Money Laundering and Terrorism Financing: Assessing Exposure Risks Across Non-Financial Institutions in Nigeria

Dr. Oluwakemi A. Dawodu-Sipe (Adjunct Lecturer) c/o Department of Commercial and Industrial Law, University of Ibadan, Ibadan, Oyo State, Nigeria. Email: kemmydake@yahoo.ca[1]

Abstract

Money laundering and terrorism financing in Nigeria have far-reaching social and political consequences. The illicit activities associated with money laundering, such as drug trafficking and terrorist financing, contribute to increased crime rates and violence. This poses a significant threat to public safety and security. Moreover, the success of money laundering activities erodes the integrity of society and undermines democracy and the rule of law. The Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulation, including other related regulations, guides financial institutions and other reporting entities on their obligations to prevent and detect money laundering activities. These regulations outline the requirements for customer due diligence, reporting obligations, and record-keeping. Non-compliance with these regulations can result in legal and regulatory consequences for financial and non-financial institutions, not excluding legal practitioners in Nigeria, including the risk of exposure to reputational damage and loss of operating licenses.

Keywords: money laundering, terrorism financing, anti-money laundering, financial institutions, the Legal Practitioners.

[1] LL. B (Hons) LL.M (Ibadan) BL. Email: kemmydake@yahoo.com Phone No: +2348037475514. Oluwakemi A Dawodu-Sipe is at present, an Adjunct lectuer at University of Ibadan, Ibadan, Nigeria.

INTRODUCTION

This paper is divided into five parts. Following this introduction, the second part examines the risk of exposure of legal practitioners to money laundering and terrorism financing in Nigeria. The third part expands the analysis to other non-financial institutions. The fourth part presents recommendations on mitigating these risks, while the fifth offers concluding reflections.

Owing to several advancements in our ever-evolving world, the adoption of innovative means in carrying out criminal activities has intensified, and it is only expedient that the fight against money laundering and terrorism financing in Nigeria be concentrated[2]. Consequently, the Nigerian legal framework has begun to experience rapid expansion, which underscores the need to include new yet germane rules and laws in our combat against the triad (money laundering, terrorism financing, and proliferation financing).

One example of these novel rules is the Rules of Professional Conduct for Legal Practitioners 2023, which was made on June 6, 2023, and repealed the Rules of Professional Conduct 2007. The revocation of the Rule of Professional Conduct 2007 went into force on December 31st, 2023[3] while the new Rules became effective on the 1st of January 2024[4]. This rule was made to lay down the ethical standards for legal practitioners in Nigeria. Hence, this paper will address in-depth the key provisions of this new rule and how it concerns money laundering and terrorism financing for legal practitioners in Nigeria.

Chapter two of the new Rules of Professional Conduct for Legal Practitioners broadly highlights the areas of money laundering, terrorism financing, and proliferation financing in lawyer-client relationships and the provision of legal services. The provisions of chapter two needed to be included in this new rule, as it was a way to combat the increased risk of using independent legal practitioners to commit financial crimes owing to lawyers' dealings with clients' money in several cases[5]. As a result,

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[2] O.D. Opudu and S. Ogoun, 'Money Laundering Conviction Rate and Capital Formation in Nigeria' (2023) 9 *Accounting* 121. https://www.researchgate.net/publication/368226283_Money_laundering_conviction_rate_and_capital_formation_in_Nigeria/citations accessed on August 30, 2024.

[3] Rules of Professional Conduct for Legal Practitioners 2023, Rule 75.

[4] Ibid, Rule 76.

[5] N. Ahiauzu and T. Inko-Tariah, 'Applicability of Anti-Money Laundering Laws to Legal Practitioners in Nigeria, NBA v. FGN & CBN' (2016) *Journal of Money Laundering Control*

Chapter Two of the RPC 2023 offers legal professionals thorough guidelines for recognising, evaluating, and mitigating the dangers associated with money laundering and the funding of terrorism. The Nigerian Bar Association Ethics and Disciplinary Committee, specifically the Legal Practitioners Disciplinary Committee, is tasked with overseeing adherence to the Rules and other associated duties regarding the provisions of the Rules.

Understanding the Risk Factors Associated with Money Laundering

The term "money laundering" refers to the practice of making illegal cash appear legitimate through a series of complex transactions that conceal the true source of the funds. Hence, money laundering risk refers to the likelihood that financial institutions, businesses, or individuals will be utilised as a channel or means for criminal operations such as drug trafficking, terrorism financing, or other unlawful activity. This risk can cause grave harm to a person's finances, which could lead to legal consequences as well as a loss of one's company reputation. However, despite the severe consequences associated with these risk factors, there are a plethora of ways to effectively manage them through implementing measures to prevent, detect, and report suspicious activities, such as customer due diligence, ongoing monitoring, and reporting to regulatory authorities[6].

Effects of Money Laundering on Nigeria

Assessing the precise economic impact of money laundering remains challenging due to limited data availability. While economic models can trace the multiplier effects of funds transferred between sectors, there is a dearth of systematic data on the expenditure patterns of laundered money. Still, the effects of money laundering on Nigeria cut across economic, social, political or institutional, and reputational dimensions.

