

Red Flags on possible Drug Trafficking related Financial Transactions:

The National Risk Assessment (NRA) of 2021/2022 coordinated by the Financial Intelligence Unit of Sri Lanka (FIU-SL) has identified “drug trafficking” as a predicate offence with a “medium-high level threat to money laundering in Sri Lanka. According to the outcomes of the NRA 2021/2022, drug trafficking is one of the most significant three unlawful activities that generates criminal proceeds in Sri Lanka.

The possibility of exploiting the financial sector, especially, the financial institutions by drug traffickers or related parties, is also a commonly established fact. Therefore, financial institutions in Sri Lanka are required to effectively identify, detect, report, and prevent possible transactions which could be relating to drug trafficking activities. A comprehensive system of close monitoring is essential in detecting and preventing such activities. Money laundering indicators which could be associated with such transactions are supportive for financial institutions in that regard.

The FIU-SL hereby provides the following list of red flags in relation to drug trafficking. These red flags have been developed based on the recent patterns observed through the information received by the FIU via Suspicious Transaction Reports (STRs) reported by the reporting Institutions and other sources of information.

A. Suspicions based on profile mismatches:

- i. The number, frequency and volume of transactions do not match with the declared profile or the source of income of the customer.
- ii. Abnormal transaction pattern in accounts related high risk business categories for drug trafficking such as pharmaceutical drugs.
- iii. Unusual patterns of transactions while customer is engaged into cash-sensitive businesses or occupations.
- iv. Rapid upward movement in turnover values in the accounts with unmatched clarifications given by the customer (financial activity not commensurate with the stated business of the customer/ occupation of the depositing individuals/ stated purpose at the account opening stage/ declared monthly income/ expected monthly turnover values).

B. Irregularities in volumes, turnovers and account balances:

- i. Accounts with high aggregate values of rupee deposits but with low account balances (e.g., frequent cash deposits followed by immediate withdrawals).
- ii. High frequency of credit transactions with low volumes followed by immediate withdrawals.
- iii. Sudden increases in volumes/frequency of transactions while customer is not willing to provide a valid explanation or inability to contact the customer through the given means of contacts.

C. Involvement of 3rd Parties into account operations:

- i. Newly opened accounts seem to be controlled by a third party, including account opening documents/forms completed in different handwriting and/or the customer is not sure about the given information such as contact details (e.g., mobile number, address, etc.)
- ii. Accounts seem to be operated on instructions of a third party residing inside/outside of the country (e.g., instances where the customer is not sure about the provided information at the account opening or transactions taken place in the account, ATM withdrawals by a third party, etc.)
- iii. Frequent transactions with third parties engaged in businesses where the value could not be precisely defined (e.g., Gem business)
- iv. Highly operated minor accounts/accounts maintained by senior citizens with significant turnover values without any economic rationale.

D. Fund movements/transactions using non face-to-face methods:

- i. Transactions are mostly executed through non face-to-face channels such as ATM, CRM/CDM deposits/withdrawals, CEFT transactions.
- ii. Frequent inward/outward transactions/fund movements through common payment gateway applications (e.g., iPay, WePay, etc.)
- iii. Students/young persons who maintain highly operated accounts while engaging in online activity related businesses (e.g., Binance trading, crypto currency transactions).

E. Inward/outward foreign currency remittances:

- i. Funds received from /sent into countries with high possibility of drug trafficking in the guise of export proceeds/import payments, but goods were not exported/imported.
- ii. Frequent outbound wire transfers, with no apparent business or lawful purpose, are directed to countries with a higher risk for drug production, drug transit and drug consumption or to countries inconsistent with the customer's expected activity.
- iii. Cross-border transfers of funds to specific individuals/ entities/ locations which are not commensurate with the declared profile of the customer.
- iv. Payment for imported/re-exported commodities made by a third party with no reasonable economic purpose (e.g., payments made for third parties/companies not related to the declared business or instances where it shows inconsistency between company transactions and provided trade transaction documents including invoice details)

F. Period of banking relationship:

- i. Accounts maintained for a short period of time (less than one year) with high volumes/frequency of transactions.
- ii. Account holder requests to close the account without giving a reasonable explanation when bank inquired about the unusual high volumes/frequency of transactions.

G. Negative media news, 3rd party complaints or such other information:

- i. Accounts/persons that could be linked with negative local or foreign media news/ organized drug related crime activities or listed persons by foreign authorities due to drug trafficking such as OFAC Designated Narcotics Trafficker Kingpins.

Please note that the above is not an exhaustive list of possible indicators of transactions relating to the proceeds of drug trafficking.