

# Prevention of Money Laundering : Technology as an Enabler

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SEMINAR ON PREVENTION OF MONEY LAUNDERING

ICAI – MARCH 16 2019

# Disclaimer

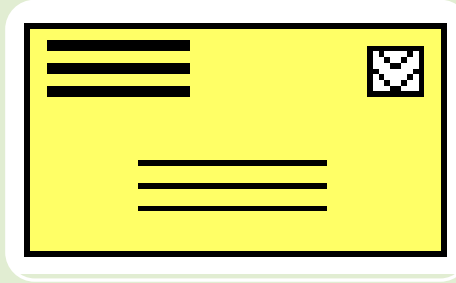
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# Pillars of KYC



IDENTITY



ADDRESS



PROFILE



DUE DILIGENCE

# Digitization Framework

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- ❖ **Enhanced** Customer Engagement : Minimize processing time at time of onboarding, swift identity verification and ongoing monitoring & communication for due diligence
- ❖ **Elimination** of Manual Errors which lead to compliance risks including regulatory actions
- ❖ **Efficiency** : Cutting down manual tasks, automation & utilization of resources for value add work.
- ❖ **Easy** to use
- ❖ **End to End** tools for design, development and real time testing / debugging.
- ❖ **Expandable** architecture : Agile methodology, ability to respond to ever changing regulations and evolving threats.

# Customer Identification- Tech Enablers

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## CUSTOMER IDENTIFICATION



- ***Validation of OVD from source***
  - *PAN / AADHAR Validation*
  - *Entity documents from source for e.g. MCA/ GST websites*
  - *Read images of originals basis scan.*

## CUSTOMER VERIFICATION



- Tech tools to verify identity***
  - *Biometric authentication*
  - *Meeting over Skype*
  - *Verification of entity documents from source MCA / GSTN*

# Address Verification: Tech Enablers

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## UPDATION OF ADDRESS



### *Updation from Source of OVD*

- *Address pull from source- AADHAR*
- *Address pull from source for entities – MCA/ GSTN*
- *Can also be pulled from CKYCR*

## ADDRESS VERIFICATION



### *Verification from source / Other means*

- *Verification from source of OVD*
- *Surrogates like Mobile network Geo location. For loans address as per bureau can be used for verification.*

# Customer Profile: Tech Enablers

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## PROFILE CREATION

### *Profile Creation basis*

- *Public / Govt Database*
- *Social Media Profile / Foot prints*
- *Creation of Customer Risk Profile & Customer Risk Rating basis factors like geographical risk, customer income range / turnover, industry, occupation, type of products*

## PROFILE VALIDATION

### *Validation from Source & other sources*

- *Validation through public / Govt databases*
- *Social media profiling and validation. For loan accounts credit bureau profile can be used*
- *Sources like Dow Jones can also be used for this*

# Due Diligence: Tech Enablers

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## NEGATIVE DATABASE CHECK

- *Customer Screening against Watchlists- Internal & External (Automated)*
- *De-dupe*
- *Screening against attributes like Geo location, Device ID, County*

## ONGOING MONITORING OF CUSTOMER PROFILE

- *Automated Risk Review*
- *Ongoing monitoring of changes to customer profile.*
- *Ongoing customer screening against watchlists*
- *Payment Screening*

## TRANSACTION MONITORING

- *Automated Transaction Surveillance Tools*
- *Regulatory reporting tools including reporting of Suspicious Transactions*



# AML - Artificial Intelligence and Robotics

## Components of KYC

- Client Onboarding
- Client screening (ID/IV)
- Transaction Surveillance
- Real time screening of transactions and data

## Challenges

Ever evolving changes in regulations  
(Approx 200 per day compared to 10 in 2003)

Cost of compliance

Regulatory scrutiny

Legacy systems / multiple platforms that do not interface with each other

## AI / Bots

Automates the workflow  
Recognize complex data patterns / customer behavior scattered across accounts, segments, products and segments

Policy definition and implementation

Centralize datasets

Real time AML Monitoring  
Alerts quality enhanced  
Reduction in false alerts

Business



Technology

Collaborative approach to ownership / accountability - **PLATFORM MODEL**

# Considerations...

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- Constant regulatory changes might pose challenges as technology development always has a lead time.
- Lack of information online on certain categorizes of entities like Sole Proprietorship, Partnership firms.
- Digitization of the AML /KYC processes is an ongoing process and detailed risk benefit analysis is to be conducted before there is a decision to completely automate processes.
- Robust change management process and detailed User Acceptance Testing Process.
- Adequate consideration to be provided to legal requirements like consent and privacy regulations.
- Experienced & Trained Resources still are key for a robust Compliance program.

