



Typologies

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Introduction

"A typology is the study or systematic classification of types that have several characteristics or traits in common" – Egmont Strategic Analysis Training 2017.

The project undertaken by the Isle of Man Financial Intelligence Unit (FIU) to provide typologies to industry is part of the commitment made to fulfil international obligations under Financial Action Task Force (FATF) Recommendation 29 to identify money laundering and terrorist financing related threats and vulnerabilities and as part of its general powers to provide or assist with the provision of awareness training in relation to financial crime.

The following typologies are based on information received from the wider Egmont Group of Financial Intelligence Units, as well as information received and analysed by the FIU. In 2017/18 it is planned to issue a further six sets of typologies to assist in highlighting what the FIU is seeing in terms of the information it is receiving relating to suspicions of financial crime.

To some, these typologies won't be new, however it is envisaged that they will provide a more focused Isle of Man link to assist those operating within our jurisdiction and will ultimately add value to the information submitted to the FIU.

Terrorist Financing

In June 2014 FATF produced a report entitled 'Risk of Terrorist Abuse in Non-Profit Organisations'¹ and in October 2015 a further report entitled 'Emerging Terrorist Financing Risks'². In examining these reports, there are a number of identified risks that should be considered by Isle of Man entities.

The Isle of Man itself has a limited number of charities or Non Profit Organisations (NPOs) which operate in high risk jurisdictions, but the risk posed by operations established in other jurisdictions but using Isle of Man financial vehicles should not be underestimated.

Point 62 of the Island's Fifth Round Mutual Evaluation Report – December 2016³ concludes that as an International Financial Centre, the Isle of Man faces an enhanced threat of being used as a conduit for financial flows intended to finance terrorism, terrorist groups or individual terrorists in other countries.

One example of the Isle of Man being used in this way would be -

Typology 1

- ❑ A foreign national opens a bank account in the Isle of Man for an acceptable reason, such as a property purchase or large currency transfer;

¹<http://www.fatf-gafi.org/media/fatf/documents/reports/Risk-of-terrorist-abuse-in-non-profit-organisations.pdf>

²<http://www.fatf-gafi.org/media/fatf/documents/reports/Emerging-Terrorist-Financing-Risks.pdf>

³<https://rm.coe.int/anti-money-laundering-and-counter-terrorist-financing-measures-isle-of/168071610e>

- ❑ The currency is transferred to the new Isle of Man bank account, in accordance with the original account opening documents, and the organisation is satisfied with the source of wealth;
- ❑ The account is not used in line with expectations, with numerous small values being transferred out to high risk jurisdictions or 'near' high risk jurisdictions, or there are a number of ATM / cash withdrawals;
- ❑ The Isle of Man account could be the final layer of numerous other accounts, being used to accumulate assets prior to withdrawal.
- ❑ Funds are then used to fund terrorism or aid those in war zones but beyond acceptable charitable routes.

Warning Indicators

- Account not being used in line with expectations;
- High risk or near high risk jurisdictions being used;
- Unexplained transfers.

Typology 2

A further example would be where charitable donations made in good faith for the relief of suffering or pain in war zones are misdirected or acquired to fund terrorism or travel to high risk areas.

The support of terrorist organisations, especially those in war zones, could come in many forms, whether that's first aid for combatants or the supply of food. These can often be 'dressed' as humanitarian aid, especially if not being raised under the auspices of mainstream charities.

Charities and other NPOs can also be at risk to 'take over' bids, such as where an acceptable charity has new trustees appointed who then steer the charity in a different direction.

- ❑ Some charities are receiving donations from individuals and organisations who are sanctioned by international bodies, albeit not locally – making it difficult for businesses to assess the true risk of the donations.
- ❑ The charities are often set up in good faith and regulated correctly by the respective countries providing them with credibility within their field prior to a take-over or abuse.

Warning Indicators

- Un-explained cash deposits, or charities unaware of source of wealth.
- Large deposits made from high risk jurisdictions (i.e. possible circular route for funds).
- High value goods being purchased which could be used to cross borders.
- Sudden change in trustees with no explained reason.

