

1. MONEY LAUNDERING THREAT ASSESSMENT

1.1 Introduction

The ML/TF threat assessment for Sri Lanka focuses on the primary assumption that the ML threat is a function of the criminal proceeds. The WG carried out its analysis on the ML/TF threat in Sri Lanka, by identifying money laundering threats and origins in terms of the predicate offending type, the sector to which such offending is closely affiliated, on proceeds of crime generated and several new trends of predicate offences. The offending reported to law enforcement authorities and other relevant authorities for the period from 2015 to 2022 were considered in this assessment.

The overall ML threat for Sri Lanka is identified as *Medium*.

1.2 Main Crimes that Generate Proceeds of Crimes

All unlawful activities listed within the Prevention of Money Laundering Act, No. 05 of 2006 (PMLA), amended by Act, No. 41 of 2011 are considered by the WG in analyzing the ML threat faced by Sri Lanka.

ML threat levels emanating from each major predicate offence considered in the assessment are listed in Table 1.

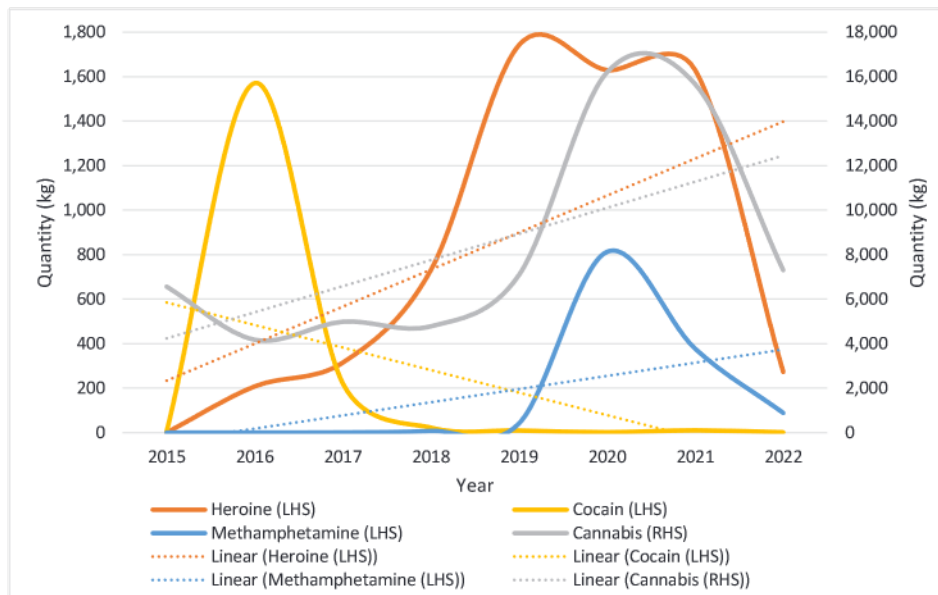
Table 1: Major Money Laundering Threats

	Major Money Laundering Threat	Rating
1	Drug trafficking	Medium High
2	Bribery and Corruption	Medium High
3	Customs related offences including laundering of trade-based proceeds relating to such offending	Medium High
4	Fraud (including criminal misappropriation, criminal breach of trust (CBT), cheating and its variants, scams, prohibited schemes, payment devices fraud, internet frauds, etc.)	Medium
5	Robbery (includes housebreaking, extortion, and theft)	Medium
6	Environmental and Natural Resource crimes	Medium
7	Illegal, Unreported and Unregulated (IUU) fishing related unlawful activities including drug trafficking and smuggling	Medium Low
8	Human smuggling/ trafficking	Medium Low
9	Tax offences	Medium Low
10	Counterfeiting of currency	Low

1.2.1 Drug Trafficking

WG identifies Drugs and Psychotropic Substance (DPS) trafficking as the most significant unlawful activity that generates criminal proceeds in Sri Lanka based on arrests, seizures, and prosecutions. This is similar to the 2014 NRA finding. However, usage of drugs has widened from heroine and cannabis to several new types of narcotic drugs and psychotropic substances such as Lysergic Acid Diethylamide (LSD), Crystal Methamphetamine (Ice), and cocaine in view of several instances of high value detections during the period assessed.

Figure 1: Quantity of Drugs/Psychotropic Substances by Type (2015-2022)



Sources: Police Narcotic Bureau
National Dangerous Drugs Control Board

Figure 1 shows the drug type and quantity detected during investigations. As of November 2022, the street value of drug types showed that on average, annually, Rs. 42 billion of heroine had been detected from the arrests compared to Rs. 11.52 billion seen during the previous NRA. Similarly, annually an average value of Rs. 11.8 billion of cocaine, Rs. 1.02 billion of cannabis (Kerala Ganja) and Rs. 0.82 billion of cannabis (domestic variant) have been detected. An increasing trend concerning LSD /Ice usage shows that proceeds generated on average amounts to around Rs. 5.67 billion. These values reconfirm the WG observation of the offending as a significant level of ML threat emanating offence in Sri Lanka.

Sri Lanka is identified as a transshipment point for drug trafficking via the “Southern Route”¹. Large detections of high-end narcotics such as cocaine, increased recreational drug detections observed lately reflecting the increased threat exposure. Lack of detections on outward movement of DPS is identified as a significant concern in view of the “transshipment” theory. Although incidents of outward movements of DPS are not detected, as identified average consumption of heroine per annum is approximately 4,964 kg², it is inferred that Sri Lanka is used as a transshipment point by traffickers.

