MONEY OR VALUE TRANSFER SERVICES (MVTS) AND REGISTERED HAWALA PROVIDERS (RHP)

UAEFIU 2021

UAE Financial Intelligence Unit – P.O.Box 854, Al Karamah Street – International Tower, Abu Dhabi.

Phone No: +97126919955

Email address: uaefiu@uaefiu.gov.ae

Table of Contents

List of Acronyms

Terms & Definitions	Description
AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
CBUAE	Central Bank of the UAE
CDD	Customer Due Diligence
ECDD	Enhanced Customer Due Diligence
FATF	Financial Action Task Force
FI	Financial Institution
GoAML	The Financial Intelligence Unit online reporting application
KYC	Know Your Customer
LEA	Law Enforcement Authority
MSB	Money Service Business
MVTS	Money or Value Transfer Services
RFI	Request for Information
RHP	Registered Hawala Provider
SAR	Suspicious Activity Report
SD	Spontaneous Dissemination
STR	Suspicious Transaction Report
UAEFIU	Financial Intelligence Unit of the UAE
UHP	Unregistered Hawala Provider

Content and objectives

This Guidance is part of the Strategic Analysis Plan (SAP) adopted by the UAE FIU also considering the requirements of the *National Assessment of Inherent Money Laundering and Terrorist Financing Risks in the United Arab Emirates* (NRA) and the following *UAE National Action Plan to Implement the Combating Anti-Money Laundering and Terrorism Financing National Strategy 2020-2023* (NAP).

This Guidance is based on the results of the strategic analysis relating to **Money Service Businesses** (or also named as Money Service Providers) "MSBs", **Money or Value Transfer Services** "MVTS" and **Registered Hawala Providers** "RHP", operating in the UAE and their possible abuse in the context of Money Laundering (ML) and/or Financing of Terrorism (FT).

The purpose of this Guidance is to:

- Promote the awareness of the risk of MSBs, MVTS and RHP possible abuse, and to enhance compliance with the AML/CFT requirements.
- Develop an updated list of red flag indicators aimed at assisting the identification and assessment of possible ML/FT schemes pertaining to MSBs, MVTS and RHP.

Methodology, Sources and Timeline

This report is based on the strategic analysis of data and information held by the UAE FIU, as well as data and information obtained from other UAE Authorities and the Reporting Entities "REs", particularly in the period January 2020 to June 2021.[1]

[1] The data and information analyzed include but are not limited to: STRs and SARs databases; Cash declarations; information received from UAE Authorities; information received from REs.

I. Introduction

Money Service Business (MSBs), or Money or Value Transfer Services (MVTS), refers to financial services that involve the acceptance of cash, cheques, other monetary instruments, or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs. Transactions performed by such services can involve one or more intermediaries and a final payment to a third party and may include any new payment methods, including internet and mobile technology, and innovative Fintech solutions.[2]

Pursuant to the Article 26 of the **Federal Decree-Law No. (20) of 2018 on Anti- Money Laundering and Combating the Financing of Terrorism and Illegal Organizations** (AML/CFT Law), MVTS shall be licensed by or registered with the competent Supervisory Authority, namely the Central Bank of the United Arab Emirates (``CBUAE``). MVTS shall keep an up-to-date list of their agents and make them available to the relevant authorities within the country in which the money or value transfer services providers and their agents operate and shall engage their agents in combatting the Crime control programs and monitor them for compliance with these programs.

Aligned with the aforementioned definition, Exchange Houses, or Exchange Businesses, are also considered as MVTS providers. Pursuant to Article 1.1.C of CBUAE Regulations Re Licensing and Monitoring of Exchange Business, “exchange business” shall mean:

1. Dealing in sale and purchase of foreign currencies and travelers’ cheques
2. Executing remittance operations in local and foreign currencies.
3. Payment of wages through establishing a link to the operating system of “wages protection” (WPS).
4. Other businesses licensed by the Central Bank

In the context of the UAE, the notion of MVTS also refers to ‘Hawala’ providers, meeting the same criteria and registered at the Central Bank of the UAE to conduct Hawala Activities (Registered Hawala Provider) “RHP”, namely arrangements for transfer and receipt of funds or equivalent value and settlement through trade and cash, particularly with ties to specific geographical regions or ethnic communities.[3]

[2] See FATF, International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, The FATF Recommendations, Glossary, pp. 125-126; and Abu Dhabi Global Market (ADGM) institutional website: https://www.adgm.com/setting-up/money-services-business/overview.

