ROLE OF STR IN THE FIGHT AGAINST MONEY LAUNDERING & CURRENT TRENDS

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REPORTING OF SUSPICIOUS TRANSACTIONS – FATF Recommendation 20 & Indian Context

- If a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to Terror Financing, it should be required to report promptly its suspicions to the Financial Intelligence Unit.

- Prevention of Money Laundering Act 2002, & eponymous Rules, 2005 were brought in to prevent money-laundering and to provide for confiscation of property derived from, or involved in, money-laundering.

- The PMLA and rules notified thereunder impose obligation on banking companies, financial institutions, and intermediaries and persons carrying on a designated business or profession, to verify identity of clients, maintain records and furnish information to FIU-IND.

- The Director, FIU-IND may call for from any reporting entity any of the records referred to in section 11A, sub-section within such time and in such manner as he may specify. Suspicious transactions report (STR) is the major report sought from the reporting entities (REs).

- The reporting entity, its directors and employees shall not be liable to any civil or criminal proceedings against them for furnishing information to FIU-IND.

What is a Suspicious Transaction? (PMLA & PML Rules)

Suspicious transaction means a transaction, including an attempted transaction, whether or not made in cash which, to a person acting in good faith –

- gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or

- appears to be made in circumstances of unusual or unjustified complexity; or

- appears to have no economic rationale or bona fide purpose; or

- gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism

Why STRs matter

- STR offers a means to identify unusual transactions in **real time** and in most situations has enabled unearthing underlying crime

- STR help leverage the knowledge and resources of the reporting entities to identify potential criminals thereby complementing the efforts of law enforcement agencies (LEAs).

- STRs offers insights into the crime and their prevalence in specific regions when inputs from LEAs are considered.

- STRs when combined with CBWTR, CTRs, CDFs enables to create a comprehensive profile of the suspected criminals and typologies of money laundering.

Reports filed with FIU–INDIA

STR – Suspicious Transaction Report

CTR – Cash Transaction Report
- Cash Transactions (Deposit/Withdrawal) of value more than INR 10 lakh or equivalent

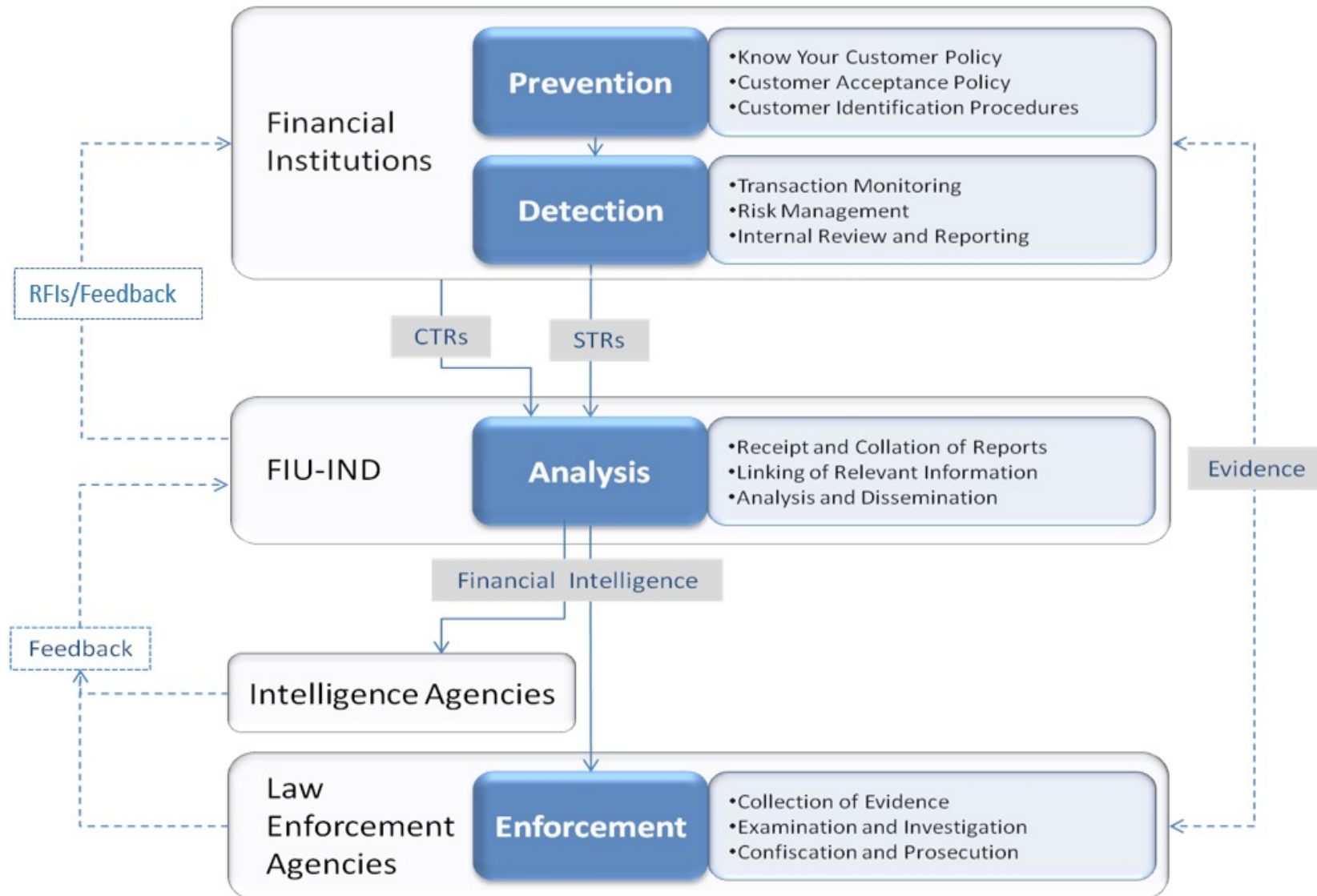**CBWTR – Cross-Border Wire Transfer Report**
- Foreign remittances (Inward/Outward) of value more than INR 5 lakh or equivalent

