

Financial Intelligence Unit - India

STR Trend Analysis Report
2010



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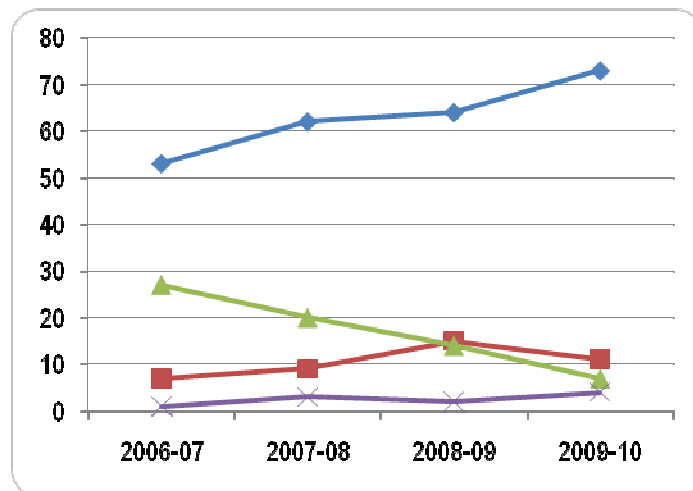
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Department of Revenue
Ministry of Finance, Government of India



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Financial Intelligence Unit - India (FIU-IND)

Department of Revenue

Ministry of Finance, Government of India

Table of Contents

Chapter 1 – Introduction.....	4
Financial Intelligence Unit – India	4
Prevention of Money Laundering Act.....	4
Suspicious Transaction Report (STR)	4
Scope of Trend Analysis.....	5
Chapter 2 – Reporting entity category distribution of STRs	6
Chapter 3 – Reporting institution type distribution of STRs.....	9
Chapter 4 - Sector wise distribution of STRs	11
Chapter 5 - Geographical distribution of STRs.....	13
Banking.....	15
Insurance	16
Mutual Fund.....	17
Chapter 6 – Number of Transactions reported in STRs.....	18
Chapter 7 – Types of suspicion reported in the STRs.....	19
Banking.....	21
Insurance.....	22
Mutual Fund.....	23
Chapter 8 – Emerging, Declining and Continuing Trends in STRs	24
Emerging Trends	24
Declining Trends.....	24
Continuing Trends	24
Chapter 9 – Summary of Trends.....	25
General.....	25
Banking.....	25
Insurance.....	26
Mutual Fund.....	27
Money transfer.....	27
Abbreviations used.....	28
Bibliography	29

Tables, Figures and Charts

Figure 1: Broad categories of reporting entities under PMLA	6
Table 1: Number of STRs for reporting entity categories	7
Chart 1: Number of STRs for reporting entity categories	7
Table 2: Reporting entity category distribution (in %).....	8
Chart 2: Reporting entity category distribution (in %).....	8
Figure 2: Types of reporting institutions covered under PMLA	9
Table 3: Number of STRs for reporting institution types	9
Table 4: Reporting institution type distribution (in %).....	10
Chart 3: Reporting institution type distribution (in %).....	10
Figure 3: Sectoral mapping of various types of reporting institutions under PMLA.....	11
Table 5: Number of STRs for sectors.....	11
Chart 4: Number of STRs for sectors.....	11
Table 6: Sector wise distribution (in %).....	12
Chart 5: Sector wise distribution (in %).....	12
Table 7: Percentage share of States/UTs in STRs for all sectors	14
Chart 6: Percentage share of States/UTs (top 5) in STRs	14
Table 8: Percentage share of States/UTs in STRs from banking sector	15
Table 9: Percentage share of States/UTs in STRs from insurance sector	16
Table 10: Percentage share of States/UTs in STRs from mutual fund sector.....	17
Table 12: Average number of transactions reported in STRs	18
Chart 7: Average number of transactions reported in STRs	18
Table 13: Number of STRs for different types of suspicion.....	19
Table 14: Percentage share for different types of suspicion	20
Chart 8: Percentage share for different types of suspicion	20
Table 15: Percentage share for different types of suspicion in banking sector	21
Chart 9: Percentage share for different types of suspicion in banking sector	21
Table 16: Percentage share for different types of suspicion in insurance sector	22
Chart 10: Percentage share for different types of suspicion in insurance sector	22
Table 17: Percentage share for different types of suspicion in mutual fund.....	23
Chart 11: Percentage share for different types of suspicion in mutual fund.....	23