[3] See CBUAE Guidance for Registered Hawala Providers And Licensed Financial Institutions Providing Services To Registered Hawala Providers dated 15 August 2021, page 5; FATF, Guidance for a Risk-based Approach, Money or Value Transfer Services, February 2016, p. 7; FATF, Report, The Role of Hawala and other Similar Service Providers in Money Laundering and Terrorist Financing, October 2013; and IMF-World Bank, Informal Funds Transfer Systems, An Analysis of the Informal Hawala System, Occasional Paper 222, August 2013.

Under the **Circular No. 24 of 2019 on Registered Hawala Providers** issued by the CBUAE any natural person holding a valid residency visa or legal entity intending to conduct Hawala Activity shall be registered in the CBUAE`s Hawala Providers Register, including agents or networks of agents. RHP may also be guided by the FATF standards on AML/CFT, and must abide by guidance issued by the CBUAE in this regard.

The following attributes of hawala providers serve as its vulnerabilities in terms of AML/CFT risks:

- Faster transaction – Because funds do not have to pass through certain institutions in the financial system, when a transaction is confirmed with the "Hawala Provider" (HP) from the remitting country, funds will be almost automatically available in the receiving country. For "Unregistered Hawala Provider" (UHP), this factor is regarded with utmost importance, as aside from the fact that there is no audit trail in UHP, faster transactions means funds can be laundered from one jurisdiction to another within a short span of time.

- Wider geographic scope – HP usually operates in remote jurisdictions that common financial service providers have limited to no presence at all. This means that HP can operate in high-risk areas wherein HPs are not regulated, prohibited or not legal.
- Operable with other business activity – As mentioned earlier, HPs can be a natural or legal person. A legal person may execute its hawala activities along with other licensed business activities. The risk lies on the possibility of a LE acting as a front company to conceal practice of the underground banking activities.

- Limited interaction with customer – Specifically for UHP, transactions can be conducted verbally with the absence of KYC procedures and proper documentation. Criminals exploit this feature and move illicit funds rapidly across borders without being subjected to appropriate funds transfer process.

According to the latest data obtained from **Central Bank of The UAE** "CBUAE", **Dubai Financial Services Authority** "DFSA" and **Financial Services Regulatory Authority** "FSRA" as of September 2021, the overall number of registered MSBs, MVTS and RHPs in the UAE are **149**. It was also found that MSBs, MVTS and RHPs are mainly based in Mainland, representing a higher percentage of 95%, while only 5% are based in the Financial Free Zones. As a result, the Mainland jurisdiction is also presumed with a higher exposure to ML/TF risks.

RHPs were found primarily being licensed Legal Entities. As of July 2021, there were 53 RHPs (all LEs) with the CBUAE. Among this, 74% are Limited Liability Companies "LLCs",

while the main or common Business Activity associated with some RHPs are “General Trading”, “Electronics Trading” and “Textiles Trading”.

The analysis of this project anticipated a direct correlation between the abuse of MSBs, MVTS, RHPs/UHPs with the subject of the first Strategic Analysis report the UAE FIU had issued in “The Abuse of Legal Entities in ML/TF”. Legal Entities, being as Registered or even Unregistered/unlicensed Hawala Providers (RHPs, UHPs), are found to be directly involved in physical transportation of cash (Cross-border Cash Movement) as a method of Money Laundering. MSBs and MVTS were also found indirectly involved in Cross-border Cash Movement by using mainly LEs as well as cash couriers to transport Cash on their behalf. As there is no cash smuggling method that can be directly associated to one criminality, this act is assumed to be undertaken by Criminals, mainly, for the purpose of: breaking the audit trails of illicit funds, depriving the funds from the original predicate offense, and concealing the ultimate beneficiary or the ultimate destination of the illicit funds/assets.

Respectively, observing high volume of Cash Declarations (for both Imports and Exports) based on the data obtained from the Federal Customs Authority (FCA), particularly those for ‘exchange’ and ‘Entities’ purposes, indicates that criminals tend to exploit cash declaration mechanism to legitimize illicit funds which can be later introduced to the Financial system of the country as legitimate.

The report below describes details of reviewed data and outcomes of the analysis.

II. Overview of Relevant Data and Information underlying the Strategic Analysis

The analysis presented in this Report are based on a broad range of data and information, including, but not limited to, the databases directly accessible by the UAEFIU particularly the Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs) database (GoAML). The data and information received from UAE Authorities - such as the Federal Public Prosecution and Local Police Departments, and the Federal Customs Authority (FCA) - and counterpart Financial Intelligence Units (FIUs), particularly in the period 2020-2021 (June).

