

Cash and Trade - AML Red Flags

Correspondent Banking Academy

How do you define the term “red flag” as it relates to money laundering or other financial crime?

Red flags are alerts that are concise and to the point, and help focus on potential risk.

The presence of red flags may not always mean that a reportable event is present. It is an indication that further investigation and review is required.

Potentially suspicious activities, or “red flags” for both money laundering and terrorist financing. Although these lists are not all-inclusive, they may help banks and examiners recognize possible money laundering and terrorist financing schemes.



Categories of “Red Flags”

There are so many types of red flags, it's helpful to group them into categories.

General Business

Correspondent Banking * Account Opening and CDD * Insufficient or Suspicious Information * Offshore Centres * High-Risk Jurisdictions * Record-Keeping and Account Violations

Payment Products

Cheques * Cash Letters * Bulk Currency Shipments * Fund Transfers * Cover Payments * Casino, Gambling and Gaming * Transaction Monitoring * Offshore Banking * Shell Company Activity

Trade Finance / Loans

Trade Finance * Anti-Boycott * Free Trade Zones * Lending Activity * Credit Reports and Board Reports

Financial Markets

Global Markets * Identifying Beneficial Ownership * Insurance

Terrorist Financing

Potentially Suspicious Activity that May Indicate Terrorist Activity

Bribery and Corruption

Bribery, Corruption and Foreign Corrupt Practices Act

Virtual Currencies

Red Flags Tied to Virtual Currencies

Human Trafficking

Human Trafficking * Sex Trafficking

Categories of Red Flags

New Account

Deposits & immediate requests
for wire transfers or cash

Deposit accounts

Rapid off shore transfer after
funds deposited

Non-local address

Minimal, vague or fictitious
information provided

Frequent deposits or withdrawals
with no business source

Cash inconsistent with the
customer's line of business










Funnel accounts

Structured Deposits or
withdrawals

Sudden, unexplained increase in
account activity or balance

Cash from a high risk business

Red Flag Indicators for New Account Fraud

| | | |
|--|--|---|
|  <p><i>Name provided by applicant does not match that returned by credit bureau search of SSN</i></p> |  <p><i>Applicant is 25 years old or older, with a newly issued SSN</i></p> |  <p><i>Applicant is 25 years old or older, has established SSN, but name and address is new in previous 6 months</i></p> |
|  <p><i>Two different names with different addresses appear under same SSN</i></p> |  <p><i>Primary identification was issued within the previous 60 days</i></p> |  <p><i>Opening deposit is a small cash deposit</i></p> |
|  <p><i>Use of mail drop address</i></p> |  <p><i>Applicant's home or business address is not in same region as the financial institution</i></p> |  <p><i>Address on identification is different from home address</i></p> |

