

Applying KYC to Detecting Predicate Offences

What are Predicate Offences?

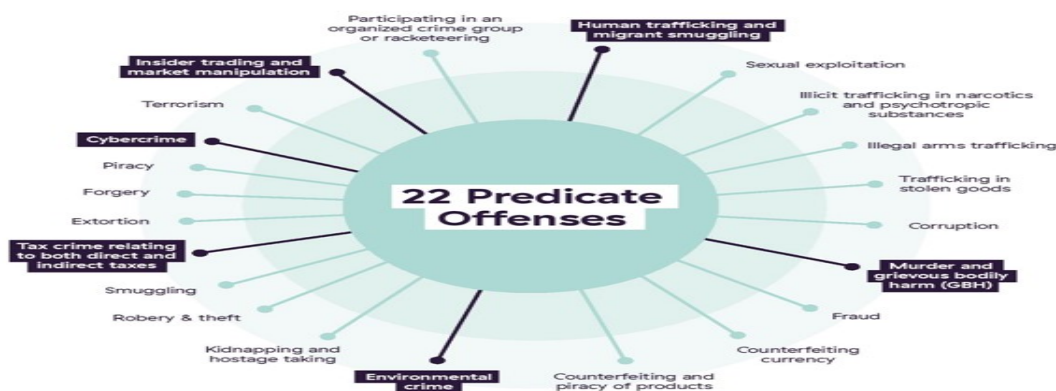
A predicate offence is a crime that is a part of a more serious crime. In relation to money laundering, the commission of a predicate offence may give rise to funds or assets that may then be laundered to obscure the illegal source. For example, the predicate offence of drug trafficking can generate revenue and through one of the basic steps of placement, layering and integration, conceal the illegal source of the funds, allowing the drug trafficker to use the funds without generating suspicion of criminal activity.



The term “predicate offence” is usually used to describe activities involving money laundering or terrorist financing.

The Designated Categories of Predicate Offences are as follows:

- ↔ participation in an organized criminal group and racketeering
- ↔ trafficking of human beings and migrant smuggling
- ↔ sexual exploitation
- ↔ illicit trafficking in narcotic drugs and psychotropic substances
- ↔ illicit arms trafficking
- ↔ trafficking in stolen goods and other goods
- ↔ corruption and bribery
- ↔ fraud
- ↔ terrorism
- ↔ counterfeiting currency
- ↔ counterfeiting and piracy of products
- ↔ environmental crime
- ↔ murder, grievous bodily injury
- ↔ kidnapping, illegal restraint and hostage-taking
- ↔ robbery or theft
- ↔ smuggling; (including customs & excise duties and taxes)
- ↔ cybercrime
- ↔ tax crimes (related to direct taxes and indirect taxes)
- ↔ extortion
- ↔ forgery
- ↔ Piracy, and
- ↔ insider trading and market manipulation



NB: “When deciding on the range of offences to be covered as predicate offences under each of the categories listed above, each country may decide, in accordance with its domestic law, how they may classify elements of those offences that make them serious crimes.”



Detecting Predicate Offences through Know Your Customer (KYC)

Anti-Money Laundering (AML) policies and procedures are used to determine the true identity of a customer and the type of activity that is “normal and expected,” in order to detect activity that is “unusual” for a particular customer.

Importance of KYC Measures for Detecting Predicate Offences

Predicting Customer Activity

- ◆ The more the institution knows about its customers, the greater the chance of detecting predicate crimes for money laundering.

Management of Risks

- ◆ Analysis of Customer Due Diligence (CDD) can be used to detect predicate offences.
- ◆ The collection of accurate CDD information can reduce reputational, operational and legal risks.

Application of Risk Based Approach to Predicate Offences

- ◆ Develop risk profiles for customers during the onboarding process and conduct monitoring based on their risks.

Level of Due Diligence

- ◆ Processes should be implemented that would take into consideration each level of due diligence that may be necessary based on the customer’s risk.

Challenges in Applying KYC in Detecting Predicate Offences

Institutional Difficulties

- ◆ Poor quality data and/or poorly designed screening tools.
- ◆ Inability to monitor for both money laundering and predicate offences.

Changing Risk Levels

- ◆ Inadequate measures for monitoring changes in customer risk levels overtime

Sources of Information for Monitoring

- ◆ Unavailability of reliable and objective information or data sources.
- ◆ Inability to access Sanctions lists, regulatory or enforcement sources and media information.

Identifying Vulnerable Customers

- ◆ Inappropriate identification and management of vulnerable customers for predicate offences, for e.g., fraud.
- ◆ Inadequate systems for monitoring transactions over time to adjust risk ratings.

Red Flags to Detect Predicate Offences for Money Laundering -Suspicious Transactions/Activities

- ▶ Situations where the source of funds/wealth cannot be easily verified.
- ▶ The client cannot provide satisfactory evidence of identity and/or it is difficult to verify identification.
- ▶ Client deposits a large amount of cash to make payments which are outside of client’s profile.
- ▶ Customer’s cash deposits often contain counterfeit bills or musty or extremely dirty bills.
- ▶ Customer receives many small incoming wire transfers and then orders a large outgoing wire transfer to another country.
- ▶ A business customer is reluctant to provide complete information about the nature and purpose of its business and anticipated account activity.

In this issue:

- ⇒ What are Predicate Offences?
- ⇒ Designated Categories of Predicate Offences.
- ⇒ Importance of KYC Measures for Detecting Predicate Offences
- ⇒ Challenges in Applying KYC in Detecting Predicate Offences
- ⇒ Red Flags to detect Predicate Offences for Money Laundering Suspicious Transactions/ Activities

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