of a small square icon on the left and a horizontal line representing an input field on the right. Three red arrows point from the right side of the box to the text descriptions of the tools used for each row.

Screening tool, with heterogenous lists detecting PEPs, adverse media, sanctioned parties, etc

Red Flags identification, also via **Transaction Monitoring tool**

Country Risk, from ML, B&C and Sanctions perspective

Customer Risk Rating tool outputting the customer profile from FinCrime perspective, **based on which the depth/frequency of Due Diligence is determined**

High Risk



Low Risk

Enhanced Due Diligence

Standard Due Diligence

Simplified Due Diligence

GENERALI GROUP AFC PROGRAM (3/4)

Due Diligence – Focus on PEPs

Due Diligence

Politically Exposed Persons (PEPs) may conceal funds or assets that have been misappropriated through the abuse of their official position resulting **from bribery or corruption**

PEPs are subject to **Enhanced Due Diligence measures** to investigate the entailed risks

PEP Form

A diagram of a PEP Form represented as a large grey rectangle. Inside, there are four rows, each consisting of a small square box on the left and a horizontal line on the right, representing input fields.

→ **Source of Wealth, Source of Funds and Destination of Funds**

→ **Adverse media (aka Negative News) screening**

→ **Family members and RCAs identification**

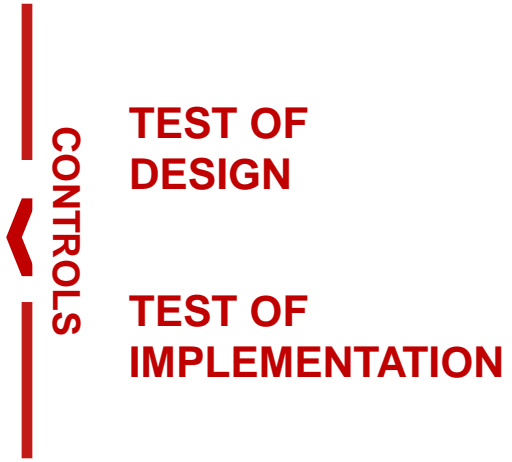
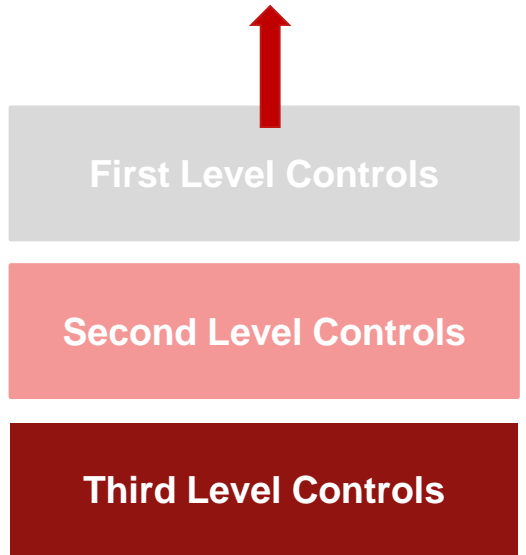
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GENERALI GROUP AFC PROGRAM (4/4)

Risk Assessment & Controls

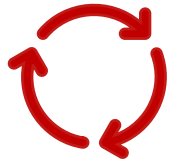
Risk Assessment & Controls

RISK ASSESSMENT



.... (not exhaustive)

CLOSING MESSAGES



Interrelated view of these pillars (ABC/AML/SANCTIONS) to ensure effective and **prudential actions** to jointly fight financial crimes



Let`s be “**Partner in Anti-Financial Crime**” with all stakeholders, sharing the **responsibility to act with integrity**





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Strategic CCG

Indicators of Corruption and Case Analysis

Anna Jonikāne

Deputy Head of Strategic and Tactical Analysis Division, FIU Latvia
25 February 2025



Latvian PPP: Distinctive Elements

1. Precise and efficient **legal basis** since 2018 (Article 55 AML/CFT/CFP Law).
1. One **central authority** in charge of the PPP – FIU Latvia. Dedicated authorised person/department within FIU. Dedicated virtual platform.
2. Membership **flexibility**:
 1. FIU Latvia;
 2. Any law enforcement authority;
 3. Any public prosecutor;
 4. Any supervisory authority;
 5. Any reporting entity;
 6. Tax authority (incl. Customs)
3. **Efficiency**: PPP meetings can be convened within an hour.
4. Supports **operational** exchanges, **strategic** intelligence co-development, **feedback** meetings.



PPP Outputs of the Strategic Analysis

Indicators of Russia-Related Sanctions Evasion. Available [here](#).

Experts from FIU Latvia, the Prosecutor's Office, the State Security Service, the Bank of Latvia, the State Revenue Service, and five Latvian credit institutions.



Indicators, Typologies and Case Studies of Tax Offences.

Experts from FIU Latvia, the Prosecutor's Office, the State Security Service, and four Latvian credit institutions.

The document is not publicly available.

Indicators of Corruption and Case Analysis. Available [here](#).

Experts from FIU Latvia, the Prosecutor's Office, the Corruption Prevention and Combating Bureau, and four Latvian credit institutions.



Latvian PPP on Indicators of Corruption and Money Laundering



Background of the PPP working group:

- Risk-based approach: NRA conclusions (2nd risk profile);
- Recommendations provided by the FATF (February 2020);
- National Action Plan on the Prevention of Money Laundering, Terrorist Financing and Proliferation Financing 2020-2022.

Participants of the PPP working group:

- FIU Latvia;
- Corruption Prevention and Combating Bureau (CPCB) – law enforcement agency;
- Prosecutor General's Office;
- 4 largest credit institutions in Latvia with the largest exposure to PEPs.

Main goals of the PPP working group:

- promoting common understanding of indicators of corruption and consequent money laundering;
- developing a material defining risk indicators and/or typologies of corruption and money laundering.*

Material «Indicators of Corruption and Case Analysis». Available: <https://www.fid.gov.lv/uploads/files/2021/korupcijas%20materija%20analize%20INDICATORS%20OF%20CORRUPTION%20AND%20CASE%20ANALYSIS.pdf>

Material «Indicators of Corruption and Case Analysis»

Chapter 1:

Indicators that may indicate corruption and case studies: from the perspective of foreign and international organizations:

The following reports were considered:

- Egmont Group “FIU Tools and Practices for Investigating Laundering of the Proceeds of Corruption”;
- FATF «Laundering the Proceeds of Corruption»;
- OECD «Typologies on the Role of Intermediaries in International Business Transactions».

Chapter 2:

Indicators that may indicate corruption and case studies: corruption cases detected in Latvia:

- Corruption-related risk scenarios in the banks;
- Indicators from FIU reports disseminated to CPCB in previous years;
- Indicators identified by the CPCB (not originating in FIU disseminations);
- Indicators identified by the Prosecutor General’s Office (incl. established case-law).

