



Recognizing the Red Flags of Money Laundering

In an article published in the August 2001 edition of "White-Collar Crime Fighter" Peter Lilley examines the dirty money problem

In a recent address to securities industry executives, Lori A. Richards, Director of the Securities and Exchange Commission's Office of Compliance Inspections and Examinations outlined the SEC's plans for a new examination initiative designed to focus attention on money laundering compliance by broker-dealers.

This is one of the most recent of many signs that the enormity of the world money-laundering problem is causing increased concern among a growing number of US and foreign regulatory bodies.

But-while bureaucrats may be stepping up efforts to force financial institutions to comply with anti-money-laundering laws, it is in the interest of those institutions to take their own actions to prevent money-laundering. Failing to do so greatly increases the risk of costly compliance problems as well as the chance of substantial financial loss.

TRIGGERS FOR SUSPICION

Because money-laundering has been around for literally centuries, law enforcement and international regulatory agencies have had plenty of time to study the patterns and techniques of the practitioners of this illegal activity. Over the years, a list of red flags of possible money laundering activity has emerged. Among the most common triggers of suspicion...

- ✚ A customer fails to provide phone or fax numbers... or the numbers provided are maintained by third-party office services.
- ✚ A prospective customer presents a diplomatic passports from an obscure country - particularly one in Africa, where such passports are easily obtained for modest amounts of money. The passport may be genuine... but the holder may be a criminal.
- ✚ A customer presents a photocopy of his or her passport when opening a new account. Train employees to refuse to accept photocopies of passports or other identification documents presented to open new accounts. Today's photocopying technology makes it all too easy to apply a new photo to an original document so that it appears genuine when copied.
- ✚ Being expected to rely on third-party due diligence. If a client is referred by a third-party organization, be sure that due diligence documentation provided by the other organization relates directly to the business you are looking to do with the prospective client. Relying on another organization's due diligence will prove to be plain foolish if you rely on it to proceed with a deal which ultimately unravels.

Important: Thorough due diligence is becoming an essential part of setting up new business relationships in more and more industries. Experience has proved that without performing detailed research to verify documentation and identification provided by new customers, a company is taking a significant risk.

- ✚ Being asked to do business with shell companies. A prospective new client may present you with the legal documents of a seemingly legitimate company, along with identification for nominee directors. If you suspect-or know for sure-that these individuals are "fronts" for the actual account beneficiary, walk away.
- ✚ Be suspicious of prospective clients with financial performance that is noticeably inconsistent with that of other businesses of comparable size in the same industry.
- ✚ A group of foreign nationals visits your organization to open multiple accounts. It may mean that they are doing the same at other financial institutions in your city-thereby setting up the banking framework for a laundering operation.
- ✚ Instances where multiple accounts are being set up using variations of the same name.
- ✚ Frequent inconsistencies in an account's activities. If a business that claims to operate only on a regional or national level has a large number of international cash transfers, you may need to investigate. Similar incongruities should be scrutinized as well.

New-account applications from customers from suspect jurisdictions. Countries such as Vanuatu, Antigua, Nauru and The Philippines are major centers for money laundering activity, due to lax banking regulations...the presence of organized crime...drug trafficking, etc. Prospective customers from these jurisdictions should be scrutinized with extra care.

For a full list of suspect jurisdictions, visit the Web site of the Financial Action Task Force (FATF) at www.oecd.org/fatf. The FATF is a 29-country organization based in Paris that monitors and promotes policies to control money-laundering.

- ✚ Numerous cash transactions for amounts just under the legal threshold for reporting. In the US, any bank transactions of \$10,000 or more must be reported by the financial institution to TK. Other countries have similar reporting requirements.

Making transactions for amounts just under the limit is one of the most widely known laundering tactics, but it continues to be extensively used by money launderers, worldwide.

- ✚ Large numbers of cash transfers to and/or from offshore banks or companies.
- ✚ Frequent or unusually large cash receipts or payments by a customer whose business is normally conducted primarily with checks or other non-cash instruments.

FINE TUNING THE PROCESS

Caution: Don't rely exclusively on this list of red flags. While they are common in many cases, each business has its own unique operating procedures. One or more of your

company's particular procedures may make you vulnerable to money-laundering that can't be detected by simply using the above list to monitor financial transactions.

Ideally, you should retain an experienced money-laundering expert to assess your organization's unique vulnerabilities and tailor the list of red flags to your specific operation.

IF YOUR SUSPICIONS DO PROVE WARRANTED...

There should be a trained senior person in your organization with full responsibility for money laundering reporting and control. This individual should have the authority to take action on cases where money laundering activity is suspected.

You must then have a policy in place for involving the proper law enforcement and/or regulatory officials at the proper time.

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