Anti-Money Laundering & Terrorist Financing (AMLTF) Training Course

Module 5

Suspicious Transaction Indicators
**Learning Objectives:**

Upon completion of this module, you will be able to:

- Recognize common indicators of money laundering and terrorist financing that will assist in identifying possible suspicious transactions, whether they are completed or attempted.

- Use questioning techniques to probe into a client’s transaction to determine whether a transaction or attempted transaction is suspicious.

**This module contains three parts:**

1. General Suspicious Transaction Indicators
2. Probing Questions
3. Identifying Suspicious Transaction Indicators
**Introduction:**
A suspicious transaction (completed or attempted) is one that, no matter the monetary amount, gives:

- reasonable grounds to suspect it is related to money laundering or terrorist financing; *and*

- a feeling of discomfort, apprehension, or mistrust.

Indicators of suspicious or attempted transactions are based on your company’s normal business practices and, in turn, factors may vary from client to client based on their normal business practices with your organization.

This module will take a closer look at indicators of money laundering and terrorist financing transactions or attempted transactions and how to better identify them within your working environment. This information can be further enhanced by referring to any lists of suspicious transaction indicators your company has already identified to assist employees/Realtors with determining what is suspicious or not.
Part 1: General Suspicious Transaction Indicators
Suspicious Transaction Indicators:

The following slides indicate some of the general and industry specific suspicious indicators. These indicators have been created to provide realtors with guidelines to assist in being better able to identify suspicious financial transactions (completed or attempted).

In this module, we’ll only be looking at the indicators that relate generally to all reporting entities. If you’re interested in reviewing the indicators specific to your industry, please refer to either the FINTRAC and/or ABCsolutions private subscriber web site.
Section overview:

General suspicious or attempted transactions fall into eight categories:

1. General criteria
2. Knowledge of money laundering issues
3. Identity documents
4. Transactions with certain countries and territories
5. Cash transactions
6. Economic purpose
7. General indicators related to offshore business activities

This section will review each category and some of the indicators within each.
1. General Criteria

The following list outlines general criteria that could be indicators of suspicious or attempted transactions involving money laundering.

<table>
<thead>
<tr>
<th>Behavioural</th>
<th>The client:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Is nervous, not in keeping with the transaction</td>
</tr>
<tr>
<td></td>
<td>• Is defensive when questioned [and leaves office]</td>
</tr>
<tr>
<td></td>
<td>• Is secretive and reluctant to meet in person</td>
</tr>
<tr>
<td></td>
<td>• Presents confusing details about themselves and/or the transaction</td>
</tr>
<tr>
<td></td>
<td>• Over justifies or explains the transaction</td>
</tr>
<tr>
<td></td>
<td>• Makes statements about involvement in criminal activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial/Transactional Details</th>
<th>The client:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Does not want correspondence sent to their home address</td>
</tr>
<tr>
<td></td>
<td>• Appears to have accounts with several financial institutions in the area [and withdraws request of service when questioned]</td>
</tr>
<tr>
<td></td>
<td>• Seems to be watched or is accompanied during the transaction</td>
</tr>
<tr>
<td></td>
<td>• Seems to be willfully blind to being involved in possible money laundering activities</td>
</tr>
<tr>
<td></td>
<td>• Leaves office and does not complete transaction when asked for ID</td>
</tr>
</tbody>
</table>
2. Knowledge of Money Laundering Issues

The following outlines criteria based on the client’s knowledge of money laundering issues that could be indicators of suspicious or attempted transactions involving money laundering.

Financial/Transaction al Details

**The client:**
- Attempts to convince you not to complete necessary forms [and does not complete transaction when unsuccessful]
- Makes inquiries that would indicate a desire to avoid reporting
- Has unusual or above the average person’s knowledge of the law in relation to suspicious transaction reporting in keeping with the transaction being conducted
3. Identity Documents

The following outlines criteria based on a client's identity documents that could be indicators of suspicious or attempted transactions involving money laundering.