Indicators are split in 3 main groups:

- public procurement;
- foreign bribery;
- suspicious transactions involving PEPs or other government officials (e.g. unexplained wealth).

Excerpts from the material

Public procurement

Case study: No 1

- In a short period of time company A has won three procurements of the same public body as the sole applicant.
- Procurement procedures are carried out with the support of the EU Cohesion Fund.
- The total amount of payments received from municipal companies is several million EUR.
- One of the members of the management board of the procurement commissioning public body is also the owner of the main business partner of company A - company B.

Suspicious identified:

- Company A is the only applicant / winner in the procurements of one contracting authority in a short period of time, which raises suspicions of corruption.
- Further movement of company A's funds consists of payments, some of which had been made without a logical economic and/or legal justification, possibly in order to artificially increase the prices of projects.
- The company B, which is related to the procurement winner, has withdrawn a large amount of funds from the company's account.

Excerpts from the material

Foreign bribery

Case study: No 2

- The account in a Latvian credit institution is owned by an offshore company and has been used to launder funds obtained by two PEPs from a country with a high corruption risk.
- The activity in the credit institution's account indicates ML stages of layering and integration:
 - (1) The funds are transferred between different jurisdictions without an obvious economic basis;
 - (2) The funds are transferred between the various companies under the control of the two foreign PEPs;
 - (3) The funds are converted into other assets (loan to an offshore company, purchase of securities).

Suspicious identified:

- The company's UBO is a former high-level government official.
- Transactions to the company's account were not characteristic to the company's economic activity.
- Part of funds from the company's account were related to a fictitious loan agreement.
- There were inconsistencies in the explanations regarding the flow of funds.
- There was publicly available information about U.S. law enforcement investigations into bribery of U.S. companies involving the mentioned offshore company.



Excerpts from the material

Suspicious transactions involving PEPs (unexplained wealth)

Case study No 3

- A government official has transferred large sums to a family member's account in a short period of time, defining it as a 'loan', a 'loan repayment' and a 'gift'.
- The official is authorized to handle this family member's account. It is not used for everyday purposes, but only to accumulate these funds.

Suspicious identified:

- The CPCB has already initiated criminal proceedings against the mentioned official.
- During the three-year period, the official had received a salary from the municipality and the municipal company, which do not generate as much money as the mentioned transfers to the family member's account.
- Another member of the official's family was the former head of the relevant municipal office.
- No other official income is declared to the tax authority.

Conclusions

- Corruption indicators defined from corruption cases in Latvia largely comply with the ones defined globally.
- Corruption risk controls set by credit institutions largely comply with the globally and locally defined corruption risk indicators (lower monitoring thresholds for PEPs, extra attention on public procurement winners and others).
- Due to Latvia's former status as a regional financial centre, foreign bribery has been a crucial form of corruption (and to a smaller extent still is) detectable in Latvia .
- Obligated entities are especially interested in indicators they have not identified themselves – Corruption Prevention and Combating Bureau's cases not coming from FIU or indicators identified by other obliged entities or institutions. That shows new ways to improve internal controls.
- Organising PPP working groups and creating a common material means increased collaboration, information exchange and relationship strengthening – of a key importance in corruption prevention as well as combating crime in general.



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From Financial Intelligence to foreign corruption Case Study

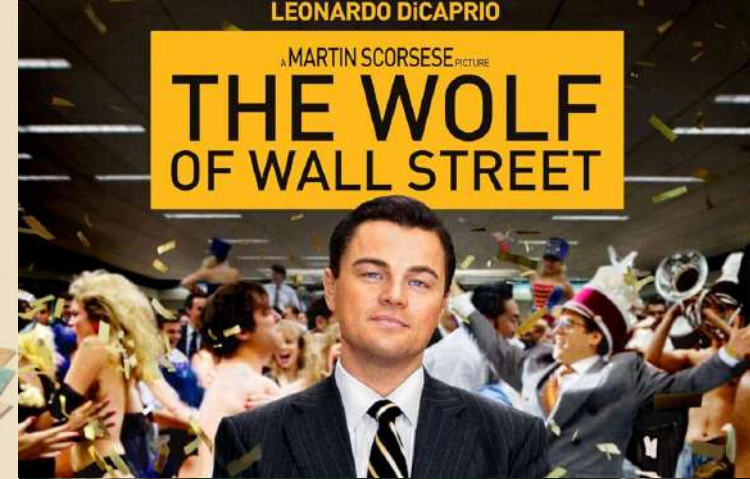
Riga, Latvia
25 February 2025

Edgars Zadiņš
Transaction analyst of 1st Financial Division, FIU Latvia



Content

- 1 FIU Latvia: role, goals, core functions
- 2 Financial Intelligence and Freezing of Illegally Acquired Funds
- 3 Cooperation between FIU Latvia and LEAs



O Ż A R K

Key priorities of FIU Latvia

Risk-based approach

Our work follows a risk-based approach, ensuring that high-risk cases receive immediate attention. Upon receiving new information about a possible criminal offense FIU Latvia initiate operational analysis.