Chapter 1 – Introduction

Financial Intelligence Unit – India

Financial Intelligence Unit-India (FIU-IND) is the central national agency for receiving, analyzing and disseminating information relating to suspect financial transactions. It was established by the Government of India vide an Office Memorandum dated 18th November, 2004. FIU-IND coordinates and strengthens efforts of national and international intelligence, investigation and enforcement agencies in combating money laundering and terrorist financing.

The main function of FIU-IND is to receive reports of financial transactions, analyze them, and disseminate analyzed information to enforcement, intelligence and regulatory agencies.

Prevention of Money Laundering Act

The Prevention of Money Laundering Act, 2002 (PMLA) forms the core of the legal framework in India to combat money laundering. PMLA and the Rules notified thereunder, which came into force with effect from 1st July, 2005, impose an obligation on every reporting entity (banking company, financial institution and intermediaries) to verify the identity of clients, maintain records and furnish prescribed reports to FIU-IND.

Suspicious Transaction Report (STR)

Under PMLA, every reporting entity is required to report suspicious transactions to FIU-IND, within 7 working days on being satisfied that the transaction is suspicious. Rule 2(1)(g) of the relevant Rules defines a suspicious transaction as under:

“Suspicious transaction” means a transaction referred to in clause (h), including an attempted transaction, whether or not made in cash, which to a person acting in good faith -

- (a) gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or*
- (b) appears to be made in circumstances of unusual or unjustified complexity; or*
- (c) appears to have no economic rationale or bona fide purpose; or*
- (d) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;*

[Explanation: Transaction involving financing of the activities relating to terrorism includes transaction involving funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by a terrorist, terrorist organization or those who finance or are attempting to finance terrorism]¹

¹ Inserted vide Notification No. 10/2010 dated 16th June 2010

The term 'transaction' has been defined under rule 2(1)(h) as under:

"transaction" includes deposit, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical means.

Scope of Trend Analysis

Over 17,000 STRs were received by FIU-IND during the first four financial years² of its operation i.e. 2006-07 (817), 2007-08 (1916), 2008-09 (4,409) and 2009-10 (10,067). An analysis of these STRs was made to decipher trends in distribution over reporting institutions, sectors, geographies and type of suspicion.

This report presents trends over the four years in STR reporting, covering:

- i) Reporting entity category distribution (Chapter 2)
- ii) Reporting institution type distribution (Chapter 3)
- iii) Sector wise distribution (Chapter 4)
- iv) Geographical distribution of STRs with sector wise breakup (Chapter 5)
- v) Number of transactions reported in STRs (Chapter 6)
- vi) Type of suspicion reported in STRs with sector wise breakup (Chapter 7)
- vii) Emerging, declining and continuing trends in STRs (Chapter 8)

² Financial year is from 1st April to 31st March

Chapter 2 – Reporting entity category distribution of STRs

The Prevention of Money Laundering Act (PMLA) covers three broad categories of reporting entities viz. banking companies, financial institutions and intermediaries. The Prevention of Money Laundering Act (PMLA) was amended vide the Prevention of Money Laundering (Amendment) Act, 2009³, by which the definition of financial institution under PMLA was expanded to include authorized persons (dealers in foreign exchange), payment system operators and designated businesses or professions.

The definitions of Banking Companies, Financial Institutions and intermediary under PMLA are as under:

“Banking Companies (Section 2-e of PMLA, 2002)- “banking company” means a banking company or a co-operative bank to which the Banking Regulation Act, 1949 (10 of 1949) applies and includes any bank or banking institution referred to in section 51 of that Act.

