



Financial Monitoring Unit (FMU)

Government of Pakistan

**RED FLAG INDICATORS & GUIDANCE
FOR FINANCIAL ACTIVITIES RELATED TO
DRUG TRAFFICKING**

RED FLAG INDICATORS FOR FINANCIAL ACTIVITIES RELATED TO DRUG TRAFFICKING

Following are a few red flag indicators w.r.t. Individual Profiles, Transactional Channels and Patterns, which may help the Financial Institution in detections of transactions relating to proceeds generated through Drug Trafficking. The below mentioned red flags may appear suspicious on their own; however, it may be considered that a single red flag would not be a clear indicator of potential drug trafficking activity. These red flags are intended to aid the Financial Institutions and a combination of these red flags, in addition to analysis of the customer financial activity, profile and current transactional pattern may indicate a potential financial activity related to drug trafficking.

Red Flags regarding Profiles of Individual Customers Involved in Drug Trafficking

Based on the analysis of the reported STRs and information provided in FATF Report on Financial flows linked to the production and trafficking of Afghan opiates¹, people are considered as one of the critical “resources” in the drug trafficking business. They may use Financial Institutions as channel for conducting financial activities related to drug trafficking. Such individuals are involved at different stages of drug trafficking business model that may be classified into following major categories:

- **Individuals / small drug dealers** that could be possibly involved in retail of drugs (for instance, batches of up to 5 grams). They spend their proceeds on personal consumption, rent and other services. They may carry out foreign exchange transactions and money transfers through various money transfer systems . In addition to the proceeds from drug trafficking, some of them have a legal source of revenue such as General Stores, Milk Shops, Beauty Salon, Milk Shops, Pan Shops, Small tea stalls, Medical Stores etc.
- **Couriers and small drug dealers** who deliver small drug batches (*e.g.*, heroin batches of up to 20 grams) or purchase them from other salesmen. This category presumably includes mostly drug consumers who, depending on the situation, either act as intermediaries or independently buy small drug batches for resale. They earn their money from the difference between the purchase and resale prices of drugs. These people often do not have another source of revenue and spend their proceeds on buying a new batch of drugs, paying for transportation services and personal consumption.
- **Middle-sized drugs dealer**, who sell drugs obtained from criminal organizations (*e.g.*, batches of up to 1 kilogram of heroin), mainly as their sole source of income, however, they may engage in legal business activities. Proceeds from drug trade are spent on personal consumption or may be

¹ FATF Report on Financial flows linked to the production and trafficking of Afghan opiates
<http://www.fatf-gafi.org/media/fatf/documents/reports/Financial-flows-linked-to-production-and-trafficking-of-afghan-opiates.pdf>

partially spent on their own legal business activities, purchases of currency, real estate and provide for luxurious lifestyle.

- **Individuals involved in drug transportation.** They are employed to transport drug batches (up to several tens of kilograms) within certain periods (*e.g.*, *once* a month). Such people have other sources of revenue that are mostly related to transportation. They are not directly involved in drug sales but are only engaged in the shipment of drugs. In addition to personal consumption, they spend their proceeds on developing their own businesses, as well as on informal involvement in their acquaintances' businesses, and providing loans. In addition, they acquire real estate, personal property and jewelry.
- **Large Suppliers** of Drugs are usually members of criminal organizations or associations who run regular supplies of large drug batches to a particular country. Such individuals may be top executives and/or founders of companies involved in various illegal activities. They might be involved in delivery of cargoes to companies and organizations using vehicles equipped with a cache for drug shipments. Some of the proceeds from drug trafficking are transferred through proxies and front men to company or personal offshore accounts, while the remaining proceeds may be returned in the form of export revenue to the accounts of original suppliers. They may also use companies set up for channeling funds abroad. Additionally, they spend proceeds from drug trafficking on acquiring chemical substances for drug production, personal consumption, creating and developing businesses, bribing officials and for other purposes.
- **Individual Involved in storage and packing of drugs** are usually members of criminal organizations and associations who are may not directly involved in drug sales. They spend their proceeds on personal consumption, rent, acquiring personal and real property and for other purposes. These people may or may not have other sources of revenue.
- **Financial facilitators** - people who are employed by a criminal organization to carry out financial transactions related to proceeds from opiate trafficking. These individuals may span the whole spectrum of criminal complicity ranging from fully awareness, indifference, negligence and incompetence with regards implementing AML measures. These individuals may be professionals working for financial institutions or DNFBPs, un-licensed money service providers or non-professional financial facilitators.

Moreover, Individuals of origin of drug producing jurisdiction remitting money for family support, Nongovernmental organizations (NGOs) engaged under cover of relief works for Refugees, Construction and development business near bordering areas, General Traders, Import/Export companies engaged in business with drug producing high risk countries may be potentially be involved in drug trafficking business. However, the client overall profile in addition to analysis of the customer financial activity, profile and current transactional pattern may indicate a potential drug trafficking activity.

Red Flags on Transactional Patterns

- Payment for goods with a price that is vulnerable to manipulation and can easily be under/over-valued are prone to be used for transfer of drugs proceeds.
- For Import/Export related transactions description of the goods is vague and their value and total quantity not ascertainable at the time of initiation of transaction.
- Large amounts of funds being received from /sent as advances for export /import to high-risk jurisdictions in terms of drugs trafficking related activities.
- Funds received into/sent from drugs producing high risk countries, but goods were not exported/imported.
- Foreign currency exchange transactions carried out by non-resident individuals over a short period of time, and transfers are made through non-banking remittance systems i.e., Money transfers which are not related to business, investment activity or real estate purchase done by non-resident individuals through funds originated from foreign jurisdiction.
- Customer making deposits/withdrawals or otherwise generally operates an account accompanied or on instructions by a third party.
- Newly opened customer account seems to be controlled by a third party, including forms completed in different handwriting and/or the customer is not sure about the address provided in the form.
- Incurring and payment of credit facilities or credit card charges not aligned with the customers' source of income.
- Frequent outbound wire transfers, with no apparent business or lawful purpose, directed to countries with a higher risk for drug production, drug transit and drug consumption or to countries inconsistent with the customer's expected activity.
- Cross-border transfers of funds to the same individual, financial institution or to an overseas location that are inconsistent with customers' personal profile or stated business activity.
- Cash deposits occurring in cities/states where the customer does not reside or conducts business.
- Multiple cash deposits into Branchless Banking accounts from different location without any plausible reason.

- Multiple deposit transactions by individuals who are foreign Nationals or belong to bordering areas of Pakistan without any plausible reason.
- Money transfers to/from exchange offices established in financial centers to unrelated individuals which does not make any economic sense.
- Transactions (incl. via non-banking remittance systems) are conducted between persons who are foreign nationals of high-risk countries w.r.t. drugs trafficking or between Pakistani and foreign nationals of such high-risk countries without any plausible reason.
- The financial institutions have a suspicion concerning the physical condition of deposited currency notes (e.g., the currency smell of drugs or are excessively worn).
- Adverse/negative news on the suspects for being involved in Drug Trafficking.

Disclaimer:

These red flags are developed for guidance purpose and may appear suspicious on their own; however, it may be considered that a single red flag would not be a clear indicator of potential ML / TF activity. However, a combination of these red flags, in addition to analysis of overall financial activity and client profile may indicate a potential ML / TF activity. While every effort has been made to ensure the accuracy and check all relevant references/ resources, errors and omissions are possible and are expected. Financial Monitoring Unit (FMU), its officers and its stakeholders are not responsible for any mistakes and/or misinterpretation.