Types of Suspicious Activities or Transactions

1. Money Laundering using cash transactions

a. unusually large cash deposits made by an individual or company whose ostensible business activities would normally be generated by cheques and other instruments;
b. substantial increases in cash deposits of any individual or business without apparent cause, especially if such deposits are subsequently transferred within a short period out of the account and/or to a destination not normally associated with thecustomer;
c. customers who deposit cash by means of numerous credit slips so that the total of each deposit is unremarkable, but the total of all the credits is significant;
d. company accounts whose transactions, both deposits and withdrawals, are denominated by cash rather than the forms of debit and credit normally associated with commercial operations (e.g. cheques, Letters of Credit, Bills of Exchange, etc.);
e. customers who constantly pay in or deposit cash to cover requests for money transfers, banker's drafts or other negotiable and readily marketable money instruments;
f. customers who seek to exchange large quantities of low denomination notes for those of higher denomination;
g. frequent exchange of cash into other currencies;
h. branches that have a great deal more cash transactions than usual (Head Office statistics detect aberrations in cash transactions);
i. customers whose deposits contain counterfeit notes or forged instruments;
j. customers transferring large sums of money to or from overseas locations with instruments for payment in cash; and
k. large cash deposits using night safe facilities, thereby avoiding direct contact with bank staff.

2. Money Laundering using bank accounts

a. customers who wish to maintain a number of trustee or client accounts which do not appear consistent with the type of business, including transactions which involve nominees;
b. customers who have numerous accounts and pay in amounts of cash to each of them in circumstances in which the total of credits would be a large amount;
c. any individual or company whose account shows virtually no normal personal banking or business related activities, but is used to receive or disburse large sums which have no obvious purpose or relationship to the account holder and/or his business (e.g. a substantial increase in turnover on an account);

d. reluctance to provide normal information when opening an account, providing minimal or fictitious information or, when applying to open an account, providing information that is difficult or expensive for the institution to verify;
e. customers who appear to have accounts with several institutions within the same locality, especially when the bank is aware of a regular consolidation process from such accounts prior to a request for onward transmission of the funds;
f. matching of payments out with credits paid in cash on the same or previous day;
g. paying in large third party cheques endorsed in favour of the customer;
h. large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad;
i. customers who together, and simultaneously, use separate tellers to conduct large cash transactions or foreign exchange transactions;
j. greater use of safe deposit facilities and increased activity by individuals; the use of sealed packets deposited and withdrawn;
k. companies' representatives avoiding contact with the branch;
l. substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using client accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other client, company and trust accounts;
m. customers who decline to provide information that in normal circumstances would make the customer eligible for credit or for other banking services that would be regarded as valuable;
n. insufficient use of normal banking facilities (e.g. avoidance of high interest rate facilities for large balances); and
o. large number of individuals making payments into the same account without an adequate explanation.

3. Money Laundering using investment related transactions

a. purchasing of securities to be held by the institution in safe custody, where this does not appear appropriate given the customer's apparent standing;
b. request by customers for investment management or administration services (either foreign currency or securities) where the source of the funds is unclear or not consistent with the customer's apparent standing;
c. large or unusual settlements of securities in cash form; and
d. buying and selling of a security with no discernible purpose or in circumstances which appear unusual.

4. Money Laundering by offshore international activity

a. customer introduced by an overseas branch, affiliate or other bank based in countries where production of drugs or drug trafficking may be prevalent;
b. use of letters of credit and other methods of trade finance to move money between countries where such trade is not consistent with the customer's usual business;
c. building up of large balances, not consistent with the known turnover of the customer's business, and subsequent transfer to account(s) held overseas;
d. unexplained electronic fund transfers by customers, foreign currency drafts or other negotiable instruments to be issued;
e. frequent requests for travelers cheques or foreign currency drafts or other negotiable instruments to be issued; and
f. frequent paying in of travelers cheques or foreign currency drafts particularly if originating from overseas.

5. Money Laundering involving financial institution employees and agents

a. changes in employee characteristics, (e.g. lavish lifestyles or avoiding taking holidays);
b. changes in employee or agent performance, (e.g. the salesman selling products for cash has remarkable or unexpected increase in performance); and
c. any dealing with an agent where the identity of the ultimate beneficiary or counterpart is undisclosed, contrary to normal procedure for the type of business concerned.

6. Money Laundering by secured and unsecured lending

a. customers who repay problem loans unexpectedly;
b. request to borrow against assets held by the institution or a third party, where the origin of the assets in not known or the assets are inconsistent with the customer's standing; and
c. request by a customer for an institution to provide or arrange finance where the source of the customer's financial contribution to deal is unclear, particularly where property is involved.

7. Sales and dealing staff

a. NewBusiness

Although long-standing customers may be laundering money through an investment business it is more likely to be a new customer who may use one or more accounts for a short period only and may use false names and fictitious companies.

Investment may be direct with a local institution or indirect via an intermediary who "doesn't ask too many awkward questions", especially (but not only) in a jurisdiction where money laundering is not legislated against or where the rules are not rigorously enforced.

