

RED FLAGS ON INFORMAL VALUE TRANSFER SYSTEMS

Money or Value Transfer Services perform an important role in the economy and the financial sector of a country. Money or Value Transfer Services can be classified into two types as Formal and Informal Money or Value Transfer Services based on the functional formality and characteristics. Formal Money or Value Transfer Services are expected to capture all economic transactions that add value to the national output of the country. However, Informal Money or Value Transfer Services (IMVTS) pose a significant threat to a nation's economy since the value created through IMVTS is not considered when assessing the national output. Furthermore, IMVTS could be abused for Money Laundering/Terrorist Financing (ML/TF) and related unlawful activities.

IMVTS mainly involve four parties and two geographical locations, i.e., sender, receiver and two IMVTS operators. In IMVTS, money is given by the sender in the first geographical location to an IMVTS operator of that location, to transfer the money to the receiver in the second geographical location, with the support of an IMVTS operator in the second location, preferably to settle payables. Above transactions are carried out with the use of the two currencies of the respective locations and it should be noted that no inward/outward remittances occur between the said locations.

Accordingly, the Financial Intelligence Unit (FIU) wishes to share the following list, that includes several red flag indicators observed by the FIU when carrying out analysis on Suspicious Transactions Reports received pertaining to IMVTS.

1. Receipt of foreign remittances to accounts initially and its gradual decrease/cessation followed by the receipt of Sri Lankan Rupees
(This could be an indication that the accountholder(s) has shifted from formal money transfers systems to IMVTS)
2. Receipt of frequent third-party deposits and transfer of those funds to multiple third-party accounts
(This could be an indication that the accountholder(s) is involved in IMVTS)

3. Minimal / no ATM withdrawals but substantial number of online debit fund transfers from accounts with names of receivers as narrations
(This could be an indication that funds received to the country through IMVTS are distributed to the beneficiaries)
4. Receipt of frequent third-party deposits and withdrawal of such funds from abroad
(This could be an instance where IMVTS intersect formal value transfer systems)
5. Accounts having an insignificant daily balance but an unusually high credit and debit turnover
(This could be an indication that accounts are solely used for the purpose of distributing funds received through IMVTS)
6. Upon inquiries made by the reporting entity, accountholders themselves declaring to be engaged in IMVTS operations

The financial institutions are hereby required to take cognizance of the above red flags/ risk indicators and take appropriate actions to reduce the possible ML/TF risk, if any, arising from these transactions, including considering escalating the indicators to the level of raising STRs with the FIU.