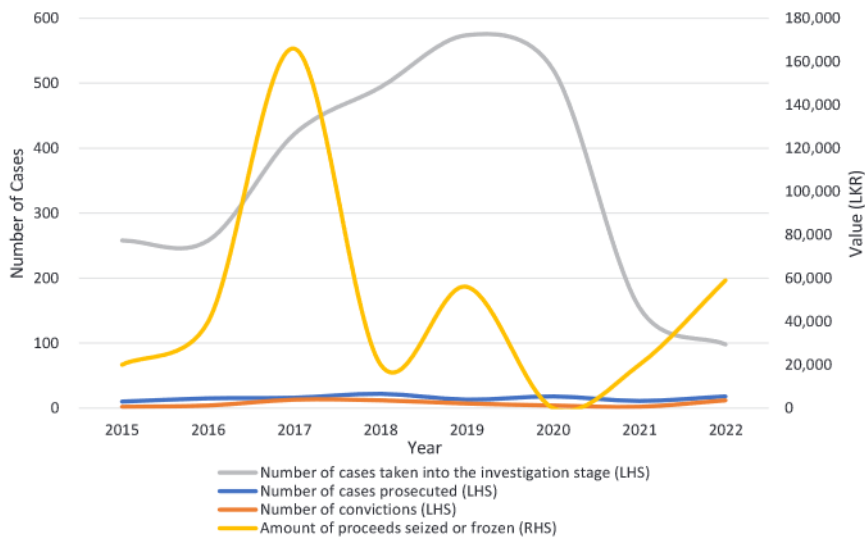
Considering the proceeds generated during the period and other salient features observed for this type of offending, the ML threat is rated as **Medium High**.

¹ World Drug Report 2016, United Nations Office on Drugs and Crime (UNODC)
² Source – National Dangerous Drugs Control Board

1.2.2 Bribery and Corruption

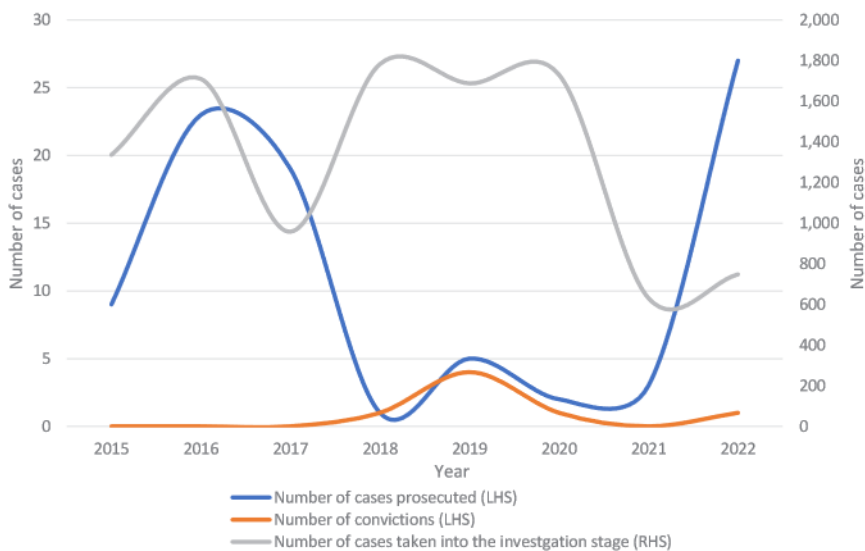
The offence of bribery and corruption is identified as the second most significant unlawful activity that generates criminal proceeds in Sri Lanka. In 2014, bribery and corruption ranked at fifth place. Bribery and corruption offences and statistics on raids reported to WG have been shown in Figures 2, 3 and 4, respectively.

Figure 2: Investigations on Bribery (2015-2022)



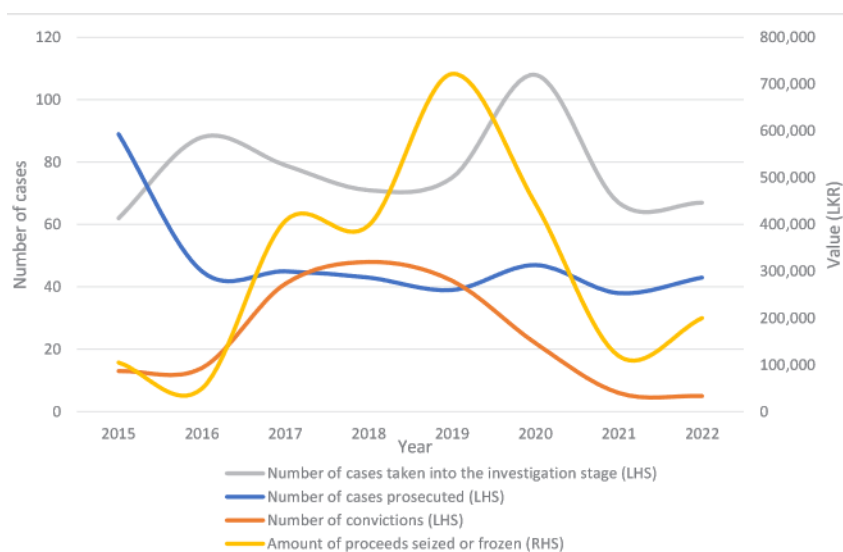
Source: Commission to Investigate Allegations of Bribery or Corruption

Figure 3: Investigations on corruption (2015-2022)



Source: Commission to Investigate Allegations of Bribery or Corruption

Figure 4: Investigations Linked to Raids (2015-2022)



Source: Commission to Investigate Allegations of Bribery or Corruption

During the assessed period, apparent scenarios of grand bribery and corruption events are not adequately reflected in the statistics of investigations carried out. Although the incidents reported (complaints) were high, the raids and investigations subsequently carried out result in a much lower number of prosecutions. Due to the absence of ML investigations, no ML cases are reported linked to bribery and corruption offences. WG was also challenged by the fact that corruption cannot be directly quantified to criminal proceeds as there is no direct measurable value involved in most instances due to components of misuse of power and abuse of authority linked with majority of cases. However, this aspect is deemed as inconclusive as indirectly a comparable value variable may be identified from abandoned or attempted incidents of corruption.

During the assessed period, 10 Mutual Legal Assistance (MLA) requests sought information from foreign jurisdictions on possible offences of bribery and corruption involved with ML being indicated in the MLA. Therefore, potential of ML related bribery/corruption offending indicates that threat of ML is prevalent among the investigated incidents.

Having considered the proceeds generated during the period, Suspicious Transaction Reports (STRs), MLA requests, and of the unsubstantiated yet widely accepted belief of high corruption level in the country, the ML threat has been rated as **Medium High**.