ECONOMIC EFFECTS

The economic consequences of money laundering vary depending on how illicit funds are utilised; for instance, investing in luxury real estate often results in a net economic

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https://www.researchgate.net/publication/310756672_Applicability_of_anti-money_laundering_laws_to_legal_practitioners_in_Nigeria_NBA_v_FGN_CBN accessed 30 August 2024.

[6] V. Comply, 'Money Laundering Risks' https://www.v-comply.com/glossary/money-laundering-risk/ accessed 31 August 2024.

loss, whereas channelling funds into legitimate businesses can yield temporary positive effects. In Nigeria, money laundering has threatened the stability of the financial, real, and external sectors of the economy. Specifically, it poses risks to the banking system, as financial institutions play a crucial role in intermediating between investors and savers, and their distress can generate far-reaching consequences.

Money laundering has also caused significant volatility in the exchange rate and hindered the growth of foreign direct investment. The naira exchange rate differential is often influenced by premiums paid to falsify import documents, evade customs duties, or make restricted transfers. This inflates the demand for foreign exchange, driving up prices. Consequently, the use of trade as a laundering technique reduces the competitiveness of Nigerian exports and slows economic growth as stated in the IMF Staff Report, 2001.[7]

In addition, launderers prosecuted by the EFCC have often used illicit funds to import luxury vehicles, with proceeds returning into the domestic economy for consumption. Such practices integrate dirty money into the system, trigger macroeconomic instability, and distort resource allocation. Massive illicit capital flight since the mid-1990s has further drained Nigeria's productive capacity, with much of the funds channelled into developed-world laundering centres and not repatriated.

REPUTATIONAL EFFECTS

The proliferation of money laundering in Nigeria has heightened reputational risks for banks, which increasingly prioritise attracting large sums of money without scrutinising their origin, thereby deviating from their traditional intermediation role. This shift is evident in the significant proportion of off-balance-sheet transactions. Between 1999 and 2003, an unusual surge in net foreign assets coincided with the banking system's elevated total assets and off-balance-sheet transactions, averaging 39.8% and 71.1% of GDP, respectively. The same period saw non-performing assets averaging 2.9% of GDP, a potential catalyst for systemic crisis. These trends undermine investor confidence in the financial system, especially against the backdrop of a weak legal framework that struggles to enforce anti-money-laundering regulations.

[7] International Monetary Fund, *Nigeria: Staff Report for the 2001 Article IV Consultation*, IMF Country Report No 01/131 (Washington DC: IMF 2001)

Reputational risks extend beyond the banking sector. Money laundering deters foreign investment, undermines international banking relationships, and blocks access to technology transfer and international distribution channels. Nigeria's inclusion on the Financial Action Task Force's list of high-risk countries has attracted premium charges on transactions involving Nigerian financial institutions and has restricted overseas account openings.

SOCIAL EFFECTS

Money laundering imposes significant social costs. It enables criminals to expand operations, increases the burden on law enforcement and healthcare systems, and transfers economic power from the market, government, and citizens to criminal networks. The accumulation of vast wealth by criminal actors entrenches inequality and distorts social values, as illicit enrichment is normalised within society.

POLITICAL AND INSTITUTIONAL EFFECTS

The economic and social power gained by criminals through money laundering has a pervasive, corrupting influence on Nigeria's political and institutional systems. In severe cases, it can even lead to the de facto control of legitimate government institutions by criminal elements. Left unchecked, these dynamics erode social cohesion, weaken collective moral values, and ultimately threaten Nigeria's democratic institutions.

What are the Provisions of the Rules of Professional Conduct 2023 on Anti-Money Laundering (AML), Combating Terrorism Financing (CTF), and Proliferation Financing (PF)?

The recent amendments to the Rules of Professional Conduct (RPC), particularly the incorporation of Anti-Money Laundering (AML) and Combating Terrorism Financing (CTF) regulations, have fundamentally altered the ethical landscape for legal practitioners. These changes, encapsulated in Chapter Two, serve multiple purposes.

First, as articulated in Rule 55, the amendments aim to reinforce compliance with both the rule of law and existing AML/CTF/PF legislation. This objective is intertwined with the need for internal self-regulation within the legal profession, ensuring that disciplinary actions against members are conducted following established procedures.

Another crucial aspect of these revisions is the emphasis on preserving the lawyer-client confidentiality privilege. However, this privilege must be maintained in a way that aligns with ethical standards, explicitly prohibiting its use to facilitate money laundering or terrorism financing.

Additionally, the adoption of a risk-based approach is highlighted, which equips legal practitioners to proactively identify and address potential money laundering scenarios. By doing so, they can offer informed advice to clients, thereby preventing such illicit activities from occurring. Still, Rule 56 extends the applicability of these provisions to all legal practitioners registered in Nigeria, as detailed in Section 2 of the Act.