I



Proceeds Generated from Criminal Offences Committed Abroad

II

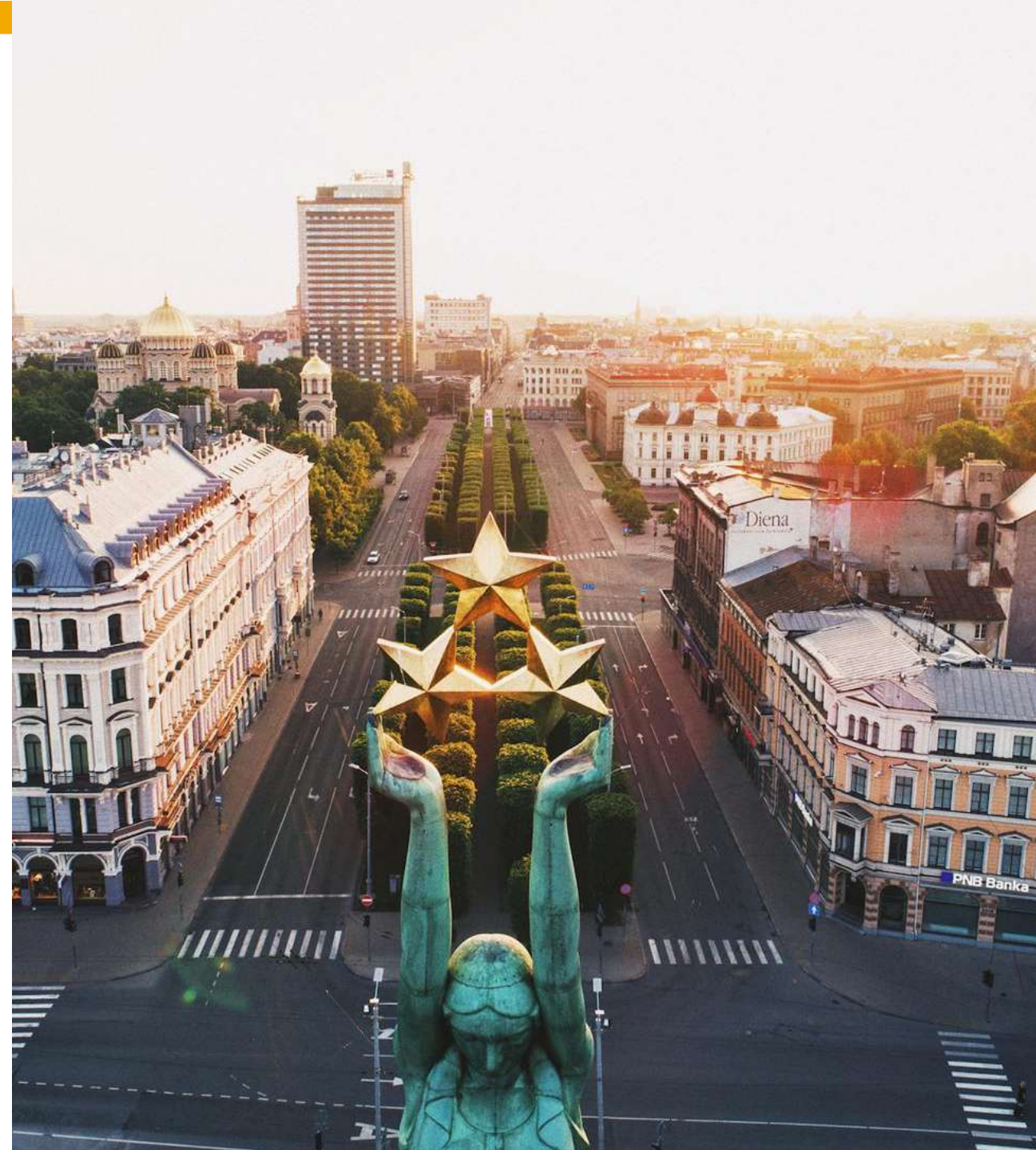


Proceeds Generated from Domestic Crime

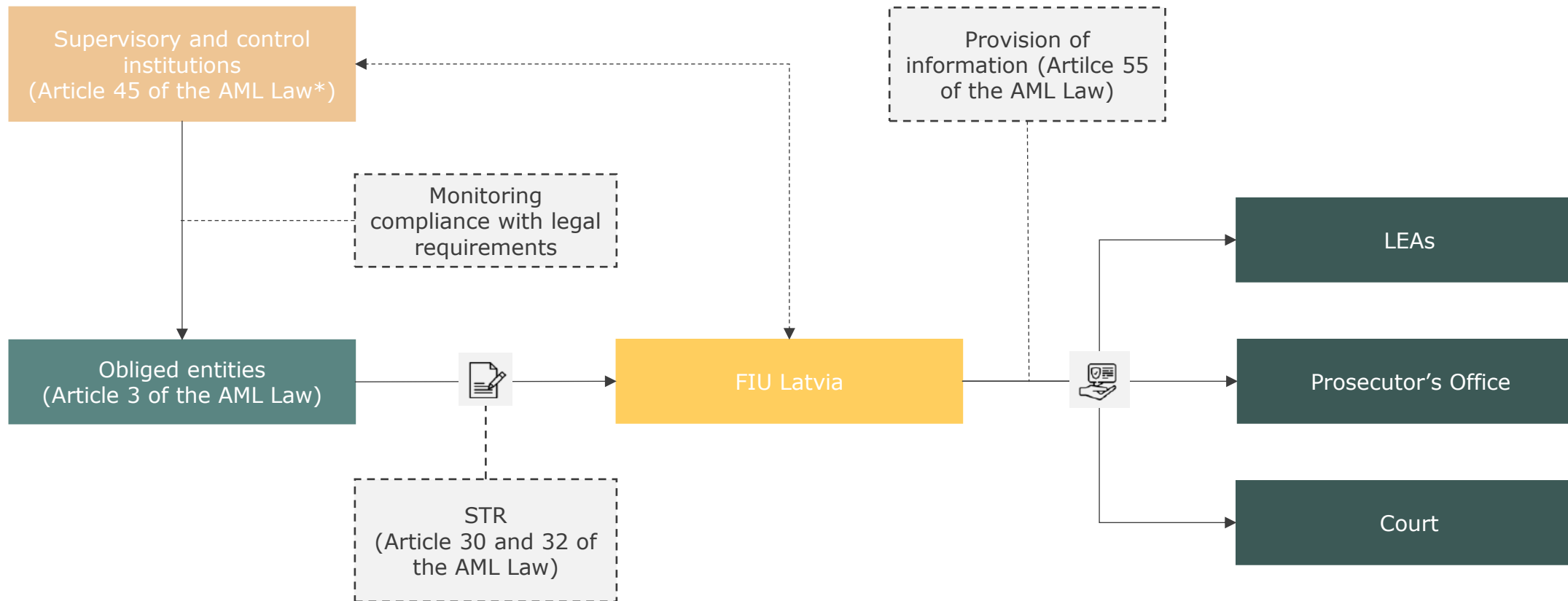
III



Foreign Criminal Offences

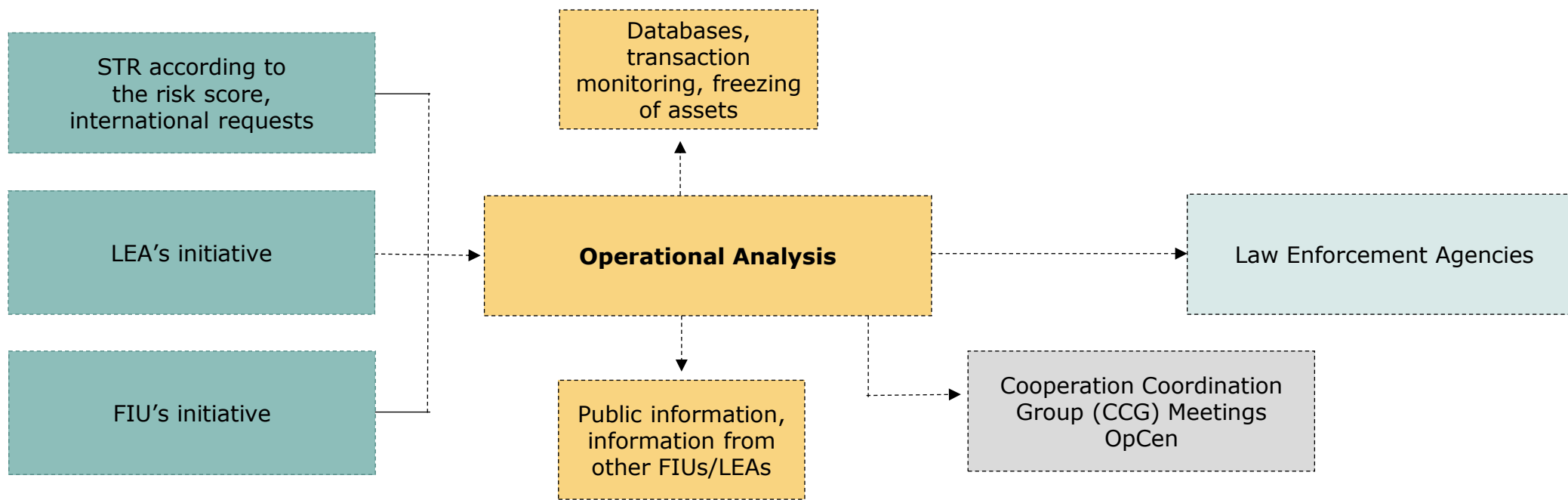
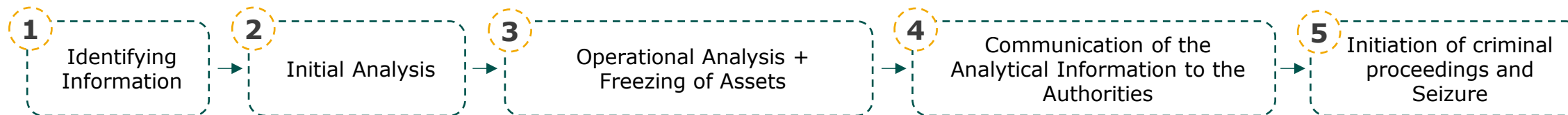