The UAE-FIU analyzed all the available and obtainable data and information to assess possible vulnerabilities related to MSBs, MVTS and RHP pertaining to ML/TF, furthermore, to identify relevant trends and typologies.

› **Review of STRs and SARs**

During the period from January 2020 until June 2021, the UAE FIU received a total of **218** Suspicious Reports (191 STRs and 27 SARs) raised by all Reporting Entities based on RFRs (Reasons for Reporting) possibly related to the abuse of MSBs, MVTS and Unregistered/unlicensed Hawala Providers (UHPs).

In a more detailed view, 35% of the said suspicious reports were filed based on reasons related to Currency Exchange and/or using other payment instruments as a method for "Layering", 25% of reports were based on reasons related to using Shell Companies, while 18% of reports were indicating possible unlicensed Hawala activities.

While reviewing the STRs/SARs raised by MSBs/MVTS during the same period, a total of **476** reports were based on RFRs pertaining to "Fraud", particularly, Advance Fee Scam, Phishing, Email Compromise Fraud, etc. The total number of said suspicious reports represents around 14% of overall received reports (by MSBs/MVTS).

The review presumed the risk of MSBs, MVTS and RHP/UHPs being willingly an accomplice or unwillingly abused by Criminals as a conduit for ML/TF.

› **Review of International Requests**

In the same period, the UAE FIU received **26 intelligence reports** from foreign Financial Intelligence Units (FIUs) with regards to "Possible Illegal Hawala" (referred before as UHPs). On the other hand, UAE FIU sent **4 intelligence reports** to counterpart FIUs related to "Possible Illegal Hawala".

› **FCA Data Analysis**

As part of the UAE FIU's efforts to determine the scale of cash transports related to MSBs and MVTS, the UAE FIU analyzed Cash Declaration records of the Federal Customs Authority (FCA), particularly those for '**Exchange'** and '**Entities'** purposes during the period Jan 2020 up to Jun 2021.

It was found that 26% of the total amount declared by travelers upon arrival to UAE from 66 countries is for 'exchange' purpose. While total number of records related to cash entered in the UAE related to "Legal Entities" was 3,430 declarations from 73 countries, which represents 22% of the overall cash imported.

More so, upon analysis of the specific purpose of the exchange-related cash imports, it was noticed that the declared amounts for exchange are further declared for Legal Entities dealing in "Gold" as well as a number of Exchange Houses in the UAE. Further analysis revealed that the aforementioned entities were also subjects or may also been involved in numerous received STRs. The main suspicion of those STRs included involvement in illegal Hawala activity (UHP), high volume of foreign currency exchange transactions incommensurate with the business size and licensed activities, negative media reports in foreign jurisdictions, etc. *A case example is exhibited later in the report (Case Example number 1).*

On the other hand, cash exports for 'exchange' purpose constitutes 11% of the total cash exports from Jan 2020 up to Jun 2021.

It is further observed that some of the entities and exchange houses who are importing cash to UAE are also exporting cash outside the UAE, which may indicate Cross-border cash movement. In addition, there are STR records found against the same entities.

Respectively, the high volume of Cash Declarations (for Import and Export) based on the data analyzed, indicates that criminals tend to exploit cash declaration mechanism to legitimize illicit funds which can be later introduced to the Financial system of the country as legitimate.

III. Trends and Typologies

Underlying the analysis of this project in attempt to identify and determine trends and typologies pertaining the abuse of MSBs, MVTS and RHPs, the UAE FIU observed the following:

MVTS providers, particularly exchange businesses (houses) and RHPs, play an important role in the UAE's financial system considering the number of its users from different nationalities visiting or residing in the UAE for either wages, tourism, or other purposes, since one of the exchange houses' main activities is providing remittance services – domestic and international.

Further, according to the CBUAE's Annual Report of the year 2020, international outward remittances conducted by Individuals through exchange houses reached up to **AED 113.0 billion** in 2020, while outward remittances through banks was **AED 43.8 billion** only[4]. This implies that remitters prefer exchange houses over banks to send remittances internationally. This could be for one or more of following main factors:

- Lower Transaction Costs – Exchange houses normally has lower transaction costs than banks. Considering that most users of exchange houses are low to mid-income workers, difference in transaction fees matters.

