

# Trade Based Money Laundering Risk Indicators

## What is Trade Based Money Laundering?

Trade Based Money Laundering (TBML) is a complex form of money laundering that involves the disguising of the proceeds of crime and moving value across borders through trade transactions. It exploits the intricacies of international trade, the high volume of legitimate transactions and the global movement of goods and services to legitimize illicit funds. As one of the least understood and most difficult-to-detect laundering methods, TBML poses significant challenges to Regulators, Financial Institutions (FIs) and Designated Non Financial Businesses and Professions (DNFBPs).

## Trade Based Money Laundering Risk Indicators

### **Unusual or Inconsistent Trade Patterns**

Transactions that deviate from a client's established business profile may signal potential TBML. This includes instances where high-value or high-volume trades are conducted by newly established or inactive companies. Red flags also arise when businesses engage in the import or export of goods unrelated to their stated industry. Additionally, inconsistencies between the description of goods on invoices and the items actually shipped can indicate possible suspicious activity.

### **Over or Under Valuation of Goods**

Another key indicator is the over or under invoicing of goods, where the declared prices on invoices differ significantly from the fair market values. Such pricing anomalies may not be justifiable by legitimate commercial factors such as shipping costs, insurance or volume discounts. Discrepancies between invoice values and the amounts listed in letters of credit can further point to manipulation intended to disguise the movement of illicit funds.

### **Inconsistent Documentation**



Discrepancies across trade documents such as invoices, bills of lading and customs declarations can suggest fraudulent activity. This may involve the use of misleading product descriptions and payment records. These inconsistencies can obscure the true nature of a transaction and hinder efforts to conduct proper due diligence.

### **Suspicious Payment Methods**



These can include the use of third-party payments that are unrelated to either the buyer or seller or the routing of funds through jurisdictions with no logical business connection to the transaction. The use of unnecessarily complex trade finance instruments such as multiple letters of credit and unexplained

foreign exchange conversions may also be used to disguise illicit flows. Advance payments for goods that are never delivered may further compound the suspicion.

### **High-Risk Jurisdictions**



Trade transactions involving jurisdictions known for weak Anti-Money Laundering (AML) controls or those subject to international sanctions pose significant risks. Suspicion is heightened when goods are transhipped through multiple countries without clear economic justification or routed through locations lacking a logical commercial purpose. Such routing may serve only to obscure the true origin or destination of the goods and funds.

## What Can You Do?

- **Know Your Customer (KYC):** Ensure trade clients are thoroughly profiled and Due Diligence is collected, maintained and is up to date.
- **Understand Normal Business Patterns:** Monitor for deviation in transaction size, frequency, counterparties and countries involved.
- **Train Staff:** Ensure frontline employees and trade finance officers are trained to recognize red flags and understand their obligation to report.
- **Leverage Technology:** use automated trade monitoring systems where possible to detect anomalies.
- **Report Suspicious Activity:** escalate red flags promptly to the Compliance Department or file a Suspicious Activity Report (SAR), as required.

**For More Information: FATF Trade-Based Money Laundering Report : [https://www.fatf-gafi.org/en/publications/Methods\\_and\\_trends/Trade\\_based\\_money](https://www.fatf-gafi.org/en/publications/Methods_and_trends/Trade_based_money)**

# **Case Study: Detecting TBML Through Risk Indicators - The Case of ABC Textile Imports Ltd.**

## **Background**

ABC Textile Imports Ltd., a mid-sized textile trading company based in Country A, specializes in importing fabric from several Asian countries for resale in Latin America. The company recently opened a trade account with Global International Bank, requesting access to trade finance instruments, including letters of credit and documentary collections. During a routine audit, the Bank's Compliance Department observed a number of unusual trade activities that prompted a deeper investigation into the Company's transactions. The findings raised multiple red flags indicating potential TBML.

## **Transaction Overview**

- ABC Textile imported cotton rolls from Supplier X in Country B (a known high-risk jurisdiction).
- The invoice total was USD \$2.4 million for 100 containers.
- The price per unit was over 200% higher than the industry average.
- Documents submitted included invoices, bills of lading and packing lists - these appeared consistent but lacked some customary certification (e.g., certificate of origin).
- Payment was made via a third-party company, "FinTech Ltd.," incorporated in a tax haven.
- Despite the high transaction value, no physical inspections or quality certifications were requested.
- Within two months, similar transactions were repeated with minor variations in shipment volumes and counterparties.



## **TBML Risk Indicators Identified**

<b>Category</b>	<b>Risk Indicator</b>
<b>Invoicing</b>	Significant overvaluation of goods compared to market price
<b>Payment Structure</b>	Use of unrelated third-party to remit payment
<b>Jurisdiction</b>	Trade involving high-risk or secrecy jurisdictions
<b>Documentation</b>	Incomplete supporting documents; missing standard certifications
<b>Behavioral Patterns</b>	Repeated high-value transactions with minimal operational justification

## **Investigation and Outcome**

Global International Bank's Compliance Department escalated the case to Country A's Financial Intelligence Unit (FIU), which conducted a multi-agency review. The investigation revealed that ABC Textile Imports Ltd was a part of a broader trade-based laundering scheme used to:

1. Transfer criminal proceeds out of Latin America
2. Evade capital controls in Country B
3. Layer illicit funds through legitimate trade channels

Authorities uncovered links to organized crime groups and ultimately, froze \$4.6 million in suspect assets, leading to the revocation of ABC Textile's trade licence.

## **Lessons Learned**

1. Over-invoicing and third-party payments are classic TBML red flags.
2. Routine compliance monitoring is critical, especially when onboarding new trade clients.
3. TBML often mimics legitimate trade, making it vital to use due diligence tools including enhanced measures, where necessary and trade-based risk models.
4. Financial institutions must train staff to spot anomalies in trade documentation and pricing.

## **Discussion Questions to Consider**

1. Which risk indicator was most critical in triggering the investigation?
2. How could automated systems assist in detecting similar TBML schemes?
3. What due diligence steps should have been taken at onboarding?

