



Decoding Red Flag Indicators

&

Identifying Suspicious Patterns

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Disclaimer:

Views expressed in this presentation are personal and do not necessarily express that of the organisation.

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Content

- Regulatory Framework
- Red Flag Indicators
- Challenges
- AML Alerts
- Reducing False Positive Rate
- Identifying Suspicious Patterns

Regulatory Guideline

Risk Management

- Framework
- Policy & Procedures
- Internal Controls
- Monitoring & Reporting
- Training

Assessing ML & TF Risk

- Identification
- Risk Assessment
 - Likelihood & Impact
- Risk Mitigation
 - CDD & EDD Measures

Red Flag Indicators

- Indicator of Potential Problem
- Multi dimensional
- Red Flags rule - implement a written program to prevent, detect and mitigate money laundering risk
- Prevention is better than detection
- Emerging trends

Cash

- Customers business involves large amount of Cash
- Occasional one off transaction above reporting threshold
- Large amount, small denomination notes

Economically Irrational Transactions

- Not in line with purpose, business or previous pattern

High Risk Customers

- New and Non face-to-face Customers
- Politically Exposed Persons
- Non Profit Organizations
- Non-Resident Customers
- Complex ownership structure - Identification is difficult

Transaction Behaviour

- Unusual Circumstances
- Difficult to identify source of funds / unnecessarily layered
- Transactions done through "Gate Keepers"

Others

- High Risk Products and Services
- High Risk Countries

Challenges

- Identical & High number of Transactions
- Traditional TMS
- Complex Transaction Network → Multiple Scenarios
- High Number of False positive Alerts
- Alert Analysis Failures
- Missing real alerts
- Simple Models – covers very few aspects
- Operational Overheads
- Non-availability of Trained Resources





AML Alerts

- Scenario Brief
- Snapshot of Case
- Visual Overview of Pattern
- Highlight Precise Suspicion
- Enhanced Due Diligence expected
- Conclusion
- Documentation

- Right Thresholds
- Type of Account
- Link to Customer Profile
- Risk Category of Customer
- Transaction History / Past Patterns
- Past alerts & EDD done on customer
- Right number of alerts per staff
- Scenario / Alert quality review

Bottom Line

~~Eliminate~~ Reduce False Positives
Identify Suspicion Patterns

Reducing False Positives

Additional Variables

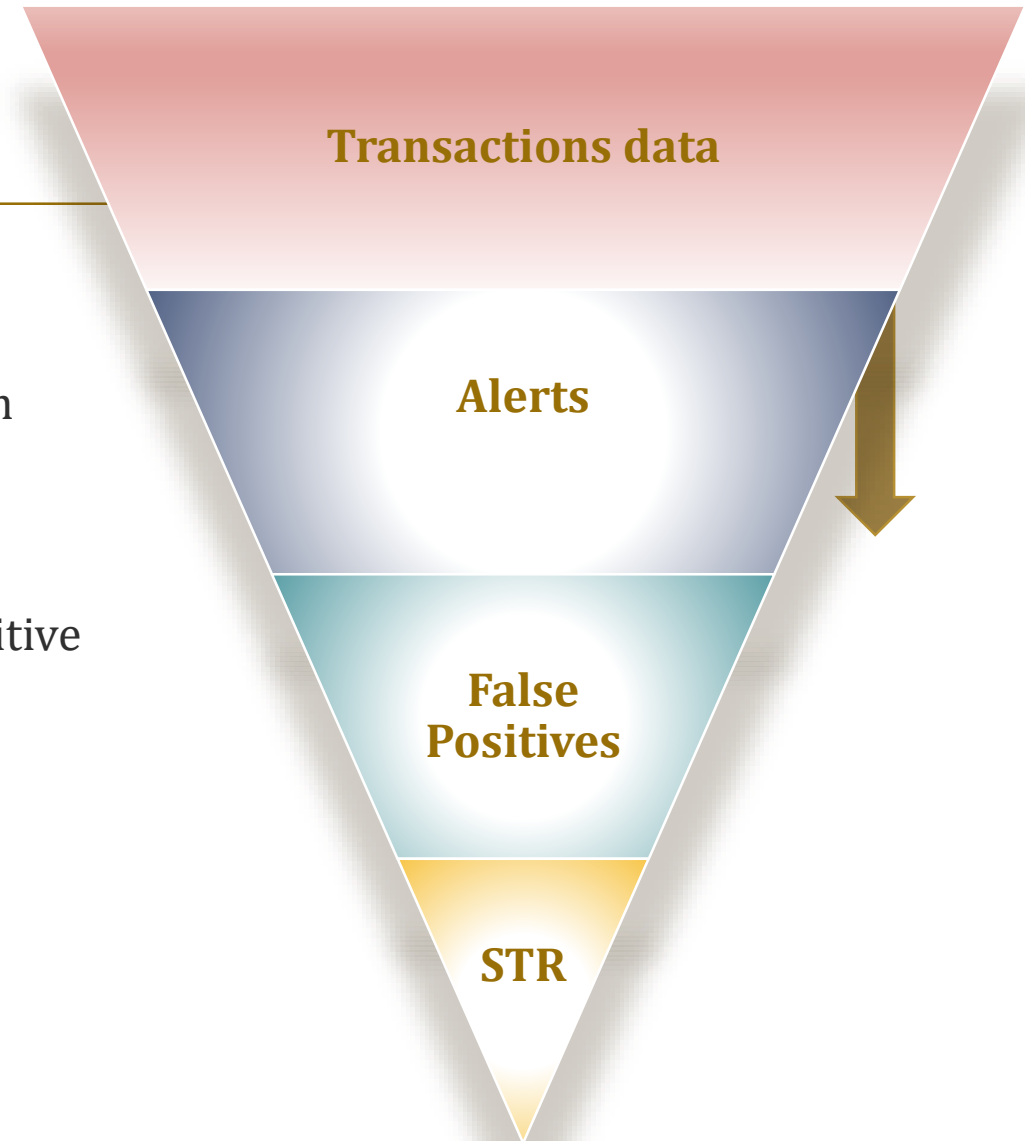
- use of positive factors as exclusion criteria
- additional variables available in core banking system
- derived or calculated variables