Architecture of the AML/CFT/CFP system



Financial Intelligence and Freezing of Illegally Acquired Funds

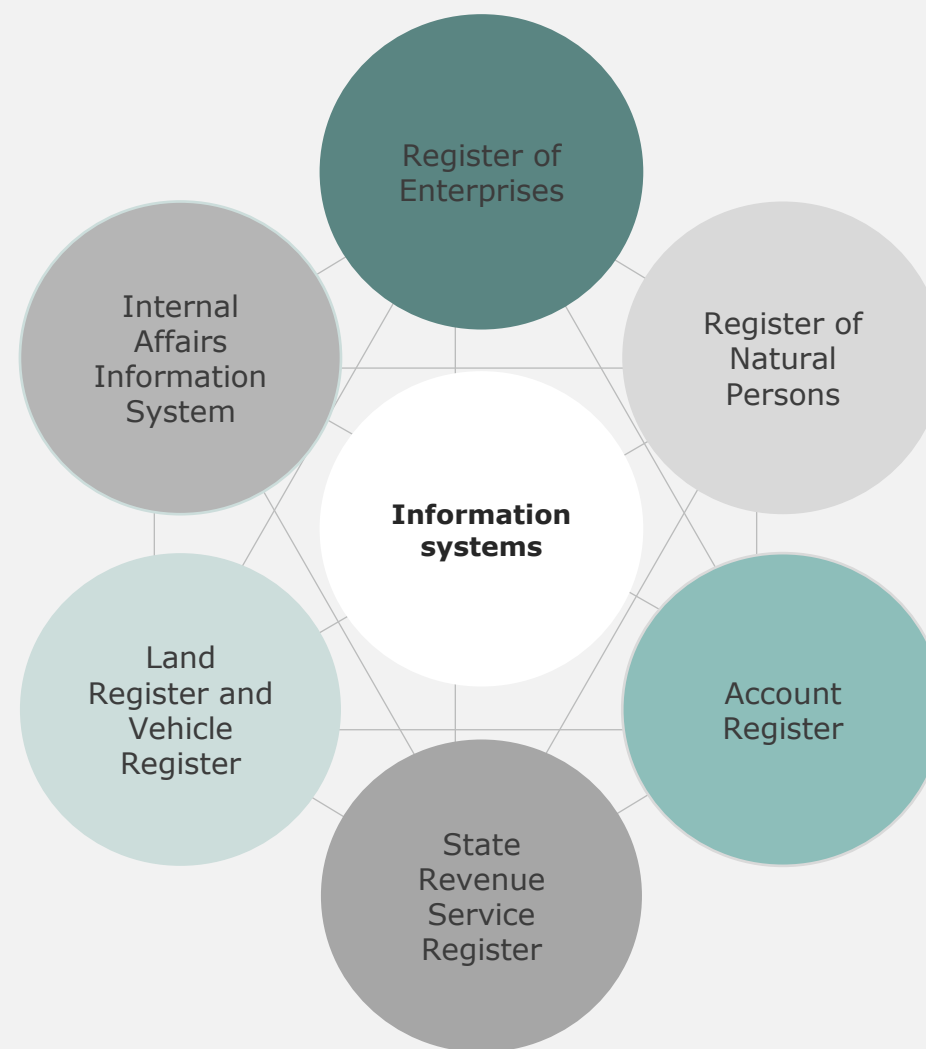
Operational Analysis



Financial Intelligence

Operational analysis

1. Suspicious transaction report (STR) on refraining from executing a transaction – reasonable suspicions
2. Preliminary analysis (account statements, supporting documents, grounds for reasonable suspicion)
3. FIU databases (goAML), TRM Labs, Open source intelligence (OSINT), and other information systems
4. i2 Analyst's Notebook and Tableau – visualization of transaction schemes
5. Obtaining information from other reporting entities and FIUs
6. Internal meetings – temporary freezing order /or order to end refraining from executing a transaction
7. Dissemination to LEA, prosecutor's office



Information disseminated to LEAs

1 Conclusion of the competent authority: the FIU report to LEA or Prosecutor's Office (to initiate a criminal proceedings, which can be used as evidence). This information raises **reasonable suspicions** that the person has committed a criminal offence, including ML/TPF.

2 Risk information reports: the FIU report to LEA or Prosecutor's Office for use within their competence. In specific cases, criminal proceedings also can be initiated.

3 Additional information reports: the FIU provides supplementary reports to LEA or the Prosecutor's Office (within already initiated criminal proceedings – ongoing cases). These reports contain information related to previously disseminated Conclusion of the competent authority.



Freezing of funds

The FIU Latvia has the power to issue freezing orders in the financial intelligence process:

- after receipt of the STR on refraining from executing a transaction
- upon its own initiative
- upon a request of foreign authorized institutions

Orders shall be applicable to: proceeds of crime, including property, financial instruments or other assets that has originated by converting proceeds of crime into other valuables.



Stand-alone Money Laundering

- According to **Article 124(7)** of the Criminal Procedure Law: ML investigations may be conducted autonomously, namely, to prove ML **it is not necessary to prove from which specific crime the funds have been acquired.**
- Explanation of the Supreme Court that this provision applies to cases where a person is accused only of ML and **the predicate offense is not known.**
- The criminal offence according to **Article 195** of the Criminal Law can be investigated as a stand-alone ML, based on **circumstantial evidence pointing to the criminal origin of the assets**, the typologies and the indicators of the ML, as well as the **person's inability to prove the legal origin of the assets.**



Confiscation in Stand-alone ML cases

- Assets can be **confiscated** as criminally acquired if:
 - the totality of evidence provides grounds that a property is, most likely, of criminal origin
 - person involved in criminal proceedings is not able to explain the legality of origin of the relevant asset (funds, property etc.)