Financial Institution (Section 2-l of PMLA, 2002) - “financial institution” means a financial institution as defined in clause (c) of section 45-l of the Reserve Bank of India Act, 1934 (2 of 1934) and includes a chit fund company, a co-operative bank, a housing finance institution and an authorised person, a payment system operator and a non-banking financial company.

Intermediary (Section 2-l of PMLA, 2002) - “intermediary” means a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992).”

Figure 1: Broad categories of reporting entities under PMLA

Banking Companies	Financial Institutions	Intermediaries
<ul style="list-style-type: none"> ▪Public sector banks ▪Private Indian banks ▪Private foreign banks ▪Co-operative banks ▪Regional rural banks 	<ul style="list-style-type: none"> ▪Insurance companies ▪Hire purchase companies ▪Chit fund companies ▪Housing finance institutions ▪Non-banking financial companies ▪Payment system operators* ▪Authorized money changers* ▪Casinos* 	<ul style="list-style-type: none"> ▪Stock brokers ; Sub-brokers ▪Share transfer agents ▪Bankers to an issue ▪Trustees to trust deed ▪Registrars to issue ▪Merchant bankers ▪Underwriters ▪Portfolio managers ▪Investment advisers ▪Depositories and DPs ▪Custodian of securities ▪Foreign institutional investors ▪Credit rating agencies ▪Venture capital funds ▪Collective investment schemes including mutual funds

* With effect from 1st June 2009

³ PMLA amendments came into force from 1st June 2009

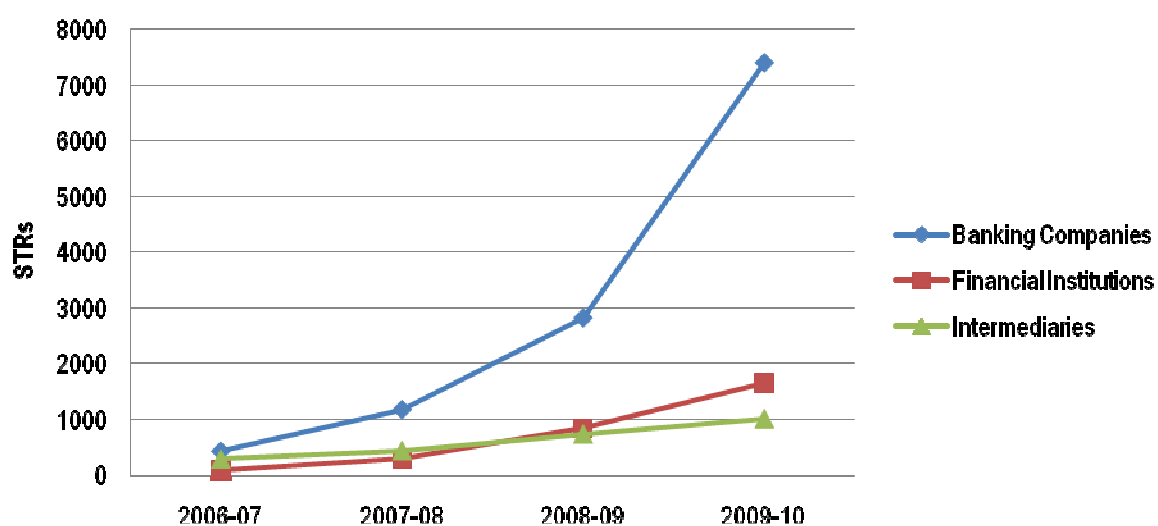
The number of STRs received from the reporting entities under the broad category of Banks, Financial Institutions and Intermediaries is given in Table 1.

Table 1: Number of STRs for reporting entity categories

Reporting entity category	2006-07	2007-08	2008-09	2009-10	Total
Banking Companies	437	1 183	2 826	7 394	11 840
Financial Institutions	88	288	841	1 655	2 872
Intermediaries	292	445	742	1 018	2 497
Total	817	1916	4409	10 067	17 209

Chart 1 gives a graphical representation of number of STRs received for reporting entity categories in different years.

