

Appendix B

Examples of Potentially Suspicious Activity and Transactions

Financial Sector businesses, professional firms and other relevant businesses may wish to make additional enquiries in the following circumstances:

Banking Transactions

Cash Transactions

- Unusually large cash deposits made by an individual or company whose ostensible business activities would normally be generated by cheques and other instruments.
- Substantial increases in cash deposits of any individual or business 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.
- Customers who deposit cash by means of numerous credit slips so that the total of each deposit is unremarkable, but the total of all the credits is significant.
- Company accounts whose transactions, both deposits and withdrawals, are denominated by cash rather than the forms of debit and credit normally associated with commercial operations (for example cheques, letters of credit or bills of exchange).
- Customers who constantly pay in or deposit cash to cover requests for bankers drafts, money transfers or other negotiable and readily marketable money instruments.
- Customers who seek to exchange large quantities of low denomination notes for those of higher denomination.
- Frequent exchange of cash into other currencies.
- Branches that have a great deal more cash transactions than usual. (Head office statistics detect aberrations in cash transactions.)
- Customers whose deposits contain counterfeit notes or forged instruments.
- Customers transferring large sums of money to or from overseas locations with instructions for payment in cash.
- Large cash deposits using night safe facilities, thereby avoiding direct contact with bank or building society staff.

Accounts

- Customers who wish to maintain a number of trustee or client accounts which do not appear consistent with the type of business, including transactions which involve nominee names.
- Customers who have numerous accounts and pay in amounts of cash to each of them in circumstances in which the total of credits would be a large amount.
- Any individual or company whose account shows virtually no normal personal banking or business related activities, but is used to receive or disburse large sums which have no obvious purpose or relationship to the account holder and/or his business (for example a substantial increase in turnover on an account).
- Reluctance to provide normal information when opening an account, providing minimal or fictitious information or, when applying to open an account, providing information that is difficult or expensive for the financial institution to verify.
- Customers who appear to have accounts with several financial institutions within the same locality, especially when the bank or building society is aware of a regular consolidation process from such accounts prior to a request for onward transmission of the funds.
- Matching of payments out with credits paid in by cash on the same or previous day.
- Paying in large third party cheques endorsed in favour of the customer.
- Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad.
- Customers who together, and simultaneously, use separate tellers to conduct large cash transactions or foreign exchange transactions.
- Greater use of safe deposit facilities; increased activity by individuals; the use of sealed packets deposited and withdrawn.
- Companies' representatives avoiding contact with the branch.
- 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.
- Customers who show an apparent disregard for accounts offering more favourable terms.
- Customers who decline to provide information that in normal circumstances would

make the customer eligible for credit or for other banking services that would be regarded as valuable.

- Insufficient use of normal banking facilities, for example avoidance of high interest rate facilities for large balances.
- Large number of individuals making payments into the same account without an adequate explanation.

International Banking/Trade Finance

- Customer introduced by an overseas branch, affiliate or other bank based in countries where production of drugs or drug trafficking may be prevalent.
- 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.
- Customers who make regular and large payments, including wire transactions, that cannot be clearly identified as *bona fide* transactions to, or receive regular and large payments from, countries which are commonly associated with the production, processing or marketing of drugs, proscribed terrorist organisations or which are tax havens.
- Building up of large balances, not consistent with the known turnover of the customer's business, and subsequent transfer to account(s) held overseas.
- Unexplained electronic fund transfers by customers on an in and out basis or without passing through an account.
- Frequent requests for the issuing of travellers' cheques, foreign currency drafts or other negotiable instruments.
- Frequent paying in of travellers' cheques or foreign currency drafts, particularly if they originate from overseas.
- Customers who show apparent disregard for arrangements offering more favourable terms.

Institution Employees and Agents

- Changes in employee characteristics, for example lavish life styles or avoiding taking holidays.
- Changes in employee or agent performance, for example the salesman selling products for cash has a remarkable or unexpected increase in performance.
- Any dealing with an agent where the identity of the ultimate beneficiary or counterpart is undisclosed, contrary to normal procedure for the type of business concerned.