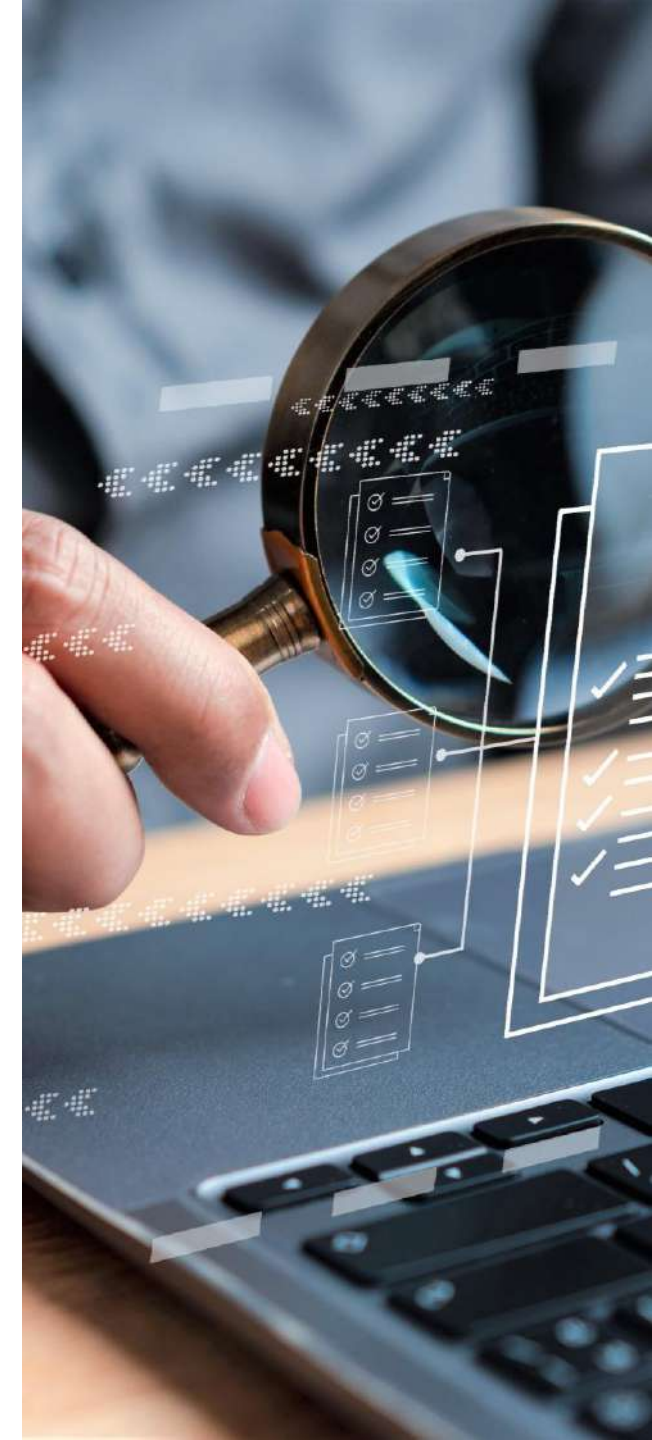
The **source of funds** in the majority of disseminated stand-alone cases is related to money flows from the Russian Federation, Belarus, Ukraine or other CIS countries where it is impossible to identify the predicate offence, and there is a possibility that these countries those crimes might not investigate.





Financial Intelligence
Unit of Latvia

Cooperation between **FIU Latvia** and **LEAs**

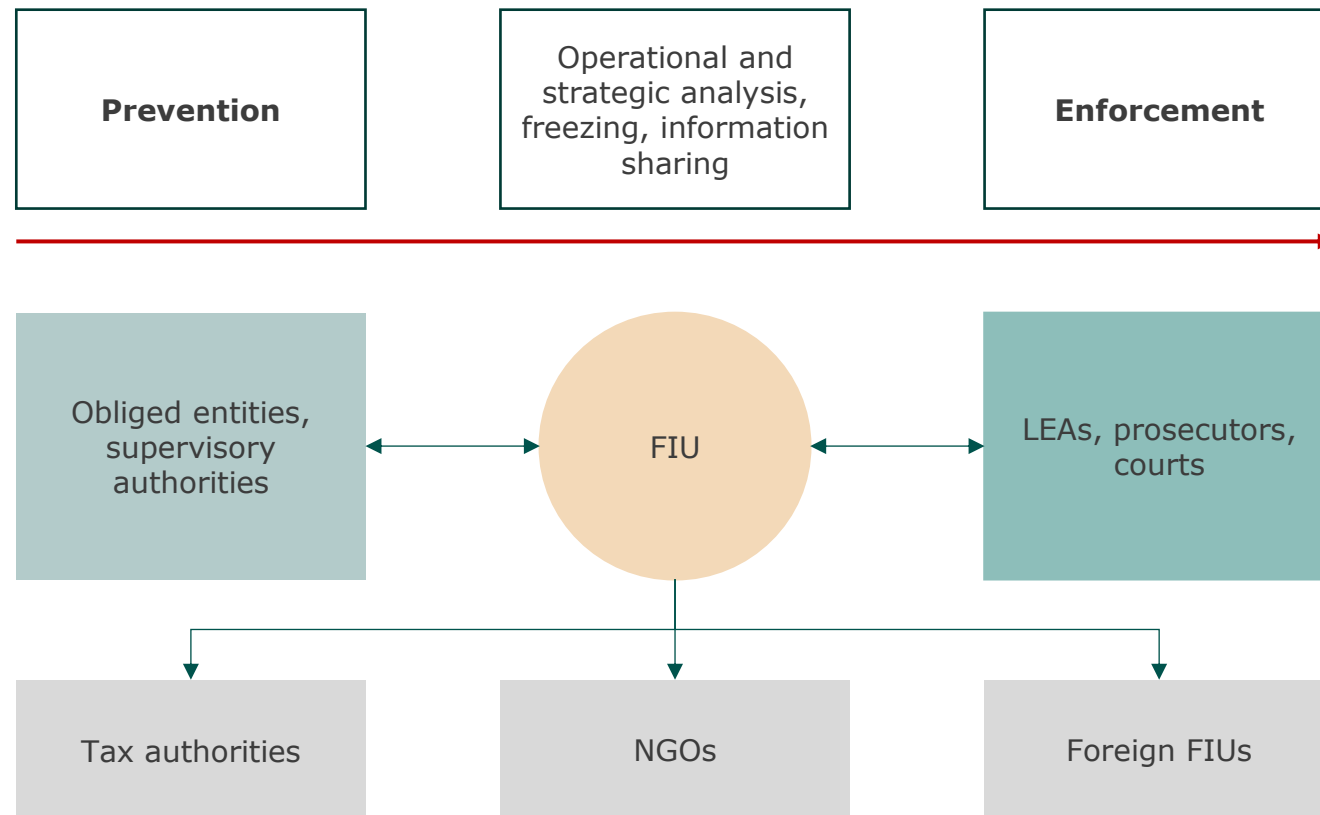


PPP in Latvia – cooperation coordination group (CCG)