1.2.3 Customs related Offences including Laundering of Trade-Based Proceeds relating to such Offending

Customs related offences are identified as the third most significant unlawful activity that generates criminal proceeds in Sri Lanka. Penalties and goods forfeiture by Sri Lanka Customs during 2015-2021 are shown in Table 2.

Table 2: Penalties and Goods Forfeiture by Sri Lanka Customs (2015-2021)

Year	Investigations finalized by Customs	Total Penalties imposed / Rs.	Forfeiture of Goods /Rs.	Sale Proceeds of Goods Forfeited / Rs.	Additional entry to recover state's dues
2015	1,491	1,580,553,306.26	617,706,497.00	483,384,959.36	111,111,571.94
2016	2,615	2,764,167,997.12	1,804,671,427.68	970,857,447.05	302,311,459.77
2017	2,899	2,517,459,470.24	1,295,323,499.30	1,201,467,600.70	320,942,984.00
2018	2,131	742,271,416.36	2,485,471,695.80	2,286,008,088.29	480,339,120.00
2019	1,613	356,721,057.59	2,232,464,190.19	1,313,070,723.92	231,541,698.84
2020	2,504	411,331,784.95	2,396,652,208.34	993,741,415.40	150,924,341.00
2021	731	189,007,570.06	863,283,050.00	1,148,145,552.56	117,978,776.93
Total	13,984	8,561,512,602.58	11,695,572,568.31	8,396,675,787.28	1,715,149,952.48

Source: Sri Lanka Customs (2021)

Customs data during the period of assessment report highlights penalties summing up to nearly Rs. 8.5 billion (approx. Rs. 2.9 billion in value of goods detected) and Rs. 11.6 billion worth forfeitures of goods by SL Customs. Further, it can be presumed for the assessed years trade related activities would have generated around Rs. 14.5 billion in illegal proceeds.

High number of incidents that has invoked Sri Lanka Customs penalties indicates a large value trade-based goods movement that has violated customs laws and detected by Sri Lanka Customs. Due to trade-based instruments such as Letters of Credit and Open Account terms (mis)used in international trade indicate significant involvement of the banking sector. The WG observes that significant challenges faced by the foreign exchange market and the managed exchange rate since 2019 has increased the activity related to informal money value remittances (hawala and undial), both inward and outward. These are potent indicators of large value criminal proceeds and a likely presence of ML precursors. Furthermore, SL Customs' lacked ML investigation expertise, which coupled with gaps in the scope of legal jurisdiction and limited referrals to LEAs makes this threat a fairly significant new entrant.

Having considered the proceeds generated during the period, the ML threat has been rated as **Medium High**.

1.2.4 Fraud (including offences in relation to fraud - scams, criminal breach of trust, cheating or criminal misappropriation, or any combination thereof)

In the period assessed, WG observed a large number of incidents relating to offences of fraud reported in low value detections. High number of bank account related freezing and FI related investigations were also observed. Summary of Investigations related to cheating is depicted in Table 3.

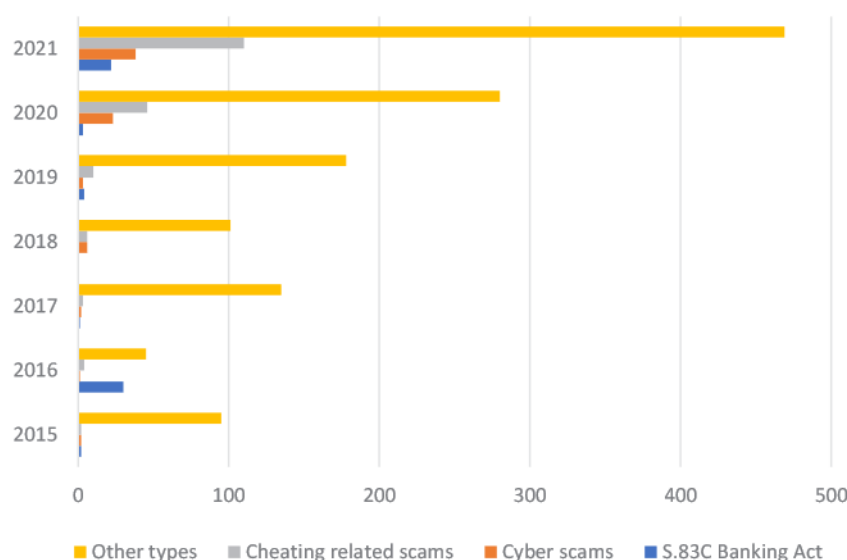
Table 3: Summary of Investigations Related to Cheating

Year	Number of cases detected or investigated	Number of cases prosecuted	Number of convictions (cases)
2015	5,532	1,806	164
2016	5,472	1,914	274
2017	6,192	1,934	106
2018	6,090	2,247	92
2019	5,251	1,608	54
2020	2,891	882	37

Source: Sri Lanka Police

Large number of investigations linked to scams commenced during the Pandemic lockdown period that may be a result of substituting loss of livelihood during COVID-19 travel restrictions via proceeds generated from fraud related criminal activities. Summary of the investigations related to scams based on STRs during 2015-2021 are shown in Figure 5.

Figure 5: Suspicious Transaction Reports based on Fraud Type and Scams



Source: Financial Intelligence Unit – Sri Lanka

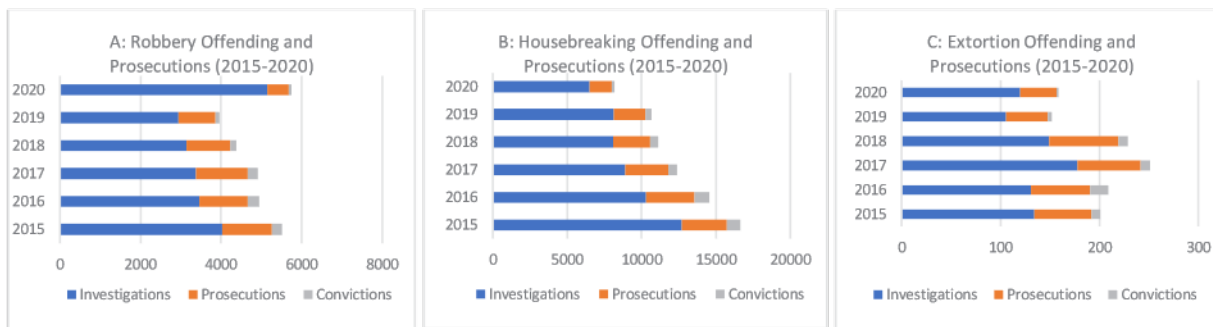
Having considered the proceeds generated during the said period, the ML threat has been rated as **Medium**.