Review of Past False Positives

- document justification for closing alerts as false positive
- standardising similar justifications

Whitelisting / Suppression

- should be done at scenario level
- suppression period is important
- Periodic review



Identifying Suspicious Patterns

Current process / control weakness

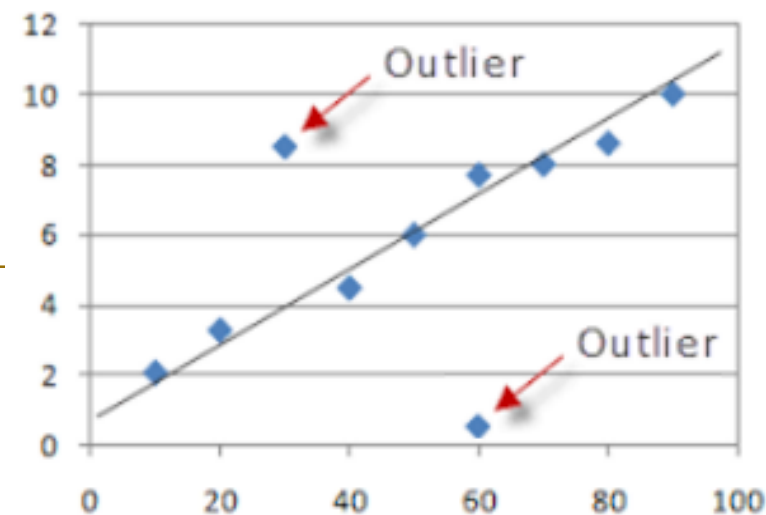
- Weak control processes lead to misuse
- Build process level controls

Analytics

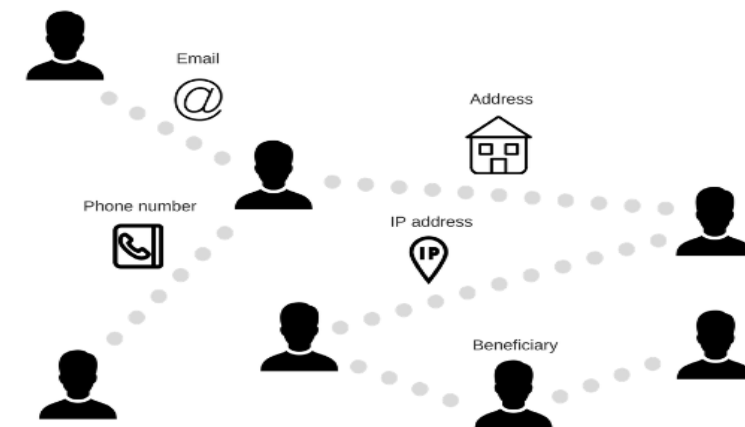
- Outlier / Anomaly Approach
e.g. Cash deposit in account of a salaried customer
- Unsupervised Machine Learning – Hidden Links
- Predictive Models

Trend Analysis

- Review of transactions over a period to identify patterns
- Helps to identify macro issues pertaining to a given geography / branches etc
e.g. Alerts and STR Trends, Cash Deposits, Remittances, High Risk Customers, New Accounts etc.



Hidden Links





Thank You

KNOW

AML