

Delta Brac Housing Finance Corporation Ltd

Procedure for Identification, Evaluation and Reporting of Suspicious Transaction & Suspicious Activity

Reporting of suspicious transaction or reporting of suspicious activity is the final output of all AML/CFT compliance program. To mitigate or minimize the risk of the company with regards to money laundering Suspicious Transaction Report (STR) or Suspicious Activity Report (SAR) is an excellent tool. So it is necessary for the safety and soundness of the company.

Definition of STR/SAR

Where there are reasonable grounds to suspect that funds are the proceeds of predicate offence or may be linked to terrorist activity or the transactions do not seem to be usual manner, it the duty of the concern officer to submit STR/SAR which a formatted report and such report is to be submitted by the company to the competent authorities i.e. Bangladesh Financial Intelligent Unit.

Before we know the process and procedure to be followed to submit STR/SAR, we need to know the legal definition of suspicious transaction and why we need to report suspicious transaction. As per section (2) (z) of MLPA, 2012 —suspicious transaction means such transactions which deviates from usual transactions; of which there is ground to suspect that,

- 1) the property is the proceeds of an offence,
- 2) it is financing to any terrorist activity, a terrorist group or an individual terrorist;
- 3) which is, for the purposes of this Act, any other transaction or attempt of transaction delineated in the instructions issued by Bangladesh Bank from time to time.

In Anti Terrorism Act, 2009 (as amended in 2012), STR/SAR refers to the transaction that relates to financing for terrorism or terrorist individual or entities. One important thing is that the company needs not to establish any proof of occurrence of a predicate offence; it is a must to submit STR/SAR only on the basis of suspicion.

For the safety and soundness of DBH, STR/SAR is very crucial and every employee of the company who deals with deposit and loans should submit STR/SAR considering the followings:

- It is a legal requirement in Bangladesh;
- It helps protect the reputation of DBH ;
- It helps to protect DBH from unfounded allegations of assisting criminals, including terrorists;
- It helps the authorities to investigate money laundering, terrorist financing, and other financial crimes.

Identification and evaluation STR/SAR

Identification of suspicious transaction/suspicious activity is very crucial for the company to mitigate the risk. Identification of suspicious transaction/suspicious depends upon the detection mechanism in place.