The Rules obligate legal practitioners to perform certain reporting and compliance responsibilities[8] which comprise conducting an internal risk assessment to tackle money laundering, terrorism financing, and proliferation financing[9]. This assessment must be carried out in all legal appointments with clients, either directly or indirectly, since the legal practitioner's non-compliance will make him liable for professional misconduct punishable by the Legal Practitioners Act[10]. However, when a legal practitioner merely notarises or certifies a document used in a contractual or related transaction without being involved in its preparation, the responsibilities detailed in this section do not extend to him. Furthermore, legal practitioners are obligated to maintain precise and current records of their clients, whether domestic or international, to ensure their straightforward identification. These records, encompassing both client information and transactional details, must be retained for a minimum of five years.[11]

Legal professionals must also establish a means to guarantee the implementation of the United Nations Targeted Financial Sanctions regarding Terrorism and Proliferation Financing. It is expedient that these means provide sufficient techniques for lawyers to screen all their clients to ascertain that they are not within or associated with the UN Consolidated List or the Nigerian Sanction List[12]. Upon detecting a

[8] Rule 57 (1).
[9] Rule 57 (5).
[10] Rule 57(2) and (3).
[11] Rule 58.
[12] Rule 60.

match or association with the UN Consolidated List[13] or the Nigerian Sanction List[14], the Rules obligate legal practitioners to promptly single out and freeze all assets belonging to such clients that are under their control. They are further required to submit a report to the Nigerian Bar Association/Anti-Money Laundering Committee (NBA/AMLC), which will then relay it to the Nigerian Sanctions Committee. In addition, a suspicious transaction report must be filed with the NBA/AMLC, which will ensure its further transmission to the Nigerian Financial Intelligence Unit for an in-depth analysis of the financial activities associated with the entities involved[15].

As a way of combating money laundering and terrorism financing, the Rules further include Customer Due Diligence or Enhanced Due Diligence requirements, which mandate legal practitioners to pinpoint and assess money laundering and terrorism financing risks that come with rendering certain legal services, as well as developing internal procedures, policies, etc., to combat them. The identified procedures must specify the risks associated with the clients and the intricacies which the firm must ordinarily be able to address[16]. Per adventure, a legal practitioner does not possess the necessary expertise to conduct a workable client due diligence and enhanced due diligence assessment; he should ensure expert assistance to facilitate compliance with the rules, else he would have to refuse that client's instruction without bias or prejudice[17].

Additionally, the rules stipulate that although there isn't a single, widely recognised category or assessment process, the Rules' provisions might serve as a reference when identifying the types of risks that might be connected to services provided or to be provided by a legal practitioner.[18] For this reason, risk categories might be things like transaction risk, client risk, and geography risk. A comprehensive understanding of the geography risk, particularly the unique characteristics of the nations involved, such as their designation by reliable sources as sponsors of terrorism, corruption, and other illegal activities, terrorist groups active on their soil, international organisation

[13] [13] United Nations Security Council, *United Nations Consolidated Sanctions List* (United Nations, updated 2024) https://www.un.org/securitycouncil/content/un-sc-consolidated-list accessed 22 September 2025.
[14] Nigerian Sanctions Committee, *Nigeria Sanctions List* (NIGSAC, updated 2024) https://nigsac.gov.ng/NiraReports accessed 22 September 2025.
[15] Rule 60(4).
[16] Rule 61.
[17] Rule 61(4) (c).
[18] Rule 62.

sanctions, embargoes, and other restrictions, or a lack of robust regulatory frameworks to combat money laundering and the financing of terrorism and proliferation, will help determine the geographic or country-based risk.[19]

It is not unlikely for clients to be at risk for money laundering and terrorism financing. These clients can be evaluated by examining their status to ascertain if they are politically exposed persons or if they are natural or juristic persons in affiliation with a politically exposed person. Additionally, assessments are made to determine whether the clients run a cash-intensive business or not. The lawyer would also have to assess them to understand if they are juristic clients having an unclear structure whose beneficial ownership cannot be reasonably determined or if they are clients with subsidiaries in countries posing high geographic risks, etc.[20]

Assessing transaction risks involves identifying unconventional payment methods, such as the use of precious stones, or services that promote client anonymity, involve unknown third-party payments, or rely on unconventional cash transactions[21]. Additionally, services that obscure their beneficial ownership may also indicate potential risks. To demonstrate compliance with due diligence requirements, legal practitioners must provide a documentation package, comprising a compliance document outlining their understanding of the requested service and an affidavit from the client attesting to the transaction's legitimacy, source of funds, and other pertinent information[22]. This documentation serves as evidence of the practitioner's diligence in verifying the transaction's authenticity and mitigating potential risks.

Launch of the Nigerian Bar Association's Committee on Anti-Money Laundering Initiatives

The NBA is obligated by Rule 73 to set up an *ad hoc* committee known as the Nigerian Bar Association Anti Money Laundering Committee (NBA/AMLC), which will be vested with the sole responsibility of advising the NBA on the implementation and monitoring of compliance of law firms and legal practitioners with the provisions of Chapter 2 of the Rules[23]. The NBA/AMLC Committee will comprise experts in

[19] Rule 63.
[20] Rule 64
[21] Rule 65.
[22] Rules 63 (4), 64(4) and 65(3) of the same RPC 2023.
[23] Rule 73(1)

anti-money laundering and terrorism financing, with a strong legal reputation and no history of related offences[24]. The NBA must provide training on risk management, policy effectiveness, and control measures for legal practitioners[25]. The Committee is responsible for identifying and assessing risks, evaluating existing measures, and publishing periodic reports to ensure the integrity of the legal profession[26].

