



Financial Investigation Unit Cross Border Crime

A Division of the Guernsey Border Agency

FEEDBACK AND TYPOLOGIES

Suspicious Transaction Reporting

Introduction

The Financial Intelligence Service (FIS) has previously disseminated feedback on suspicious transaction report (STR) information to industry either itself or in association with the Guernsey Financial Services Commission and others.

As part of our ongoing work in giving industry as much information as possible, this report complements previous feedback and should help to assist all sectors of industry in undertaking their responsibilities by providing analysed STR data together with relevant typologies.

Suspicious Transaction Reports

During the period 2006 – 2009 STR submissions to the FIS maintained a consistent flow with growth of approximately 20% in submissions in 2009 over 2008. Feedback received from the end users has acknowledged that the quality of the STR information is of a high level and that the reported information was of value to Law Enforcement.

STRs are submitted under the authority of The Disclosure (Bailiwick of Guernsey) Law, 2007 and The Terrorism and Crime (Bailiwick of Guernsey) Law, 2002. The following Key Statistics illustrate the amount of STRs received by the FIS during this period. The reported figures are compiled from new identified suspicions and do not include any continued suspicion concerning ongoing consent requests or updates.

Year	2006	2007	2008	2009
No. submitted under Disclosure Law	550	760	513	623
No. submitted under Terrorism and Crime Law	5	0	6	4
Total submitted	555	760	519	627

In 2007 due to the United Kingdom's Offshore Disclosure Facility the FIS saw a rise in STRs compared to 2006. More recently, in 2009 there was approximately a 20% rise in levels of reporting. Detailed analysis by the FIS has identified a growing trend of fraud, false accounting and forgery becoming more prominent in the grounds for suspicion of STRs.

STRs by Reporting Sector

To assist in this analysis, the following table has been produced to show the volume of reporting from each industry sector.

Sector/entity	2006	2007	2008	2009
<i>Community banking</i>	152	121	86	95
<i>Fiduciary</i>	87	109	112	151
<i>Private banking</i>	72	102	133	168
<i>Deposit gatherers</i>	101	339	75	53
<i>Insurance</i>	70	28	9	20
<i>Post office</i>	52	19	27	31
<i>Investments & securities</i>	11	20	37	42
<i>Other</i>	0	0	3	2
<i>Regulator</i>	5	10	9	9
<i>Accountants</i>	3	3	5	14
<i>Bureaux de change</i>	1	0	0	0
<i>Legal professionals</i>	0	3	9	21
<i>High value goods dealers</i>	0	3	0	0
<i>Stockbrokers</i>	1	0	0	0
<i>Estate agents</i>	0	0	2	2
<i>e-gambling sector</i>	0	3	9	18
<i>Financial advisors</i>	0	0	0	0
<i>Company registry</i>	0	0	3	1
Total no. STRs	555	760	519	627

The Bailiwick's growth in the banking industry together with the fiduciary sector is consistent with the higher levels of reporting experienced within these sectors which is to be expected.

Clear increases in reporting can be observed from legal professionals, accountants, estate agents and e-gambling. It is suggested that the 2008 AML/CFT regulations for prescribed businesses (which cover legal professionals, accountants and estate agents) and the publication of an AML/CFT handbook by the Guernsey Financial Services Commission, together with AML/CFT regulation by the Commission, has created an increase in submissions due to risk based assessments, due diligence, better awareness and up-skilling in knowledge. With regard to e-gambling, the FIS considers the ongoing enhancement of the Alderney Gambling Control Commission's regulations, together with education initiatives by that Commission, to have resulted in the increase in STRs.

STRs by Grounds

From this assessment, further analysis of the STR data was undertaken and the following categories of relevant grounds of suspicion of criminal offences were extracted and are reported in the table below:

<i>Grounds</i>	2006	2007	2008	2009	Av %
<i>Tax</i>	152	440	192	263	43
<i>Fraud/false accounting/forgery</i>	47	48	86	130	13
<i>Cash transaction</i>	84	43	68	63	10
<i>Unexplained lifestyle</i>	73	52	25	16	7
<i>Due diligence issues</i>	30	52	41	44	7
<i>Layering</i>	40	26	3	0	3
<i>Internet/media etc</i>	37	23	7	13	3
<i>Corruption</i>	8	19	13	16	2
<i>Early redemption of product</i>	25	7	2	1	1
<i>Third party referral</i>	0	2	0	4	0.5
<i>Unusual foreign exchange</i>	0	0	0	0	0
<i>High risk business activity/area</i>	1	5	1	2	0.5
<i>Service of order</i>	6	1	12	11	1
<i>Other</i>	53	42	69	64	9
Total no. STRS	555	760	519	627	
Total 2006-2009	2461				

A review of the grounds of suspicion for STRs has indicated that the highest current trends for reporting over this period has been in relation to tax at 43%. This is largely explained through the impact of the HMRC Offshore Disclosure facility and tax amnesties in other jurisdictions. Fraud, false accounting and forgery at 13% are the second largest grounds for STRs, followed by cash transactions at 10%, and due diligence issues and unexplained lifestyles each at 7% of the overall total of submissions.