# Case Studies

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# Money Laundering – different ways

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## Securities

- Mirror trading
- Pump and dump (rigging)
- Cross jurisdiction transfer

## Trade Finance

- Price manipulation
- No goods
- Related party trade
- Trade of High Value products

## Other bank products

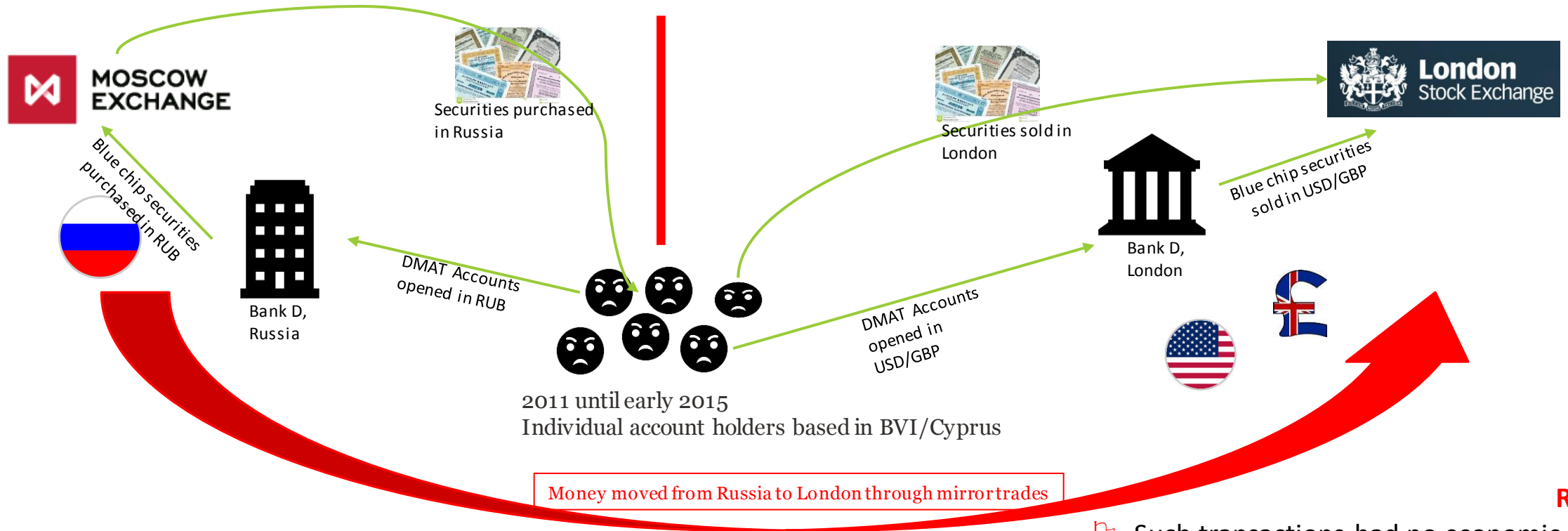
- Wire transfers
- U Turn payments
- Store value cards
- Cash transfers
- Money mules
- Mortgages/loans

## Methods without banks

- CryptoCurrency
- Insurance policies
- Investment products
- Antiquettes
- High value assets (Yatch, jewelry, watches, real estate)
- Shell companies
- Hawala