The Committee will devise policies and strategies to identify and scrutinise the profiles of legal practitioners vulnerable to exploitation or involvement in money laundering or terrorism financing[27]. Additionally, the Committee will establish a supervisory framework to verify the accuracy of ownership information of legal entities and arrangements maintained by lawyers and law firms[28]. This framework will consider various factors such as:

1. Risk assessments conducted by lawyers at the client, firm, and transactional levels

2. Implementation of risk-based customer due diligence

3. Regular continuing legal education on due diligence, anti-money laundering, and combating terrorism financing

4. Procedures for prompt investigation of misappropriation of client funds or involvement in money laundering and/or terrorism financing by lawyers

5. Timely reporting of suspicious transactions, balanced with the profession's ethical duty of confidentiality.

This comprehensive approach aims to prevent money laundering and terrorism financing in the legal profession[29].

The NBA/AMLC has the authority to conduct risk-based compliance examinations of law firms independently and submit its findings to the Special Control Unit against Money Laundering (SCUML)[30]. The Committee is responsible for developing the examination template. Furthermore, the Committee has the power to recommend

[24] Rule 73(2)
[25] Rule 73(3)
[26] Rule 73(4)
[27] Rule 73(5) and (6)
[28] Rule 73(7)
[29] Rule 73(8)
[30] Rule 59 (1)

disciplinary action to the Legal Practitioners Disciplinary Committee (LPDC) or take legal action against any legal practitioner who violates the provisions of Chapter 2 of the Rules. As such, the NBA/AMLC serves as the primary body within the NBA for addressing and mitigating the risks of money laundering and terrorism financing.

The Importance of Know Your Customer (KYC) and Anti-Money Laundering (AML) for Lawyers and Law Firms

Since the entire essence of money laundering is for the perpetrators to block out any association or link between them and the money obtained illegally, it is highly possible for legal practitioners to inadvertently be involved in the whole charade. Although law firms are not financial institutions, lawyers face significant risks of being exploited for money laundering purposes. Individuals involved in illegal activities might seek legal services to lend an appearance of legitimacy to their illicit financial, corporate, or real estate dealings. For instance, they might utilise a law firm's client accounts to transfer funds, either to legitimise the funds or to leverage the firm's professional reputation to make a transaction appear more legitimate. Clients may equally use a law firm’s account for the deposition or even withdrawal of illegal funds, which unfortunately puts the law firm at risk.

Nonetheless, the professional ethics of a lawyer obligate him to kick against every form of illegality, even though criminal minds are still in search of other, less obvious ways to engage in money laundering. It is, therefore, expected that lawyers should understand the Anti-Money Laundering/Know-Your-Customer obligations and the right strategies to prevent money laundering in all its forms.

Regulatory Differences and Consequences

In Nigeria, Know Your Customer (KYC) was first brought in by the Money Laundering (Prohibition) Act of 2004. This act laid down the principles for combating money laundering through the introduction of Customer Due Diligence as a major principle of Know Your Customer compliance. However, subsequent amendments were made to the MLPA in 2011, and this introduced the Central Bank of Nigeria and the Economic and Financial Crimes Commission (EFCC) as means of fighting and preventing money laundering and terrorism financing in the country. This amendment

was further sharpened by the introduction of the KYC Guidelines in 2013, which provide a step-by-step guide and requirements for identifying and screening clients.[31]

Nonetheless, compliance with KYC in Nigeria is led by the Central Bank of Nigeria. However, an international body called the Financial Action Task Force (FATF) regulates and sets the standards for fighting money laundering in several countries of the world, including Nigeria. Hence, while many jurisdictions have their regulations, even within each jurisdiction, several different laws and regulations may apply.

In the European Union, for example, lawyers are required to commit to specific responsibilities concerning Anti-Money Laundering (AML) and Know Your Customer (KYC) legislation. Law firms within the European Union are directly obligated to adhere to Anti-Money Laundering (AML) regulations, whereas their counterparts in the United States are not subject to equivalent legal mandates. Nevertheless, this does not exempt U.S. law firms from their responsibilities in the realms of anti-money laundering and counter-terrorism financing[32]. Fulfilling these responsibilities necessitates the training of personnel to identify complex transactions that may entail significant risk. Law firms must undertake appropriate measures upon suspecting that a client, or potential client, is engaged in money laundering or terrorism financing, or has intentions to do so. Moreover, it is imperative for legal practitioners to accurately verify the identities of clients when initiating business relationships, particularly in the context of high-risk transactions.

In Nigeria, section 25 of the MLPA categorises legal practitioners as Designated Non-Financial Institutions, which have now been redesignated by the FATF and CBN as Designated Non-Financial Businesses and Professions (DNFBPs), which imposes responsibility on them to comply with the general principles as well as identify their clients regarding AML and KYC[33]. Sections 5 and 7 of the MLPA 2011 also place further mandatory obligations on legal professionals to keep records of transactions with clients and also to send the same to the CBN, EFCC, and SCUML. This is very

[31] N. Emadamerho-Atori, 'Nigerian KYC Laws and Requirements You Should Know in 2024' (Dojah, 2024) https://dojah.io/blog/nigeria-kyc-laws accessed 31 August 2024.
[32] A. Sedbom, 'Why Are Lawyers at Risk of Being Used for Money Laundering?' (Signicat, 2022) https://www.signicat.com/blog/why-are-lawyers-at-risk-of-being-used-for-money-laundering accessed 31 August 2024.
[33] F. E. Eboibi and I. Mac-Barango, 'Global Eradication of Money Laundering and Immunity for Legal Practitioners under the Nigerian Money Laundering Regulation: Lessons from the United Kingdom' (2019) *Beijing Law Review* doi:10.4236/blr.2019.104042.

unlike what is attainable in the US, where legal practitioners are not directly subject to equal legal mandates in the areas of AML and KYC.