The category of fraud/false accounting/forgery is experiencing a rising trend with 2009 levels reaching 20% of all STRs received. The FIS notes that, following the introduction of the enhanced AML/CFT regulations in 2007, industry has been undertaking in-depth reviews of their business which appears to have contributed to this rise in levels of reporting. However, it remains a distinct increase on the four year average of 13% and consequently, particular care and vigilance should be taken in these areas.

Cash transactions, unexplained lifestyle and due diligence are categories that have maintained a consistent level of reporting over this period and it is not foreseen that this level will change as it is believed to be proportionate in respect of new business and growth within industry. Detailed analysis of STRs relating to cash transactions identifies that the majority relate to earnings being sent home by itinerant workers.

Proceeds of Crime

Although there is information on what is meant by the proceeds of crime available on the websites of the Guernsey Financial Services Commission and the Alderney Gambling Control Commission, institutions are reminded that under section 1(1) of the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999 all offences that are indictable under the law of the Bailiwick are considered to be predicate offences and, therefore, funds obtained by committing a predicate offence are considered to be the proceeds of crime. Under Bailiwick law all offences are indictable except for some minor offences, which mainly concern public order and road traffic. Therefore, the range of predicate offences is extremely wide and includes the following:

- participation in an organised criminal group and racketeering;
- terrorism, including terrorist financing;
- trafficking in human beings and migrant smuggling;
- sexual exploitation, including sexual exploitation of children;
- illicit trafficking in narcotic drugs and psychotropic substances;
- illicit arms trafficking;
- illicit trafficking in stolen and other goods;
- corruption and bribery;
- fraud and tax evasion;
- counterfeiting and piracy of products;
- environmental crime;
- murder, grievous bodily injury;
- kidnapping, illegal restraint and hostage taking;
- robbery or theft;
- smuggling;
- extortion;
- forgery;
- piracy; and
- insider trading and market manipulation.

Terrorist Financing STRs

Contained within the reported figures by sector are reports made under the Terrorism and Crime (Bailiwick of Guernsey) Law. The low figures of submitted STRs in relation to terrorist financing have restricted any trend or activity from being identified. The following tables indicate the extracted details for reporting sector and grounds of suspicion with regard to the Bailiwick's STR submissions.

By Reporting Sector

Sector/entity	2006	2007	2008	2009
<i>Community banking</i>	1			
<i>Fiduciary</i>	2			2
<i>Private banking</i>	1		1	1
<i>Deposit gatherers</i>	1			
<i>Investments & securities</i>			3	
<i>Regulator</i>			1	
<i>Other</i>			1	1
<i>Totals</i>	5	0	6	4

By Grounds

Grounds	2006	2007	2008	2009
<i>Due diligence issues</i>	1		1	
<i>Corruption</i>	1		1	
<i>Regulator</i>				1
<i>Other (internet/media)</i>	3		4	3
Total	5	0	5	4

Law Enforcement Actions

A key strategic imperative of the Bailiwick of Guernsey Financial Crime Strategy is to continue to collaborate with international partners to ensure that together we effectively prosecute those responsible for financial crimes and/or recover the proceeds using criminal or civil law.

The FIS has further reviewed and evaluated the STRs submitted to the Service from financial and non-financial services businesses during the period 1st January 2007 to 31st March 2010 to establish if the STR regime adheres to the requirements of the Bailiwick Financial Crime Strategy and to measure the impact and effectiveness of the disclosure regime.

The FIS disseminates sanitised financial intelligence to other competent law enforcement agencies within the Bailiwick of Guernsey and to international Financial Intelligence Units via secure methods. This evaluation centres on STRs that have effectively assisted other agencies in developing financial crime investigations and recover the proceeds of crime through local or international confiscation and the conviction of those individuals involved.