Chart 1: Number of STRs for reporting entity categories

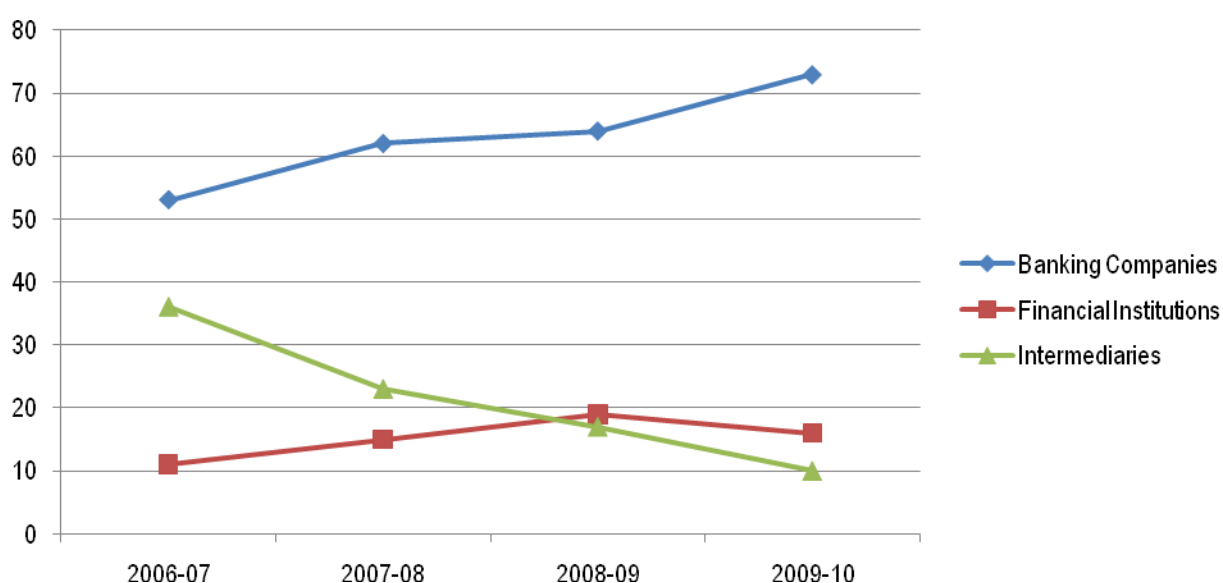


The percentage share and compound annual growth rate (CAGR)⁴ in respect of STRs received from various reporting entity categories is given in Table 2.

Table 2: Reporting entity category distribution (in %)

Reporting entity category	2006-07	2007-08	2008-09	2009-10	Total	CAGR
Banking Companies	53	62	64	73	69	157
Financial Institutions	11	15	19	16	17	166
Intermediaries	36	23	17	10	15	52
Total	100	100	100	100	100	131

Chart 2: Reporting entity category distribution (in %)



Significant trends

- The total number of STRs has increased at a compound annual growth rate (CAGR) of 131% during the period from 2006-07 to 2009-10.
- The share of STRs from banking companies has increased from 53% in 2006-07 to 73% in 2009-10. The compound annual growth rate (CAGR) of 157% in case of banking companies is higher than the overall growth rate of 131%.
- The compound annual growth rate (CAGR) of 52% in case of intermediaries is lower than the overall growth rate of 131%. This accounts for the decline in the relative share of intermediaries in the STRs from 36% to 10%.

$${}^4\text{CAGR}(t_0, t_n) = \left(\frac{V(t_n)}{V(t_0)} \right)^{\frac{1}{t_n - t_0}} - 1$$

Chapter 3 – Reporting institution type distribution of STRs

Under PMLA, various types of reporting institutions are covered under the broad category of banks, financial institutions and intermediaries as under.

Figure 2: Types of reporting institutions covered under PMLA

Reporting entity category	Reporting institution type
Banking companies	Public Sector Banks Private Indian Banks Foreign Banks RRBs and Co-operative Banks
Financial institutions	Insurance Companies Housing Finance Companies Non Banking Finance Companies Money Transfer Service (Principal) Money Transfer Agents Authorised Money Changers
Intermediaries	Mutual Funds Other Securities Market Intermediaries

The number of STRs received from various types of reporting institutions in different years is given in Table 4.