Examples of latest cases/enforcement actions

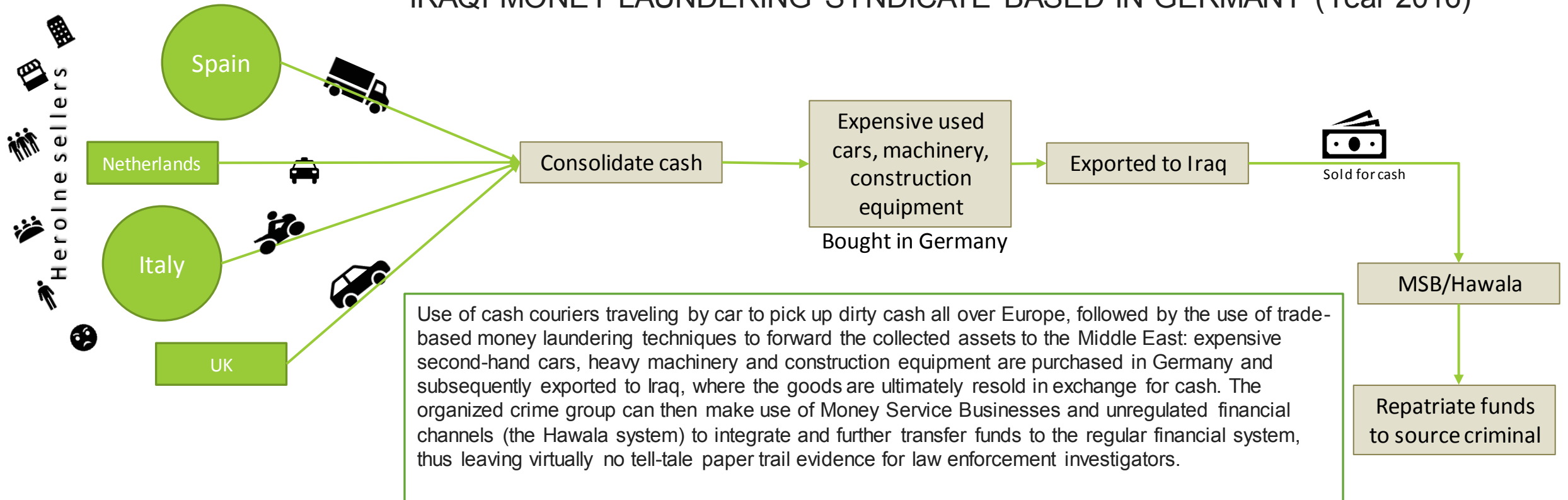
# Mirror trading



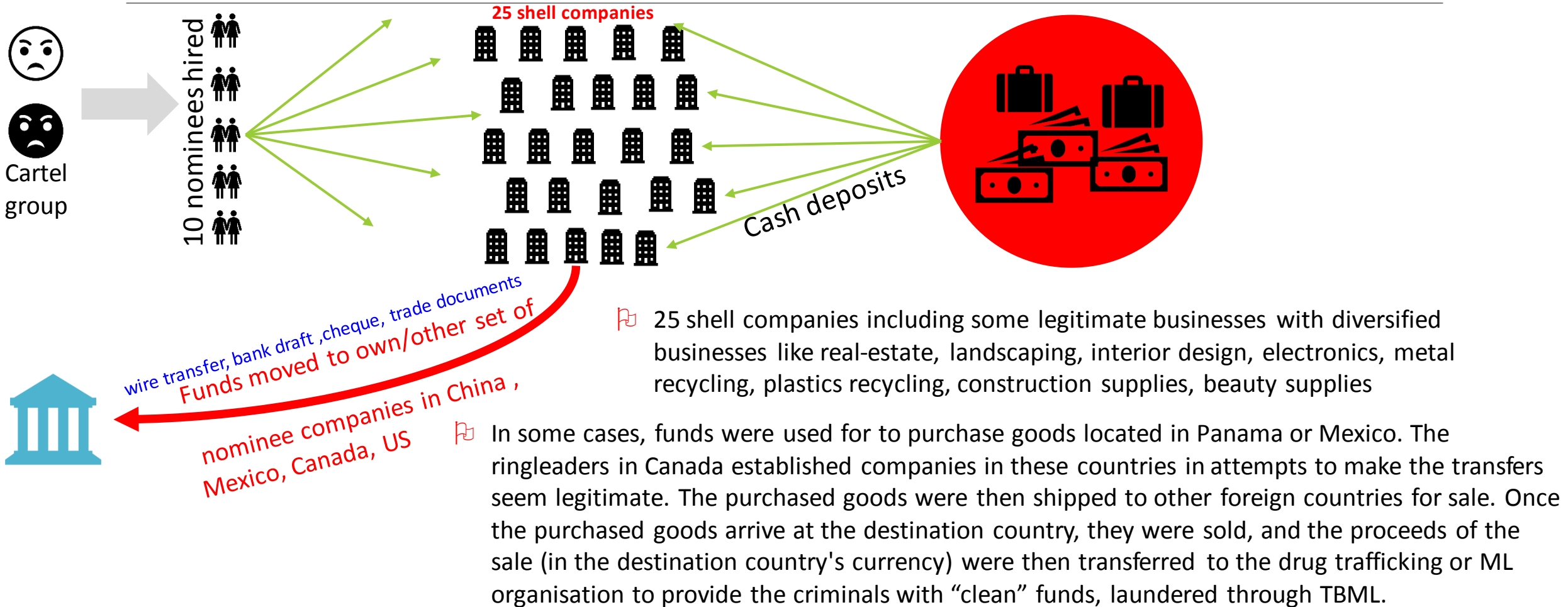
- Such transactions had no economic purpose
- Account holders were from high risk jurisdictions opening accounts in foreign locations
- Monitoring on securities trade patterns probably missed the fact pattern
- “I have a billion rouble today . . . Will you be able to find a security for this size?”