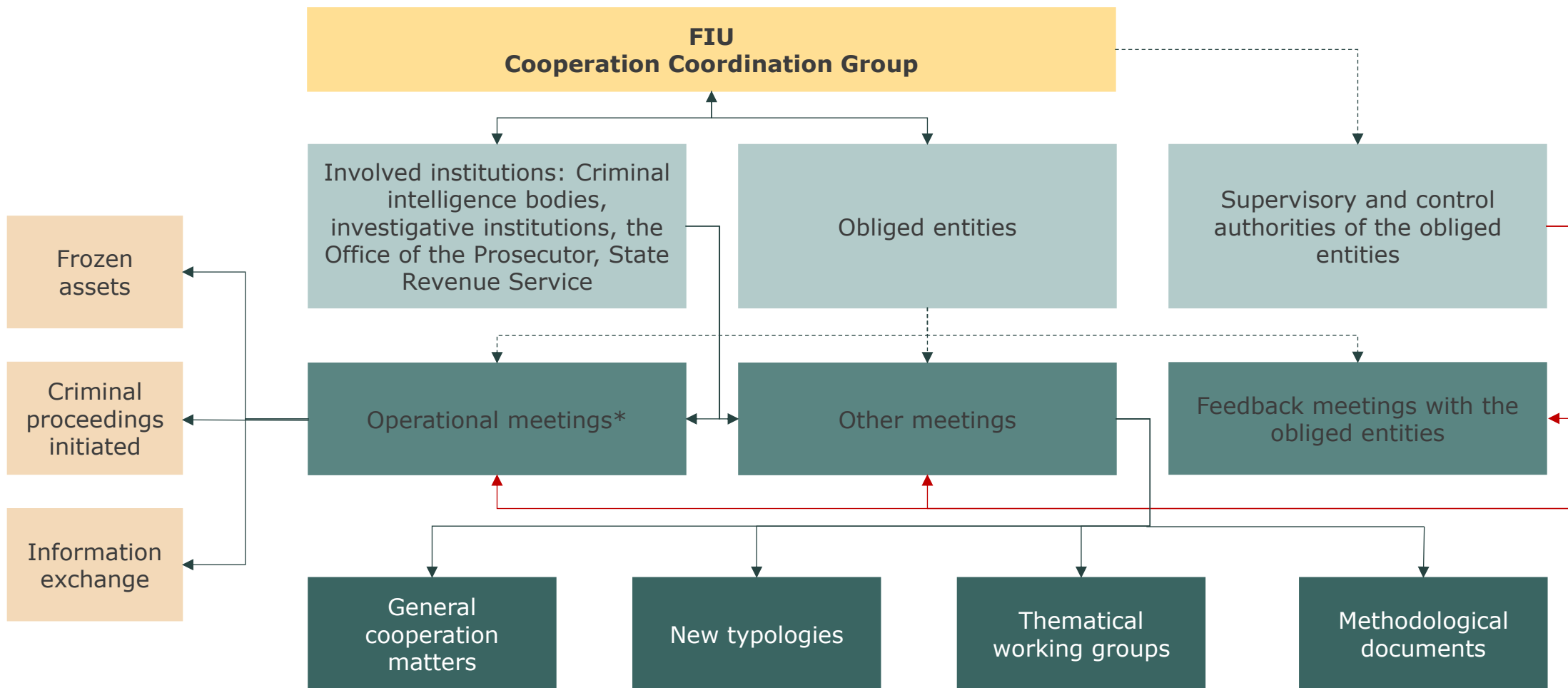
- Based on a precise and efficient legislative framework (Article 55 AML Law)
- Defined membership
- Supports both **tactical exchanges** and strategic intelligence co-development

Types of CCG meetings:

- Meetings in operational cases
- Feedback meetings
- Strategic meetings

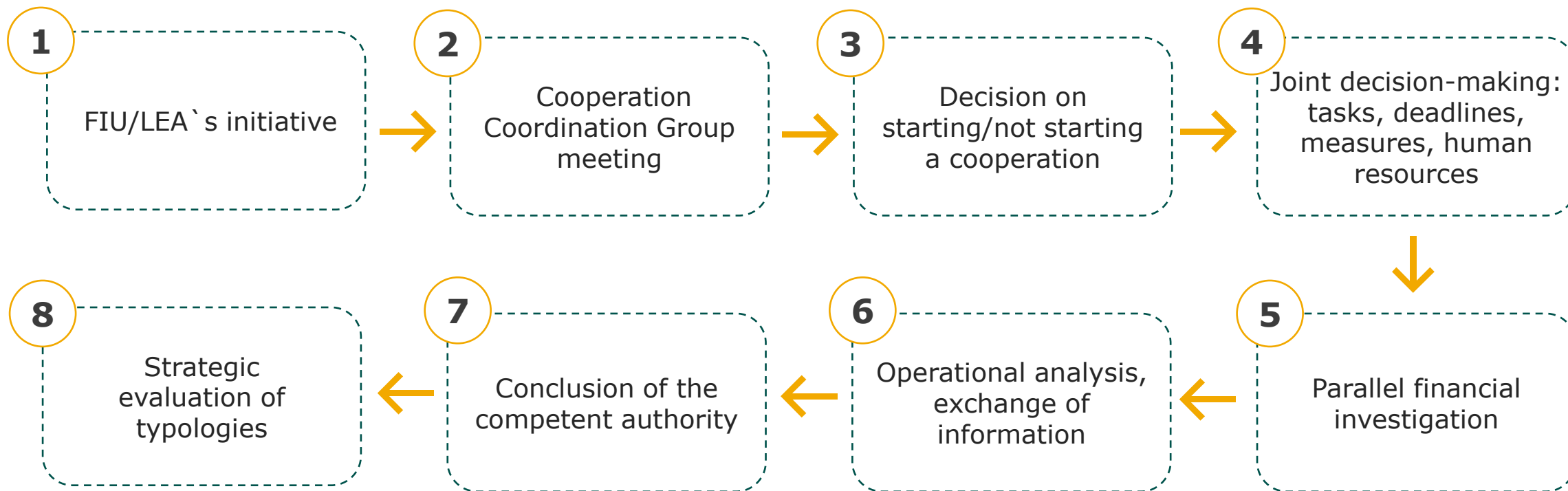


Maintaining public-private partnership platform



* Exchange of information on ML/FT/FP, including attempts thereof, or information on related crimes or suspicious transactions.

