



## Fact Sheet: Red Flags of Money Laundering

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Money laundering and its predicate offences can take numerous and various forms. This makes it increasingly very difficult for financial institutions to correctly identify and deal accordingly with money laundering offences. The following is a list of some of the red flags which may raise suspicions to financial institutions when establishing a business relationship with a client. It is by no means an exhaustive list and it should be read in the context of a risk based approach, in which financial institutions should assess and understand the money laundering risks they are exposed to and take relevant measures to mitigate these risks.

Examples of money laundering red flags include:

- There is no legitimate source of funds for the prospective customer
- The level of funds of the prospective customer is not commensurate with their confirmed or purported business activities
- False or photocopied identification documents have been provided in order to open an account
- Pressure has been put on staff in financial institutions by a prospective customer to rush through the account set-up process without the customer providing all of the relevant information
- Failure to answer relevant questions as part of KYC checks
- The prospective customer has no career history (this is particularly relevant when the prospective customer is claiming to have a high level of personal funds)
- The residential addresses provided by a prospective customer are PO Box addresses
- New business customers who are reluctant to provide information on their business activities, location and directors
- The prospective customer asks an inordinate number of questions relating to the financial institution's AML policies
- The prospective customer is a politically exposed person (PEP), or a close family member or associate of a PEP
- The use of offshore business companies. There is no obligation to provide the names of officers and owners for companies registered in offshore jurisdictions and this makes complying with KYC requirements and identifying the beneficial owner(s) difficult. The use of nominee directors and shareholders is widespread in corporations registered in offshore jurisdictions.
- The use of complex and obscure business structures where the beneficial owner is not clear
- Financial reporting is at odds with the purported business activities
- There are no credible or independent references to the corporate entities associated (or claimed to be associated with) with the subject



- For existing customers: transactions which do not match the customer's transactional history or ones which involve large deposits being immediately withdrawn
- The use of bearer shares whereby it is impossible to confirm the owner or owners of the corporate entities
- Links to higher risk countries or jurisdictions which are subject to sanctions

The above red flags are mostly applicable to new customers. However, we can also help with ongoing KYC enhanced due diligence monitoring throughout your business relationship with higher risk individuals. We can provide regular, updated intelligence reports to ensure that the activities of these individuals are commensurate and consistent with your knowledge of the individual and their business profile.

### What Next?

Thorough due diligence is an essential part of establishing new business relationships. The fundamental precondition of any KYC regime is that if you cannot obtain sufficient detail to establish the customer's identity or you have any suspicions about the background and/or probity of the customer, you should not establish a relationship with him or her.

There should be a trained senior person in your organisation with full responsibility for money laundering reporting and control. This individual should have the authority to take action on cases where money laundering activity is suspected.

You must then have a policy in place for involving the proper law enforcement and/or regulatory officials at the correct time.

### How We Can Help

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfill their AML obligations.

Proximal Consulting's tailor-made enhanced due diligence reports seek to confirm the following information:

- Confirmation of identity
- Current and/or previous residential addresses
- Past and/or present passports issued to the subject of the report
- Information regarding the subject's family members and civil status
- The subject's career history and professional background, including corporate positions and shareholdings
- Any real estate and vehicles owned by the subject
- Any negative or detrimental material regarding the subject and the subject's business interests
- Whether the subject should be viewed as a PEP (politically exposed person) and/or a close family member or associate of a PEP



- Any links between the subject and organised crime, money laundering, corruption, business crime and/or any other type of criminal activity
- Sanctions risks

A Proximal Consulting enhanced due diligence report will confirm whether a prospective or existing customer or partner is providing you with complete and accurate information.

We can also help with ongoing KYC enhanced due diligence monitoring throughout your business relationship with the customer, as part of a risk based approach. We can provide regular, updated intelligence reports to ensure that the activities of these individuals are commensurate and consistent with your knowledge of the individual and their business profile.


**Need Further Information?**

If you would like further information about how Proximal Consulting can help you with any of the above topics, please contact us.

In addition, please see our AML training section for information on how Proximal Consulting can help you by providing a high quality, cost effective bespoke solution for your AML training and enhanced due diligence needs.

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