Penalties for Non-Compliance

Non-compliance can result in different kinds of penalties, including the following.

1. Administrative sanctions which could be in the form public warnings
2. Administrative fines
3. Penalty payments
4. Criminal penalties such as fines or imprisonment.

In recent times, the banking sector has witnessed a surge in hefty fines imposed on institutions for neglecting to meet regulatory standards, underscoring the severe consequences of non-compliance and the need for stringent adherence to legal obligations. In Nigeria, between 2018 and March 2019, Access Bank incurred a 65 million naira fine for non-compliance with CBN's Anti-Money Laundering regulatory requirements. Similarly, Stanbic IBTC Nigeria has received a 20 million naira, three million naira, and two million naira fine for non-compliance in failing to report suspicious financial transactions to the CBN[34]. Similarly, board members and senior management of regulated industries can also be held personally responsible for non-compliance within their companies.

A Boosted Need for Monitoring

Before the recent turmoil and heightened tensions in Europe, registry searches primarily concentrated on verifying customer identities and preventing money laundering. However, it has become increasingly crucial to also conduct thorough background checks on customers and business partners. To safeguard their reputation and comply with legal requirements, companies must adopt a responsible approach and ensure that their customers and partners are not listed on any sanction lists, thereby mitigating potential risks and reputational damage.

The Significance of KYC

[34] E. Agwu, 'Largest Anti-Money Laundering (AML) Fines of 2021 in Africa – Key Takeaways and Insights' (Youverify, 2022) https://youverify.co/blog/largest-african-banks-anti-money-laundering-aml-fines-of-2021 accessed 1 September 2024.

The diverse nature of corporate clients, spanning from emerging startups to established multinational financial institutions, presents a significant challenge in maintaining compliance with KYC/AML regulations. This task is further complicated when internal processes are not optimised for efficiency or automation. Moreover, companies across all industries are susceptible to fraudulent activities, underscoring the imperative of implementing robust KYC and KYB protocols. These measures not only ensure adherence to AML regulations but also serve to protect business interests by mitigating the risk of scams, fines, and reputational damage, ultimately promoting ethical and sustainable business practices.

Politically Exposed Person (PEP) Screening

Since politically exposed persons are susceptible to blackmail, corruption, and other illicit ways of getting money, including drug trafficking, it is often mandated in several industries that Know Your Customers (KYC) and Know Your Business (KYB) are carried out. The essence of this is to determine the status of the clients or persons involved in the transaction to know whether they are politically exposed persons or not, since PEPs are likely to commit financial crimes.

Failure to fulfil Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements can result in drastic repercussions, including the potential revocation of a law firm's license. Moreover, firms that neglect to undertake adequate measures to verify the beneficial ownership of their corporate clients may face criminal prosecution. The magnitude of the consequences varies according to the degree of negligence and the regulatory framework of the jurisdiction in which the firm operates.

Engaging in transactions with dubious entities can tarnish a company's reputation and lead to adverse publicity. The Know Your Customer (KYC) process is an ongoing diligence effort that commences when a new client initiates contact with the company and persists throughout their business relationship. A crucial component of this process entails the meticulous verification of essential information and vigilant monitoring of potentially suspicious activities, enabling early detection and swift intervention.

Nevertheless, it is crucial to note that AML and Counter-Terrorist Financing (CTF) obligations apply to every law firm irrespective of its practice type. However, the

adherence to the AML/CTF regulations is more applicable to law firms that focus on conveyancing, trusts, and real estate.

Monitoring and Compliance of AML/CTF Obligations

Compliance officers play a crucial role in overseeing client relationships, maintaining confidential records, and alerting authorities to potentially suspicious transactions or behaviours. Their vigilance is essential in identifying and reporting activities that may warrant further investigation, such as:

1. Unconventional payment patterns: This includes premature deposits or unusual payment schedules.
2. Substantial cash transactions
3. Clients who repeatedly avoid in-person meetings without a valid justification
4. Inadequate or incomplete client information, such as unclear business affiliations
5. Transaction without adequate legal documentation, reason or purpose
6. Irregular trust account activity: This includes excessive refunds or overpayments.
7. Complex transactions: Such as sequential property purchases, circular dealings, or the use of intermediary entities with no legitimate business ties

The Challenge in Defining Ultimate Beneficial Owners (UBOs)

To satisfy Know Your Customer (KYC) regulations, companies must engage in a more comprehensive identification process that extends beyond mere business partner verification. Specifically, they are obligated to ascertain the identities of Ultimate Beneficial Owners (UBOs) across transnational jurisdictions. UBOs are defined as the natural persons who ultimately derive benefit from or exercise control over a corporate entity.