Model of the Operational Center (OpCEN)



FIU Latvia Operational Center (OpCen)

Exchange of information
(before or after initiation of cooperation)

Physical co-working space
for experts to work
simultaneously

Linking of data and
data analytics results

Security and trust



Centralized data stream /
joint intelligence

Exchange of specialists /
employees

Speed and promptness

Coordinated process, minimize
duplication of work



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Role of the Internal Security Bureau in the Anti-Corruption Framework of Latvia

February 25, 2025



Nadīna Ozkanli

Head of the
Strategic Planning
Department

Anti-corruption authorities in Latvia



The Corruption Prevention and Combating Bureau (the KNAB) is the leading specialised anti-corruption authority of Latvia. Its aim is to fight corruption in Latvia in a coordinated and comprehensive way through prevention, investigation and education.



Internal Security Bureau - corruption offences committed by officials from the subordinate institutions of the Ministry of the Interior and Prison administration



State Border Guard - investigates corruption involving State Border Guard's officers



State Police - investigates corruption in private institutions



State Security Service - investigates corruption in cases when state security may be affected

Most common elements of corruption



Administrative corruption

- Small, but regular bribes
- Low level officials
- Lower risk of money laundering
- Negative impact on public safety

High level corruption

- Large amount of bribes (irregular)
- High level officials involved
- High risk of money laundering
- Negative impact on national safety
- Public procurement



Criminals avoid to abuse classical financial system (banking)