- Better Exchange Rates – Due to the high volume of daily transfers, some exchange houses can be competitive enough to attract customers by offering higher rates.

- More Accessible – In the UAE, exchange houses can be found everywhere – in the main streets, malls, entertainment places, etc. Inversely, beneficiaries living in remote areas in a foreign jurisdiction may have limited access to banks, but have access to exchange houses.

- Faster Transactions – Most exchange houses have upgrade their services and offer their customers with additional value of completing the transactions instantly or within a short period of time (minutes or hours).

- Less Requirements – When sending remittances through exchange houses, less information is required from the customer in comparison to banks. With the latter, a bank account is mandatory in order to conduct any transaction. Other documents such

[4] See CBUAE Annual Report 2020, Page 24: https://www.centralbank.ae/sites/default/files/2021-04/CBUAE%20-%20Annual%20Report%202020.pdf

as identification document, residence visa, salary certificate, employment contract or tenancy contract may be requested by banks at the account opening date. Conversely, for not unusually large transactions, the former may require its customer to provide identification document and/or fill basic personal information sheet only.

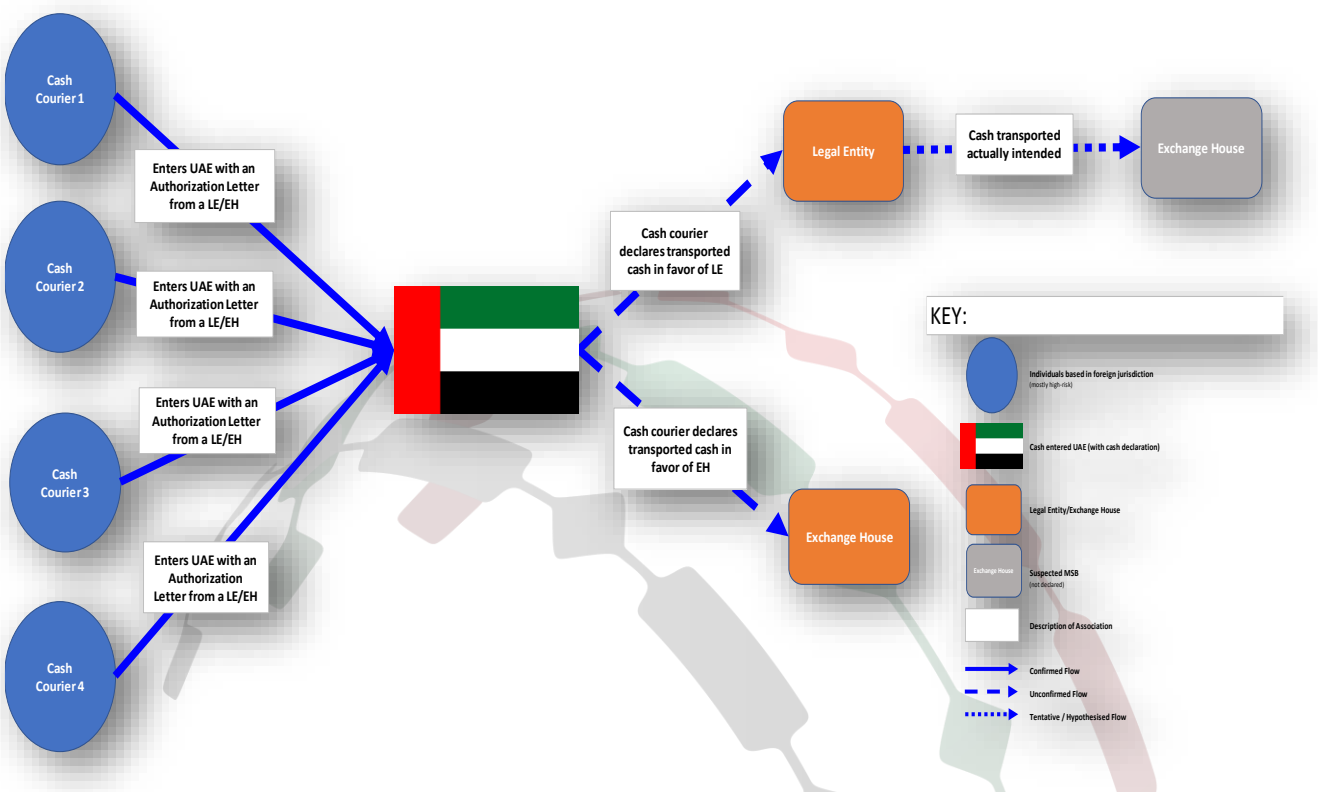
For the same reasons above, MSBs, MVTS and RHPs bear high inherent risks that made it attractive to criminals for exploitation in ML/TF purposes. Apart from that, they are also known to be cash-intensive due to majority of its consumers coming from low- to mid-income workers who do not have access to traditional banking or customers who chooses convenience over security.

