



# **Financial Monitoring Unit**

**Red flags for identification of Suspicious Transactions  
for Banks and other financial institutions**

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## **Red flags for identification of Suspicious Transactions for Banks and other financial institutions**

### **General Comments**

- 1) The following are examples of potential suspicious transactions for both money laundering and terrorist financing. The lists of situations given below are intended mainly as a means of highlighting the basic ways in which money may be laundered. Although these lists are not all-inclusive, they may help financial institutions and NFBPs recognize possible money laundering and terrorist financing schemes.
- 2) While each individual situation may not be sufficient to suggest that money laundering or a criminal activity is taking place, a combination of such situations may be indicative of such a transaction. A customer's declarations regarding the background of such transactions should be checked for plausibility. Not every explanation offered by the customer can be accepted without additional scrutiny. Closer scrutiny should help to determine whether the activity is suspicious or one for which there does not appear to be a reasonable business or legal purpose.
- 3) It is justifiable to suspect any customer who is reluctant to provide normal information and documents required routinely by the financial institutions during the business relationship. Financial Institutions should pay attention to customers who provide minimal, false, or misleading information or, when applying to open an account, provide information that is difficult or expensive to verify.

### **1. Transactions Which Do Not Make Economic Sense**

- (1) A customer-relationship that does not appear to make economic sense, for example, a customer having a large number of accounts with the same financial institution, frequent transfers between different accounts or exaggeratedly high liquidity.
- (2) Transactions in which assets are withdrawn immediately after being deposited unless the customer's business activities furnish a plausible reason for immediate withdrawal.
- (3) Transactions that cannot be reconciled with the usual activities of the customer, for example, the 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.
- (4) Transactions which, without plausible reason, result in the intensive use of what was previously a relatively inactive account, such as a customer's account which shows virtually no normal personal or business-related activities but is used to receive or disburse unusually large sums which have no obvious purpose or relationship to the customer and/or his business;



- (5) Provision of bank guarantees or indemnities as collateral for loans between third parties that are not in conformity with market conditions.
- (6) Unexpected repayment of an overdue credit without any plausible explanation.
- (7) Back-to-back loans without any identifiable and legally admissible purpose.

## **2. Transactions Inconsistent with the Customer's Business**

- (1) The currency transaction patterns of a business show a sudden change inconsistent with normal activities.
- (2) A large volume of cashier's cheques, money orders, or funds transfers is deposited into, or purchased through, an account when the nature of the accountholder's business would not appear to justify such activity.
- (3) A retail business has dramatically different patterns of currency deposits from similar businesses in the same general location.
- (4) Unusual transfers of funds occur among related accounts or among accounts that involve the same or related principals.
- (5) Goods or services purchased by the business do not match the customer's stated line of business.

## **3. High Value Cash Transactions**

- (1) Large cash withdrawals made from a business account not normally associated with cash transactions.
- (2) Large cash deposits made to the account of an individual or legal entity when the apparent business activity of the individual or entity would normally be conducted in cheques or other payment instruments.
- (3) Mixing of cash deposits and monetary instruments in an account in which such transactions do not appear to have any relation to the normal use of the account.
- (4) The deposit or withdrawal of cash in amounts which fall consistently just below identification or reporting thresholds.
- (5) The presentation of uncounted funds for a transaction. Upon counting, the transaction is reduced to an amount just below that which would trigger reporting or identification requirements.
- (6) The deposit or withdrawal of multiple monetary instruments at amounts which fall consistently just below identification or reporting thresholds, if any, particularly if the instruments are sequentially numbered.
- (7) Exchanging an unusually large number of small-denominated notes for those of higher denomination.



- (8) Purchasing or selling of foreign currencies in substantial amounts by cash settlement despite the customer having an account with the financial institution.
- (9) Frequent withdrawal of large cash amounts that do not appear to be justified by the customer's business activity.
- (10) Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad.
- (11) Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash, rather than by way of debits and credits normally associated with the normal commercial operations of the company, e.g., cheques, letters of credit, bills of exchange, etc.
- (12) Depositing cash by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the total of which is substantial.
- (13) The deposit of unusually large amounts of cash by a customer to cover requests for bankers' cheques, money transfers or other negotiable instruments.
- (14) Customers whose deposits contain counterfeit notes or forged instruments.
- (15) Customers making large and frequent cash deposits, but cheques drawn on the accounts are mostly to individuals and firms not normally associated with their business.
- (16) Customers who together, and simultaneously, use separate branches/booths to conduct large cash transactions or foreign exchange transactions.