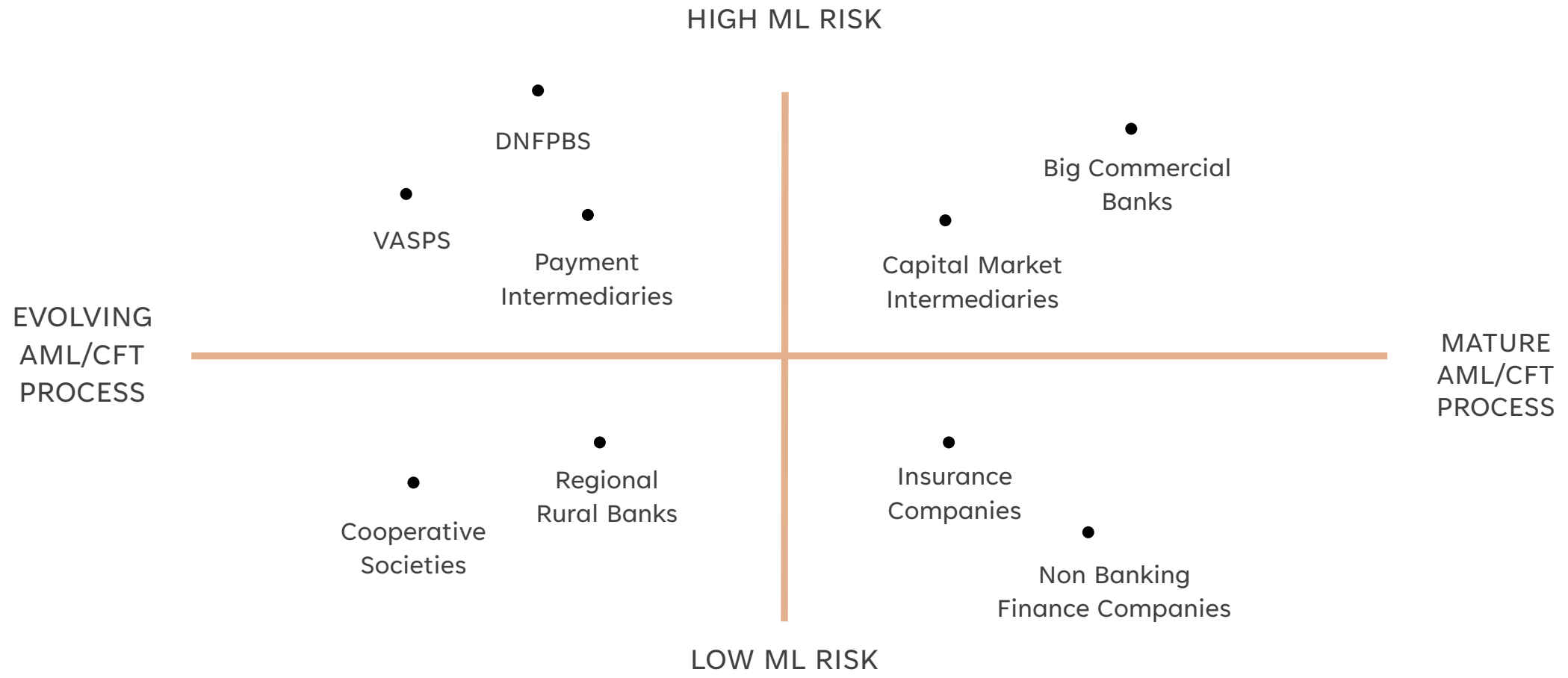**NTR – Non-profit Organizations' Transaction Report**
- Receipts by NPOs of value more than INR 10 lakh or equivalent