# Trade finance + cash + integrated ways

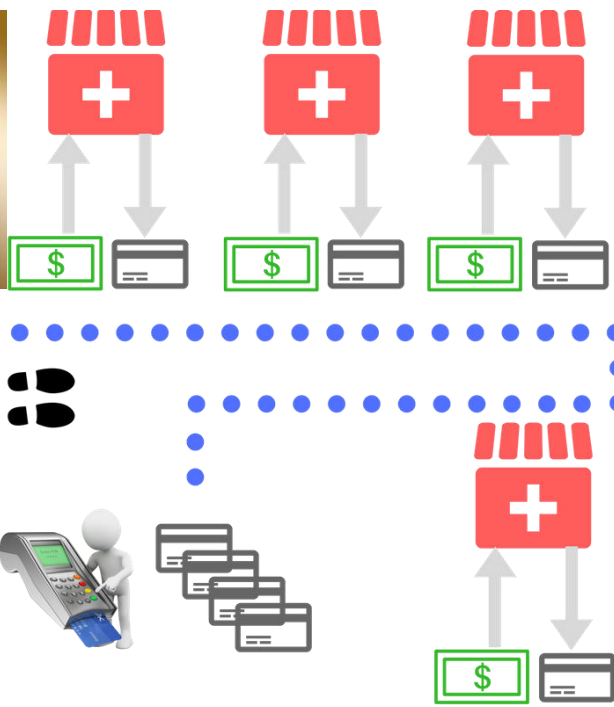
IRAQI MONEY LAUNDERING SYNDICATE BASED IN GERMANY (Year 2016)



# Trade finance – money laundering



# Smurf cards – organized laundering for drugs

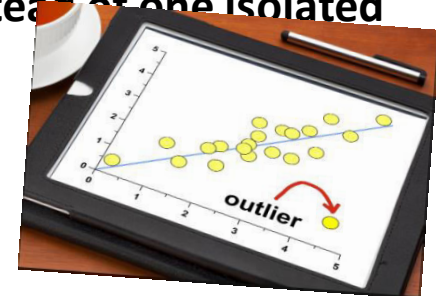


If, Sammy loaded \$500 on 50 prepaid gift cards per day for 5 days per week, then it would total \$25,000 per day and \$125,000 per week which turns out to be \$6,500,000 for the year

- Smurfer loads 500 on each card with one vendor per week (plans the route to visit one vendor only once per week to avoid any suspicion), frequent round figure max amt trn
- Through same pattern, purchases small units of chemical Sudafed medicine at pharmacies
- Evades the Currency Transaction Threshold keeping @ small amount
- Establishes cluster of vendors with POS for controlling E2E card usage

✓ **Clustering customers and activity for outlier detection – banks have adopted monitoring models that go by combination of red flags instead of one isolated parameter in monitoring.**

✓ **There is monitoring on vendors – ex: to identify vendor who has more than 40% of their sales on gift cards!**





# Shell companies, abuse of secretarial services

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Mr AGT, a Chartered Accountant, provided corporate secretarial services to SMEs, including incorporating companies on behalf of clients and acting as the resident director of companies with directors who are overseas.