Red Flag Indicators for New Account Fraud

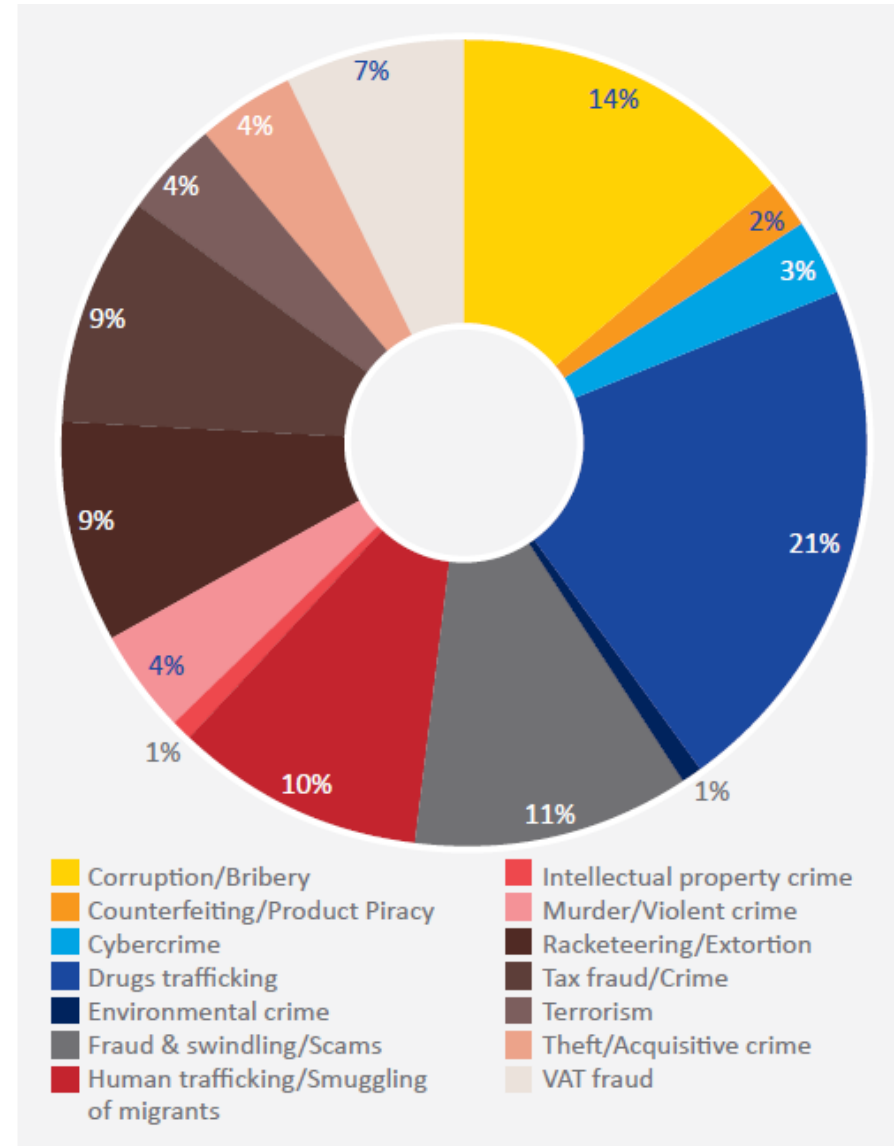
| | | |
|--|---|---|
| <p>10</p> <p><i>Identification cards for non-drivers</i></p> | <p>11</p> <p><i>Applicant is 25 years old or older, without previous financial institution history</i></p> | <p>12</p> <p><i>Overly friendly applicant</i></p> |
| <p>13</p> <p><i>Dress and/or actions inconsistent for customer's stated age, occupation or income level</i></p> | <p>14</p> <p><i>New account requesting immediate cash withdrawal upon deposit</i></p> | <p>15</p> <p><i>Request for large quantity of temporary checks</i></p> |

Predicate Offenses that generate Cash

Predicate offences most commonly linked to the use of cash for money laundering purposes, shows almost all crime types use cash as a facilitator for money laundering in spite of the fact that they are not all readily cash generating criminal businesses.

Businesses Linked to Cash

1. Front Companies/ Businesses
2. Trade Based Money Laundering
3. MSBs & Informal Value Transfer Services
4. Professionals & Gate Keepers



Businesses linked to Cash

Cash Front Business

A business which generates its profits largely in cash (for example, restaurants, nail bars, garages, car washes, kiosks, tanning salons and a plethora of other service oriented businesses) provides an ideal cover for the source of otherwise inexplicable quantities of cash. Within this simple scheme, however, criminals employ varying degrees of complexity.

Trade Based Money laundering

Front businesses represent one favored method criminals use to launder illicit profits, the use of companies and businesses is closely linked to a related technique known as trade based money laundering (TBML). This technique aims to legitimize proceeds through the use of global trade transactions, often using false documentation regarding the trade of goods and services.

MSBS & Informal Value Transfer Services

Another commonly employed technique is to send cash funds using non-bank money transfer services. These businesses specialize in receiving cash sums in one country and paying out the equivalent amount at any given location almost instantaneously, settling balances between the money remitters at a later time: a) Smurfing; b) Complicit / Criminally controlled MSBs ; c) informal value transfer services (IVTS) and often referred to as '*hawala*'.

Professionals & Gate Keepers

Professional enablers) such as accountants, lawyers, notaries and similar professionals as facilitators in the money laundering process continues to underpin the methods used by criminal groups. The services provided by these professionals give the apparatus of money laundering considerable sophistication and a veneer of respectability.

Documentary trade statistics

- As an example your Bank processes around 4 million individual import and export transactions for **over value USD1 trillion on an annual basis**, within a reasonable variance of 10% Year on Year.
- That accounts for **slightly less than 4%** of global trade in goods.
- The sheer number of transactions, paired with the Bank's network locations makes it likely that, at one point in time, **we either have been or will be part of an international money laundering chain.**
- This is why it is important that, as an organisation, we are **vigilant in our dealings** with clients and, as employees, we are aware of the risks involved in the processing of transactions.
- Part of our efforts to combat financial crime are reflected in the Operating Model for Trade, which introduces active monitoring for certain Red Flags that may indicate either money laundering or terrorist financing. This may impact your clients and their transaction turnaround times, as well as yourself.



