RED FLAG INDICATORS FOR FINANCE COMPANY

General Comments

The list of situations given below is intended to highlight some basic ways in which money may be laundered or used for TF purposes. While each individual situation may not be sufficient to suggest that ML/TF is taking place, a combination of such situations may be indicative of a suspicious transaction. The list is intended solely as an aid, and must not be applied as a routine instrument in place of common sense.

The list is not exhaustive and may be updated due to changing circumstances and new methods of laundering money or financing terrorism. Finance companies are to refer to STRO's website for the latest list of red flags[1].

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 scrutiny.

It is reasonable to suspect any customer who is reluctant to provide normal information and documents required routinely by the finance company in the course of the business relations. Finance companies 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 for the finance company to verify.

Transactions Which Do Not Make Economic Sense

i) 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 or jurisdictions where such trade is not consistent with the customer's usual business;

ii) A customer relationship with the finance company where a customer has a large number of accounts with the same finance company, and has frequent transfers between different accounts.

iii) Transactions in which assets are withdrawn immediately after being deposited, unless the customer's business activities furnish a plausible reason for immediate withdrawal.

iv) 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 or his business.

v) Large amounts of funds deposited into an account, which is inconsistent with the salary of the customer.

[1] The website address as at 20 August 2018: https://www.police.gov.sg/about-us/organisational-structure/specialist-staff-departments/commercial-affairs-department/aml-cft/suspicious-transaction-reporting-office/suspicious-transaction-reporting

vi) Provision of bank guarantees or indemnities as collateral for loans between third parties that are not in conformity with market conditions.

vii) Unexpected repayment of an overdue credit without any plausible explanation.

viii) Unexpected repayment of credit facilities by a third party on behalf of the customer.

ix) Back-to-back loans without any identifiable and legally admissible purpose.

x) Cash deposited at one location is withdrawn at another location almost immediately.

Transactions Involving Large Amounts of Cash

i) Frequent withdrawal of large cash amounts that do not appear to be justified by the customer's business activity.

ii) Frequent withdrawal of large amounts by means of cheques, including traveller's cheques.

iii) 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.

iv) Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad.

v) A large amount of cash is withdrawn and immediately deposited into another account.

vi) Exchanging an unusually large amount of small-denominated notes for those of higher denomination.

vii) Purchasing or selling of foreign currencies in substantial amounts by cash settlement despite the customer having an account with the finance company.

viii) 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).

ix) Depositing cash by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the cumulative total of which is substantial.

x) The deposit of unusually large amounts of cash by a customer to cover requests for bankers' drafts, money transfers or other negotiable and readily marketable money instruments.

xi) Customers who together, and simultaneously, use separate tellers to conduct large cash transactions or foreign exchange transactions.

xii) Customers whose deposits contain counterfeit notes or forged instruments.

Transactions Involving Accounts of the Customer with the Finance Company

i) 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.

ii) Substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using customer accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other customer company and trust accounts.

iii) Matching of payments out with credits paid in by cash on the same or previous day.

iv) Transfers of funds from a company's account to an individual account of an employee or persons related to the employee and vice-versa.

v) Transfers of funds from various third parties into an account, which is inconsistent with the nature of the customer's business.

vi) Multiple depositors using a single account.

vii) Paying in large third party cheques endorsed in favour of the customer.

viii) Frequent deposits of a company's cheques into an employee's account.

ix) An account operated in the name of an offshore company with structured movement of funds.

Transactions Involving Transfers Abroad

i) A customer who appears to have accounts with several finance companies in the same locality, especially when the finance company is aware of a regular consolidated process from such accounts prior to a request for onward transmission of the funds elsewhere.

ii) Large and regular payments that cannot be clearly identified as bona fide transactions, from and to countries or jurisdictions associated with (a) the production, processing or marketing of narcotics or other illegal drugs or (b) other criminal conduct.

iii) Transfer of a large amount of money abroad by a person who does not maintain an account with the finance company and who fails to provide a legitimate reason when asked.

iv) 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 or to a destination not normally associated with the customer.

v) Repeated transfers of large amounts of money abroad accompanied by the instruction to pay the beneficiary in cash.

vi) Building up large balances, not consistent with the known turnover of the customer's business, and subsequent transfer to account(s) held overseas.

vii) Cash payments remitted to a single account by a large number of different persons without an adequate explanation.

viii) "U-turn" transactions, i.e. where funds received from a person or company in a foreign country or jurisdiction are immediately remitted to another person or company in the same country or foreign jurisdiction, or to the sender's account in another country or jurisdiction.