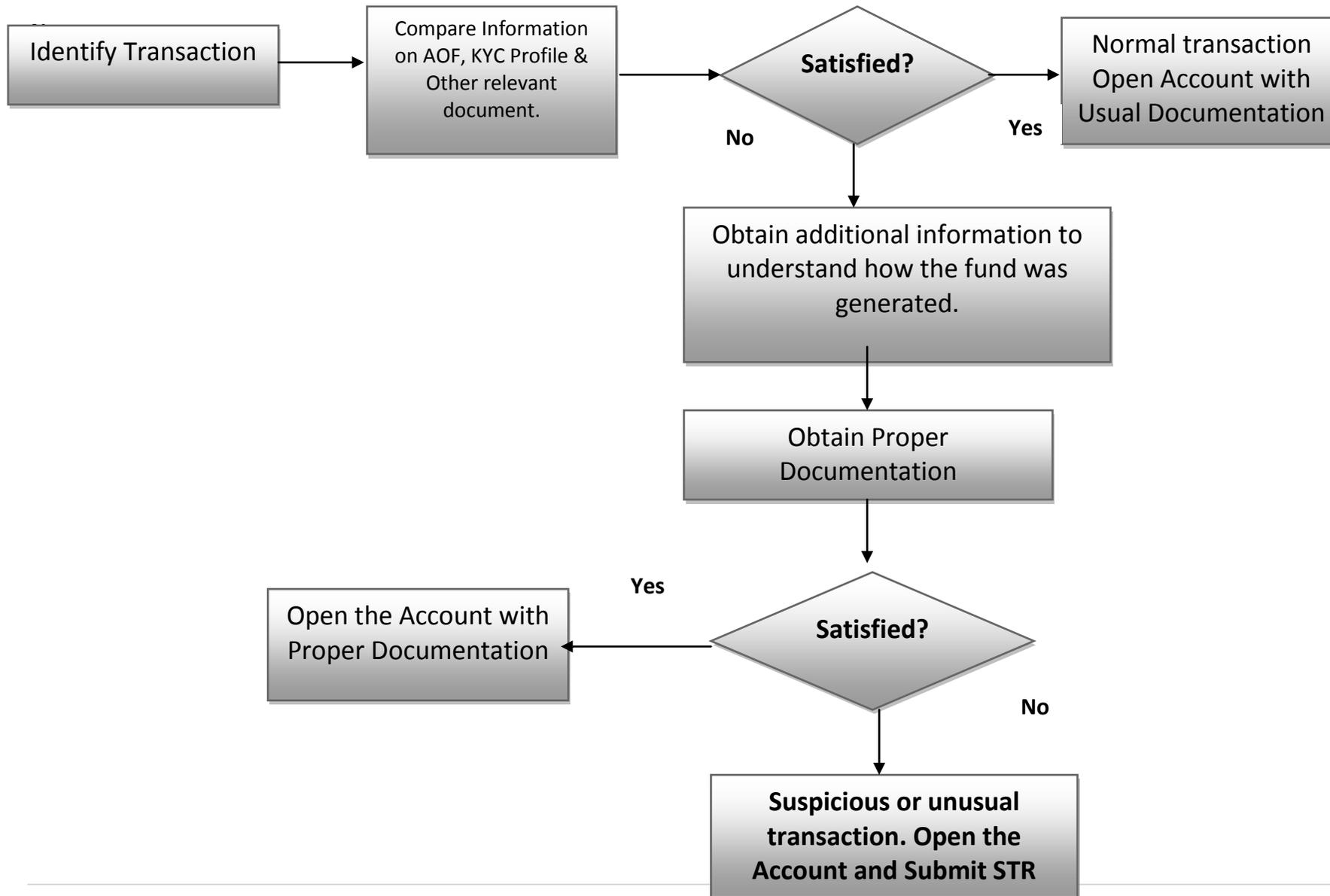
Process of identification of suspicious transactions /suspicious activity should be started identifying unusual transaction and activity. An unusual transaction may be unusual in terms of complexity of transaction, nature of transaction, volume of transaction, time of transaction etc. Generally the detection of unusual transactions/activities may something be sourced as follows:

- Comparing the KYC profile, if any inconsistency is found and there is no valid reasonable explanation.
- By monitoring customer transactions.
- By using red flag indicator.

Any transaction/activity is consistent with the provided information by the customer can be treated as normal and expected. When such transaction/activity is not normal and unexpected, it may treat as unusual transaction/activity.

Identification process of suspicious transaction is shown in flow chat in the next page.

Due Diligence on Transaction



It appears from above, the identification of suspicious transaction/suspicious activity may be sourced from unusual transaction or activity.

In case of reporting of STR/SAR, the following 3 stages should be conducted:

Identification:

Identification of suspicious transaction is very vital for STR/SAR reporting. Every officer who deals directly with customer should be vigilant in regards to KYC and sources of funds of the customer to identify STR/SAR.