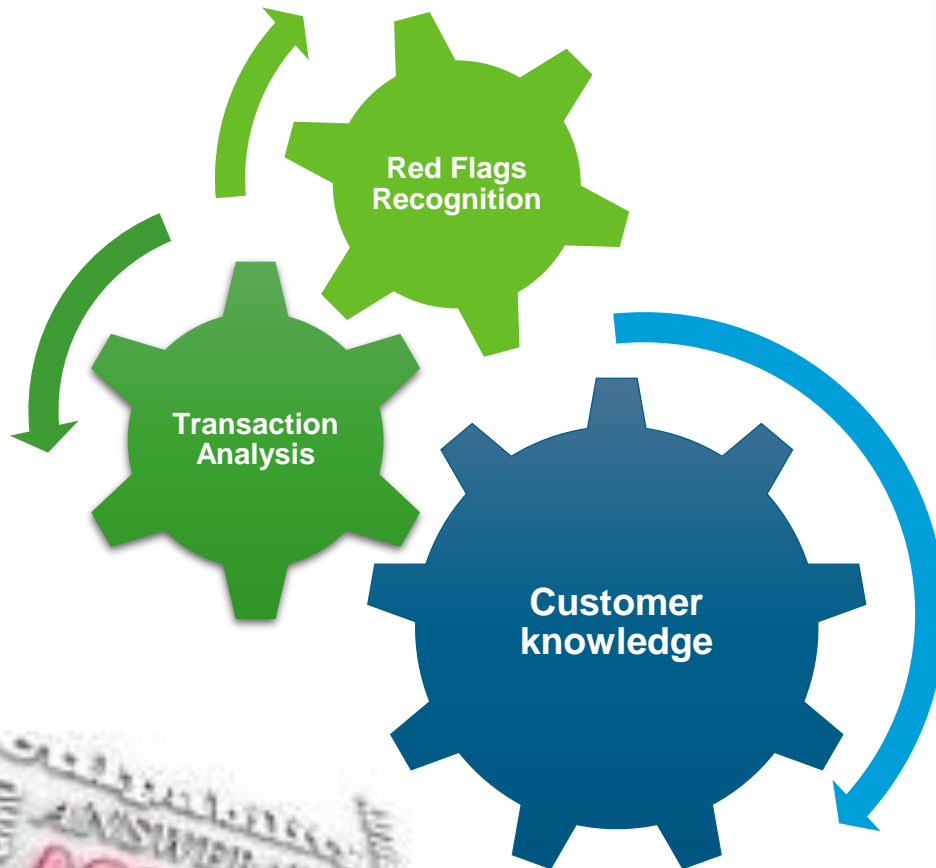
Who does the regulator expect to be the 1st line of defence in combating Financial Crime?

A. Front Office staff

B. Front Office staff

C. Front Office staff

D. Front Office staff



The front office staff is supposed to be **aware** of every single step in the previous slide , they are the best person and in the **best position** to know about the client and transaction in its entirety.

BE DILIGENT. BE CURIOUS. BE VIGILANT.

ownership
duty obligation
reliable
responsibility
ACCOUNTABILITY

FCA TBML Red Flags



Red flags that could be identified during their thematic review

Defence and Dual Use Goods Scenario

Your Bank has been asked to confirm (guarantee) a Letter of Credit (LC) on behalf of Abuja North Bank, one of our existing Financial Institution clients. The LC is for the refurbishment and upgrade of helicopters that are used as a transport for the **Nigerian military** and **government**. The LC is between the Government of Nigeria and UK Helia (UK helicopter manufacturer).

Do the new Defence and Dual-Use Goods Procedures apply here when

- (a) we are only involved in the LC with Abuja North Bank, and
- (b) the contract is not for the supply of helicopters but for their refurbishment and upgrade?



In the News...

Banks may face fines over failures to spot trade finance abuses

HSBC is paying \$2 billion, or 5 weeks' worth of its profit, to avoid criminal charges in drug cartel laundering case

The Justice Department agreed to suspend criminal charges against the world's largest bank and its US subsidiary for five years if the bank agreed to pay the penalty.

at the bank's trade finance unit violated
blacklisted countries.

BNP Paribas fined \$8.9 billion over deals with Iran, Cuba, Sudan

COKE SEIZED IN SAVANNAH

SINGAPORE CONVICTS ENGINEER OF BUNKER FRAUD

The devil is in the detail...

Would you
have picked
this up?

An existing stonemason customer was importing granite from Pakistan.