He was approached by a foreign national to incorporate one such company WEI Ltd, and he agreed to do so. The Chartered Accountant also agreed to be the resident director of the company . The business was stated as wholesale of parts and accessories for vehicles.

Mr. AGT had never met the UBO of the company, but agreed to set up the company / bank account at the behest of an agent of the UBO

Close to SGD 650K from proceeds of crime (fraud scams, drug trafficking) was transited through the account.

It was discovered when one of the victims recalled the funds and it was not processed. Mr. AGT was subject to criminal proceedings and jailed, fined and barred from being a Director of any company for X years

## Learnings

- ▣ Need due diligence on companies we support
- ▣ Have an insight into the company proceedings if the Chartered Accountant were a Director
- ▣ Should have responded to the banks questions instead of redirecting the questions to the agent-middleman
- ▣ Foreign national wanting to have a local account without him turning up to show face!

# Money laundering cases involving Virtual Currency

- Person 'X' - a scam syndicate member - extensively studied Bitcoins over the Internet. He converted fraud proceeds into Bitcoins and transferred them in and out of e-wallets repeatedly, creating five barriers that stopped the police from tracing the money and successfully laundered NT\$50 million in one month.
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X first used forged identity documents to apply for a Bitcoin account, then converted fraud proceeds into Bitcoins and used cell phone apps to transfer Bitcoins to another account before directing them to the accounts of the scam syndicate. Due to the difficulties involved in tracing Bitcoins, X successfully laundered more than NT\$50 million in one month. In a bust by the Criminal Investigation Bureau, X was charged with an offense against the law.

- The Fiji FIU received a STR on Mr and Mrs X for receiving more than US\$80,000 in inward remittances in a period of 18 days. The Fiji FIU conducted checks and established that Mrs X was a local national who married Mr X, a foreign national. Travel details of the individuals revealed that both Mr and Mrs X reside in jurisdiction A.

Initial analysis of the inward remittances revealed that an over the counter (OTC) Bitcoin team in Asia had remitted funds to Mr. and Mrs X. A request was immediately sent to three foreign FIUs through Egmont Secure Web (ESW) to obtain more information on the other individuals that remitted funds to Mr and Mrs X. One of the foreign FIUs located in jurisdiction B identified one of the remitters of funds (Mr Y) as a person of interest in their jurisdiction.

Mr Y had been reported several times to the FIU in jurisdiction B for links to the purchase and sale of digital currencies. Mr Y was included in a report for tax evasion and was charged for various computer related offences in jurisdiction B. A report was disseminated to the Fiji Police Force and the FIU in jurisdiction A. The FIU in jurisdiction A later disseminated the contents of the Fiji FIU report to their relevant law enforcement agencies:

# Money laundering cases involving VC

## ➤ *Illicit drug trafficking on the dark web*

Mr. C, a 25-year-old Canadian citizen, was arrested in Thailand at the request of the United States. Thai officers confirmed he was the administrator of Alphabay, a dark web devoted to the sale of illicit goods and used virtual currencies like Bitcoin to avoid detection. He appeared to be living a life of luxury in Thailand, where he owned three houses and four sports cars. Mr. C was charged related to narcotics distribution, identity theft and ML.

# Some Common Red Flags

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- Companies incorporated by unrelated parties
- Business without any underlying activity.
- Entities incorporated by foreign nationals and no physical presence in India
- Multiple Companies operating from same address or multiple companies with same beneficial owners
- Companies with complex structures
- Beneficial owners / Directors not met in person or not qualified
- Request for issue of attestation on documents, issue of net worth certificates without providing adequate underlying documents / information.
- Companies transferring funds to same counterparty and counterparty is newly incorporated.
- Company officials contactable only on phone and not at the address provided.