

Trade-Based Money Laundering Red Flags

Money laundering, which is a vehicle to fund terrorism and organized crime, is not only an issue for bankers and top-level finance people. Studies have shown that trade-based money laundering (TBML) is one of the three most common approaches, especially in attempts against companies or consumers in developed western economies. Particularly in the United States, trade-based money laundering is under the microscope because of two events in the last dozen years: the September 11, 2001 terrorist attacks and the banking scandals and collapses that contributed to the sharp economic downturn that started in 2007 and 2008.

TBML is crossing into the credit function more often, and credit professionals that ignore the warning signs run a major risk of exposing their companies to inadvertent wrongdoing, which carries ever-escalating fines for those involved, even if accidentally.

The following are some of the more prominent TBML red flags that credit professionals could see:

- There is reluctance or refusal on the part of the customer to give information, such as where the product is going.
- The products requested do not fit with the company's consistent line of business.
- The potential customer is unfamiliar with intended use of the product your company is selling.
- The product is incompatible with the purported shipping destination.
- The shipping route is abnormal.
- The final destination for the product is a freight-forwarding business.
- Customer prefers to pay cash even if they qualify for open credit terms.
- The customer's suggested payment method is inconsistent with the risk characteristics of the transaction.
- The transaction involves payment by cash, check, wire transfer, postal money orders, etc. from a third party with no obvious connection with the transaction.
- Letters of credit are frequently amended.
- Significant discrepancies in description, value, quality or quantity of goods are apparent on official documents (invoices, bills of lading, etc.).
- Numerous sole proprietorships or private limited companies are controlled by the same group of people.

Source: NACM-National