Investment-Related Transactions

i) Purchasing of securities to be held by the finance company in safe custody, where this does not appear appropriate given the customer's apparent standing.

ii) Requests by a customer for investment management services where the source of funds is unclear or not consistent with the customer's apparent standing.

iii) Larger or unusual settlements of securities transactions in cash form.

iv) Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.

v) Large transfers of securities to non-related accounts.

Transactions Involving Unidentified Parties

i) Transfer of money to another finance company without indication of the beneficiary.

ii) Payment orders with inaccurate information concerning the person placing the orders.

iii) Use of pseudonyms or numbered accounts for effecting commercial transactions by enterprises active in trade and industry.

iv) Holding in trust of shares in an unlisted company whose activities cannot be ascertained by the finance company.

v) Provision of collateral by way of pledge or guarantee without any discernible plausible reason by third parties unknown to the finance company and who have no identifiable close relationship with the customer.

vi) Customers who wish to maintain a number of trustee or customers' accounts that do not appear consistent with their type of business, including transactions that involve nominee names.

Tax Crimes Related Transactions

i) Negative tax-related reports from the media or other credible information sources.

ii) Unconvincing or unclear purpose or motivation for having accounts opened in Singapore.

iii) Originating sources of multiple or significant deposits/withdrawals are not consistent with the declared purpose of the account.

iv) Inability to reasonably justify frequent and large wire transfers from or to a country or jurisdiction that presents higher risk of tax evasion.

v) Re-deposit or reinvestment of funds back into the original country or jurisdiction after being transferred to another country or jurisdiction, often a tax haven with poor track record on CDD or record keeping requirements.

vi) Accounts managed by external asset managers who may not be adequately regulated and supervised.

vii) Purchase or sale of large amounts of precious metals by a customer which is not in line with his business or background.

viii) Purchase of bank cheques on a large scale by a customer.

ix) Extensive or increased use of safe deposit facilities that do not appear to be justified by the background of the customer and for no apparent reason.

Trade-based Related Transactions

i) The commodity is shipped to (or from) a country or jurisdiction designated as "higher risk" for ML/TF activities.

ii) The type of commodity shipped is designated as "higher risk" for ML/TF activities[2].

[2] For example, high-value, low-volume goods (e.g. consumer electronics), which have high turnover rates and present valuation difficulties.

iii) Significant discrepancies appear between the description of the commodity on the bill of lading and the invoice.

iv) Significant discrepancies appear between the description of the goods on the bill of lading (or invoice) and the actual goods shipped.

v) Significant discrepancies appear between the value of the commodity reported on the invoice and the commodity's fair market value.

vi) The size of the shipment appears inconsistent with the scale of the exporter or importer's regular business activities.

vii) The type of commodity shipped appears inconsistent with the exporter or importer's regular business activities.

viii) The method of payment appears inconsistent with the risk characteristics of the transaction[3].

ix) The transaction involves the receipt of cash (or other payments) from third party entities that have no apparent connection with the transaction.

x) The transaction involves the use of repeatedly amended or frequently extended letters of credit.

xi) The transaction involves the use of front (or shell) companies.

xii) The commodity is transhipped through one or more countries or jurisdictions for no apparent economic reason.

xiii) The shipment does not make economic sense[4].

Other Types of Transactions

i) Account activity is not commensurate with the customer's known profile (e.g. age, occupation, income).

ii) The customer fails to reasonably justify the purpose of a transaction when queried by the finance company.

iii) Transactions with countries or entities that are reported to be associated with terrorism activities or with persons that have been designated as terrorists.

iv) Frequent changes to the address or authorised signatories.

v) A large amount of funds is received and immediately used as collateral for banking facilities.

[3] For example, the use of an advance payment for a shipment from a new supplier in a high-risk country.

[4] For example, the use of a forty-foot container to transport a small amount of relatively low-value goods.

vi) When a young person (aged about 17-26) opens an account and either withdraws or transfers the funds within a short period, which could be an indication of terrorism financing.

vii) When a person receives funds from a religious or charitable organisation and utilises the funds for purchase of assets or transfers out the funds within a relatively short period.

viii) The customer uses intermediaries which are not subject to adequate AML/CFT laws.

ix) Transactions that are suspected to be in violation of another country's or jurisdiction's foreign exchange laws and regulations.