#### **4. Transactions Involving Structuring to avoid Reporting or Identification Requirement**

- (1) Structuring transactions are conducted to evade reporting and identification requirements. A person structures a transaction by breaking down a single currency sum exceeding the specified threshold into smaller amounts that may be conducted as a series of transactions at or less than specified amount. Money launderers and criminals have developed many ways to structure large amounts of currency to evade the reporting and identification requirements. Unless currency smuggled out of country or commingled with the deposits of an otherwise legitimate business, any money laundering scheme that begins with a need to convert the currency proceeds of criminal activity into more legitimate-looking forms of financial instruments, accounts, or investments, will likely involve some form of structuring. Financial institutions' employees should be aware of and alert to the following structuring schemes.
  - (a) A customer makes currency deposit or withdrawal transactions, so that each is less than the CTR filing threshold.



- (b) A customer uses currency to purchase official bank cheques, money orders, or traveler's cheques with currency in amounts less than the specified amount to avoid having to produce identification in the process.
  - (c) Deposits are structured through multiple branches of the same financial institution or by groups of people who enter a single branch at the same time.
  - (d) A person customarily uses the automated teller machine to make several deposits below a specified threshold.
  - (e) Multiple transactions carried out on the same day at the same branch of a financial institution but with an apparent attempt to use different tellers.
  - (f) The structuring of deposits through multiple branches of the same financial institution or by groups of individuals who enter a single branch at the same time.
- (2) In addition, structuring may occur before a customer brings the funds to a financial institution. In these instances, a financial institution may be able to identify the aftermath of structuring. Deposits of money instruments that may have been purchased elsewhere might be structured to evade the reporting and recordkeeping requirements. These instruments are often numbered sequentially in groups totaling less than the specified amount; bear the same handwriting (for the most part) and often the same small mark, stamp, or initials; or appear to have been purchased at numerous places on the same or different days.

## **5. Transactions Involving Accounts**

- (1) Accounts that receive relevant periodical deposits and are dormant at other periods. These accounts are then used in creating a legitimate appearing financial background through which additional fraudulent activities may be carried out.
- (2) A dormant account containing a minimal sum suddenly receives deposit or series of deposits followed by daily cash withdrawals that continue until the sum so received has been removed.
- (3) When opening an account, the customer refuses to provide information required by the financial institution, attempts to reduce the level of information provided to the minimum or provides information that is misleading or difficult to verify.
- (4) An account for which several persons have signature authority, yet these persons appear to have no relation among each other (either family ties or business relationship).
- (5) An account opened by a legal entity or an organization that has the same address as other legal entities or organizations but for which the same person



or persons have signature authority, when there is no apparent economic or legal reason for such an arrangement (for example, individuals serving as company directors for multiple companies headquartered at the same location, etc.).

- (6) An account opened in the name of a recently formed legal entity and in which a higher-than-expected level of deposits are made in comparison with the income of the promoter of the entity.
- (7) The opening by the same person of multiple accounts into which numerous small deposits are made that in aggregate are not commensurate with the expected income of the customer.
- (8) An account opened in the name of a legal entity that is involved in the activities of an association or foundation whose aims are related to the claims or demands of a terrorist organization.
- (9) An account opened in the name of a legal entity, a foundation or an association, which may be linked to a terrorist organization and that shows movements of funds above the expected level of income.
- (10) Matching of payments out with credits paid in by cash on the same or previous day.
- (11) 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.
- (12) High velocity of funds through an account, i.e., low beginning and ending daily balances, which do not reflect the large volume of funds flowing through an account.
- (13) Multiple depositors using a single account.
- (14) An account opened in the name of an exchange company that receives structured deposits.
- (15) An account operated in the name of an offshore company with structured movement of funds.

## **6. Transactions Involving Transfers to and From Abroad**

- (1) Wire transfers ordered in small amounts in an apparent effort to avoid triggering identification or reporting requirements.
- (2) Wire transfers to or for an individual where information on the originator, or the person on whose behalf the transaction is conducted, is not provided with the wire transfer, when the inclusion of such information would be expected.