The customer constantly asked to see the paperwork to ensure that the goods were as specified and check dates and movements.

LCs for the import of containers of rough cut stone of certain dimensions for finishing in the UK

This constant contact caused the bank to look at the paperwork, at first it was normal, however looking closely there were anomalies.

The constant contact was to allow the stonemason to regularly report back to his controller to provide comfort that all was progressing

Prices quoted were correct compared to other stone imports but the stone types were not sourced from Pakistan

Outcome: the activity was to cover the movement of funds to Pakistan for the importation of class A drugs. The stone description were the code for types of drugs and values.

The list of stone pieces was very detailed with different stones specified on a very long packing list for the container but no total weight. On adding the total weight it was greater than the capacity of the container (20 foot equivalent unit)

...and it really happened!

Wang Limited (“Wang”) is an oil importer who is a client of Your Bank in Hong Kong. Wang submitted documents to Your Bank HK for presentation under an export Letter of Credit.

The document related to a USD 90m shipment of oil to Wang by supplier Dragon Shipping S.A. (“Dragon”), which Wang had sold in turn to a Chinese counterparty. Your Bank reviewed the documents and found that the oil was shipped on a vessel (called the “Lotus”) sanctioned by the United States.

Although the transport documents submitted by Wang indicated that the oil was shipped from the UAE, the International Maritime Bureau (“IMB”) search revealed that the specific port in the UAE that the oil was supposedly shipped from had no record of the vessel, Lotus, being present. Additionally, the IMB search revealed that the vessel was in Iran before arriving at the port of delivery of the oil.

When Your Bank HK made an inquiry, Wang stated that it was not aware that the oil was sent from Iran and the vessel was chosen by Dragon.

...yes it does.

Your Bank declined and asked the client to withdraw the transaction. Your Bank HK also decided to exit the relationship with Wang and added Dragon Shipping S.A. to the Sanctions filter. Your Bank HK filed a suspicious activity report to report this matter to the local authorities.



IMPACT?

Legal issues: Breach of US Law as the L/C was in USD. Trade in Iranian oil exposes those involved to U.S. action under CISADA and associated U.S. secondary sanctions measures.

Circumvention issues: An inference can be drawn that the documents presented to Your Bank HK were altered or falsified to conceal the linkage to a sanctioned country, which is circumvention.

Case Studies: What are the Red Flags?

Please note that all company names are fictitious

Case Study 1: Friedenssen Imports & Exports

Case Study Focus

‘Red flags’ regarding goods

Case Study Basic Facts

- Bank’s client is PJM
- PJM is a commodity trader
- Request for wire transfer to pay for shipment of copper to Friedenssen
- Friedenssen is a scrap metal/metal recycling business
- Current market price for scrap copper is USD 5,740 per tonne
- Copies of original invoice and bill of lading obtained by the Bank



Case Study 1: Friedenssen Imports & Exports

Case Study Questions:

- What discrepancies can you detect in the paperwork relating to this transaction?
- What legitimate explanation can you give, if any, for these discrepancies?
- What possible wrongdoing might you have detected here?



Case Study 1: Friedenssen Imports & Exports



'Red Flags' Regarding Goods

- Significant discrepancies between the description, quantity and quality of the goods in documents such as bills of lading and invoices
- Significant discrepancies between the value of the commodity reported on the documents and the commodity's fair market value
- Consignment size or type of commodity being shipped appears inconsistent with the scale or capacity of the exporter or importer having regard to their regular business activities



Case Study 2: Lee Clothing

Case Study Focus

'Red flags' regarding trade finance

Case Study Basic Facts

- Bank's client is Lee Clothing Company
- Letter of Credit requested and issued in respect of a shipment from India
- Number of subsequent amendments requested to the Letter of Credit



Case Study Questions:

1. Is there anything unusual or suspicious about the original request for a Letter of Credit?
2. What do you make of the client's subsequent request to increase the sum guaranteed by the Letter of Credit?
3. What is your reaction to the client's multiple requests to change the beneficiary of the Letter of Credit?
4. The final beneficiaries of the Letter of Credit (Sheehan & Sheehan) could not produce documentation relating to the original shipment against which the Letter of Credit was originally raised. What's your reaction to this?





'Red Flags' Regarding Trade Finance

- Transactions involving the use of repeatedly amended or frequently extended Letter of Credit without reasonable justification
- Transactions that include changes to the beneficiary or location of payment without any apparent reason
- Client's inability to produce appropriate documentation (invoice or other document) to support a requested financial transaction.

Thank you



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