The following situations will usually give rise to the need for additional enquiries:

1. a personal client for whom verification of identity proves unusually difficult and who is reluctant to provide details;
2. a corporate/trust client where there are difficulties and delays in obtaining copies of the accounts or other documents of incorporation;
3. a client with no discernible reason for using the firm's service, e.g. clients with distant addresses who could find the same services nearer their home base; clients whose requirements are not in the normal pattern of the firm's business which could be more easily serviced elsewhere; and
4. any transaction in which the counterparty to the transaction is unknown

b. Intermediaries

There are many clearly legitimate reasons for a client's use of an intermediary. However, the use of intermediaries does introduce further parties into the transaction thus increasing opacity and, depending on the designation of the account, preserving anonymity. Likewise, there are a number of legitimate reasons for dealing via intermediaries on a "numbered account" basis; however, this is also a useful tactic which may be used by the money launderer to delay, obscure or avoid detection.

Any apparently unnecessary use of an intermediary in the transaction should give rise to further enquiry.

c. Dealing patterns & abnormal transactions

The aim of the money launderer is to introduce as many layers as possible. This means that the money will pass through a number of sources and through a number of different persons or entities. Long-standing and apparently legitimate customer accounts may be used to launder money innocently, as a favour, or due to the exercise of undue pressure.

Examples of unusual dealing patterns and abnormal transactions may be as follows:

Dealing patterns

1. A large number of security transactions across a number of jurisdictions;
2. Transactions not in keeping with the investor's normal activity, the financial markets in which the investor is active and the business which the investor operates;
3. Buying and selling of a security with no discernible purpose or in circumstances which appear unusual, e.g. churning at the client's request;

4. Low grade securities purchased in an overseas jurisdiction, sold locally and high grade securities purchased with the proceeds; and
5. Bearer securities held outside a recognized custodial system.

Abnormal transactions

1. a number of transactions by the same counter-party in small amounts of the same security, each purchased for cash and then sold in one transaction, the proceeds being credited to an account different from the original account;
2. any transaction in which the nature, size or frequency appears unusual, e.g. early termination of packaged products at a loss due to front end loading; early cancellation, especially where cash had been tendered or therefund cheque is to a third party;
4. transfer of investments to apparently unrelated third parties;
5. transactions not in keeping with normal practice in the market to which they relate, e.g. with reference to market size and frequency, or at off-market prices; and
6. other transactions linked to the transaction in question which could be designed to disguise money and divert it into other forms or to other destinations or beneficiaries.

8. Settlements

a. Payment

Money launderers will often have substantial amounts of cash to dispose of and will use a variety of sources. Cash settlement through an independent financial adviser or broker may not in itself be suspicious; however, large or unusual settlements of securities deals in cash and settlements in cash to a large securities house will usually provide cause for further enquiry. Examples of unusual payment settlement may be as follows:

1. a number of transactions by the same counter-party in small amounts of the same security, each purchased for cash and then sold in one transaction;
2. large transaction settlement by cash; and
3. payment by way of cheque or money transfer where there is a variation between the account holder/signatory and the customer.

b. Registration and delivery

Settlement by registration of securities in the name of an unverified third party should always prompt further enquiry.

Bearer securities, held outside a recognized custodial system, are extremely portable and anonymous instruments which may serve the purposes of the money launderer well. Their presentation in settlement or as collateral should therefore always prompt further enquiry as should the following:

1. settlement to be made by way of bearer securities from outside a recognized clearing system; and
2. allotment letters for new issues in the name of persons other than the client.

c. Disposition

As previously stated, the aim of money launderers it to take “dirty” cash and turn it into “clean” spendable money or to pay for further shipments of drugs, etc. Many of those at the root of the underlying crime will be seeking to remove the money from the jurisdiction in which the cash has been received, with a view to its being received by those criminal elements for whom it is ultimately destined in a manner which cannot easily be traced.

The following situations should therefore give rise to further enquiries:

1. payment to a third party without any apparent connection with the investor;
2. settlement either by registration or delivery of securities to be made to an unverified third party; and
3. abnormal settlement instructions, including payment to apparently unconnected parties.

9. Company Formation and Management

a. Suspicious circumstances relating to the customer’s behavior:

1. the purchase of companies which have no obvious commercial purpose;
2. sales invoice totals exceeding known value of goods;
3. customers who appear uninterested in legitimate tax avoidance schemes;
4. the customer pays over the odds or sells at an undervaluation;
5. the customer makes unusually large cash payments in relation to business activities which would normally be paid by cheques, banker’s drafts etc;
6. customers transferring large sums of money to or from overseas locations with instructions for payment in cash;
7. customers who have numerous bank accounts and pay amounts of cash into all those accounts which, if taken in total, amount to a large overall sum; and
8. paying into bank accounts large third party cheques endorsed in favour of the customers.

b. Potentially suspicious secrecy might involve

1. excessive or unnecessary use of nominees;
2. sales invoice totals exceeding known value of goods;
3. performing “execution only” transactions;
4. using a client account rather than paying for things directly;
5. use of mailing address;
6. unwillingness to disclose the source of funds; and
7. unwillingness to disclose identity of ultimate beneficial owners.

c. Suspicious circumstances in groups of companies:

1. subsidiaries which have no apparent purpose;
2. companies which continuously make substantial losses;
3. complex group structures without cause;
4. uneconomic group structures for tax purposes;
5. frequent changes in shareholders and directors;
6. unexplained transfers of significant sums through several bank accounts; and
7. use of bank accounts in several currencies without reason.