CCR - Counterfeit Currency Report

AML/CFT FRAMEWORK

Financial Institutions

Prevention
- Know Your Customer Policy
- Customer Acceptance Policy
- Customer Identification Procedures

Detection
- Transaction Monitoring
- Risk Management
- Internal Review and Reporting

RFIs/Feedback

CTRs   STRs

FIU-IND

Analysis
- Receipt and Collation of Reports
- Linking of Relevant Information
- Analysis and Dissemination

Evidence

Financial Intelligence

Feedback

Intelligence Agencies

Law Enforcement Agencies

Enforcement
- Collection of Evidence
- Examination and Investigation
- Confiscation and Prosecution

REPORTING ENTITIES SPECTRUM

HIGH ML RISK

DNFPBS

VASPS

Payment
Intermediaries

Big Commercial
Banks

Capital Market
Intermediaries

EVOLVING
AML/CFT
PROCESS

MATURE
AML/CFT
PROCESS

Regional
Rural Banks

Cooperative
Societies

Insurance
Companies
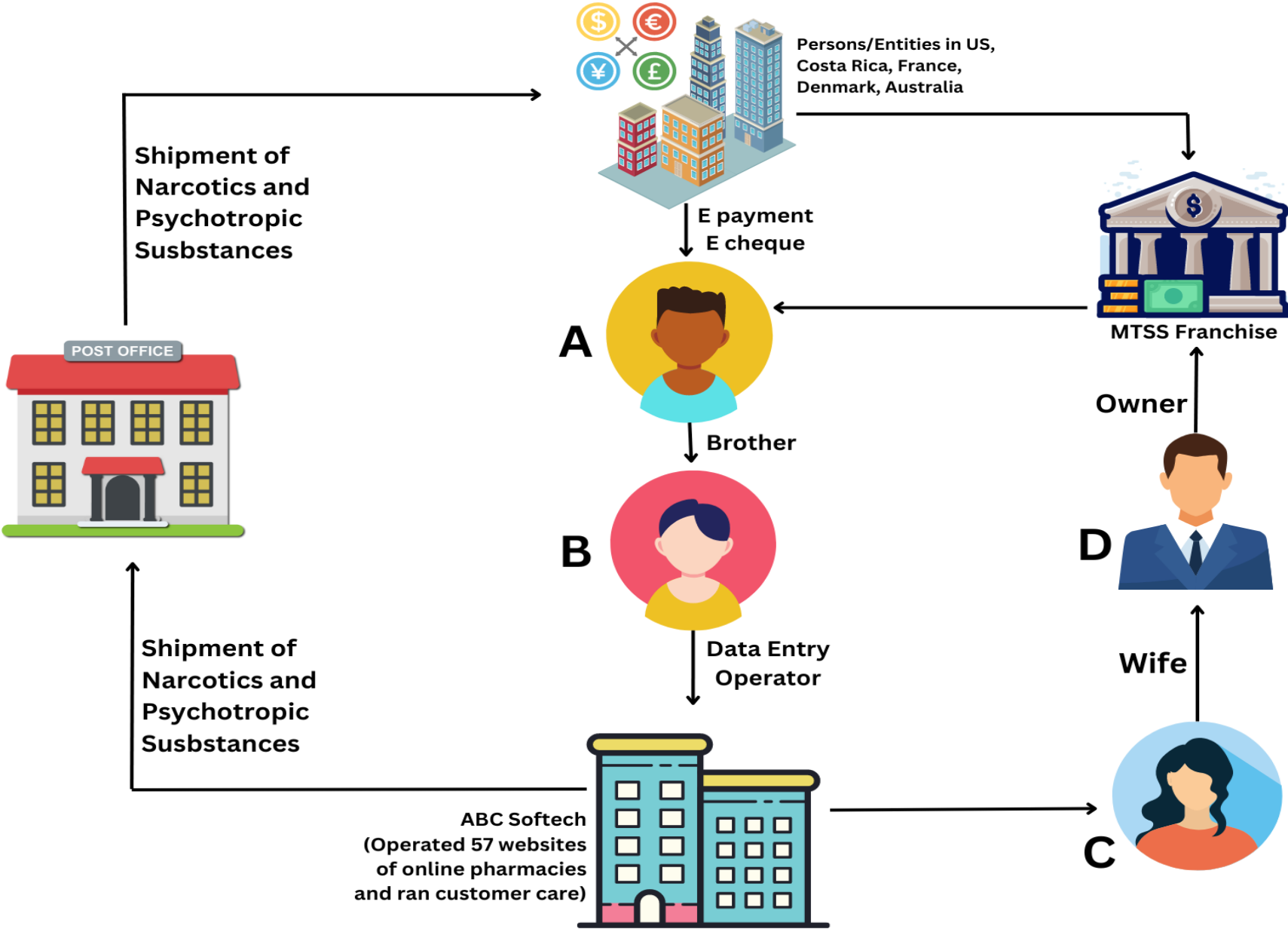
Non Banking
Finance Companies

