

Red Flags on Identification of Suspicious Transactions relating to Bribery and/or Corruption

It is a widely known fact that “bribery and corruption” and money laundering are interlinked. The same is established by the outcomes of the National Risk Assessment (NRA) of 2021/2022 which was coordinated by the Financial Intelligence Unit of Sri Lanka (FIU-SL). In this assessment, bribery and corruption has been assessed as one of the three unlawful activities with medium-high level threats which could make a significant menace for money laundering in Sri Lanka. (The report published on NRA outcomes could be accessed via http://fiusrilanka.gov.lk/NRA_Report_2021-22.html)

Aggravating the above facts, in the Technical Assistance Report published in September 2023 on the Sri Lanka Governance Diagnostic Assessment conducted by the International Monetary Fund also highlights the severity of corruption in Sri Lanka with specific weaknesses in country’s anti-corruption legal framework and possibility of using country’s anti-money laundering mechanism to reduce corruption vulnerabilities via increasing the capacity of financial institutions to identify and report suspicious transactions. Further, the global policy setter against money laundering and terrorist financing, the Financial Actions Task Force (FATF) in its Best Practices Paper to combat corruption mentions that financial institutions have become venues for laundering the proceeds of corruption. Supporting the general and uncorroborated opinion among the Sri Lankan public about bribery and corruption at all levels of national activities, the FIU-SL has received more public complaints than Suspicious Transaction Reports (STRs) reported by the Reporting Institutions in the recent past.

Accordingly, the FIU-SL advises its Reporting Institutions to pay specific attention to the following list of red flags which could be indicators to identify and report suspicious financial transactions relating to bribery and corruption activities.

A. Transactions incompatible to known profile of the customer:

- i. The customer is a Politically Exposed Person (PEP) and maintains an account/accounts with high volumes of transactions or high frequency of transactions.
- ii. A customer who is a salaried employee of a public entity, or a private business and transactions of the account do not tally with the possible level of income of such a salaried employee.

- iii. An account transacting with large/one-off payments or frequent small/medium amounts in contradiction to the declared profile of the customer. (Bribes can be of varying values and may carry narrations or be exhibited as compensation, commission, bonus, returns, donation, incentive, entertainment, gift, etc.)
- iv. Inability or reluctance to provide evidence to prove the given occupation or involvement with a given business.
- v. Customer is a low-income profile with a high volume of transactions: e.g., a labourer receiving frequent small to medium amounts of deposits from different parties (these types of transactions may be relating to daily commissions from different businesses such as renting out of properties which could be collected to an account maintained by a low-profile individual and then pass to a higher official of a public/private institution).

B. Customer is unable/not willing to provide an explanation on unusual transactions:

- i. The customer is getting a large amount of one-time payment, but unable to explain or provide proof of funds.
- ii. When inquired on an unusual transaction, the customer is not willing to provide a response and/or customer could not be contacted directly through the given means of contacts. Instead, a family member could be providing different responses.

C. Operation of business transactions through personal accounts:

- i. Instead of maintaining a business current or savings account, the customer conducts transactions linked to his/her business via a personal account.
- ii. An employee of a company deposits funds relating to his/her employment to his/her personal account (personal accounts are normally used to facilitate bribery and/or corruption to conceal its nature, and to avoid scrutiny).
- iii. The customer is an agent of a business and deposits daily collections of his/her agency service into his/her personal account.
- iv. An individual getting funds to his/her personal account which are relating to activities of social works launched by an NGO.

D. Discrepancies to the known purpose of operating account/conducting transaction:

- i. The customer is not into any NGO or related activities, however, getting foreign remittances time to time into his/her account under the narration of social activities.
- ii. Payments received to an account are not matched with the goods exported or shipped.

E. Irregularities in transaction volume, frequency, or turnovers:

- i. Unexpected repayments of overdue loans, leases, or such other liabilities.
- ii. A sudden transaction or a payment to an individual, group of individuals or entity known to a widespread corruption activity.
- iii. Invoices received for payments under suspicious consultation activities.
- iv. Payments made to foreign public officials.
- v. Full settlement of liabilities, sudden acquisition of assets with unidentifiable sources of funds.

F. Customer is into high-risk industries/business for money laundering/terrorist financing or related crimes:

- i. Customer operating in an industry reputed for bribery and/or corruption. (As per recent publications about the economic status of the country, several industries have been identified to induce bribery and/or corruption)
- ii. Customer maintaining unprofessional and unhealthy relationships with stakeholders such as employees, suppliers, customers, regulators, etc. (regulatory requirements on start-ups and operations, receiving generous services from suppliers, retention of customers even after offering low quality services)
- iii. Customer transacting with individuals or companies bearing characteristics such as poor business conduct, weak procedures, lack of ethics, negative reputation, improper payment practices, and ongoing court proceedings.

G. Transactions from/to tax havens and/or high-risk countries:

- i. Customer transacting with a country with high corruption as per global indices such as the Corruption Perceptions Index or designated as tax havens.
- ii. The account is funded by sources of higher-risk countries as identified by the FATF under its categories of countries with deficiencies in their ML/TF controls.

H. Suspicions due to adverse news media:

- i. Adverse local or foreign news relating to bribery and/or corruption regarding the customer (sources may include Paradise Papers, Pandora Papers, Panama Papers, etc.).
- ii. 3rd party information on possible links to corruption.
- iii. An account holder getting frequent, unusual deposits into his/her account while he/she is an employee of a public/private entity or an official of an authority known for corruption and fraud.

I. When the beneficial ownership of a legal person/arrangement is not clear:

- i. Complex, non-compliant, unethical businesses and corporate structures with unclear details about beneficial ownership (mostly, bribery and/or corruption transactions are indirect, employing multiple personnel, agents, subsidiaries, contractors making the entire process cumbersome).
- ii. The customer is not in a position to provide proof of documents to establish the ownership of the company.

The reporting institutions are hereby required to take note of the above red flag indicators to take appropriate actions to reduce the possible ML/TF risk, if any, arising from these transactions relating bribery and/or corruption and report the same to the FIU-SL. Please note that this is not an exhaustive list of risk indicators relating to transactions which could be linked to bribery and/or corruption activities.