**Financial/Transactional Details**

The client:
- Provides doubtful or vague identity information
- Refuses to produce personal identification documents
- Wants to establish identity through means other than personal identification documents
- Has supporting documentation that lacks important details, such as a phone number or street address
- Submits only copies of personal identification documents
- Has their home phone disconnected and provides various cell numbers
Identity Documents (continued)

The following outlines criteria based on a client's identity documents that could be indicators of suspicious or attempted transactions involving money laundering.

Financial/Transactional Details

The client:

• Inordinately delays presenting personal or corporate documents
• Produces seemingly false documentation
• Uses aliases and a variety of similar, but different, addresses
• Uses a post office box or General Delivery address instead of a home street address, when one is available
• Does not complete transaction when questioned about ID
• States they have left their ID at home or indicate they have no ID at all
4. Transactions with Certain Countries and Territories

The following outlines criteria based on transactions with certain countries and territories that could be indicators of suspicious or attempted transactions involving money laundering.

<table>
<thead>
<tr>
<th>Financial/Transaction Details</th>
<th>You are asked to conduct transactions that involve countries:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Where illicit drug production or exporting may be prevalent, or where there is no effective anti-money laundering system</td>
</tr>
<tr>
<td></td>
<td>• Known for highly secretive banking and corporate law</td>
</tr>
<tr>
<td></td>
<td>• Known or suspected to facilitate money laundering activities</td>
</tr>
<tr>
<td></td>
<td>• Identified by the FATF as non-cooperating countries</td>
</tr>
<tr>
<td></td>
<td>• With customers with Canadian addresses who originate payments from foreign bank accounts</td>
</tr>
</tbody>
</table>
5. **Cash Transactions**

The following outlines criteria based on cash transactions that could be indicators of suspicious or attempted transactions involving money laundering.

<table>
<thead>
<tr>
<th>Condition of Cash</th>
<th>The cash is:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Musty or extremely dirty</td>
</tr>
<tr>
<td></td>
<td>• Makes necessary payments in cash in large amounts</td>
</tr>
<tr>
<td></td>
<td>• When cash is used, the amount paid is always rounded-off just below the reporting threshold of $10,000 CAD</td>
</tr>
<tr>
<td></td>
<td>• Cash payment made with bills that have not been counted. When total is determined the client removes funds from the total to keep transaction below the reporting threshold.</td>
</tr>
</tbody>
</table>
6. Economic Purpose

The following outlines criteria based on economic purpose that could be indicators of suspicious or attempted transactions involving money laundering.

<table>
<thead>
<tr>
<th>Financial/Transactional Details</th>
<th>The transaction:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Is inconsistent with the client’s apparent financial standing or usual pattern of activities</td>
</tr>
<tr>
<td></td>
<td>• Does not appear to be driven by normal commercial practices or demands</td>
</tr>
<tr>
<td></td>
<td>• Is unnecessarily complex for its stated purpose (e.g., involves too many steps or tasks making for unnecessary service charges</td>
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<tr>
<td></td>
<td>• Fund transfers from overseas destinations with no, or very little in the way of a supporting business explanation</td>
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<tr>
<td></td>
<td>• Switching funds between several accounts in different institutions or jurisdictions in an attempt to confuse the audit trail</td>
</tr>
<tr>
<td></td>
<td>• Transaction involves a non-profit or charitable organization for which there appears to be no link to the client.</td>
</tr>
</tbody>
</table>
## 7. Offshore Business Activity

The following outlines criteria based on transactions involving offshore business activity that could be indicators of suspicious or attempted transactions involving money laundering.