LOW ML RISK

Techniques to Prioritize the STR dissemination

- Word Cloud Technique - Identification of most frequently occurring words in STRs previously identified as important using word-cloud technique and identification of STRs which contain said words. This is complemented by regular crawling of the web traffic for identifying current trends.

- Predicate Crime Based STRs filed - Identification of STRs which contain references to predicate crimes identified as high risk in national risk assessment (NRA) and LEA request analysis.

- Nationalities/Incorporation in High Risk Jurisdictions - STRs containing references to the nationalities/countries of incorporation which are identified as high-risk jurisdiction by FATF

- Constitution Type - STRs filed on entities with constitution type as legal entities, trust, societies, associations.

- STRs Filed on Important Themes by systemically important REs - STRs related to various modus operandi and themes identified by REs, which are identified as systemically important

- STRs with Links to High Value CTRs - STRs filed on persons/entities on whom high value cash transaction reports (CTRs) have also been filed,
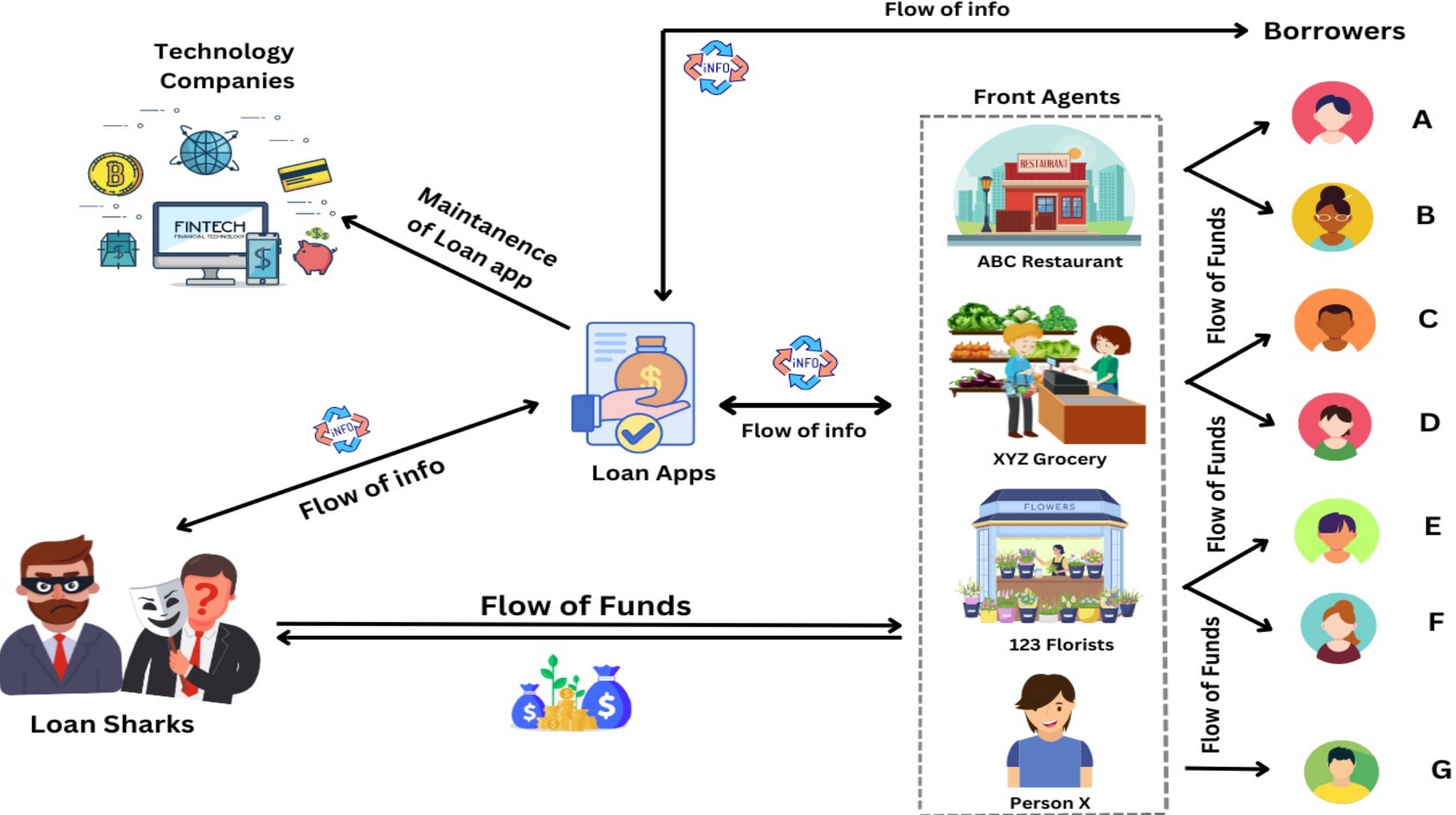
Best practices in managing STRs

- Employment of Artificial Intelligence and Machine Learning (AI&ML) for advanced analysis of suspicious transactions and case creation. Use of AI/ML tools for automated dissemination of low-risk cases keeping in view the large number of STRs received by FIU India.

- Use of Natural Language Processing (NLP) and text mining tools to better analyse textual inputs like Grounds of Suspicion (GoS).

- Prioritization of cases by use of Risk analytics. Generation of risk scores for individuals, businesses to flag high risk cases/Entities/Reports by using information pertaining to KYC profile, customer behavior and transaction patterns obtained from multiple databases (Orbis, multi-agency portals, etc) for of data validation, data enrichment, as well as for discovering new relationships amongst data points available in the FIU-IND database

- Use of APIs as connectors to external systems including REs' AML software to facilitate automated reporting of transactions.

- Operational analysis reports to identify and analyze typologies/trends/patterns observed in financial crimes. Such analysis is enhanced with the help of information accessed through other databases, as well as open-source intelligence (OSINT), social media, LEA/IA references, foreign FIU disclosures.