In the review of sample STRs and SARs, trends in the possible abuse of MSBs, MVTS, and RHPs/UHPs were observed as follows:

a) Abuse of MSBs/MVTS through Cash Border Movements

Individuals carrying cash from diverse nationalities (predominantly high-risk) arrive from various jurisdictions (mostly high-risk) to UAE. Cash transported is in different currencies and is declared to the local customs authority in favor of a legal entity or an exchange house.

In the first scenario, the LEs that couriers declared cash for is not the actual beneficiary of the funds. The LEs is only being used as a front/shell company to receive funds on behalf of the exchange house to avoid documentation (See Case Sample 1 below).



In the second scenario, the cash couriers straightforwardly declare that the funds are intended for the exchange house.

Similar cases in the past indicated that this act is being done purposely by the exchange house for different reasons:

- The exchange house may be acting as an instrument to launder a third party's proceeds of crime and/or finance terrorism.
- The exchange house may not be willing to undergo the process of obtaining the "Letter of No Objection" from the CBUAE – Banking Supervision Department when importing and exporting banknotes from or to foreign institutions[5].

[5] See CBUAE The Standards for the Regulations Regarding Licensing and Monitoring of Exchange Business ("the Standards") Version 1.10 dated February 2018, pp. 31-32: https://www.centralbank.ae/sites/default/files/2019-12/The%20Standards%20for%20Exchange%20Business%20in%20the%20UAE%20%28Version%201.10%29%20%E2%80%93%2001.03.2018%20for%20Issue%20%28Clean%29.pdf

b) Proceeds of Fraudulent Activities through MVTS Providers

In the analysis of 'Fraud' related STRs/SARs received from MSBs/MVTS (total of 476), it was found that 270 suspicious reports were concerning repeated Fraud types, such as, 'advance fee scam', 'phishing and vishing', or 'E-mail compromise fraud', 'inheritance fraud', 'internet or mobile banking fraud'. Therefore, it is assumed that MVTS providers, distinctly exchange houses, are being exploited by criminals to route fraudulent proceeds.

With the continuous advancement of technology nowadays, especially in the telecommunication industry, there is no doubt that services like SMS, voice call, emails or social media platforms will be wrongfully used by criminals to gain financial advantage. On top of that, due to the pandemic situation and movement restrictions in the past year, many people were instructed or opted to stay at home, which served as a great opportunity for fraudsters to take advantage of the innocent users and their situation (See Case Sample 2 below).

c) The Use of MVTS's Foreign Currency Exchange Service in Layering of Illicit Funds

A basic service that MVTS/MSBs, specifically Exchange Houses, provide is "Foreign Currency Exchange". MSBs typically operate along international borders, in airports or near communities with high populations of foreign individuals. Exchange houses with foreign currency exchange service has higher ML risks as compared to exchange houses that offer money remittance services exclusively. In this case, appropriate controls must be in place to counter the risk.

A common method of 'Layering' exchanging monetary instruments, converting the cash on hand into other currencies to mislead financial investigators of its actual source and purpose. For instance, a customer may approach an exchange house carrying foreign currency supported by a Declaration Regarding Importation of Cash (DRIC) document or invoice. Documents like invoice can be forged or altered for the mere purpose of satisfying the authority's requirement.

d) Underground Hawaladar through Legal Entity

MSBs, MVTS, RHPs businesses can range from small independent business to large organizations, providing their services as primary business or as an ancillary service along with other business activities. For example, a General Trading Company licensed under the Ministry of Economy "MOE" is also registered with the CBUAE as "Registered Hawala Provider".

Based on the review of STRs received from Reporting Entities, a number of Legal Entities were noticed to be engaging into unlicensed/unregistered hawala activities with the absence of a “Hawala Provider Certificate” granted by the CBUAE on top of their normal commercial activities. UHPs tend to commingle the funds specific to hawala activities with the usual funds resulting from regular business activities (LE used as front companies). Another assumption is to use “Shell” Entities that are set up merely for the purpose of conducting unlicensed or illegal Hawala activities. However, this assumption is not supported yet by feedback from LEA on the disseminated cases.