<table>
<thead>
<tr>
<th>Financial/Transactional Details</th>
<th>Transactions with offshore businesses that involve:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Accumulation of large balances, inconsistent with the known turnover of the client’s business, and then subsequent transfers to overseas account(s)</td>
</tr>
<tr>
<td></td>
<td>• Loans secured by obligations from offshore banks</td>
</tr>
<tr>
<td></td>
<td>• Loans to or from offshore companies</td>
</tr>
<tr>
<td></td>
<td>• Offers of multi-million dollar deposits from a confidential source to be sent from an offshore bank or somehow guaranteed by an offshore bank</td>
</tr>
<tr>
<td></td>
<td>• “Shell” banks that have names very similar to the name of a legitimate institution</td>
</tr>
<tr>
<td></td>
<td>• Unexplained electronic funds transfers by clients on a regular in-and-out basis</td>
</tr>
<tr>
<td></td>
<td>• Use of credit cards issued by an off-shore bank to make deposits</td>
</tr>
</tbody>
</table>
Some common activities reflective of terrorist financing/money laundering:

- The use of legal businesses to co-mingle funds destined to assist terrorist groups
- The use of shell companies to conceal the beneficial ownership of business accounts
- The use of informal money transfer systems where money is transferred from Canada to a foreign country without using a formal EFT system through a financial institution. These are called hawala, hundi, or fei chien.
- The use of family or friends who are trusted within the community, and who will not attract attention, to conduct transactions on behalf of the terrorist group
- The use of “smurfs” to make transactions in smaller amounts that do not attract attention
Part 2: Probing Questions
Suspicion transaction overview:

Suspicious transactions should be assessed based on four main “know your client” factors:

- Knowledge of client and their business
- Financial history
- General background
- Behaviour

Identifying suspicious transactions will normally involve putting together two or more of these factors and you should be comfortable in asking the client probing questions to clarify your suspicions.
Probing questions:

There may be circumstances where you will be required to ask a client questions to better determine whether a transaction may be suspicious.

These questions should be general and inconspicuous so as not to tip the client off that you may be suspicious and considering reporting the transaction.

The questions should focus on the four main areas of “know your client” factors:

- Normal business activities
- Financial history
- General background
- Behaviour

The next slides will look at scenarios of each and questions you can ask.
KYC Factor #1: Normal Business Activities

Scenario:

A local Realtor opened up a working agreement with a walk-in client named Ivan Morris, to assist him in funding and purchasing some commercial properties. Two days after the agreement was signed, Mr. Morris has the Realtor put in an offer on a small apartment complex listed for $500,000. As a deposit on the offer, Mr. Morris gave the Realtor five separate bank drafts drawn on five different banks totaling $75,000.00.

What questions could you ask in this scenario to find out more about this unusual financial transaction?
KYC Factor #1: Normal Business Activities

Example of a probing question you could ask:

“Mr. Morris I notice these five bank drafts are from different institutions, would it not be easier to consolidate your deposit into one draft?”

Explanation

The use of five bank drafts from five different banks is not a common practice for real estate salespersons’ who have opened up working agreements with new, walk-in clients.

Money launderers will usually have many accounts with many institutions and often use funds from several of them at the same time to make an audit trail difficult to follow. This example is a good indicator of possible money laundering.
KYC Factor #2: Financial History

Scenario:

Your client has used your services to assist her in buying and selling residential property for the past 20 years. During that time she has bought and sold a total of five properties. Each purchase of the five properties involved a deposit on the offer of 5% of the proposed purchase price paid by way of a personal cheque drawn on her Canadian bank. She has now found a new property and asks the Realtor to represent her again and together they put an offer to purchase together. This time however, the client provides the Realtor a deposit involving $7,000 in cash and a wire transfer into the Realtor’s account from a U.S. bank for $40,000.

Based on what you know about your client’s previous deposit practices, what probing questions could you ask in this scenario to find out more about her method of making a deposit?
KYC Factor #2: Financial History

Example of a probing question you could ask:

“Joan this is a sizeable deposit, but you have never used cash plus a wire transfer before. Are you diversifying your sources of income these days?”

Explanation

In this situation, Joan’s increase in available funds for the purchase could very well be legitimate. However, if what you know about Joan herself and her past approach to making a deposit on the offer, this new combination of payments does raise a suspicious red flag as to the source of the these funds. Further due diligence is warranted.
A Realtor is contacted by a local law firm on behalf of a client who currently resides in Bermuda. The client is a former resident of Canada who has since moved to Bermuda but maintains a home in Canada. The realtor is asked by the law firm to represent their client (in Bermuda) in the sale of his residence in a nearby neighbourhood to the real estate office. The Realtor agrees and meets with the client’s lawyer to gather particulars about the residence. At this meeting, the lawyer provides the Realtor all of the required information about the residence, which is registered to a numbered company, but no specifics about the client. The lawyer did confirm however that she possessed the power to manage all issues regarding the sale.

