

**Jurisdiction-specific advisory
in respect of transactions with Nauru**

1. The purpose of this advisory is to inform insurance institutions of the serious deficiencies in the anti-money laundering system of the Republic of Nauru, the requirements for the scrutiny that insurance institutions should give to certain transactions or business relationships involving Nauru and their obligation to report any suspicious transactions arising from such scrutiny. In addition, insurance institutions are requested to raise the awareness of their staff and, where applicable, the general public on non-cooperative countries and territories including Nauru through various means as set out in this advisory.

2. The anti-money laundering regime embodied in the legal, supervisory, and regulatory systems of Nauru is found to suffer from the following serious problems :

- Before August 2001, financial institutions operating in Nauru had no obligation of customer identification and record-keeping. With the introduction of the Anti-Money Laundering Act 2001 (the Act), such obligation has been imposed. However, offshore banks licensed by Nauru are still not required to :
 - verify the identity of their customers;
 - maintain customer identification or transaction records; and
 - make suspicious transactions reporting.
- For financial institutions (except offshore banks) in Nauru, even though there is mandatory system for reporting suspicious transactions commencing August 2001, they do not report such transactions in the absence of regulations stipulating reporting procedures.
- Money laundering was not a crime under the law of Nauru prior to the enactment of the Act. Notwithstanding the criminalizing of money laundering in Nauru now, the effectiveness of the law is in doubt because of the relatively low penalties.

- Before August 2001, Nauru's banking secrecy laws made it virtually impossible for government authorities to obtain any information relating to banking transactions and account holders.

3. The deficiencies in the counter-money laundering systems of Nauru have caused Nauru to be identified by the Financial Action Task Force on Money Laundering ("FATF") as non-cooperative in the global fight against money laundering.

4. The Act passed in Nauru addressed some deficiencies in the country's anti-money laundering system, but still cannot bring the offshore banks into proper supervision in view of the lack of obligation to identify customers, keep records and report suspicious transactions in respect of these banks. The FATF regarded this as a serious deficiency in Nauru's regime in combating money laundering.

5. In September 2001, the FATF considered that inadequate progress had been made by Nauru in addressing the deficiencies identified earlier. Specifically, the FATF called on its members to apply further counter-measures as of 30 November 2001 to Nauru, unless its government enacted, by that date, appropriate legislative amendments that addressed the identified money laundering concerns. To date, the Nauru Government has not implemented any legislative changes to address FATF's concerns.

6. Therefore, in addition to the application of Recommendation 21 ^(Note), the FATF recommended the application of further counter-measures to Nauru. Such counter measures should enhance surveillance and reporting of financial transactions and other relevant actions involving Nauru, including the possibility of :

Note : Recommendation 21 : Financial institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

- stringent requirements for identifying clients and enhancement of advisories, including jurisdiction-specific financial advisories, to financial institutions for identification of the beneficial owners before business relationships are established with individuals or companies from the country;
- enhanced relevant reporting mechanisms or systematic reporting of financial transactions on the basis that financial transactions with Nauru are more likely to be suspicious;
- in considering requests for approving the establishment in FATF member countries of subsidiaries or branches or representative offices of banks, taking into account the fact that the relevant bank is from Nauru, which is an NCCT;
- warning non-financial sector businesses that transactions with Nauru, which is an NCCT, might run the risk of money laundering.

7. In Hong Kong, insurance institutions are advised to make additional efforts in the following areas in respect of transactions with Nauru :

For new customers from Nauru, insurance institutions should clearly ascertain the customers' background and the expected size and nature of insurance contracts. In case of doubts, a supervisory officer (who does not normally have to be involved) should review the insurance proposal / application lodged by these customers before acceptance.

8. Insurance institutions should refer to the updated list of suspicious activity indicators including Nauru and other NCCTs at Appendix, in addition to those set out in my letter of 27 September 2001 and Annex G of the Guidance Note on Prevention of Money Laundering, in ensuring compliance with the reporting requirements under the respective anti-money laundering guidelines and regulations.

9. Insurance institutions should include the subject of NCCT with special emphasis on Nauru in their staff training programmes in respect of money laundering.

10. Where practicable, insurance institutions should help spread more widely information on NCCT, in particular that about Nauru, to business relationships with the non-bank financial sector, business sector, intermediaries such as lawyers and accountants and so on. This is to complement Government's efforts to disseminate information on the NCCT process, and Nauru which is an NCCT jurisdiction subject to counter-measures, to the general public.

11. To enhance awareness on Nauru and other NCCTs, attention of staff of insurance institutions should be drawn to the websites of the Narcotics Division of the Security Bureau, the JFIU, the Insurance Authority and the other financial regulators where the background and latest developments of NCCT, in particular Nauru, which is a NCCT jurisdiction subject to FATF counter-measures are published.

**List of Suspicious Activity Indicators
Commonly Associated with Money Laundering in Hong Kong**

1. Currencies, countries or nationals of countries, commonly associated with international crime or identified as having serious deficiencies in their anti-money laundering regimes, e.g.
 - Thailand, Cambodia, Myanmar, Laos, Netherlands, Colombia relating to drug trafficking;
 - Nigeria relating to fraud and drug trafficking;
 - 19 NCCTs (Non-cooperative Countries and Territories) identified by FATF in June 2001 i.e. Cook Islands, Dominica, Egypt, Grenada, Guatemala, Hungary, Indonesia, Israel, Lebanon, Marshall Islands, Myanmar, Nauru, Nigeria, Niue, Philippines, Russia, St Kitts and Nevis, St. Vincent and the Grenadines, and Ukraine. Special attention should be given to Nauru which is subject to FATF counter-measures.
2. Customer refuses, or is unwilling, to provide explanation of financial activity, or provides explanation assessed to be untrue.
3. A client who is introduced by an overseas agent, affiliate or other company both of which are based in Nauru.