

### 3.2 Money Lenders

Money lenders have to be aware that many money laundering techniques involve paying off a debt faster than income would support. Lenders should already know a customer's declared income on the loan application and be alert to this. The three most important anti-money laundering measures for money lenders are:

- (a) Know Your Customer - i.e. obtaining information about a customer in addition to the basic identification information, e.g. his business, risk profile, source of funds, etc.;
- (b) Monitoring - i.e. being vigilant to how a customer is using a company's services for signs of money laundering with reference to the information obtained about the customer; and
- (c) Reporting suspicious transactions.



### 3.2.1 Suspicious Activity Indicators

- (a) Customer is reluctant to supply general information when completing application or provides unsatisfactory answers to "Know Your Customer";
- (b) Customer's instructions are constantly changing;
- (c) Credit rating checks indicate the customer has recently obtained multiple loans from other sources;
- (d) Customer requests for secured loan or mortgage, where the source or legitimacy of the collateral property is unclear or its size is not commensurate with the customer's financial profile;
- (e) Offshore property is tendered as security for the loan;
- (f) Customer repays the loan in cash prematurely without explanation, especially where the customer previously had difficulty in meeting monthly repayments;
- (g) Customer is using an intermediary;
- (h) Customer appears to be acting as an agent without disclosing his principal;
- (i) The transaction is inconsistent with commercial reality;
- (j) Guarantor cannot be fully identified;
- (k) Customer who claims to be Hong Kong resident is only willing to produce passport as proof of identity;



- (l) Difficulty in verifying details of customer's declared occupation/employment; and
- (m) Material discrepancy in the application forms and / or information provided:
  - (i) Missing/wrongly spelt names;
  - (ii) Change of name;
  - (iii) Incorrect or incomplete address(es), including previous address(es);
  - (iv) Incorrect time spent at declared address; and
  - (v) Conflicting employment details, duration of employment, bank details, date or place of birth.



### 3.2.2 Below are two case examples for illustration.

#### *Case Example 1: Lender Provided Loan on Overseas Deposit as Security*

A foreign customer obtained a secured loan from a lender by providing an overseas bank deposit as security.

The customer produced a certificate of deposit from the foreign bank, which was assigned to the lender. The lender released the loan to the customer, who subsequently disappeared.

When the lender attempted to realize the security, it was disclosed that the funds were frozen by the overseas law enforcement agency and believed to be the proceeds of organized crime and corruption.

#### Key Message

Lenders should obtain as much information as possible about non-Hong Kong resident clients before entering into business relationship with them. Lenders should be satisfied that the source of the property offered as security is legitimate before accepting.



### ***Case Example 2: Customer Obtained Multiple Loans to Launder Proceeds of Drug Trafficking***

A customer obtained a number of relatively small loans from eight different lenders, HK\$200,000 each. The loans were credited to various bank accounts held by the customer, which appeared to

the receiving banks as usual legitimate consumer credit arrangements. These funds were subsequently remitted outside the jurisdiction through normal banking channels.

All the loans were repaid in cash shortly after being granted. The customer told each of the lenders he had a "lucky day at the horse racing". When viewed in isolation, the early repayment did not raise any suspicion.

It was subsequently discovered that the customer was a drug trafficker and the funds used to repay the loans were the proceeds of his trafficking activities.

#### *Key Message*

Merely applying loan size and early repayment as indicators may not be sufficient to detect foul play. Lender should therefore include adequate "credit rating checks" to ascertain whether the applicant is making multiple loan applications in pursuit of some sort of fraud or money laundering scheme.

