



INSPECTING THE PRICE TAG: THE REAL COST OF FINANCIAL CRIME TO JAMAICA



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January 31, 2018

DEFINING FINANCIAL CRIME

The term covers a wide range of offences in which the *modus operandi* and the motive involve the acquisition and/or retention of ill-gotten gains.

These include:
fraud, tax evasion, corruption, insider dealing, market abuse, terrorist financing and money laundering

SCOPE OF FINANCIAL CRIME IN JAMAICA

Jamaica continues to experience a large number of financial crimes related to lottery scams, corruption, extortion and cybercrime.

Money laundering in Jamaica is primarily related to proceeds from illegal narcotics and fraud schemes which are largely controlled by organized criminal groups.



FINANCIAL AND VIOLENT CRIME NEXUS

There are dozens of violent gangs in Jamaica.

Most are responsible for the drug trade and fraud schemes that generate colossal illicit profits.

They invoke money laundering and corruption as a means of insulating themselves and their money from law enforcement.

These organised criminal groups also use violence as a way of protecting their status.

Jamaica has one of the highest *per capita* homicide rates in the region.

Jamaica's Crime Record 2016

886 gang-related murders

325 revenge/reprisals

408 gang members or relatives of gang members



NATIONAL SECURITY POLICY

Money laundering and corruption are on Tier 1 of the National Security Policy.



They represent high-impact, high-probability threats and are clear and present dangers to the state, its economy, integrity and the lives of its citizens.



These top priority threats require an active response.



Key Action #1
Remove the Profit from Crime

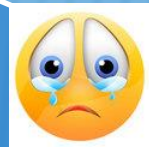
MICRO AND MACRO IMPLICATIONS

Financial crimes

- have a major impact on the international banking and financial sectors
- have a negative impact on the entire economic and social system through the considerable loss of money incurred
- affect individuals, companies, organizations and even nations

COSTS TO VICTIMS

Financial loss to victims of fraud, extortion etc.



Medical expenses to treat depression, and other injuries or chronic ailments, caused by the crime

Loss of income where victim is unable to work as a result of impact of the crime

COSTS TO ECONOMY


Diversion of funds from legitimate economy to purchase contraband, pay bribes or cover cost of laundering illicit funds

Healthcare costs incurred by state to treat victims of crime

Reduced productivity and output where crime victims are unable to work



COST TO GDP



The World Bank estimates that crime is costing Jamaica about five per cent (5%) of the country's Gross Domestic Product (GDP) per year, which translates to about \$68 billion per year.

“The economy is now, at best, one-third (1/3) of the size it should have been; it may have shrivelled to just ten per cent (10%) of the size that it should have been.”

“If we...cut crime in half the economy would grow by two and a half per cent (2 1/2 %) without the investment of a single additional dollar.”

COST TO REVENUE

Tax revenue accounts for about 25% of GDP in Jamaica.

Tax evasion is the deliberate non-payment of taxes on legitimately earned wealth or ill-gotten gains.

Custom duties could be circumvented through the payment of bribes to officials

Road traffic penalties could be evaded through the payment of bribes to police officers

Non-payment of taxes, duties and other administrative penalties, through fraud or corruption, creates a "revenue gap" which could severely impact the budget and economy.



COSTS TO LAW ENFORCEMENT

Investigation:

Increased demand for security forces/police including specialized agencies such as FID

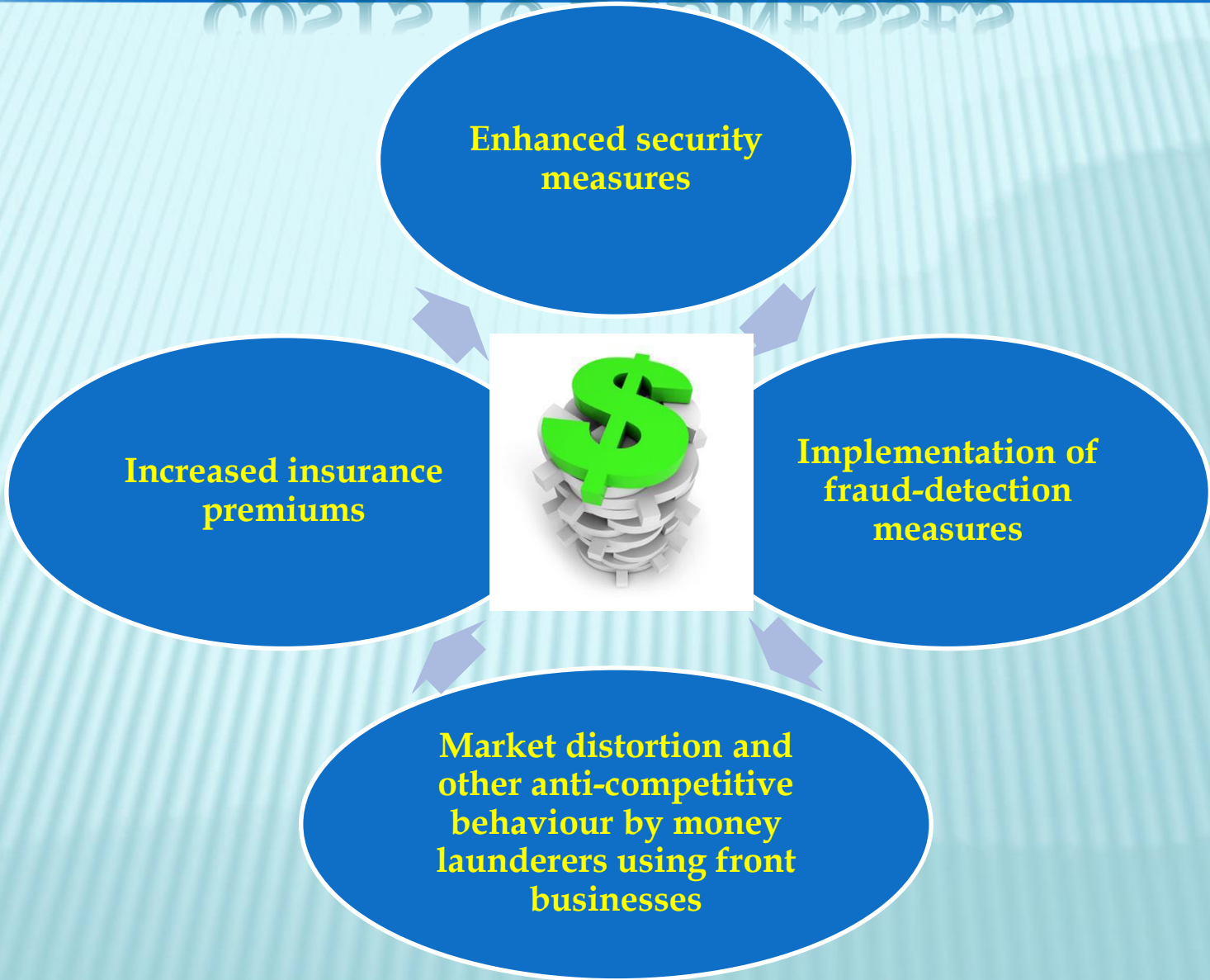
Prosecution:

Increased pressure on courts/justice system

Punishment:

Increased strain on correctional facilities/prisons

COSTS TO BUSINESSES



COST OF COMPLIANCE

Implementation of AML/CFT compliance measures is a significant expenditure for regulated sector

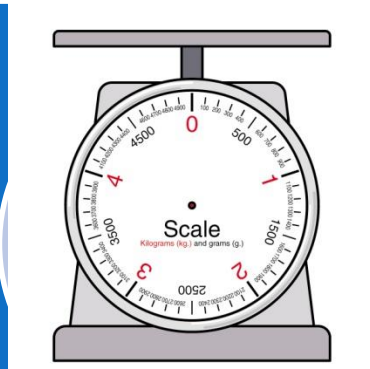
Europe: financial services companies in France, Germany, Italy, Switzerland and The Netherlands is US\$83.5 billion

Asia: banks in China, Hong Kong, Indonesia, Malaysia, Singapore and Thailand total an estimated US\$1.5 billion annually

Majority of expenses relate to labour and risk management technology

For example, on average, due diligence can take up to 30 hours for foreign corporate clients

COST OF NON-COMPLIANCE



“An ounce of prevention is worth a pound of cure, particularly in the sphere of AML-compliance... Yes, it is costly to establish an effective AML-control structure, but non-compliance costs can be much more (costly)...”



monetary fines
civil damages
asset forfeiture
reputational damage
loss of business



COST TO CONSUMERS

'pass on' costs to consumers

increased expense by businesses for security, insurance and, (for regulated sector), compliance costs means that their customers/clients have to pay more for products and services

More costly Jamaican products become less competitive globally

More expenditure means less savings and less investment by local consumers



COSTS TO SOCIETY

**Ruined or lost
lives for victims of
crime**

**Reduced life
satisfaction
because of fear
of crime**

**Erosion of values
by the enormous
earnings by
criminals**

**Cycle of crime and
violence continues**



INCALCULABLE COSTS

reputational damage to entities embroiled in financial crime



harm to morale of employees of such entities



erosion of public confidence in the financial markets, the economy and the state



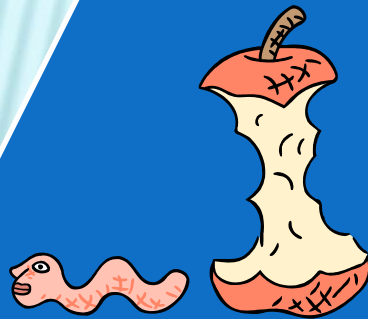
COST TO STABILITY

Where financial crime is pervasive, it instills distrust, frustration and even civil unrest

It threatens to undermine democracy and the rule of law

Overall, financial crime "destroys value"

It represents a substantial threat to the stability of the jurisdiction



COSTS TO JURISDICTION

Loss of correspondent banking relationships

Reduced access to international financial aid

Loss of foreign direct investment

Negative impact on tourism

Capital flight – *fei chien*

Migration of skilled workers



WHO LOSES?

Individual

Entity

Clients

Employees

Shareholders

Industry

Jurisdiction



FINANCIAL CRIME TRIANGLE

The Fraud Triangle:

A framework for spotting high-risk fraud situations

Pressure

Financial or emotional force pushing towards fraud

FRAUD

Opportunity

Ability to execute plan without being caught

Rationalization

Personal justification of dishonest actions

pressure

opportunity

rationalization

FINANCIAL CRIME EQUATION



**GOOD
GUYS**



**BAD
MONEY**



**BAD
GUYS**

+

=



DISMANTLING THE TRIANGLE



pressure

opportunity

rationalization



WHAT'S BETTER THAN
"TOO BIG TO FAIL" ?

TOO BIG
TO JAIL!

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FORMULA FOR TACKLING FINANCIAL CRIME

Step 1:

Place greater emphasis on asset recovery, particularly non-conviction measures such as civil recovery and cash forfeiture actions under POCA

Step 2:

Enhance regulatory action by the regulators of the financial services industry and other gatekeepers to improve the detection and prevention of money laundering and other financial crimes

Result:

Significant strides would be made in taking the profit out of crime without relying on an already overburdened criminal justice system