It is also assumed that the commonly used technique of settlement is the “Reverse Hawala” between two or more Hawala providers within the same network, during which, they exploit trade transactions (TBML techniques), settlements done through wire transfers, or using Cash Couriers and Cross-border Cash Movement for Cash settlements (See Case Sample 3 below).

IV. Developed Indicators and Guidance for Reporting Entities

To promote compliance with the AML/CFT Law and the fulfilment of the STRs requirements, the UAE FIU updated and enhanced the list of red flag indicators based on which there are reasons to suspect money or value transfer-related ML/FT schemes. Moreover, in assessing the ML/TF risks related to MSBs/MVTS and RHPs, the factors to be considered are those relating to: country or geographic risk, customer risk, product/service risk, and agent risk. These are not static assessments. Factors change over time, depending on how circumstances develop, and how threats evolve.

The list is not intended to be exhaustive and provides examples of the most common ways by which a substantial risk can be detected. On the one hand, the presence of these indicators does not imply as such that the activity, or transaction, is suspicious. On the other hand, the apparent absence of these indicators does not exclude as such that the activity, or transaction is suspicious. REs shall carry out an overall weighting in the light of all available information, adopting the Risk-based approach, in assessing whether an activity, or transaction is suspicious and whether there are conditions for filing a STR or SAR to the UAE FIU.

Herein some developed indicators that could possibly alert the risk of abusing MSBs, MVTS and RHP or UHP for ML/TF:

- Customer conducting their business relationship or transactions in unusual circumstances, such as, customer: [6]
    i. travels unexplained distances to locations to conduct transactions;
    ii. defined groups of individuals conducting transactions at single or multiple outlet locations or across multiple services;
    iii. owns or operates a cash-based business that appears to be a front or shell company or is intermingling illicit and licit proceeds as determined from a review of transactions that seem inconsistent with financial standing or occupation.
- Customer remits money internationally and then receives back an equal value of the amount.
- Customer presents single DRIC as supporting document for multiple transactions.

[6] FATF, Guidance for a Risk-based Approach, Money or Value Transfer Services, February 2016.

- Customer receives multiple transfers from unrelated parties, specifically individuals residing in foreign jurisdiction, on which a "Fund Recall Request" has been received.
- Using MVTS or MSB's accounts to send or receive funds which are suspected to be fraudulent proceeds.
- Customer (sender) appears to have no direct or economical relationship with the receiver of the transfer.
- A group of customers uses similar contact information with unreasonable explanation (e.g. address, mobile number, e-mail address).
- MVTS/RHP customer is suspected to be acting on behalf of a third party but not disclosing that information or is being controlled by someone else.
- Transactions conducted in the account are unnecessarily complex with no apparent economic rationale.
- Transactions are seemingly of pass-through nature – funds received directly debited via wire transfers leaving low balance in the account.
- Several transfers from multiple remitters directed to a single beneficiary with no reasonable explanation.
- Individual account is receiving small amounts from different unrelated individuals, and eventually transferring the sum to another individual account or LE's account.
- Multiple entities remitting to a single or repeated beneficiary (also an entity), of which the funds are subsequently remitted to an offshore entity.
- Receipt of international remittances from foreign counterparties inconsistent with its own business activities.
- Large cash deposits or large cash withdrawals from or to MVTS/RHP/LE's (suspected UHP) account.
- MVTS/RHP uses intermediary or third-party extensively with no reasonable justification and providing inadequate supporting documents when requested to sustain the source and prove authenticity of the transactions.

- RHP/UHP's account is receiving multiple remittances from another LE's or individual's accounts, and eventually transferring the sum to another LE's account located in another jurisdiction.

- RHP or LE (suspected UHP) conducts an unusually high number of transactions with counterparties (known HP) in high-risk jurisdictions, or providing services to customers from high-risk jurisdictions.

- RHP or LE (suspected UHP) structures transaction in an attempt to break up amounts to avoid reporting or interrupt tracing of funds.

- RHP or LE's (suspected UHP) transaction volume is inconsistent with its stated business activity, scope or its past transaction volume.

- RHP or LE's (suspected UHP) owners, shareholders, or authorized signatories, or any of its counterparties has been the subject of adverse news of a trusted media source. MVTS/RHP/UHP or any of its controlling person(s), or its affiliates, is found to be associated with a High-risk jurisdiction.

- RHP or LE (suspected UHP) is heavily engaged into cash-border transactions, which involved high-risk jurisdictions.