Comparatively assessing the challenges in determining Ultimate Beneficial Owners (UBOs) in the European Union and Nigeria, reveals that both jurisdictions face systemic hurdles central to their anti-money laundering regimes. In the EU, Know Your Customer (KYC) regulations require companies to go beyond verifying their direct business partners to ascertain the natural persons who ultimately derive benefit from or exercise control over corporate entities. Under the Fourth and Fifth Anti-

Money Laundering Directives, a UBO is any individual who owns or controls more than 25% of a corporation's shares.[35] Yet, variations in ownership thresholds across Member States complicate uniform application, while regulatory processes such as "fit and proper" assessments may necessitate accurate identification even where control falls below formal thresholds.

By contrast, Nigeria adopts a stricter approach. Section 119 of the Companies and Allied Matters Act (CAMA) 2020 defines a person with significant control as one holding at least 5% of shares or voting rights, or otherwise exercising significant influence over a company.[36] Similarly, the Money Laundering (Prevention and Prohibition) Act 2022 obligates financial institutions and designated non-financial institutions to identify and verify beneficial owners as part of Customer Due Diligence requirements.[37] The CBN AML/CFT Regulations 2022 further reinforce these obligations.[38] While this 5% threshold appears more stringent than the EU's 25%, practical enforcement in Nigeria remains hampered by opaque corporate registries, weak compliance culture, and limited regulatory capacity, which often undermine the effectiveness of the legal framework..

Thus, in the context of Ultimate Beneficial Owner (UBO) identification, it is necessary to access international registers to obtain information regarding individuals who possess shares or exert control over a corporate entity. In scenarios where no individual meets the criteria for UBO status based on ownership or control, the highest-ranking management officials are designated as UBOs by their positional authority. This ensures that a UBO is identified and registered, even in cases where no single individual exercises direct ownership or control.

Streamlining Ultimate Beneficial Identification

In complex corporate structures, ensuring that compliance checks are accurately targeted can be a formidable challenge due to the intricate web of ownership relationships. The ultimate beneficial owner (UBO) may be situated at the apex of a

[35] Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing [2015] OJ L141/73; Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 [2018] OJ L156/43.
[36] Companies and Allied Matters Act 2020, s. 119.
[37] Money Laundering (Prevention and Prohibition) Act 2022 (Nigeria), ss 2–3.
[38] Central Bank of Nigeria, *Anti-Money Laundering/Combating the Financing of Terrorism and Countering Proliferation Financing (AML/CFT/CPF) Regulations* (CBN 2022).

lengthy control chain, obscured by layers of nominee shareholders, holding companies, and trusts controlled by various entities across multiple jurisdictions. Leveraging automated digital identification systems can significantly streamline the process of identifying UBOs. Some solutions that simplify UBO identification include:

1. Offering access to trusted global data sources, assisting in calculating the ownership of shares

2. Assisting in calculating the ownership of shares

3. Identifying the true control of an organisation, including voting power and the exercise of control based on position.

While Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations are commonly associated with financial institutions, their applicability extends far beyond this realm. In reality, a diverse array of professional corporations is subject to these regulations, including various non-financial institutions. These entities are overseen by designated regulatory bodies, which possess the authority to impose sanctions for non-compliance with AML requirements. Some illustrations of non-financial institutions that are obligated to adhere to KYC/AML regulations include:

1. The casino and gambling industry, characterised by high-risk transactions and vulnerability to money laundering
2. Art dealers and galleries must navigate complex ownership structures and high-value transactions.
3. The real estate sector, where anonymity and cross-border transactions can facilitate illicit activities

KYC Requirement for Art Dealers

The art market has been vulnerable to money laundering schemes in the past, due to its inherent characteristics. The sector's opacity, combined with the unpredictability of art prices and the anonymity of auction participants, creates an environment conducive to illicit financial activities. A recent report published in 2023 reveals a significant expansion of the global art market, with its value surging from $441 billion in 2022 to $579 billion in 2023. Notably, the Asia-Pacific region has emerged as the

largest contributor to this growth. However, the escalating scale of transactions in the global art market raises concerns about its vulnerability to exploitation, as highlighted by the Financial Action Task Force (FATF) in its 2023 guidance paper[39], which warns of potential misuse and emphasises the need for enhanced vigilance and regulation to combat money laundering[40].

Reports and instances like this in the art business have raised pertinent questions, including the following[41]:

1. Has the art market become a conduit for criminal activity?

2. What factors are driving the exponential growth in art valuations, and who can provide a credible explanation for this phenomenon?

The Reason for Money Laundering Risks in the Art Business

Truth be told, the acquisition of artworks is often a hallmark of membership in the elite circle of high-net-worth individuals. However, this alone does not account for the art market's inflationary trends. Several factors contribute to the sector's opacity and vulnerability to illicit activities.