A total of 2,079 STRs were submitted to the FIS between 1st January 2007 and the 31st March 2010. Evaluation established that, where feedback has been received from the receiving agency or international FIU, a total of 269 STRs have been identified where the subject(s) or linked entity (trust, company etc.) were being investigated by competent law enforcement agencies with regard to financial crime, criminal conduct, drug trafficking or other illegal activity.

The following summary has been compiled where feedback has been received concerning the 269 STRs and where the dissemination of intelligence by the FIS has contributed towards the amount of convictions and sentences for those individuals involved, together with amounts of funds recovered through local and international confiscation.

	Convictions	Sentence (Years)	Criminal Confiscation	Other Funds Recovered	
2007	17	46.3	£341,928	£12,267,505 £272,405,200 £40,000	Fines Bonds Civil Recovery
2008	9	26.4	0	240 hours £3,551,726	Community Service Fines
2009	14	100	£890,000	5 Years £204,427,151 £1,863,060 240 hours	Directorship ban Fines Restrained Community Service

	Convictions	Sentence (Years)	Criminal Confiscation	Other Funds Recovered	
2010	1	15	£500,000	£1,634,431	Confiscation Pending
Totals	41	187.7 (YRS)	£1,731,928	£496,189,074	

Examples

The following examples of suspicion have been taken from STR submissions:

Banking

- “I haven’t declared this to the tax man”.
- Customer requests large cash withdrawal and refuses banker’s draft or electronic transfer.
- UK builder and his girlfriend hold Guernsey accounts. Large receipts from UK companies immediately paid out to solicitors and property developers. Diversion of profits suspected.
- Business account expected to receive around £100,000 a year. Payments of over £3 million received without adequate explanation. Disclosure to FIS, connection to UK serious crime investigation identified.
- UK account holder receives cash payments via different Guernsey banks. Disclosure to FIS. Account holder features as paying for flights to Guernsey by suspected drug dealer.

Fiduciary

- Settlor requests that his wife be sole beneficiary and that the US\$5 million be paid immediately to her account. KYC finds media reports of tax evasion proceedings.
- During meeting to discuss transfer of company administration, settlor refused to sign authorisation for disclosure of information to US authorities.
- Settlor (introduced by above subject) taking keen interest in Guernsey anti money laundering legislation, particularly disclosure of beneficial owners to tax authorities.
- Trust owns a company which declared £100,000 dividend. When dividend arrived it was £200,000, and was not reflected in the company accounts. Trust company cannot get straight answers.
- Local company holds cash account as backing for a mortgage. Invoice for consultancy fees paid by the company, which is strange as it doesn’t need to consult anybody. Owner’s rep won’t explain.

Insurance

- Early surrenders and payments to third parties.
- Premiums paid, or surrenders requested, by way of multiple cheques.
- Fraudulent instructions to surrender.
- Long term insurance investment in 2006, then during six months of 2008 numerous partial redemptions, usually without giving a reason. In 2009 whole policy surrendered.
- Premium paid with multiple cheques, from different sources. Policy then assigned to original broker.

Investment

- Client closed his account and wanted the money in cash, saying he would have a problem banking a cheque because of “tax reasons and a larger enquiry to come”.
- Administrators of investment portfolio identify link to person arrested for fraud and money laundering.
- Old existing investment. Client wanted to make further investment with multiple money orders. This was declined. KYC problems led to decision to exit, but FSB cannot get a response from client.
- FIS call FSB following contact from FBI to say they suspect a fraudster has a Guernsey investment. US\$500,000 account identified.

Legal Professionals

- Mr X wishes to pay for legal advice in cash.
- Overpayment of fees – requests refund by cheque.
- Open account for Mr X’s property purchase. Account receives unexplained transfers in excess of property purchase. Mr X offers apology, claims mistake and requests funds are transferred away to different account.

Accountants

- “I would like to take advantage of the tax amnesty”.
- Unexplained third party transfers.
- Business loans repaid early with cash.
- False invoices to support incoming funds.

Estate Agents

- “My funds are frozen at the moment so my friend in Spain will transfer you the deposit”.
- “I will pay a cash deposit to secure the property”.
- Initial offer in excess of the listed price.
- Funds transferred to ‘EA’ bank account – buyer withdraws from purchase and requests refund by transfer to different account.

Registered Non-Regulated Financial Services Businesses

- Customer sending numerous cash packages to different recipients in same town.
- Cashier observing customer using different identities.
- Exchanging large amounts of currency to post to relative in Europe.
- Large and frequent currency exchanges.
- Unexplained exchanges of cash solely for €500 notes.

e-Gambling

- New member and early redemption of winnings to new account.
- Excessive funds placed into account. Minimal gambling activity prior to withdrawal of majority of funds.