Case Study on Illegal Online Pharmacies Run for International Narcotics Trafficking Racket
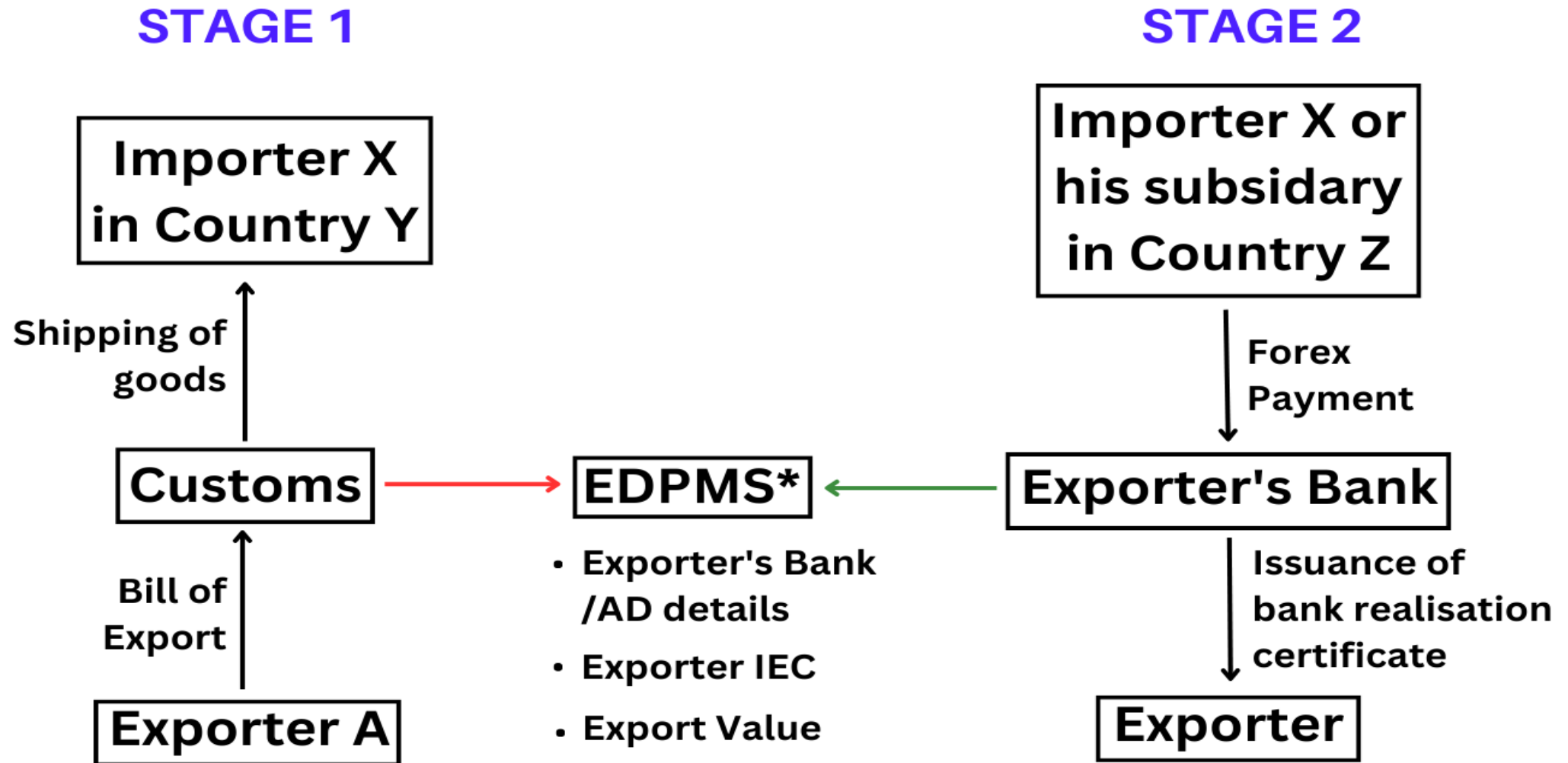
Persons/Entities in US, Costa Rica, France, Denmark, Australia

Shipment of Narcotics and Psychotropic Susbstances

E payment E cheque

POST OFFICE

A

Brother

B

Data Entry Operator

Shipment of Narcotics and Psychotropic Susbstances

ABC Softech
(Operated 57 websites of online pharmacies and ran customer care)

C

Wife

D

Owner

MTSS Franchise

Operational Analysis on illegal loan apps

Current Trends observed

- Unauthorized lending/investment/crowd funding/Cyber fraud using varied degrees of digital ids

- Unauthorized online gaming/gambling

- Using web of legal entities to engage in tax fraud (circular transactions, GST tax fraud, donation to political parties)

- Cross border forex/ crypto assets transaction through offshore platforms.

- Financing of unlawful activities through cash in sensitive geographies.

- Service based money laundering e.g management consulting, software , travel, shipping services etc.

- Trade based money laundering e.g gems, apparel, electronics

Flow of goods and forex in an ideal export transaction

THANK YOU