1.2.5 Robbery

The offending of Robbery is viewed by the WG as an unlawful activity that generates significant amount of criminal proceeds in Sri Lanka. Among many variations of the offending relating to robbery, house breaking (or breaking and entering with the intent to commit robbery) is viewed as the most prevalent type of robbery.

A decreasing trend of robbery offending is observed since 2015. However, in 2020, this trend had reversed, and the spike in robberies maybe an indication that the criminal activities may be the means to sustain livelihoods lost due to COVID-19 pandemic related limitation in outdoor activities.

Figure 6: Offending and Prosecutions: Robbery, Housebreaking, Extortion



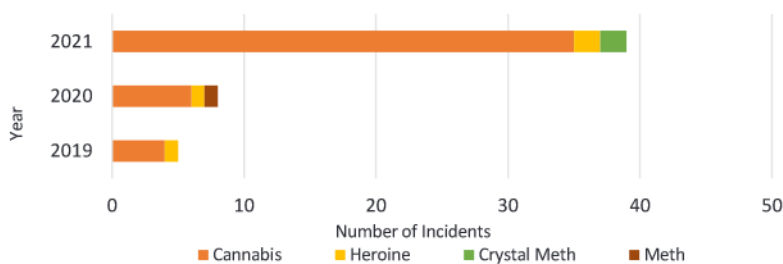
Having considered the proceeds generated during the said period, the ML threat has been rated as **Medium**.

1.2.6 Illegal, Unreported and Unregulated Fishing related Unlawful Activities including Drug Trafficking and Smuggling

The region for ML threats on IUU Fishing is observed as the Bay of Bengal³ in the Indian Ocean along the coastal areas of Sri Lanka. Apart from direct IUU activities generating criminal proceeds, the WG strived to identify other types of criminal activities⁴ linked to IUU activities, such as smuggling of contraband goods, drugs, and psychotropic substances.

ML threats in IUU fishing are not reflected in available statistics. However, considering the proximity to the Indian sub-continent, visible links to criminal proceeds observed during detections in the forms of trafficking and smuggling and related offending.

Figure 7: Drug Smuggling linked to Illegal Unreported and Unregulated Fishing



³ Bay of Bengal comprises of 2,172 million km² area of maritime zones impacting the South Asian region countries.

⁴ Illegal unreported, and unregulated fishing, drugs and psychotropic substance trafficking, trafficking of persons, smuggling of contrabands, migrants etc.

Contraband smuggling and trafficking of Kerala ganja and other forms of narcotics (Figure 7) via illegal and unauthorized fishing vessels had been observed for a prolonged period with no identified pattern indicating a seasonal trend. However, no incidents are linked to ML investigations as at the period of assessment. Having considered the proceeds generated during the period, the ML threat has been rated as **Medium Low**.

1.2.7 Human Smuggling and Human Trafficking

This type of offending has had links with IUU fishing related activities where the fishing vessels are used as means of transportation to reach foreign shores. 29 STRs have been reported to the FIU on human smuggling linked to fishery sector and several incidences were reported from the Northwestern part of Sri Lanka on irregular migration including asylum seekers from Myanmar and Bangladesh seeking temporary shelter until they reach fairer shores. Single indictment has been presented to the High Court of Negombo based on the predicate of organized human trafficking where unlawful activity entailed violation of Section 45C of the Immigrants and Emigrants Act. Furthermore, LEA investigations relating to the possible offending of this type has reported seized funds and frozen property to the value of Rs. 12.8 million and Rs. 28.3 million approximately during 2021.

Compared to 984 cases reported during the assessed period for 2014 NRA, the present assessment has identified 296 cases investigated by the Criminal Investigation Department (CID) that has resulted in 98 convictions over the period of 2015-2021. Outreach measures adopted through assistance received by foreign governments including Australia and India, active engagement of the Sri Lankan Coastguard and Navy along with LEAs, and COVID-19 related health concerns may have acted as a deterrent during the period. Although the offending seems to be on a decreasing trend, the possible ML threat cannot be downplayed. Further, WG observed a rapid increase during the later period of the assessment on outward trafficking, which can be attributed to the objective of escaping economic hardships prevailing in Sri Lanka. However, several international studies and literature show Sri Lanka as a Tier 2 country⁵, used as a transit point for trafficking to Middle East and elsewhere, while no ML footprint is linked to Sri Lanka by these literary sources. Having considered the low level of proceeds generated during the period, the ML threat has been rated as **Medium Low**.

1.2.8 Money Laundering Risk in Tax Offences

Since 2014 to date, tax evasion or other tax offences are not identified in the PMLA as unlawful activities. Furthermore, the Inland Revenue Act does not recognize tax offences' tendency to be a vehicle for ML. However, 2017 amendments to the Inland Revenue Act have introduced the offence of tax evasion with strong, dissuasive penalties. The number of cases scrutinized by tax authorities are as follows:

⁵ Tier 2 refers to a jurisdiction not fully compliant but making significant efforts to be compliant to minimum standards to eliminate severe forms of trafficking of persons.

Table 4: Taxation Related Activity and Offending (2015-2021)

Description	2016	2017	2018	2019	2020	2021
Number of tax audits	7,709	1,221	5,685	9,470	788	1,477
False tax declarations	33	253	148	2	16	5
Penalties imposed (false declarations) (Rs. million)	1.6	2.9	21.1	0.1	116.9	-

Source: Inland Revenue Department

The threat emanating from the tax offending is deemed lower due to the low numbers reflected above. However, WG observes this as an inconclusive finding that may require an update once a full range of data is available. Having considered the low proceeds reflected by the available data for the assessed period and taking into consideration the perceived level of threat observed by the tax authorities being low, the WG deems this offending as having a threat level of **Medium Low**.