Money Laundering

In the last year we have seen many cases in which money laundering is a factor, either by the process or the ultimate goal.

Two such typologies are as follows –

Typology 3

International Financial Advisors based outside the Isle of Man advise investors to invest funds into 'Company A' in 'Country 1'.

'Company A' then loans funds to 'Company B' located in 'Country 2'.

The beneficial owners of 'Company B' are in fact the original Financial Advisors. The loaned funds are not repayable for a long time and the funds are transferred into accounts located within other jurisdictions, including within the Isle of Man.

The Financial Advisors then use the acquired wealth to fund a luxurious lifestyle.

Warning Indicators

- Source of wealth is complex and not always known.
- Research conducted on source of wealth reveals circular beneficial ownership, or complicated ownership.
- Loans being made which serve no commercial purpose.

Typology 4

Online scams and social media are becoming more prevalent in suspicious activity reports. They are either being used to add credibility to stories or accounts ('Fake News') or to justify sources of wealth – often called 'Catfishing'.

In this case, an identity is stolen, and a large amount of money is paid into the account. When this is picked up by the bank's system as 'unusual', further questions are asked of the customer. These questions often go un-answered but further fake profiles and identities are created to try and pressure the bank into releasing funds. Often this results in creating false identities either stolen from real people or complete fabrications, sometimes suggesting the person is connected with law enforcement or the legal profession.

The source of funds is often connected to incredible stories, such as large lottery wins, insurance pay outs or inheritances.

The actual source of funds is usually criminal property.

Warning Indicators

- Answering questions with threats –when additional CDD is requested, the urgency increases or letters are then provided threatening to sue.
- No evidence is provided in relation to claimed winnings or pay outs.
- Alleged Law enforcement activity with no credibility – i.e. not through the local FIU.

Catfishing is a type of deceptive activity where a person creates a sock puppet social networking presence, or fake identity on a social network account, for nefarious purposes.

Others – International Tax

Typology 5

A large proportion of suspicious activity reports to the Isle of Man FIU are as a result of possible tax evasion offences.

A number of South American countries have recently had tax amnesties – resulting in a number of individuals coming forward to normalise their tax affairs.

A typical example would be where a resident of one of these countries places funds with an Isle of Man based bank or trust company.

These funds are then invested in a third jurisdiction, in a different currency. During a negotiation with their home country, an amount is agreed to bring the individual's tax affairs up-to-date and the first communication the Isle of Man bank or trust company receives is a request to pay part of the investment to a bank account in the name of the government of the aggrieved tax regime.

Becoming suspicious that the investment or part of the investment is criminal property due to the tax evasion offences, a suspicious activity report is made by the bank or trust company, often with a consent request under the Proceeds of Crime Act 2008.

Warning Indicators

- High volume of contact immediately prior to a tax amnesty.
- Individual 'confesses' to owing tax in home country.
- Prior to the tax amnesty, business as usual.

Others – E-Gaming

Typology 6

The practice of chip dumping is against the rules of any E-Gambling site, however it continues to be detected on a reasonably regular basis as individuals attempt to use it as a method to launder funds either internally or across borders.

It consists of individuals already known to each other, or a single individual or organisation using stolen identities, setting up accounts on an Isle of Man based E-Gambling site.

These accounts are then used to purposefully lose chips between each other so one account amasses winnings. This winning account then cashes out and takes the funds.

Should these accounts be in different jurisdictions, it's an effective way of transferring funds across borders outside of standard currency controls. If they are within the same jurisdiction the practice can be used for storing or converting criminal property.

Warning Indicators

- Players 'always playing' together and one person always winning.
- IP address checks show players at the same address or using the same Internet Service Provider.
- Chat board monitoring by the e-gaming company picking up key words and evidence of groups conspiring.
- Immediate cash out of winnings, with little 'cash in'.

Disclaimer

Whilst every effort has been made to ensure the accuracy of the information within this guidance, it is provided on the basis that neither the FIU nor its staff, either individually or collectively, accept any responsibility for any direct or indirect loss, damage, cost or expense of any kind arising from or in connection with the use by any person of any information contained within this guidance. Any use of the information contained within this guidance signifies agreement by the user to these conditions.