- RHP/UHP seems to use trade transactions to settle accounts between jurisdictions, precisely TBML techniques like over-invoicing or under-invoicing.

- MVTS/RHP is observed to be operating with poor compliance measures.

- MVTS/RHP has been the subject of law enforcement investigations (known publicly) or adverse news in relation to any ongoing investigation.

- Business accounts used to receive or disburse large sums of money but show virtually no normal business-related activities, such as payment of payrolls, invoices etc.

V. Example Cases

Case Sample 1: Abuse of MSBs through Cash Border Movements

UAE FIU has received an SAR from Federal Customs Authority against Entity GGJ, a free zone entity, which is supposed to be in gold and diamond trading (import and export) as per its trade license.

The main suspicion lies on Entity GGJ's noticeable heavy engagement in high value of cash imports and exports during a short period of time (from Sep 2019 until Apr 2020) through 191 individuals. In the said period, Entity GGJ's total declared cash imports reached up to AED 3.2 billion comprising of 603 cash imports originating from 36 various countries, including but not limited to, Uzbekistan, Ethiopia, Pakistan, Zambia and Turkey. The same cash imports were carried by 37 different nationalities. On the other hand, the total declared cash exports is around AED 80 million.

UAE FIU approached 10 counterpart FIUs to gather information on the involved individuals. Significant intelligence were collected as below:

- The amounts declared in the country of departure and country of arrival (UAE) do not match. For many instances, involved individuals did not declare the cash transported to UAE.
- Major cash couriers from Pakistan are reported to be authorized cash carriers of exchange houses in their home country. Two of them have known association to a Pakistani-based gold entity, which is under investigation for alleged smuggling of gold.
- Frequent travels to UAE recorded in country of departure.

The case was disseminated to LEA for further investigation. As per results of their investigation, it was found that the Entity GGJ is being utilized by a local exchange house to carry banknotes to UAE illegally – unlicensed by the CBUAE to import or export cash on behalf of the exchange house. The local LEA notified CBUAE regarding the same and UAE FIU was requested to forward the same case to another local LEA for further actions.

Red Flags Identified:

- Entity GGJ was newly established with unusual heavy engagement in high value of cash imports and exports on a frequent basis.

- Entity GGJ and its UBO did not have any bank accounts considering the amount of cash transported and number of associated individuals.

- No apparent genuine business activity.

- Entity GGJ is associated to counterparties with multiple STRs.

- Involvement of high number of individuals from high-risk jurisdictions (nationality and cash's country of origin).

- Involved individuals have previous STR records related to non-declaration of cash and suspicious exchange of foreign currencies, while associated entities have previous STR records as well.

- Involved individuals have STR records in their home country.

- Large volume of foreign currency exchange transactions by the involved individuals.

<u>Case Sample 2</u>: Proceeds of Fraudulent Activities through MSBs

(Fraud Type: Social Media Fraud, Non-Delivery of Merchandise)

UAE FIU has received an STR from a local exchange house against two individuals, Person MS and Person PE. The local exchange house was triggered by an enquiry received from LEA regarding the complaint filed by a victim, Person YB against the two individuals.

Person MS initially contacted the victim through social media informing that a parcel containing branded perfumes, iPhone and luxury watches is scheduled to be delivered after payment of AED 2,200 for "shipping charges", in which Person YB abided.

The following day, Person PE contacted the same victim, acting as a customs officer, and demanded Person YB to remit AED 12,500 for "clearance fees" in order for parcel to be released from the customs.

Subsequently, Person PE contacted the victim again, demanding for another AED 4,350 for "insurance and other miscellaneous fees", in which Person YB followed as well.

Person MS and Person PE stopped communicating with Person YB and no parcel nor refund was received. Apparently, the two fraudsters are involved into fraudulent activities victimizing individuals of India, Pakistan and Bangladesh nationalities. Surveillance conducted revealed the following:

- Person MS received a total of AED 81 thousand in 10 days (9 transactions).

- Person PE received a total of AED 354 thousand in approximately 2 months (29 transactions).

This case has been disseminated to local LEA for further investigation, in which feedback was received stating that Person MS and Person PE were indeed committing scam and/or fraudulent activities, therefore, further investigation on the same was initiated.

Red Flags identified:

- Person MS and Person PE received remittances from unrelated senders with no established relationship and purpose.
- Frequency of remittances received.
- Both subjects belong to a group of low-income workers receiving a monthly salary of AED 1,000, however, receiving large value of remittances.
- The use of social media to defraud victims.