1.3 Criminal Proceeds Related to Threat Analysis

The LEAs have suspended proceeds amounting to Rs. 3.03 billion at various stages of ML investigations. The full description of the suspended assets is listed under Table 5.

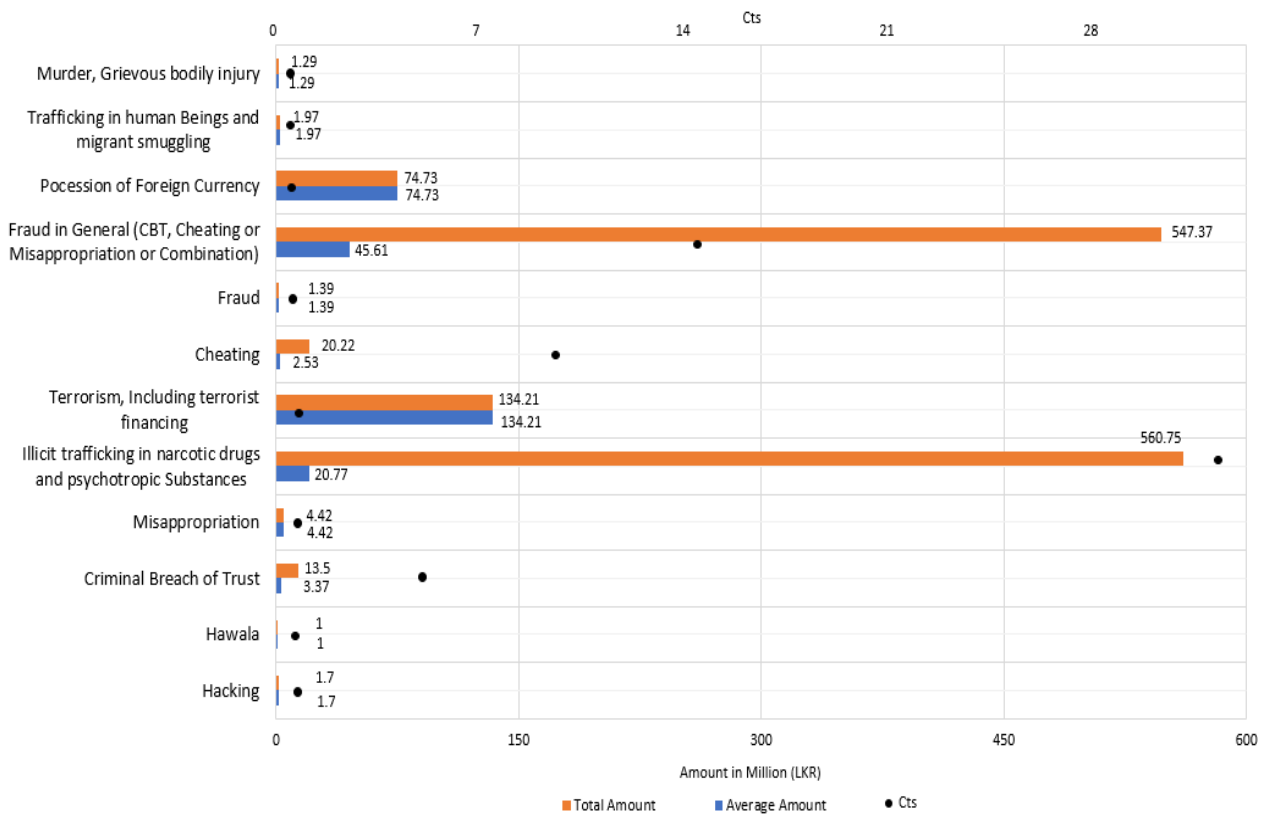
Table 5: Criminal Proceeds and Assets Suspended under the Prevention of Money Laundering Act

Asset	CID		IAID	
	Quantity	Value (Rs million)	Quantity	Value (Rs million)
Lands & houses	87	1,122	Acres – 29.11, Houses - 05, Shops - 02	684
Vehicles	31	211	37	469
Fishing Crafts	7	16		
Gold			6.32 kg	105
Bank Accounts	401	88	113	169
Money		35	Rs. 84.5 million (in LKR) Rs. 37.5 million (in USD)	122
Other				7
Total		1,472		1,556

Sources: Illegal Assets Investigations Division
Criminal Investigation Department

Most proceeds generating offence has been illicit trafficking in narcotic drugs and psychotropic substances. According to the latest data, the value of laundered investigated proceeds stands at Rs. 560.75 million with average case amounting to Rs. 20.77 million laundered proceeds. Figure 8 illustrates the money distribution among typologies.

Figure 8: Money Distribution Among Typologies by Number of Cases (Cts) (2015-2021)



Sources: Attorney General's Department
Auditor General's Department
Criminal Investigation Department
Colombo Crimes Division

Table 6: Stages of Money Laundering Investigation/Prosecutions by Agency

Department	Stage	Number
Auditor General Department to LEAs	Investigated	8
CID-FIU 2	Investigated	17
Colombo Crimes Division	Investigated	1
Attorney General's Department	Prosecuted	32
Attorney General's Department	Convicted	1
Total		59

Sources: Attorney General's Department
Auditor General Department
Criminal Investigations Department
Colombo Crimes Division

Information received from competent authorities and LEAs depict the amount generated from illicit funds are around Rs. 1,440,845,000 and the total amount seized, frozen, or confiscated is around Rs. 78,405,000. Table 7 shows the estimated detected amounts and seized, frozen, or confiscated amounts according to each category of unlawful activity.