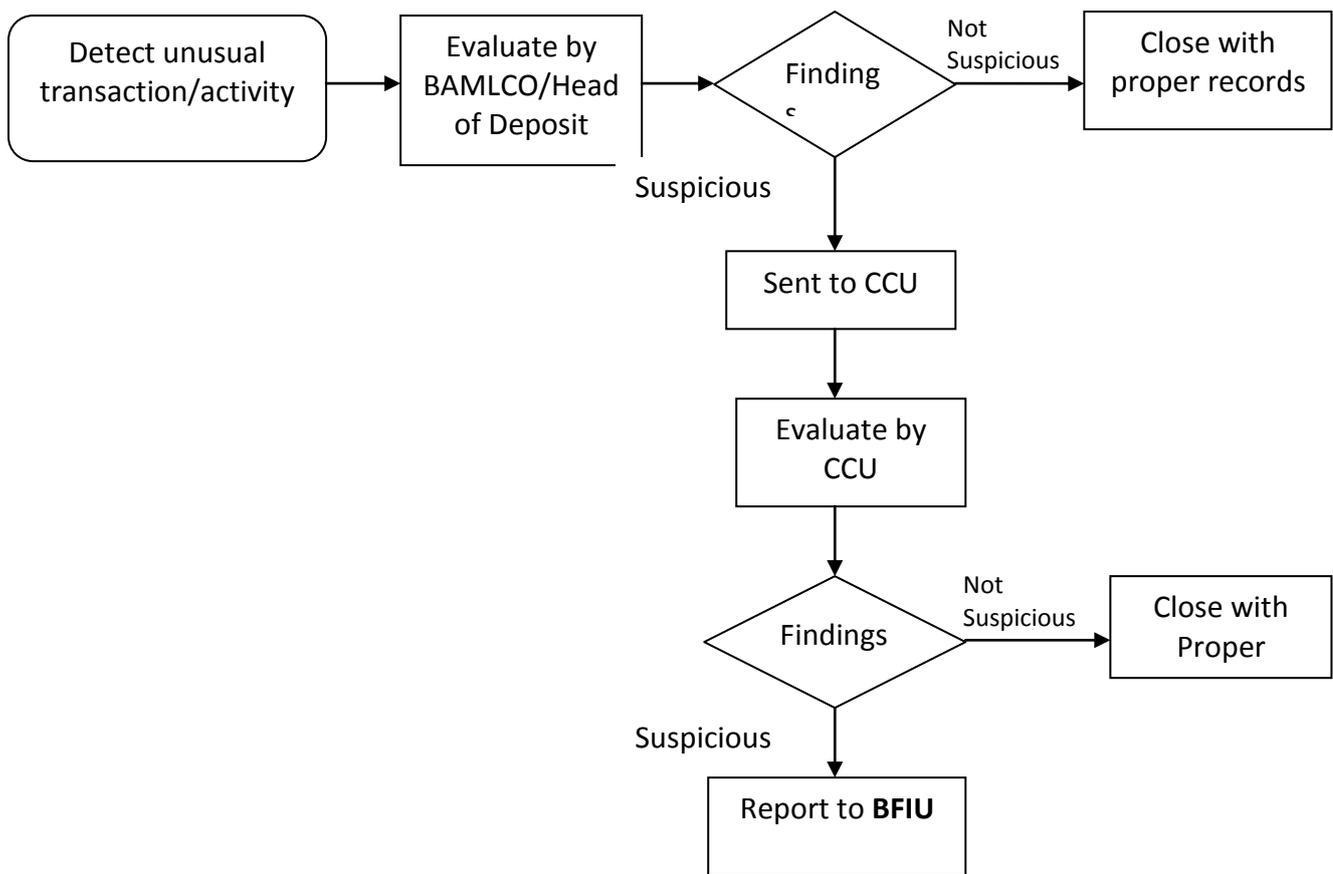
Identification of suspicious transaction lies with officers of the company who directly deals with customers at Head Office or at branches and the officer who approve/authorise the transaction. At branch level & Head office, person initiating the transaction should make sure he has taken correct and complete information of the customer as per requirement of AML/CFT law and the person authoring/approving the transaction must ensure all proper documentation has been taken and the transaction is not suspicious.

Evaluation:

Evaluation process must be in place at branch level and Central Compliance Unit (CCU). After identification of STR/SAR, at branch level BAMLCO/Branch Manager should evaluate the transaction/activity to identify suspicion by interviewing the customer, collecting additional document and information or through any other means. At Head office level, Head of Deposit will evaluate the identified STR/SAR. In evaluation stage concerned BAMLCO/Branch Manager and Head of Deposit must be tactful considering the tipping off provision of the acts. If BAMLCO/Branch Manager/Head of Deposit is not satisfied, he should forward the report to CCU. After receiving report from branch CCU should also evaluate the report whether the STR/SAR report should be sent to BFIU or not. If CCU is satisfied that reported suspicious transaction/activity is valid and reportable to BFIU, CAMLCO should forward the STR to Managing Director for his approval. At every stages of evaluation (whether reported to BFIU or not) the company should keep records with proper manner.

a) Disclosure:

This is the final stage and company should submit STR/SAR to Bangladesh Financial Intelligent Unit if it is still suspicious. For simplification the flow chart given below shows STR/SAR identification and reporting procedures:



Reporting of STR/SAR

As per MLPA, 2012 and ATA, 2009 (as amended in 2012 and 2013) DBH being a Financial Institution is obligated to submit STR/SAR to Bangladesh Financial Intelligent Unit. Such report must come to the Bangladesh Financial Intelligent Unit from CCU of DBH by using specified format/instruction as per Annexure A and using GoAML.