## Financial Monitoring Unit

- (3) Use of multiple personal and business accounts or the accounts of non-profit organizations or charities to collect and then funnel funds immediately or after a short time to a small number of foreign beneficiaries.
- (4) Foreign exchange transactions that are performed on behalf of a customer by a third party followed by wire transfers of the funds to locations having no apparent business connection with the customer or to countries of specific concern.
- (5) Transfer of money abroad by an interim customer in the absence of any legitimate reason. An interim customer is one who is not a regular customer of the financial institution in question, or does not maintain an account, deposit account, safe deposit box, etc.
- (6) A customer which appears to have accounts with several financial institutions in the same locality, especially when the financial institution is aware of a regular consolidated process from such accounts prior to a request for onward transmission of the funds elsewhere.
- (7) Repeated transfers of large amounts of money abroad accompanied by the instruction to pay the beneficiary in cash.
- (8) Large and regular payments that cannot be clearly identified as bona fide transactions, from and to countries associated with (i) the production, processing or marketing of narcotics or other illegal drugs or (ii) criminal conduct.
- (9) Substantial increase in cash deposits by a customer 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 the customer.
- (10) Building up large balances, not consistent with the known turnover of the customer's business, and subsequent transfer to account(s) held overseas.
- (11) Cash payments remitted to a single account by a large number of different persons without an adequate explanation.
- (12) Funds transfer activity occurs to or from a financial secrecy haven without an apparent business reason or when the activity is inconsistent with the customer's business or history.
- (13) Many small, incoming transfers of funds are received, or deposits are made using cheques and money orders. Almost immediately, all or most of the transfers or deposits are wired to another city or country in a manner inconsistent with the customer's business or history.
- (14) Incoming funds transfers with limited content and lack of remitter's information.



- (15) Unusually large number and variety of beneficiaries are receiving funds transfers from one company.

#### **7. Investment Related Transactions**

- (1) Purchasing of securities to be held by the financial institution in safe custody, where this does not appear appropriate given the customer's apparent standing;
- (2) Requests by a customer for investment management services where the source of funds is unclear or not consistent with the customer's apparent standing.
- (3) Larger or unusual settlements of securities transactions in cash form.
- (4) Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.

#### **8. Transactions Involving Unidentified Parties**

- (1) Provision of collateral by way of pledge or guarantee without any discernible plausible reason by third parties unknown to the financial institution and who have no identifiable close relationship with the customer.
- (2) Transfer of money to another financial institution without indication of the beneficiary.
- (3) Payment orders with inaccurate information concerning the person placing the orders.
- (4) Use of pseudonyms or numbered accounts for effecting commercial transactions by enterprises active in trade and industry.
- (5) Holding in trust of shares in an unlisted company whose activities cannot be ascertained by the financial institution.
- (6) Customers who wish to maintain a number of trustee or clients' accounts that do not appear consistent with their type of business, including transactions that involve nominee names.

#### **9. Transactions Involving Embassy and Foreign Consulate Accounts**

- (1) Official embassy business is conducted through personal accounts.
- (2) Account activity is not consistent with the purpose of the account.
- (3) Accounts are funded through substantial currency transactions.
- (4) Accounts directly fund personal expenses of foreign nationals without appropriate controls.





#### **10. Characteristics of the Customer or His/ Her Business Activity:**

- (1) Funds generated by a business owned by individuals of the same origin or involvement of multiple individuals of the same origin from countries of specific concern acting on behalf of similar business types.
- (2) Shared address for individuals involved in cash transactions, particularly when the address is also a business location and/or does not seem to correspond to the stated occupation (for example student, unemployed, self-employed, etc.).
- (3) Stated occupation of the transactor is not commensurate with the level or type of activity (for example, a student or an unemployed individual who receives or sends large numbers of wire transfers, or who makes daily maximum cash withdrawals at multiple locations over a wide geographic area).
- (4) Regarding non-profit or charitable organizations, financial transactions for which there appears to be no logical economic purpose, or in which there appears to be no link between the stated activity of the organization and the other parties in the transaction.
- (5) A safe deposit box is opened on behalf of a commercial entity when the business activity of the customer is unknown, or such activity does not appear to justify the use of a safe deposit box.
- (6) Unexplained inconsistencies arising from the process of identifying or verifying the customer (for example, regarding previous or current country of residence, country of issue of the passport, countries visited according to the passport, and documents furnished to confirm name, address and date of birth).

#### **11. Transactions Linked to Locations of Concern:**

- (1) Transactions involving foreign currency exchanges that are followed within a short time by wire transfers to locations of specific concern (for example, countries designated by national authorities, FATF High Risk countries and territories, etc.).
- (2) Deposits are followed within a short time by wire transfers of funds, particularly to or through a location of specific concern (for example, countries designated by national authorities, FATF High Risk and territories, etc.).
- (3) A business account through which a large number of incoming or outgoing wire transfers take place and for which there appears to be no logical business or other economic purpose, particularly when this activity is to, through or from locations of specific concern.