What probing questions might you ask in this scenario about the invisible client?
Example of a probing comment you could ask:

“I realize it is not uncommon for third parties to act on behalf of someone else in a sale of property, however, it seems somewhat strange that you have not told me the name of your client?”

**Explanation**

Money launderers like to use nominees to undertake business deals through to their completion and therefore avoid attention drawn to them personally. Criminals use the costs associated with such third-parties as simply the price of ensuring their anonymity.
Scenario:

A small town Broker in a popular holiday resort community has developed a very profitable property management side of his business, handling a significant number of cottage properties for non-resident owners. Recently, the Broker added five cottages to his portfolio which were owned by an individual living in the southern USA as an investment. All five cottages had been expensively remodeled over the past winter season for which it was well known in the community that the contractors were paid for these materials with US currency.

What questions could the broker ask his new client based on the suspicious nature of such large renovation bills all being paid for in cash?
KYC Factor #4: Behaviour

Example of some probing questions you could ask:

“Paying in cash doesn’t provide you with the invoices needed on your investments, aren’t these renovations subject to tax write-off in the US?”

“Don’t you have tax liabilities in Canada? All this cash might cause you problems.”

Explanation

Hiding an audit trail is critical to a money launderer; consequently, not having receipts for materials or labour is important and more valuable than possible tax write-offs.
Part 3: Identifying Suspicious Transaction Indicators
**Section overview:**

In this section, we’ll look at three case studies involving actual money laundering activities.

- Each of the case studies is followed by suggested indicators that should alert Realtors to it being a suspicious transaction.
Case Study 1:

A drug trafficker living in the Maritimes purchased a home as his personal residence without visiting the property at anytime during the purchase process. He paid for the deposit by way of a wire transfer from an offshore account and then the balance on closing was covered by a bank draft on a U.S. bank.

Would you report these transactions? If so, based on what indicators?
Case Study 1:

Yes, you should report these transactions. There is reason to be suspicious based on the following indicators:

- buying a home sight unseen is not common practice for homeowners.
- deposits via wire transfers from offshore accounts are suspicious.
- paying for a home in full with funds drawn on a foreign-bank account is not common.
Case Study 2:

A career criminal deposited cash into a bank account in the name of his parents. He also purchased a home and obtained a mortgage from the same banks, both of which were registered in the name of his parents. He subsequently paid off the mortgage, valued at $400,000 in less than four months.

What suspicious indicators could be applied in this situation?
Case Study 2:

Suspicious indicators that could be applied here are:

• A third party depositing a steady flow of cash into some else’s bank account.

• A third party buying a home, with a mortgage, for someone else in their name.

• Paying off the mortgage so quickly.
Case Study 3:

A realtor was well known for selling properties quickly to customers on his lengthy but somewhat secretive client list. These properties often sold for above the asking price or ‘out of the blue’ for properties that had been on the market for overly extended periods of time. In most cases, only small mortgages were required by the purchaser, which were paid off quickly or by funds wired in from foreign jurisdictions. The Realtor always worked alone and never requested assistance from others working at the same brokerage.

What factors would raise suspicions about possible money laundering?
Case Study 3:

The following that would raise suspicions about possible money laundering include:

- Secrecy about the Realtor’s clients
- Frequency of purchases through the same realtor above the asking price.
- Low mortgages which are quickly repaid.
- Significant number of foreign wire transfer payments.
I’m done Module 5, what do I do now?

**Congratulations!** You have now completed all the modules in this course!

Feel free to go back and review any of the modules if you feel you need to refresh some of the information.

Note that the material contained in each module of this course is reviewed and updated on a regular basis.