Table 3: Number of STRs for reporting institution types

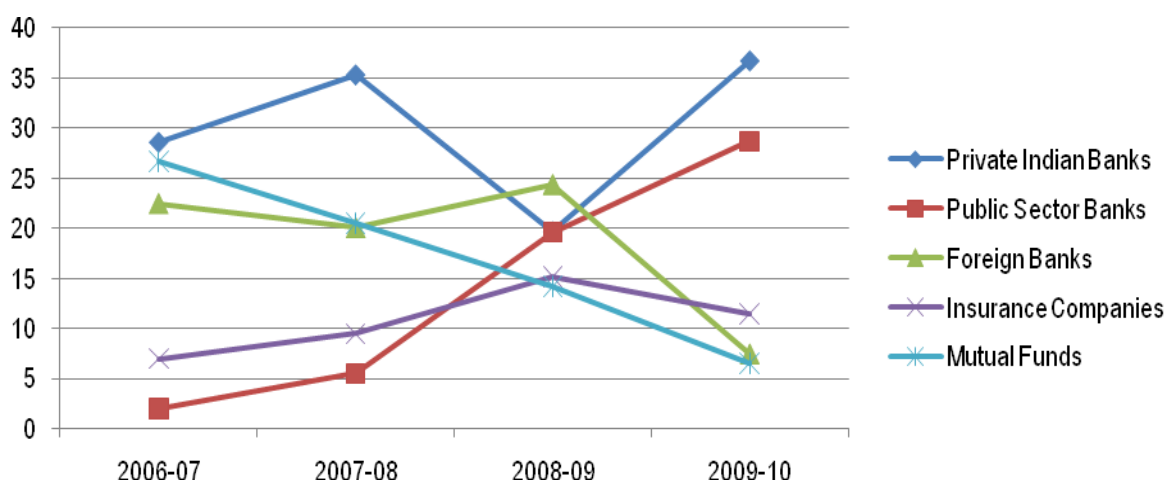
Reporting institution type	2006-07	2007-08	2008-09	2009-10	Total
Public Sector Banks	16	105	866	2 891	3 878
Private Indian Banks	234	677	870	3 698	5 479
Foreign Banks	184	386	1 078	755	2 403
RRBs and Co-operative Banks	3	15	12	51	81
Insurance Companies	57	182	668	1 156	2 063
Housing Finance Companies	21	55	61	28	165
Non Banking Finance Companies	3	1	11	34	49
Money Transfer Service (Principal)				122	122
Money Transfer Agents	7	50	101	313	471
Authorised Money Changers				3	3
Mutual Funds	218	392	624	658	1 892
Other Securities Market Intermediaries	74	53	118	358	603
	817	1916	4 409	10 067	17 209

The percentage share and compound annual growth rate (CAGR) in respect of STRs received from various reporting institutions types is given in Table 4.

Table 4: Reporting institution type distribution (in %)

Reporting institution type	2006-07	2007-08	2008-09	2009-10	Total	CAGR
Public Sector Banks	2.0	5.5	19.6	28.7	22.5	465
Private Indian Banks	28.6	35.3	19.7	36.7	31.8	151
Foreign Banks	22.5	20.1	24.4	7.5	14.0	60
RRBs and Co-operative Banks	0.4	0.8	0.3	0.5	0.5	157
Insurance Companies	7.0	9.5	15.2	11.5	12.0	173
Housing Finance Companies	2.6	2.9	1.4	0.3	1.0	10
Non Banking Finance Companies	0.4	0.1	0.2	0.3	0.3	125
Money Transfer Service (Principal)	0.0	0.0	0.0	1.2	0.7	NA
Money Transfer Agents	0.9	2.6	2.3	3.1	2.7	255
Authorised Money Changers	0.0	0.0	0.0	0.0	0.0	NA
Mutual Funds	26.7	20.5	14.2	6.5	11.0	45
Other Securities Market Intermediaries	9.1	2.8	2.7	3.6	3.5	69
	100.0	100.0	100.0	100.0	100.0	131