Table 7: Estimated / Seized, Frozen, or Confiscated Amounts by Unlawful Activity

Unlawful Activity	Detected amount (Rs. million)	Seized, frozen, or confiscated amount (Rs. million)
Hacking	1.70	0
Hawala	1.00	1.57
Criminal Breach of Trust	13.50	0.35
Misappropriation	4.42	7.12
Illicit trafficking in narcotic drugs and psychotropic Substances	560.75	8.52
Terrorism, Including terrorist financing	134.12	0
Cheating	20.22	1.10
Fraud	1.39	0
Fraud in General (CBT, Cheating or Misappropriation or Combination)	547.37	0
Procession of Foreign Currency	74.73	59.73

Sources: Attorney General's Department
Auditor General Department
Criminal Investigations Department
Colombo Crimes Division

1.4 Sectoral Threat Analysis

Table 8 depicts the sectoral threat levels, which will be discussed in detail below.

Table 8: Sector-wise Money Laundering Threat Perception

	Sector		Threat Level (a combination of perceived threat level and consequences)
1	Banking		Medium High
2	Other Financial Institutions Sector:	Finance Companies MVTs providers Informal (Hawala/ Hundi) Remitters	Medium High Medium High
3	Securities:	SBs PDs	Medium Low Medium
4	Insurance		Medium Low
5	DNFBPs:	Real Estate Agents Casinos Notaries DPMS Accountants TCSPs Lawyers	Medium High Medium Medium Medium Medium Low Medium Low Medium Low

1.4.1 The Banking Sector

The WG identifies 26 ML cases remaining at advanced stages of investigation carried out by LEAs in the sector threat analysis. Out of these, 8 cases have been subject to government audits and investigations stemming as a result of the focused audits where investigation is referred to LEAs (Table 9). From the 54 ML/TF indictments that have been sent out by the Attorney General's Department (AGD) (two are pending appeals to the sentence and convictions), during the assessed period, the WG observed 28 indictments as having ML charges and 3 forming TF charges (linked to bank accounts). From the information received on 33 indictments out of the 54 cases, 28 cases (52 per cent out of overall number of indictments, 85 per cent out of indictments where information about specific charges have been received) are linked to either to banking institutions, bank accounts and/or other financial products offered by the banking sector.

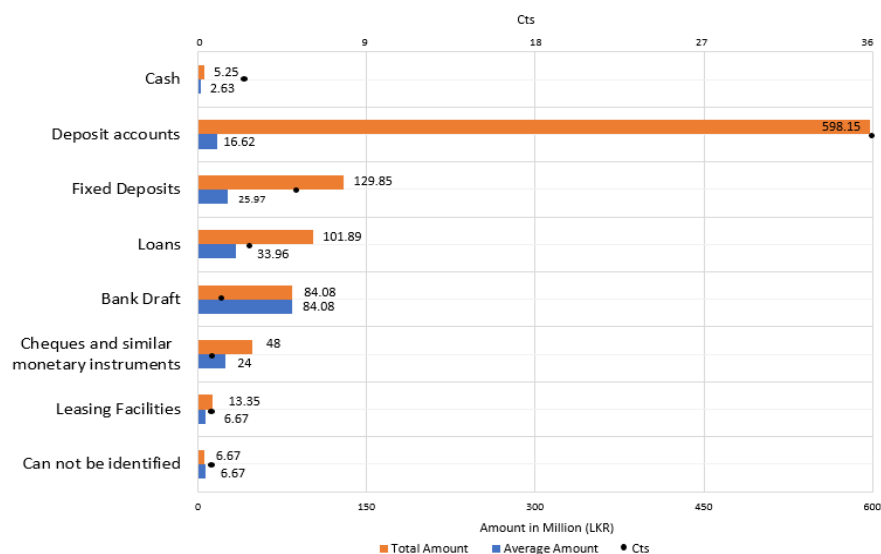
Table 9: Sector Involved Based on the Money Laundering Charges in the Indicted Money Laundering Cases

Sector	No. of Indictments
Banking Sector	26
Other Financial Sector (Finance Companies)	5
Securities Sector	0
Insurance Sector	0
Legal persons other than FIs	1
Real Estate	5
Notaries	0
Other (NPOs, Lease Financing and Self laundering)	8

Source: Attorney General's Department

As generally anticipated from a jurisdiction where the financial sector is dominated by the banks, Sri Lanka's ML threat most frequently involves banking sector products. Figure 9 depicts the most frequently used financial products found in ML investigations.

Figure 9: Financial Product Most Frequently Used – Based on the Money Laundering Prosecutions, Investigations Concluded (Cts) (2015-2021)



Sources: Attorney General's Department / Auditor General's Department / Criminal Investigation Department / Colombo Crimes Division

WG also considered statistics relating to the suspension of accounts as a result of possible nexus of ML seen in the related transaction or linked with bank or in relation to another suspicious account/ transaction. Furthermore, Table 10 refers to the statistics where suspensions are carried out by the LEAs under the PMLA section 7 read together with sections 3 and 4, as amended. Table 10 also identifies the large presence of banking accounts.

**Table 10: Financial Intelligence Unit Directed Suspensions
(Up to 31.10.2022)**

Institution	No. of Accounts
Banks	1,318
Finance Companies	60
Colombo Stock Exchange	10
Insurance Companies	3
Total	1,391

Source: Financial Intelligence Unit – Sri Lanka

Based on these assumptions and on the fact that the banking sector reflects the largest aggregated financial assets within the jurisdiction, WG deems the ML threat emanating on the banking sector as **Medium High**.

1.4.2 Other Financial Sector

Among the 12 categories considered for the Other Financial Sector, WG identified three categories of institutions, the LFCs, MVTs Providers and Informal money remitters (Hundi/ Hawala) as subjected to the ML threat in significant level.

1.4.2.1 Licensed Finance Companies

As the second largest sector in the financial system, LFCs are presumed to considerably impact the financial system and the economy. In the recent past, several LFCs have failed due to internal frauds, malpractices by company directors and senior management, mismanagement, and integrity breaches of the staff. Furthermore, several drug trafficking offending have led the criminal proceeds being laundered through finance companies including leasing of assets using part criminal proceeds. Fixed deposit facilities, followed by leasing facilities and pawn broking were among the most abused products by indicted launderers. Several instances of unregulated, unlicensed deposit taking were reported via companies formed, which signified presence of Ponzi schemes where regulator has frozen the assets and had taken regulatory actions against the directors and the top management under the Finance Business Act, No. 42 of 2011 (FBA). During the assessed period, LFCs have been involved in, directly or indirectly, with 5 ML indictments filed by the Attorney General. The sector has reported a considerable number of STRs to the FIU, while the FIU suspended 60 accounts maintained with the LFCs under the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA). Furthermore, the analysis shows appreciable number of predicate offending via unauthorized finance companies. Considering these factors, the ML threat emanating from the non-bank financial sector (other financial institutional sector) is identified as **Medium High**.