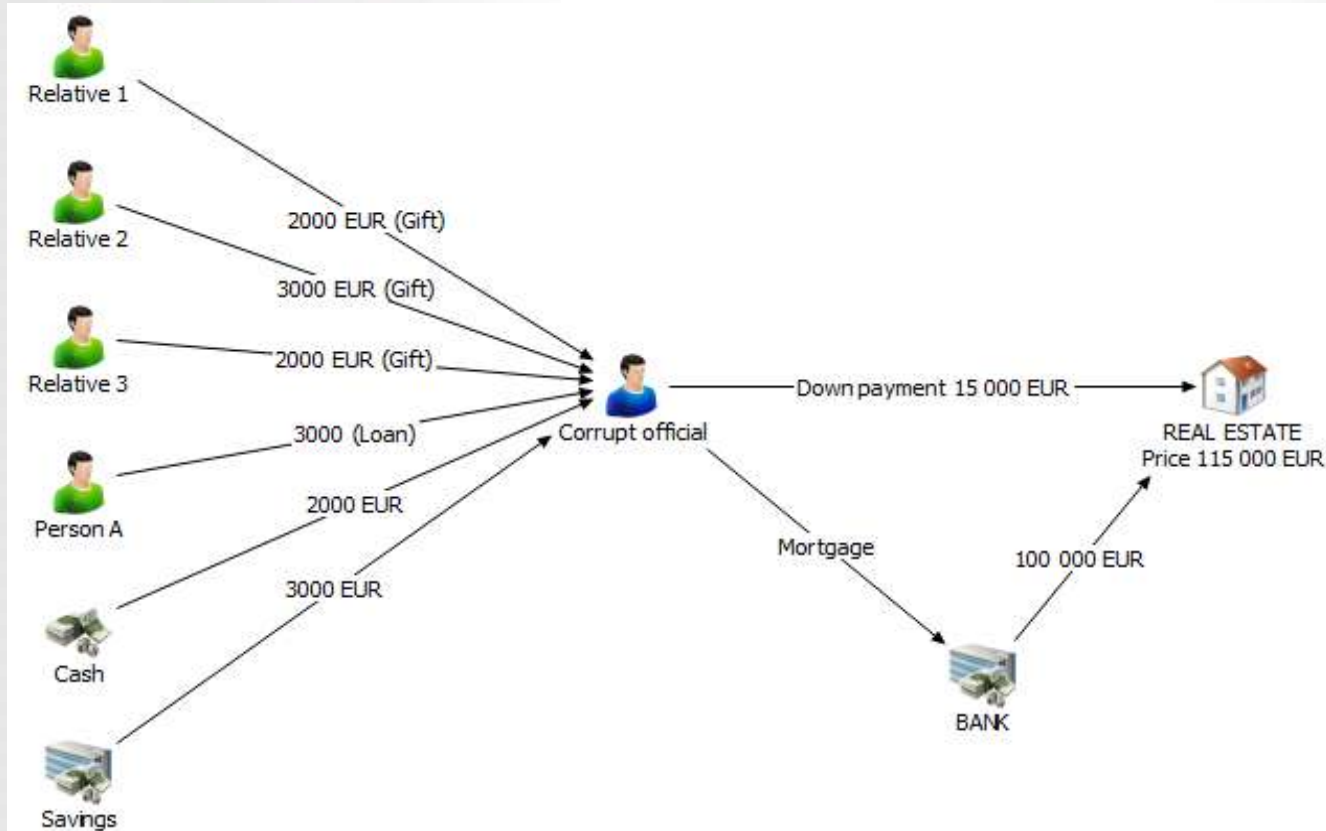


Real estate purchases below market value



Mortgage loan

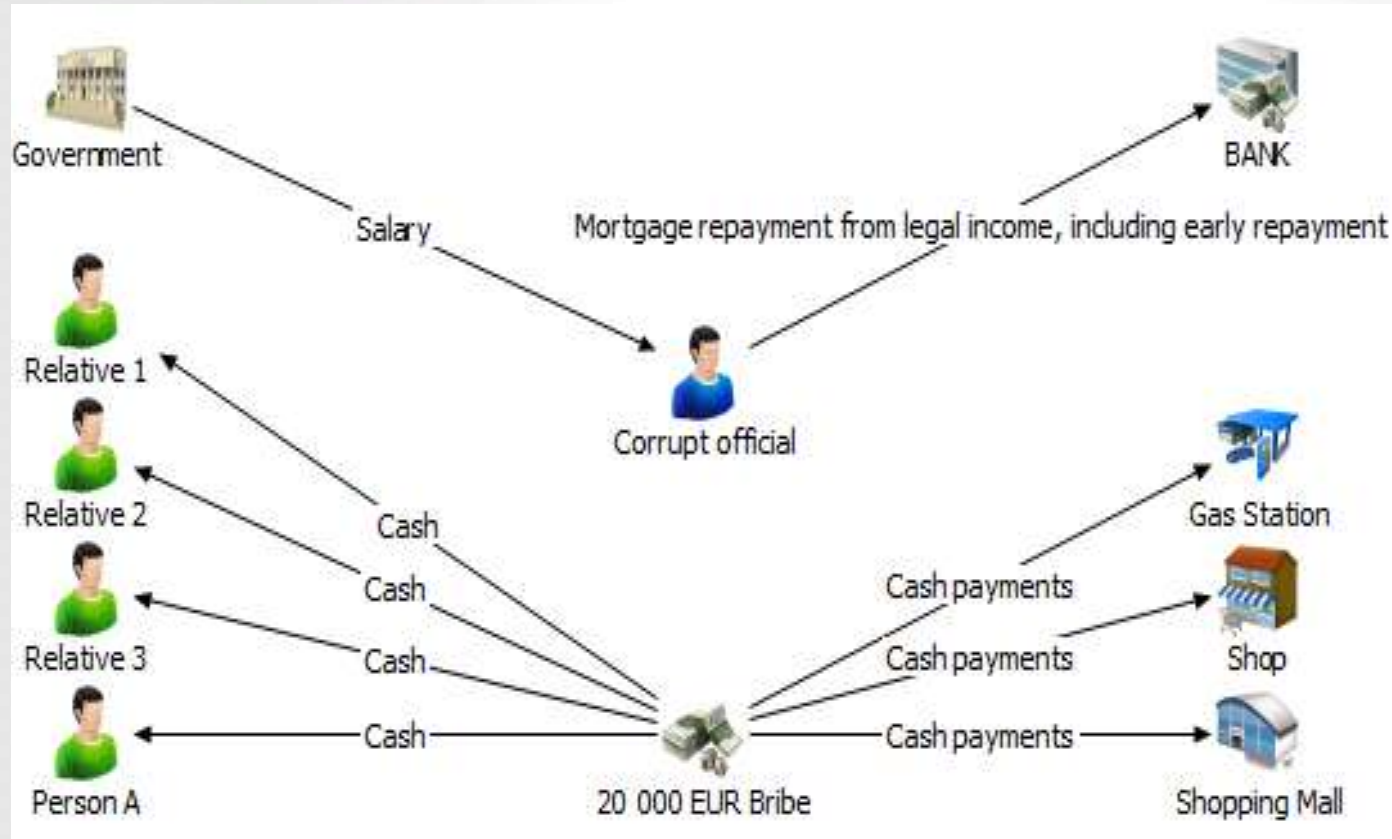
REAL ESTATE SECTOR



!
Source of
funds for
down payment?

!
Possible
structuring?

REAL ESTATE SECTOR



!
Lack of card payments related to household expenses (groceries, fuel etc.)

➤ Data Exchange Channel

From 1 July 2022., law enforcement agencies and credit institutions exchange data (e.g. bank account statements) via Data Exchange Channel



➤ Public private partnership

(Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing **Section 55.**) .

In urgent/complex cases LEA can cooperate with Credit institutions in order to prevent money laundering



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Kleptotrace

**Early-detection of high-level corruption schemes as
part of EU bank's AML/CTF due diligence**

Malta Financial Services Authority

February 2025



Early-detection of high-level corruption schemes

The MFSA is the single regulator for financial services in Malta:

- Banks / payments / insurance / investments / TCSPs, fintech and others

MFSA's role as a gatekeeper to criminals and their associates:

- Ascertain "Fitness and Properness"
- Individuals who are proposed for a prominent position require additional rigour
- Due Diligence Function: Ensures that individuals and entities proposed are of good integrity





Early-detection of high-level corruption schemes



How is this carried out in practice?

- › Identification and Verification
- › Review of individuals' own submissions
- › Screening through industry-leading screening solutions
- › Open-source enquiries
- › Close liaison with other authoritative bodies
- › Training and awareness (internal and external)
- › Collation and dissemination of intelligence



Early-detection of high-level corruption schemes

Risk factors that affect decisions on integrity

Integrity checks	Description
Adverse Media	<ul style="list-style-type: none"> • Assess the degree of seriousness of the accusations • Consider the credibility of sources • Whether the individual is directly implicated • Consider mitigating factors / time lapse since issue occurred • Consider discussing with the individual to establish the facts • Liaison with other authorities
Political Exposure	<ul style="list-style-type: none"> • Consider the position applied for • Consider the jurisdiction within which individual is a PEP • What is the reputational impact to the MFSA?
Previous Involvements	<ul style="list-style-type: none"> • Was the entity subject to breaches or administrative penalties or other regulatory action? • Consider the role the individual had in the previous entity • Consider the impact the appointment of the individual would have on society at large
Jurisdictions	<ul style="list-style-type: none"> • Are the jurisdictions involved considered 'high risk' in MFSA's risk pillars? • Is the entity structure unnecessarily complex and/or offshore? (usage of LLCs, LPs, foundations) • Is it difficult to ascertain ownership and control?
SOW/SOF	<ul style="list-style-type: none"> • Any deviations and/or outliers in the profile of individual concerned • Mode of accumulation of wealth (sectors/ modes of wealth accumulation ex gifts/donations) • Origination of funds and intended purpose • Historical transactions analysis
Industry	<ul style="list-style-type: none"> • NRA consideration/alignment • Level of potential exposure of sector to AML /TF/PF/Sanctions risks • Materiality (based on assets held, value of the transactions processed, turnover) • Vulnerabilities / Reputation



Early-detection of high-level corruption schemes

Case studies



Early-detection of high-level corruption schemes

Practical case studies – *Case Study 1*

- › Saudi individual seeking to obtain a shareholding position in a licenced entity
- › Screening solutions revealed individual is politically exposed with links to top level officials in various Middle Eastern countries
- › One of the individual's close associates was killed in a terrorist attack in a neighbouring country
- › An entity to which the individual is directly connected appears to have had financial problems
- › The assets of the entity were frozen in an insolvency case found in court records
- › A deeper dive revealed that concerns exist on potential embezzlement and fraud within the entity

MFSa enquiries:

- Contact with other regulatory authorities revealed that the individual in question was refused authorisation in other countries

Considerations:

- High risk jurisdiction
- High-level political exposure
- The individual claimed that they resigned from the position linking them to the entity in question
- MFSa: Not comfortable with the risk exposure
- Implications on reputational risk and overall impact on consumers and investors



Early-detection of high-level corruption schemes

Practical case studies – *Case Study 2*

- › Italian individual who applied for a shareholding role in an investment firm
- › The individual has experience in investments for real estate

High risk factors:

- › Individual was fined by regulator within his role as CEO of another entity due to a conflict of interest that the regulator identified in his activity
- › Individual was further fined by regulator for a fraudulent property sale that impacted the fund's performance
- › A further fine was imposed for failure to oversee internal controls of the entity for which he was responsible

Intelligence received:

- Foreign authoritative body – investigation on corruption
- Allegedly received a “loan” from a public official in exchange for hiring a specific individual
- Individual was named in a previous investigation for market manipulation vis-à-vis a takeover of a high-profile bank in Italy

MFSA's considerations

- › Connections with high-level politicians in Italy where favours are alleged to have been exchanged for personal gain
- › History of regulatory failures
- › Adverse media that exists in public domain as well as within closed intelligence
- › Ongoing investigations
- › The individual was forthcoming and responded to a number of allegations against them in the public domain and sought to clear their name, MFSA was not sufficiently comfortable with the residual risk exposure



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