Case Sample 3: Unregistered Hawaladar

UAE FIU has received three (3) STRs against Person AA from two (2) local banks and one exchange house, in which Person NH is involved and also a subject of one (1) STR from an exchange house.

In a span of 4 months only, Person AA, a UAE resident and owner of a mobile phone shop, has sent 79 remittances to around 50 individuals in Country A amounting to more than AED 1 million. Person AA justified these remittances as aid for the current pandemic situation to his family members, relatives and friends. In addition, Person AA stated that he was conducting frequent transfers in order to take advantage of the exchange house's promotion offers. Following the review of Person AA's bank statements, his main source of funds was found to be cash deposits, which was noticed to have a significant upturn in 2020. Circular pattern in the movement of funds amount Person AA's accounts with different FIs was observed.

Meanwhile, Person NH, who was located in Country A, has received around AED 1 million in a 5-month time from 22 different senders residing in the UAE (including Person AA). Outward remittances to Country A in favor of Person NH were mainly conducted through the mobile app in order to avoid disclosure of the identity, source of funds, actual purpose and relationship with the beneficiary. The majority of the funds sent to Country A is equivalent to AED 22,000. UAE FIU analyzed remitters' social status, in which it was found

that the senders are low-income workers. Half of the remitters have conducted transfer to Person NH once only, in which majority have disclosed that they were sending funds on behalf of their friends and do not have any information on the actual purpose and Person NH.

An Outward Spontaneous Dissemination (OSD) was sent to counterpart FIU in Country A to alert them about Person AA's remittances directed to them, and to notify about suspicious remittances received by Person NH.

This case was disseminated to the LEA for further investigation. A feedback was received from the Local Police stating that Person AA seems to be practicing Hawala activities without registering with the Central Bank. Further, a case was opened and escalated to Public Prosecution for necessary actions to be taken.

Red Flags identified:

- Frequent remittances by one remitter to multiple beneficiaries with no clear purpose and established relationship. (Person AA)
- Frequent remittances by multiple remitters to one beneficiary with no clear purpose and established relationship. (Person NH)
- Person AA's sudden surge of account activities and remittance activities
- Remittances are in rounded and similar amounts (possible structuring).
- Large value of remittances coming from low-income workers.
- Circular movement of funds in Person AA's accounts.
- The use of personal accounts for business activity purposes.
- Extensive use of mobile app to conduct international remittances.
- Justification for remittances stated was financial aid to family and friends due to the pandemic situation.

VI. Glossary

Agent

Any natural or legal person providing MVTS on behalf of an MVTS provider, whether by contract with or under the direction of the MVTS provider.

Beneficiary Hawala Provider

The beneficiary's Hawala Provider or receiving Hawala Provider that receives the funds or equivalent value from the Originating Hawala Provider.

Hawala Activity

The arrangements for transfer and receipt of funds or equivalent value and settlement through trade and cash.

Informal Hawala Systems (IHS)

Refers broadly to money transfers that occur in the absence of, or are parallel to, formal banking/financial sector channels.

Money Service Businesses (MSBs)

Refers to a person (whether a natural or legal person) engaged in any of the following activities where it exceeds the applicable regulatory threshold, at which point the person is generally deemed to be a financial institution subject to AML obligations:

- Dealing in foreign exchange
- Check cashing
- Issuing or selling traveler's checks or money orders
- Providing or selling prepaid access
- Money transmission

Money Transmitters

Accept currency or funds for the purpose of transferring those funds electronically through a financial agency, institution or electronic funds transfer network. Examples of well-known money transmitters are Western Union, MoneyGram and PayPal.

Money or Value Transfer Services (MVTS)

Refers to financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs.

MVTS provider

Refers to Any natural or legal person who is licensed or registered to provide MVTS as a business, by a competent authority, including through agents or a network of agents. This also includes Registered Hawala Provider meeting the criteria.

Originating Hawala Provider

The originator's Hawala Provider, or sending Hawala Provider, that initiates and carries out the transfer of funds or equivalent value to the Beneficiary Hawala Provider.

Registered Hawala Provider

Any natural person holding a valid residency visa or Legal Person, who is registered in the CBUAE`s Hawala Providers Register in accordance with the provisions of its Circular No. 24 of 2019, including its agents or a network of agents.

Registered Hawala Provider Agent

Any natural or legal person carrying out activity outside the UAE on behalf of a Registered Hawala Provider.