Secured and Unsecured Lending

- Customers who repay problem loans unexpectedly.
- Request to borrow against assets held by the financial institution or a third party, where the origin of the assets is not known or the assets are inconsistent with the customer's standing.
- Request by a customer for a financial institution to provide or arrange finance where the source of the customer's financial contribution to a deal is unclear, particularly where property is involved.
- Customers who unexpectedly repay in part or full a mortgage or other loan in a way inconsistent with their earnings capacity or asset base.

Securities and Investment Business

New Business

- A personal client for whom verification of identity proves unusually difficult and who is reluctant to provide details.
- A corporate/trust client where there are difficulties and delays in obtaining copies of the accounts or other documents of incorporation.
- A client with no discernible reason for using the firm's service, for example clients with distant addresses who could find the same service nearer their home base, or clients whose requirements are not in the normal pattern of the firm's business and could be more easily serviced elsewhere.
- An investor introduced by an overseas bank, affiliate or other investor, when both investor and introducer are based in countries where production of drugs or drug trafficking may be prevalent.
- Any transaction in which the counterparty to the transaction is unknown.

Dealing Patterns and Abnormal Transactions

Dealing Patterns

- A large number of security transactions across a number of jurisdictions.
- Transactions not in keeping with the investor's normal activity, the financial markets in which the investor is active and the business which the investor operates.
- Buying and selling of a security with no discernible purpose or in circumstances which appear unusual, for example churning at the client's request.

- Low-grade securities purchased in an overseas jurisdiction, sold in Britain, with the proceeds used to purchase high grade securities.
- Bearer securities held outside a recognised custodial system.

Abnormal Transactions

- A number of transactions by the same counterparty in small amounts of the same security, each purchased for cash and then sold in one transaction, the proceeds being credited to an account different from the original account.
- Any transaction in which the nature, size or frequency appears unusual, for example early termination of packaged products at a loss due to front end loading, or early cancellation, especially where cash had been tendered and/or the refund cheque is to a third party.
- Transactions not in keeping with normal practice in the market to which they relate, for example with reference to market size and frequency, or at off-market prices.
- Other transactions linked to the transaction in question which could be designed to disguise money and divert it into other forms or to other destinations or beneficiaries.

Settlements

Payment

- A number of transactions by the same counterparty in small amounts of the same security, each purchased for cash and then sold in one transaction.
- Large transaction settlement by cash.
- Payment by way of third party cheque or money transfer where there is a variation between the account holder, the signatory and the prospective investor, must give rise to additional enquiries.

Delivery

- Settlement to be made by way of bearer securities from outside a recognised clearing system.
- Allotment letters for new issues in the name of persons other than the client.

Disposition

- Payment to a third party without any apparent connection with the investor.
- Settlement either by registration or delivery of securities to be made to an unverified third party.
- Abnormal settlement instructions including payment to apparently unconnected parties.

Insurance Business

Brokerage and Sales

New Business

- A personal lines customer for whom verification of identity proves unusually difficult, who is evasive or reluctant to provide full details.
- A corporate/trust client where there are difficulties and delays in obtaining copies of the accounts or other documents of incorporation.
- A client with no discernible reason for using the firm's service, for example clients with distant addresses who could find the same service nearer their home base, or clients whose requirements are not in the normal pattern of or inconsistent with the firm's business and could be more easily serviced elsewhere.
- An investor introduced by an overseas broker, affiliate or other intermediary, when both investor and introducer are based in countries where production of drugs or drug trafficking may be prevalent.
- Any transaction in which the insured is unknown (for example treaty reinsurance or business introduced under binding authorities).