- (4) The use of multiple accounts to collect and then funnel funds to a small number of foreign beneficiaries, both individuals and businesses, particularly when these are in locations of specific concern.
- (5) A customer obtains a credit instrument or engages in commercial financial transactions involving movement of funds to or from locations of specific concern when there appears to be no logical business reasons for dealing with those locations.
- (6) The opening of accounts of financial institutions from locations of specific concern.
- (7) Sending or receiving funds by international transfers from and/or to locations of specific concern.

## **12. Miscellaneous Transactions**

- (1) Purchase of bank cheques on a large scale by an interim customer.
- (2) Extensive or increased use of locker facilities that do not appear to be justified by the customer's personal or business activities.
- (3) Lockers are used by individuals who do not reside or work in the institution's service area despite the availability of such services at an institution closer to them.
- (4) Unusual traffic patterns in the lockers area. For example, more individuals may enter, enter more frequently, or carry bags or other containers that could conceal large amounts of currency, monetary instruments, or valuable items.
- (5) A customer rents multiple lockers to park large amounts of currency, monetary instruments, or high-value assets awaiting conversion to currency, for placement into the financial system.
- (6) Loans are made for, or are paid on behalf of, a third party with no reasonable explanation.
- (7) To secure a loan, the customer purchases a certificate of deposit using an unknown source of funds, particularly when funds are provided via currency or multiple monetary instruments.
- (8) A customer purchases several open-end stored value cards for large amounts. Purchases of stored value cards are not commensurate with normal business activities.
- (9) Suspicious movements of funds occur from one financial institution to another, and then funds are moved back to the first financial institution.
- (10) Purchase of real estate on price higher than the determinable value.
- (11) A series of purchases of real estate within relatively short span of time.



### **13. Potential Indicators of Money Laundering/Terrorist Financing**

The following examples of potentially suspicious activity that may involve money laundering or terrorist financing threat, are primarily based on guidance note provided by the Financial Action Task Force (FATF) in the name of “Guidance for Financial Institutions in Detecting Terrorist Financing”. FATF is an intergovernmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing.

#### **a) Activity Inconsistent with the Customer’s Business**

- i) Funds are generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from high-risk countries (e.g., countries designated by national authorities and FATF as High-Risk countries and territories).
- ii) The stated occupation of the customer is not commensurate with the type or level of activity.
- iii) Persons involved in currency transactions share an address or phone number, particularly when the address is also a business location or does not seem to correspond to the stated occupation (e.g., student, unemployed, or self-employed).
- iv) Regarding nonprofit or charitable organizations, financial transactions occur for which there appears to be no logical economic purpose, or in which there appears to be no link between the stated activity of the organization and the other parties in the transaction.
- v) A locker opened on behalf of a commercial entity when the business activity of the customer is unknown, or such activity does not appear to justify the use of a safe deposit box.

#### **b) Funds Transfers**

- i) Many incoming or outgoing funds transfers take place through a business account, and there appears to be no logical business or other economic purpose for the transfers, particularly when this activity involves high-risk locations.
- ii) Funds transfers are ordered in small amounts in an apparent effort to avoid triggering reporting requirements.
- iii) Funds transfers do not include information on the originator, or the person on whose behalf the transaction is conducted when the inclusion of such information would be expected.



- iv) Multiple personal and business accounts or the accounts of nonprofit organizations or charities are used to collect and funnel funds to a small number of foreign beneficiaries.
- v) Foreign exchange transactions are performed on behalf of a customer by a third party, followed by funds transfers to locations having no apparent business connection with the customer or to high-risk countries.

**c) Other Transactions That Appear Unusual or Suspicious**

- i) Transactions involving foreign currency exchanges are followed within a short time by funds transfers to high-risk locations.
- ii) Multiple accounts are used to collect and funnel funds to a small number of foreign beneficiaries, both persons and businesses, particularly in high-risk locations.
- iii) A customer obtains a credit instrument or engages in commercial financial transactions involving the movement of funds to or from high-risk locations when there appear to be no logical business reasons for dealing with those locations.
- iv) Financial institutions from high-risk locations open accounts.
- v) Funds are sent or received via international transfers from or to high-risk locations.
- vi) Insurance policy loans or policy surrender values that are subject to a substantial surrender charge.

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