Dealers in High Value Goods

- Customer only deals with cash.
- Request from customer for item to be paid in cash of amounts of less than £7,500 by multiple persons.
- Payment made using third party cheque in excess of sale price. Seller then asked to refund the excess to another party's bank account.

Detailed Case Studies

The following examples of STR successes are illustrated by case studies that have been extracted from the evaluation data.

Typology 1

An alert was received by the FIS via a national financial crime information network regarding various individuals, including Mr X, regarding a scheme in which Mr X and others were involved where they sought to obtain money by deception.

Mr X et al were using a corporate vehicle to promote investments with major international bank. The corporate vehicle was not authorised to trade by the UK Financial Services Authority but had been able to become an appointed representative of an FSA regulated business in the UK. This status and the insinuated association with the major International bank were used by the corporate vehicle during the marketing of investments to portray to investors that the investments being made were regulated and backed by a major player in the banking world.

The company had targeted the clients of the associated FSA regulated business via email offering investment opportunities with seemingly unrealistic returns. Once the clients had shown interest in these investments the company was managing to persuade the investors to transfer the amounts to be invested in to accounts in the name of the company and not the international bank.

An approach was then made by an investigating Police force in the UK regarding the same individuals and corporate entities as those included on the original alert. In this instance, Mr X was noted as using the same corporate vehicle to offer investments with high returns relating to the provision of bridging finance to an international charity to enable it to purchase properties in the UK and abroad. The link between these parties had been investigated and found to be untrue.

The investigations into Mr X et al had now progressed and lead to his arrest, following which evidence was found which indicated an account in Guernsey in the name of the company with a balance of £1.3m. The investigating Police force therefore requested the assistance of the FIS in gathering further intelligence in relation Mr X and his affairs in Guernsey as well as advising on process of having the assets of Mr X and the corporate vehicle restrained.

Local investigations revealed the existence of 2 personal accounts in the name of Mr X and 2 business accounts in the name of the corporate vehicle with balances of approximately £1.34m. A formal disclosure (STR) was received by the FIS regarding a suspicion on these.

The intelligence regarding these accounts were disseminated to the investigating force, which lead to the receipt of a Letter of Request for mutual assistance regarding the restraint of the funds held in

the identified accounts. A restraining order was served on the financial institution and the accounts are now subject to possible confiscation/compensation depending on the outcome of the UK court case.

Typology 2

A formal disclosure (STR) was received by the FIS regarding an account through which an individual, Mr X, was suspected of laundering the proceeds of his criminal conduct. Mr X was a financial professional based in Hong Kong since 1995 and was accused of defrauding several investors out of substantial amounts of money.

The intelligence from the STR regarding the account was disseminated to the Hong Kong authorities who were believed to be conducting an investigation into Mr X. The Hong Kong authorities approached the Law Officers of the Crown in Guernsey with a request for mutual assistance.

The request sought the assistance of the authorities in Guernsey with obtaining evidential information regarding Mr X's account. It was suspected that some proceeds from his criminal conduct had passed through the account in Guernsey and the material was sought to assist the prosecution of Mr X. The documentation was obtained by Guernsey Law Enforcement agencies via a Royal Court Order and subsequently handed to the Hong Kong authorities.

The Letter of Request noted that the investigation conducted into Mr X had revealed that he had deceived persons known to him personally into investing into his personal investment schemes. The schemes claimed to invest in items like gold, silver, oil, real estate in Europe and equity markets indicating returns of between 10% - 70%.

In total Mr X was believed to have obtained approximately £1.0m from 4 persons through theft, deception, false accounting and forgery. The victims included his father-in-law who was a senior member of the legal fraternity in Hong Kong, his wife and personal friends. It was discovered that the funds had never been invested and had been used to pay off other debtors of Mr X and to fund his lifestyle.

Subsequently, the Hong Kong authorities made a further approach to the Law Officers of the Crown with a view to obtain authority to use and obtain the documentation for evidential purposes so that they could bring about a further charge against Mr X as another victim had come forward. These were obtained again under a court order and forwarded to the Hong Kong authorities.

The FIS has now learnt that the Hong Kong authorities were successful in 2009 in securing the extradition of Mr X from the UK, where he had fled to escape the investors. Following this, Mr X was jailed for 8 years in Hong Kong after admitting 14 charges of theft, 12 of deception, 5 of forgery and 1 of false accounting in relation to a total £1.7m he was found to have taken from a total of 7 investors.

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