Abnormal Transactions

- Proposals from an intermediary not in keeping with the normal business introduced.
- Proposals not in keeping with an insured's normal requirements, the markets in which the insured or intermediary is active and the business which the insured operates.
- Early cancellation of policies with return of premium, with no discernible purpose or in circumstances which appear unusual.
- A number of policies entered into by the same insurer/intermediary for small amounts and then cancelled at the same time, the return of premium being credited to an account different from the original account.
- Any transaction in which the nature, size or frequency appears unusual, for example early termination or cancellation, especially where cash had been tendered and/or the refund cheque is to a third party.
- Assignment of policies to apparently unrelated third parties.
- Transactions not in keeping with normal practice in the market to which they relate, for example with reference to size or class of business.
- Other transactions linked to the transaction in question which could be designed to

disguise money and divert it into other forms or other destinations or beneficiaries.

- Willingness to pay premium on high risks which have a likelihood of regular claims being made.

Settlements

Payment

- A number of policies taken out by the same insured for low premiums, each purchased for cash and then cancelled with return of premium to the third party.
- Large or unusual payment of premiums or transaction settlement by cash.
- Overpayment of premium with a request to refund the excess to a third party or different country.
- Payment by way of third party cheque or money transfer where there is a variation between the account holder, the signatory and the prospective insured.

Disposition

- Payment of claims to a third party without any apparent connection with the investor.
- Abnormal settlement instructions, including payment to apparently unconnected parties or to countries in which the insured is not known to operate.

Claims and Reinsurances

- Strong likelihood of risks occurring, resulting in substantial claims, with consequently high premium.
- Claims paid to persons other than the insured.
- Claims which, while appearing legitimate, occur with abnormal regularity.
- Regular small claims within premium limit.
- Treaty reinsurances with high incidence of small claims.
- Regular reinsurance claims paid overseas to third parties.
- Recent change of ownership/assignment of policies just prior to a loss.
- Abnormal loss ratios for the nature and class of risk bound under a binding authority.

Legal Profession

Anything that is unusual or unpredictable or otherwise gives cause for suspicion or concern should lead more questions about the source of funds. It is important to remember that proceeds of crime can also arrive through the banking system.

Unusual Settlement Requests

- Request for settlement in cash.
- Surprise payments by way of a third party cheque.
- Money transfers where there is a variation between the account holder or the signatory.
- Requests to make regular payments out of a client account.
- Settlements which are reached too easily.

Unusual Instructions

- Why has the client chosen your firm? Could the client find the same service nearer their home?
- Are you being asked to do something that does not fit with the normal pattern of your business?
- Have instructions changed without a reasonable explanation?
- Has the transaction or activity taken an unusual turn.

Use of a Lawyers' Client Account

- Using a lawyers' client account to transmit money in useful to criminals and money launderers – it provides anonymity and enables the funds to be commingled.
- Are you being asked to provide a banking facility when you are not undertaking any related legal work?
- Are funds received into your client account when the instructions are then cancelled and you are asked to return the money either to your client or to a third party?
- Are the funds from a foreign client being routed into and out of your country without a logical explanation?

Loss Making Transactions

- Is the instruction likely to lead to some financial loss to your client or a third party

without a logical explanation, particularly where the client appears to be unconcerned?

- Is the movement of funds between different accounts, institutions or jurisdictions merely providing confusion with no apparent reason for the movement?

Accountancy

The following situations will increase the risk of money laundering and should be examined further.

- Does the client want to use the firm's client account as a bank account?
- Is it a cash-based business where the turnover cannot be justified?
- Is there a lack of independent audit evidence?
- Is there a complex group structure with no apparent reason?
- Has there been a recent change in business activity?
- Is there evidence of intra-group trading?
- Has there been a dramatic increase in turnover?
- Does the client have high turnovers/volume from small business locations?
- Were there any transactions in the year without an immediate or obvious purpose?
- Does the client require a client account denominated in a foreign currency?
- Does the client have a history of persistent and unlikely 'errors' in tax returns.
- Is there sufficient evidence of trading activity?
- Is the client merely seeking a respectable business address to create a good impression?