The first of these factors is the authentication of art objects, which in itself is a complex and challenging process, prone to errors and misattributions. Secondly, the art market operates with limited regulatory oversight, creating an environment conducive to unethical practices. Thirdly, cash transactions are prevalent, facilitating anonymous and untraceable dealings. Fourthly, the use of free ports[42] and other storage facilities enables artworks to be kept outside the purview of tax authorities. Fifthly, the anonymity of purchasers is commonplace, making it difficult to track

[39] FATF, 'Annual Report 2022–2023' https://www.fatf-gafi.org/en/publications/Fatfgeneral/FATF-Annual-report-2022-2023.html accessed 1 September 2024.
[40] Comply Advantage, 'How Does Art Money Laundering Work?' https://complyadvantage.com/insights/art-money-laundering/ accessed 1 September 2024.
[41] Smart Oversight, 'Non-Financial Institutions Subject to KYC/AML Regulations' https://www.smart-oversight.com/blog/non-financial-institutions-subject-to-kyc-aml-regulations/ accessed 31 August 2024.
[42] A freeport, also known as a free trade zone, is a strategically designated hub where government regulations and tariffs are significantly relaxed or entirely eliminated, creating a favourable environment that fosters unhindered international trade, economic expansion, and investment opportunities, thereby driving growth and development.

ownership and transaction histories. Lastly, the significant amounts spent on art transactions further exacerbate the risk of money laundering and other financial crimes. These factors combined create an environment in which the art market's opacity and lack of regulation can be exploited for illicit purposes.

In the United States, the Association for Research into Crimes Against Art (ARCA)[43] projected that the art market facilitates the laundering of approximately $6 billion in illicit funds each year, providing a lucrative conduit for criminal organisations to legitimise their proceeds and obscure their financial trails.

Following Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations, art merchants are mandated to fulfil specific obligations, including:

1. Identifying the buyer and verifying their identity

2. Implementing an enhanced due diligence process for cash transactions exceeding a predetermined threshold, potentially leading to a refusal to sell in certain European Union countries

3. Authenticating the seller's identity, encompassing banking verification

4. Maintaining a transaction archive for a minimum of five years

The Real Estate Business and Money Laundering

The real estate sector, like the art industry, is equally susceptible to money laundering due to its inherent characteristics, which include stable prices, long-term investment appeal, and potential for generating legitimate income. However, criminals are drawn to this sector for additional reasons, such as its ability to provide a veneer of legitimacy and normality. Real estate is primarily exploited for the integration phase of money laundering, where illicitly obtained capital is reintegrated into the legal economy. Regulatory bodies are well aware of this process, highlighting the need for vigilant AML measures in the real estate industry.

[43] ARCA, 'About' https://www.artcrimeresearch.org/ accessed 31 August 2024.

The anonymisation of real estate acquisitions through nominees has become increasingly challenging due to the frequent updates and stringent enforcement of Know Your Customer (KYC) and Anti-Money Laundering (AML) laws and regulations. Consequently, the entire real estate sector is now obligated to adhere to AML requirements, necessitating a thorough vetting process among all stakeholders, including realtors and notaries, to ensure that clients are not engaged in money laundering activities. This due diligence must be conducted at the outset of business relationships to mitigate potential risks. Failure to comply with AML obligations can result in severe consequences, including prosecution for complicity in money laundering or terrorism financing. Therefore, real estate professionals have a vested interest in implementing robust internal KYC procedures to demonstrate good faith and compliance with regulatory requirements in the event of an inspection. Based on practice, these requirements entail conducting thorough checks before engaging in business. These checks include:

1. Assessing the risk level related to the client and the transaction
2. Formally identifying the individual or legal person who acquires the property
3. Identifying and documenting the source of funds.

Real estate brokers need to initiate Know Your Customer (KYC) controls independently, rather than relying solely on notary intervention, to ensure proactive compliance with anti-money laundering (AML) regulations.

Casinos and Their Money Laundering Risks

In the realm of casinos and gambling, AML measures have been reinforced to prevent the infiltration of illicit funds into the legitimate economy. Recent guidelines have standardised rules for both physical and online casinos, mandating:

1. Authorisation to operate, granted by competent authorities following thorough investigations, ensuring employees' and management's integrity and ethical conduct.

2. Regular, randomised inspections of gambling equipment and slot machines to verify compliance and proper functioning.

3. Systematic reporting of development projects and changes in legal capital distribution to relevant authorities, with a thorough analysis of new shareholders before approval. These measures aim to strengthen AML controls in the gambling sector, preventing money laundering and ensuring a transparent and regulated environment.

Heightened Vigilance in Casino Businesses

Since active steps are being taken to combat money laundering in various sectors, casino businesses have increased their vigilance by various means, including the following measures:

1. Systematic identity verification for customers upon entry or account creation
2. Winnings can only be paid out after the initial bet has been fully or partially utilised, eliminating techniques like "chip walking"
3. Verification of winner identities and archiving of winnings
4. Continuous video surveillance, with recordings stored for several weeks and accessible to regulatory agencies
5. Independent oversight of video surveillance systems
6. Full accounting transparency, with all financial records and supporting documents available to regulators upon request, including customer identities
7. Online casinos, often located in tax havens, must comply with host country legislation and display relevant laws and obligations
8. Online casinos must provide access to their anti-money laundering policy charter

These measures aim to prevent money laundering and ensure a secure gaming environment, both online and offline.

Online gambling platforms are required to implement rigorous identity verification protocols, ensuring the authenticity of users. The depositing of funds is subject to stringent regulations, with financial transactions being continuously monitored in real time. The software utilised for these transactions must be validated by regulatory authorities to guarantee its integrity. Furthermore, operators of these platforms must establish a robust monitoring and alert system to detect and respond to anomalous

behaviour, including suspicious financial activities or fraudulent software manipulation. This system enables the prompt intervention and blocking of questionable transactions, thereby maintaining the security and integrity of the platform.