1.4.2.2 Informal Money Remitters

This category poses a more dominant ML threat, largely based on foreign exchange market pressures observed since 2019 and the significant depreciation in the LKR/USD exchange rate observed in March 2022. It is also identified as a conduit for informal fund transfers from trade-based activities. Therefore, the sector threat emanating into the national economy is viewed as significant. Due to absence of verifiable data, the size of this sector cannot be determined. Considering the high number of STRs received during latter part of the period assessed, large number of identified and suspended accounts, and the LEAs' identified and suspended accounts it was apparent that large amount of proceeds are in circulation in this sector. Hence, in view of the degree of ML threat associated with the sector, coupled with the absence of legal measures to counter the threat, the ML threat emanating from the informal money remitters (Hundi/Hawala) is deemed as **High**.

1.4.2.3 Money Value Transfer Service Providers

There are only 3 formal MVTS Providers in the country: 2 mobile money operators and one non-mobile MVTS Provider. Although the mobile operators have policies and mechanisms in place, many incidents identified link this sector and its agents to predicate offending such as drug trafficking, fraud, scams and other MVTS linked abuses, which are reported by LEAs as involving MVTS agents retained by the mobile service providers. The agents sell multiple sim cards without adhering to Customer Due Diligence (CDD) processes or abuse the process to suit their motives. For the above reasons and the nature of the products delivered by MVTS Providers, the ML threat is identified as **Medium**.

1.4.3 Securities Sector

The WG considered the ML threat in relation to the SBs and the PDs sub sectors. There are 28 SB companies in the equity sector. Total market capitalization of around 14 per cent of the national Gross Domestic Product (GDP).

Most importantly, stockbrokers are not identified as a sector that has carried out ML related activities. However, although there are significant number of STRs reported to the FIU in relation to share trading, no indication of involvement of stockbroking company could be seen. No ML cases were reported leading to indictments. Regulatory sanctions and compounding of penalties had been on shareholders and market manipulators and not by stockbrokers. Predicate offending linked proceeds that may have entered the share market via stockbrokers are presumed as relating to corruption, fraud, and scam related proceeds, however, no direct links have transpired during the assessed period. Investigations linked to PD activities had led to 10 suspensions of Central Depository System (CDS) accounts directed by the FIU under FTRA provisions. The complexity of the share market and the attention drawn by CDD may have limited the involvement of the sector to white collar offending. Although ML threat is not immediately visible, WG deems the sector to have consequences far reaching should there be cases that link with the ML predicate offending. The potential ML threat is categorized as **Medium Low** for the Stockbrokers.

PDs by its size, is around 0.3 percent of the total financial sector assets by 2021 (CBSL). The dealers are limited to 6 License Commercial Banks (LCBs) and 7 PD companies. There are several cases at present pending prosecution before the High Court, indicted for insider dealing including the infamous "bond scandal" related

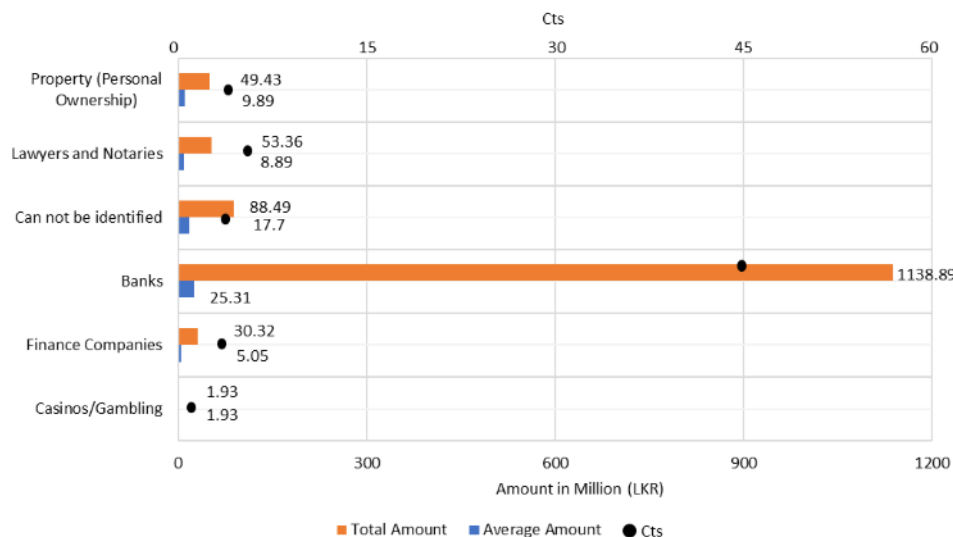
prosecutions implicating former officials of the Central Bank and primary dealerships as having colluded with market participants and price setters. Two participants, a bank and a standalone primary dealership had been suspended following the bond scandal related investigations. WG is guided by the much-publicized evidence gathered and the conclusions arrived at by a Presidential Commission of Inquiry during the assessed period. WG also identifies this sector as prone to ML threats where proceeds from the offending of corruption, fraud and scams could enter. The consequences of such would cause a decline in market activities, erode investor confidence and value fundamentals, further contributing to adverse economic conditions. Therefore, considering the consequences, the threat level for this sector is deemed as **Medium**.

1.4.4 Insurance Sector

The insurance sector represents 3 percent of the total assets of the financial sector in Sri Lanka. In line with FATF Recommendations, WG has focused on identifying possible ML threat risk emanating from the longer-term insurance products that involve a one-time premium or multiple premia. In this context, a large segment of the products utilized in Sri Lankan insurance sector consist of life insurances. For the assessment, WG looked at the number of cases reported, involvement of insurance agents and brokering services, and linkages to predicate offending. Considering the limited range of longer-term products, and the limited ML threat exposure sans investigations/prosecutions, this sector is deemed as posing a **Medium Low** ML Threat.

