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Anti-Money Laundering

&

Countering the Financing of Terrorism

Continuing from our first newsletter this year, we again examine cases based on actual case studies of AMLCFT lapses. There are three case studies in this newsletter edition.

Case

1

Key Facts

- In April, Cathay pawned a diamond ring at MoCash Pawnshop.
- Subsequently in September, Cathay was placed on the latest version of the Alert List from MHA for suspected involvement in terrorist activities.
- MoCash Pawnshop only filed the Suspicious Transaction Report (“STR”) sometime in November after being questioned by the authority.
- The Police was found that MoCash Pawnshop did not check Cathay’s name against the Alert list timeously and monitor the performance of its manual checks.
- As a result, a stern warning was issued to MoCash Pawnshop

Learning Points

- Licensees must conduct ongoing due diligence throughout the course of the business relationship.
- In the event a licensee has possession, custody or control of any property belonging to any terrorist or terrorist entity, or has information about any transaction or proposed transaction in respect of any property belonging to any terrorist or terrorist entity, it must file an STR immediately.
- Licensees should ensure screening references:
 - Are up-to-date (e.g. latest versions of Alert Lists provided by MHA are used); and
 - Contain other important identifying particulars (e.g. aliases, nationality, date of birth, address)

Key Facts

- Tina, a foreign individual working in Singapore, was employed to work as a live-in caretaker for Mdm Lee by her children. Tina discovered that her employers stored numerous pieces of jewellery in a box hidden at the back of a cupboard. Unbeknownst to her employer, Tina stole several pieces of jewellery when she was left home alone.
- On her days off, across a period of three months, Tina took the jewellery to pawn at two pawnshops.
- So as not to raise suspicions, Tina was careful when she pawned the items and took the following precautions:
 - She only picked small pieces of jewellery that do not appear to be overly valuable to pawn.
 - She pawned items only one at a time.
 - She spread her pawning across multiple transactions in the two pawnshops.
 - If she was asked how she came into possession of the jewellery, she was prepared to answer that she bought them in her home country and brought them with her when she came to Singapore.
- Subsequently, Tina was discovered to have pawned the stolen jewellery after her employer discovered that jewellery was missing from the box and a police report was filed.
- During the course of investigation on the theft, multiple valuers who served Tina at the two pawnshops were interviewed.
- All the valuers interviewed claimed that they conducted the necessary CDD checks and found that there was nothing suspicious. They stated that Tina did not act nervously or suspiciously when they enquired about the items. They also stated that while they were aware that Tina was a Work Permit-holder, they did not suspect that the items did not belong to her given that the value of the items taken individually was not substantial. One of the valuers also stated that they treat all customers the same way and do not discriminate against foreigner customers.
- However, when asked to produce records of their CDD checks and analysis, they stated that they did not keep records.
- The pawnbrokers involved were fined a sum of \$20,000 and given stern warnings.

Learning points

- Keeping documentation of CDD checks is not only required by the law, it also helps licensees build a more accurate profile of their customers.
- In this case, the value of the items when **taken together** would have been significant. Given Tina's pay as a foreign domestic worker, it would have been unusual for her to own that many items of jewellery and would have raised suspicions.

- Keeping accurate documentation will also help pawnshops be consistent in their approach. If different staff members serve the same customer in at different points of time, they would be able to reference previous CDD checks and analysis conducted. Through this process, they may be able to detect **unusual patterns** and pick up suspicious behaviours.
- In the event of a money laundering- or terror financing-related investigation, law enforcement agencies may rely on CDD-related documentation kept by business owners as evidence.

Case

3

Key Facts

- Joe applied for a loan with principal of \$18,000 from the licensed moneylender, Blue Credit.
- Loan Officer Jerald worked for Blue Credit and processed Joe's loan application.
- During the loan application, Jerald learned that Joe was employed as Senior Project Manager at a local company for a period for more than 5 years and earned a nett monthly income of \$4,000.
- Given the large size of the loan, Jerald offered Joe a repayment term of 12 months. However, Joe counter-proposed a substantially shorter repayment term of 2-3 months. Joe added that he might even be open to a shorter repayment term.
- Jerald was surprised to hear this. While wappeared to have a stable, relatively well-paying job, it was unlikely that he would be able to repay the loan principal, let alone the interest and fees, within 2-3 months with his monthly salary. Jerald thus questioned Joe on how he would be able to repay the loan in such a short period of time.
- Joe grew evasive and mumbled that he would be "receiving some money in a few weeks' time" without elaborating further. Eventually, Joe relented and agreed to the original repayment term of 12 months.
- While Jerald found Joe's behaviour odd, he did not press the matter further as Joe did not insist on a shorter repayment term.
- Eventually, Jerald approved the loan application and a loan was granted to Joe. However, despite finding Joe's behaviour odd, Jerald did not file an STR. Jerald also did not document the CDD measures he performed on Joe.
- It was later revealed that Joe embezzled funds from his employer and that he took the loan from Blue Credit in order to make up a shortfall in the company's project account during a surprise internal audit.
- Stern warnings were given to both Blue Credit and Jerald.

Learning Points

- The purpose of performing Customer Due Diligence (CDD) is not only to verify the identity of borrowers but also to develop a profile of their customers that will help licensees understand their personal and financial needs.

- Having a better understanding of your customers also help licensees identify suspicious activities, especially when the customer profile does not match the nature of the products/services they request.
 - In this example, the short repayment term that Joe requested would have required him to make large repayments in a short amount of time that would have significantly exceeded his income for the period.
 - While Jerald did enquire into how Joe planned to repay the loan, he did not press Joe further on his source of funds even though his response was vague and evasive. Given that Joe did not insist on the shorter repayment term, Jerald accepted the answer and made the presumption that Joe's intentions were legitimate resulted in the granting of the loan that allowed Joe to cover up his dishonest intention.
 - Had Jerald enquired further, Joe might have given responses that would have raised further suspicions and prompted Blue Credit to file an STR.
- Licensees should emphasise to their staff that conducting CDD measures is not solely about performing a set of checks, but they should also follow up with customers if they provide information that is unclear, suspicious or illogical where possible (if there is already reasonable suspicion that criminal activity is involved, licensees and their staff should not perform further CDD to tip the customer off).
- Licensees are required to document the CDD measures they conducted and retain all documents and information obtained from performing the CDD measures under the Moneylenders (Prevention of Money Laundering and Financing of Terrorism) Rules 2009.