Money Laundering in Nigeria in General

Nigeria has acknowledged the detrimental consequences of money laundering and related crimes, recognising the imperative to actively engage in combating these illicit activities. To this end, the country has implemented various strategies aimed at mitigating its impact. Notably, Nigeria enacted the Anti-Money Laundering Act in 2001, expanding the scope of the 1995 legislation to encompass crimes beyond drug-related offences. However, this initial framework had limitations, excluding certain anti-money laundering obligations for non-bank financial institutions and failing to extend customer identification requirements to occasional transactions exceeding $500. Subsequently, Nigeria established the Economic and Financial Crimes Commission (EFCC) Act in 2002, granting sweeping powers to tackle a broad spectrum of financial crimes. Further consolidating its efforts, Nigeria enacted the Money Laundering (Prohibition) Act in 2011, providing a comprehensive framework for anti-money laundering legislation, broadening the definition of financial institutions, and enhancing regulatory oversight of money laundering activities[44]. Still, this Act has been repealed by the Money Laundering (Prevention and Prohibition) Act 2022.

Emerging Issues and Challenges

Nigeria's efforts to combat money laundering and related crimes have yielded some successes, but financial crimes persist, and prosecution rates remain slow. This is due to the complexity of the issue and challenges in enforcement. Some of these key challenges include:

1. Unregulated business activities allow anonymity for criminal operators

[44] U. Kama, 'The Economic Effects of Money Laundering on the Nigerian Economy: Some Emerging Issues' (2005) 43(1) *Economic and Financial Review* 23 http://library.cbn.gov.ng:8092/jspui/bitstream/123456789/308/1/The%20economic%20effect%20of%20money%20laundering%20on%20the%20nigerian%20economy%20emerging%20issues.pdf accessed 31 August 2024.

2. Operational limitations faced by the Nigeria Police, like logical constraints, lack of funds, inadequate training, low motivation, insufficient manpower and equipment
3. Rapid technological advancements are enabling sophisticated criminal activities.
4. Outdated technology and infrastructure are hindering crime detection and prosecution.

Legal Reforms

The Nigerian law places several requirements in combating money laundering in the country; although these requirements are necessary in themselves, they tend to limit the fight against money laundering and other related crimes in the country. Nigeria operates the common law criminal jurisprudence of presumption of innocence, and the requirement of the rules of evidence pushes the burden of establishing the guilt of an accused person to the prosecution[45]. The testimony of victims is crucial in prosecuting crimes, especially advance fee scams, due to Nigeria's legal requirement of proof of guilt.

In contrast, France's legal system presumes guilt until innocence is proven. Nigeria's judicial process is slow due to understaffing and outdated procedures, and there are challenges in submitting electronic evidence, such as computer printouts, due to uncertainty about their admissibility and classification. The law is unclear about whether printouts from other storage media can be considered original documents or copies, requiring urgent legislative action to prevent Nigeria from becoming a hub for digital money laundering.

Moreover, the constraints of Nigeria's domestic asset forfeiture laws can result in protracted and intricate legal disputes regarding jurisdiction and venue. This is especially problematic when law enforcement agencies initially lack knowledge of the ultimate recipient or destination of funds transferred through correspondent accounts, only discovering this information later in the investigation.

The widespread preference for cash transactions and inadequate banking practices in Nigeria create an environment conducive to money laundering, posing a significant

[45] Evidence Act 2011, s. 135(1-2)

obstacle to effective anti-money laundering efforts. Despite regulations prohibiting large cash transactions (above N500,000 for individuals and N2,000,000 for companies) and requiring reports of such transactions to the EFCC/NDLEA, the enforcement of these rules is questionable in a predominantly cash-based economy like Nigeria, where many financial dealings occur outside the formal banking system. In countries with well-developed financial systems, regulations restricting large cash transactions can be effective in preventing money laundering, as such transactions are unusual and arouse suspicion. However, in Nigeria, where the financial system is less advanced and trust in banks is limited, large cash transactions are common, making it challenging to implement such regulations. Furthermore, the country's low level of technological development has made internet usage a conduit for financial fraud, and the lack of exposure to modern electronic payment methods perpetuates the problem, making it difficult to combat money laundering.

Conclusion

This paper has comparatively analysed the risk exposure of non-financial institutions, particularly, legal professionals, to money laundering and terrorism financing. Money laundering and terrorism financing continue to pose systemic risks to Nigeria's financial integrity, affecting not only banks but also non-financial institutions such as casinos, real estate businesses, art dealers, and the legal profession. These sectors are particularly vulnerable because they provide avenues through which illicit funds can be concealed, legitimised, or moved across borders. While frameworks such as the 2023 Rules of Professional Conduct and the CBN's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Regulations have strengthened Nigeria's regulatory landscape, persistent challenges in enforcement, beneficial ownership identification, and compliance monitoring hinder their overall effectiveness.

To address these risks, Nigeria must adopt a more coordinated approach that combines robust regulation with practical enforcement, sector-specific guidance, and greater transparency in transactions. Strengthening institutional capacity, fostering inter-agency collaboration, and aligning local practices with international standards will be essential. Ultimately, the responsibility lies not only with regulators but also

with non-financial institutions themselves to uphold due diligence and ethical responsibility, ensuring that they do not become safe havens for illicit financial flows.