Tipping off

Section 6 of MLPA 2012 and FATF Recommendation 21 prohibits the company, its directors, officers and employees from disclosing the fact that an STR or related information is being reported to BFIU. A risk exists that customers could be unintentionally tipped off when the company is seeking to perform its CDD obligation in those circumstances. The customer's awareness of a possible STR or investigation could compromise future effort to investigate the suspected money laundering or terrorist financing operation.

RED FLAGS or indicators of STR

Following are some of the indicators or red flags which may help officers of DBH to identify suspicious transaction and suspicious activity.

Moving Customers

A customer who moves every month, particularly if there is nothing in that person's information suggesting that frequent changes in residence is normal, could be suspicious.

Out of market windfalls

If you think a customer who just appeared at your institution sounds too good to be true, you might be right. Pay attention to one whose address is far from your institution, especially if there is no special reason why you were given the business. Aren't there institutions closer to home that could provide the service? If the customer is a business, the distance to its operations may be an attempt to prevent you from verifying there is no business after all. Don't be bullied by your sales personnel who follow the "no question asked" philosophy of taking in new business.

Suspicious Customer Behavior

- Customer has an unusual or excessively nervous demeanor.
- Customer discusses your record-keeping or reporting duties with the apparent intention of avoiding them.
- Customer threatens an employee in an effort to discourage required record-keeping or reporting.
- Customer is reluctant to proceed with a transaction after being told it must be recorded.
- Customer appears to have a hidden agenda or behaves abnormally, such as turning down the chance to obtain a higher interest rate on a large account balance.
- Customer who is a public official opens account in the name of a family member who begins making large deposits not consistent with the known source of legitimate family income.
- Customer who is a student uncharacteristically transacts large sums of money.
- Agent, attorney or financial advisor acts for another person without proper documentation such as a power of attorney.

Suspicious Customer Identification Circumstances

- Customer furnishes unusual or suspicious identification documents and is unwilling to provide personal data.
- Customer is unwilling to provide personal background information when opening an account.
- Customer's permanent address is outside the DBHI's service area.
- Customer asks many questions about how the financial institution disseminates information about the identification of a customer.
- A business customer is reluctant to reveal details about the business activities or to provide financial statements or documents about a related business entity.

Suspicious Cash Transactions

- Customer opens several accounts in or more names, then makes several cash deposits under the reporting threshold.
- Customer conducts large cash transactions at different branches on the same day, or

orchestrates persons to do so in his/her behalf.

- Corporate account has deposits and withdrawals primarily in cash than cheques.

Suspicious Non-Cash Deposits

- Customer deposits large numbers of consecutively numbered pay orders or round figure amounts.
- Customer deposits cheques and/or pay orders that are not consistent with the intent of the account or nature of business.
- Funds out of the accounts are not consistent with normal business or personal items of the account holder
- Funds deposited are moved quickly out of the account via payment methods inconsistent with the established purpose of the account.

Suspicious Activity in Credit Transactions

- A customer's financial statement makes representations that do not conform to accounting principles.
- Customer suddenly pays off a large problem loan with no plausible explanation of source of funds.
- Customer purchases certificates of deposit and uses them as collateral for a loan.

Suspicious Commercial Account Activity

- Business customer presents financial statements noticeably different from those of similar businesses.
- Large business presents financial statements that are not prepared by an accountant.

Suspicious Employee Activity

- Employee exaggerates the credentials, background or financial ability and resources of a customer in written reports the company requires.
- Employee frequently is involved in unresolved exceptions or recurring exceptions on exception reports.
- Employee lives a lavish lifestyle that could not be supported by his/her salary.
- Employee frequently overrides internal controls or established approval authority or circumvents policy.

Suspicious Activity in an FI Setting

- Request of early encashment.
- A DPS (or whatever) calling for the periodic payments in large amounts.
- Lack of concern for significant tax or other penalties assessed when cancelling a deposit.

Syed Aminul Islam
Head of Finance & CAMLCO

Q. M. Shariful Ala
Managing Director & CEO