1.4.5 Designated Non-Finance Business and Professions

Figure 10: Estimated Money Laundering Proceeds in Financial Sector and DNFBPs - Based on the Money Laundering Prosecutions, Investigations Concluded (Cts) (2015-2021)



Sources: Attorney General's Department
Auditor General's Department
Criminal Investigation Department
Colombo Crimes Division

1.4.5.1 Casinos

From the DNFBPs, casinos and gambling sector showed criminal offending that links to ML threat and its estimated proceeds are around Rs. 1.93 million as shown in Figure 10. The AML/CFT supervision is carried out by the FIU. Although legislation to regulate the sector - the Casino Business (Regulation) Act, No. 17 of

2010 - was in place, the effective mechanism by way of Regulations was not in place until August 2022. The regulation of casinos is now vested with the Ministry of Finance and four casinos have been obtained licenses under the Casino Business (Regulation) Act as at end 2022. However, creating a unique situation in Sri Lanka, a large levy has been extracted from the casinos although license was not issued prior to 2022. Considering the low transaction values of the players, perceived exposure to foreign participants and presence of one LEA investigation resulting in ML prosecution (albeit a low number of STRs are received by the FIU) the WG places the level of ML threat emanating from the casino sector as **Medium**.

1.4.5.2 Dealers in Precious Metals and Precious Stones

The National Gem and Jewellery Authority (NGJA) established under the National Gem and Jewellery Authority Act, No. 50 of 1993, regulates a large part of this sector. The FIU is ensuring the AML/CFT supervision and outreach activities take place. Presence of large value merchandise, transportability in small quantities, the presence of hawala and hundi activities, absence of ML reported cases and limited number of STRs reported albeit possibility of high value marked items being moved across the border, indicate potent ML threat factors. In view of these, the sector is rated as posing a **Medium** level ML threat.

1.4.5.3 Real Estate Agents

The real estate sector is unregulated and poses as a conduit for drug trafficking and other fraud based criminal activities to launder proceeds of crime. Sector ML/TF risk is supervised to a limited extent by the FIU. However, the presence of reported cases linked with ML, predicates linked to drug trafficking, significant presence of cash intensive transactions, LEA originated suspensions related to ML investigations under PMLA provisions, questionable proceeds that do not match the known income of the suspects, multiple cases where assets are traced to organized criminal gangs involved in the sector, and inadequate CDD measures being engaged by the Notaries place this sector at a **Medium High** level of ML threat.

1.4.5.4 Notaries

The Notaries carry out notarial execution of deeds and prepare related documentation within their capacity as gatekeepers in property transactions. WG observes that in several indicted cases for ML offending had involved deeds and notarial executed documents in purchase of real estate. However, no ML charges are framed against Notaries in these indictments. It is observed that Notaries sector is in a position to play a supporting role in carrying out property transactions that are widely deemed as a more famous mode of laundering of proceeds. Furthermore, the Registrar General's Department (RGD) records depict a large number of deeds registered annually during the assessed period, and where CDD on the transacted parties are not strictly being adhered, there is an increasing likelihood of the sector being misused. Accordingly, this sector threat element is deemed as **Medium**.

1.4.5.5 Accountants Engaged in Covered Activities

The accountants are not charged in any ML case specifically, and the large audit firms have a robust presence and healthy regard towards practicing AML/CFT safeguards in the profession. In view of the lack of cases and the conditional engagement in the auditing practice absolving the burden of criminal association with the accountants place the sector as **Medium Low**.

1.4.5.6 *Trusts and Company Service Providers*

The TCSPs are not identified in separate STRs nor the ML investigations during the assessed period. Due to the indirect component involved with formation of legal persons and legal arrangements and the fact that no case has been reported of their involvement, the TCSP sector is identified as forming a **Medium Low** level of ML threat.

1.4.5.7 *Lawyers Engaged in Covered Activities*

Predicate offences relating to the sector have linked ML investigations to property transactions carried out by lawyers in their capacity as notaries and trust and company services providers. Information relating to direct involvement of Attorneys-at-Law in ML cases is not visible. Accordingly, the sector is viewed as having a **Medium Low** threat level.

1.5 Origin of the Money Laundering Threats

The strategic geographic location of Sri Lanka in the Indian Ocean, and its close proximity to India and Maldives and the southern trade routes to the Asian region countries pose as a significant ML threat. When considering the direct external threat relating to drug trafficking as a major predicate offence generating ML threat, the threat emanates from ports being used as onboarding/offloading points for transshipments from coastal locations in Afghanistan, Pakistan, Bangladesh, India, and from several Middle Eastern ports, where the narcotic hauls are transported via Sri Lanka for onward destinations.

The trade flow patterns and Foreign Direct Investment flows were reviewed by the WG to observe possible direction and size of foreign flows that may lead to indicate money laundering stemming from foreign destinations. According to statistics compiled by the Economic Research Department of the CBSL, trade flows and Foreign Direct Inflows during the period 2015-2021 show largest inflows related to trade arriving from the European Union (EU) group of countries, USA, UK, and India. Foreign Direct Inflows stem from India, UK, UAE, Canada, Australia, and USA. Largest outflows in terms of trade have gone to the jurisdictions of India, the EU Group, UAE, USA; while outward investments stemming from Sri Lanka were largely directed to India, Australia, and Bangladesh. The values related to trade and FDI are not significant and stretch over a period around the same geographical locations that are deemed as low ML threat destinations by literature and having strong ML controls in place.

However, direction of the ML threat is not fully conclusive due to absence of significant level of data on ML fund flows. TBML flows may determine some sense of direction and source countries. However, it is also not a conclusive source of evidence for direction of ML flows. DPS trafficking related activities detected show external factors controlling origin and direction remaining as an outflow of funds gained from sale of trafficking. Recent patterns of outward remittances, increased presence of hawala and hundi operators, weak laws and limited investigative scope affirm possibility of the outward-bound direction of ML proceeds.

Figure 11: Money Laundering Threat Assessment