Chart 3: Reporting institution type distribution (in %)



Significant trends

- The share of STRs from public sector banks has increased from 2.0% in 2006-07 to 28.7% in 2009-10. The high growth rate of 465% is mainly due to operationalisation of AML software and low number of STRs in the base year (2006-07).
- STRs from foreign banks have increased at a rate of 60% as against the overall growth rate of 131%. This accounts for the decline in share of STRs from foreign banks from 22.5% in 2006-07 to 7.5% in 2009-10.
- STRs from mutual funds have increased at a rate of 45% as against the overall growth rate of 131%. This accounts for the decline in share of STRs from mutual funds from 26.7% in 2006-07 to 6.5% in 2009-10.

Chapter 4 - Sector wise distribution of STRs

For the purpose of sectoral analysis in this report, banking, insurance, mutual fund and money transfer sectors have been segregated and others types of reporting institutions are categorised under the 'others' category. The sectoral mapping of various types of reporting institutions under PMLA is given in Figure 3.

Figure 3: Sectoral mapping of various types of reporting institutions under PMLA

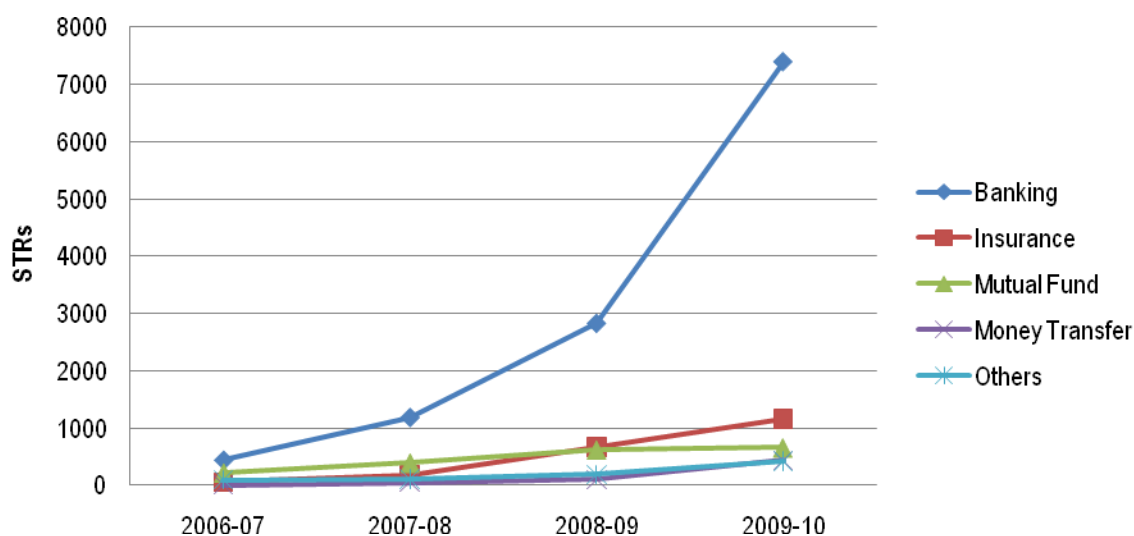
Sector	Reporting institution type
Banking	Public Sector Banks Private Indian Banks Foreign Banks RRBs and Co-operative Banks
Insurance	Insurance Companies
Mutual Fund	Mutual Funds
Money Transfer	Money Transfer Service (Principal) Money Transfer Agents
Others	Housing Finance Companies Non Banking Finance Companies Authorised Money Changers Other Securities Market Intermediaries

The number of STRs received from various sectors in different years is given in Table 7.

Table 5: Number of STRs for sectors

Sector	2006-07	2007-08	2008-09	2009-10	Total
Banking	437	1183	2 826	7 395	11 841
Insurance	57	182	668	1 156	2 063
Mutual Fund	218	392	624	658	1 892
Money Transfer	7	50	101	435	593
Others	98	109	190	423	820
	817	1916	4409	10 067	17209

Chart 4: Number of STRs for sectors

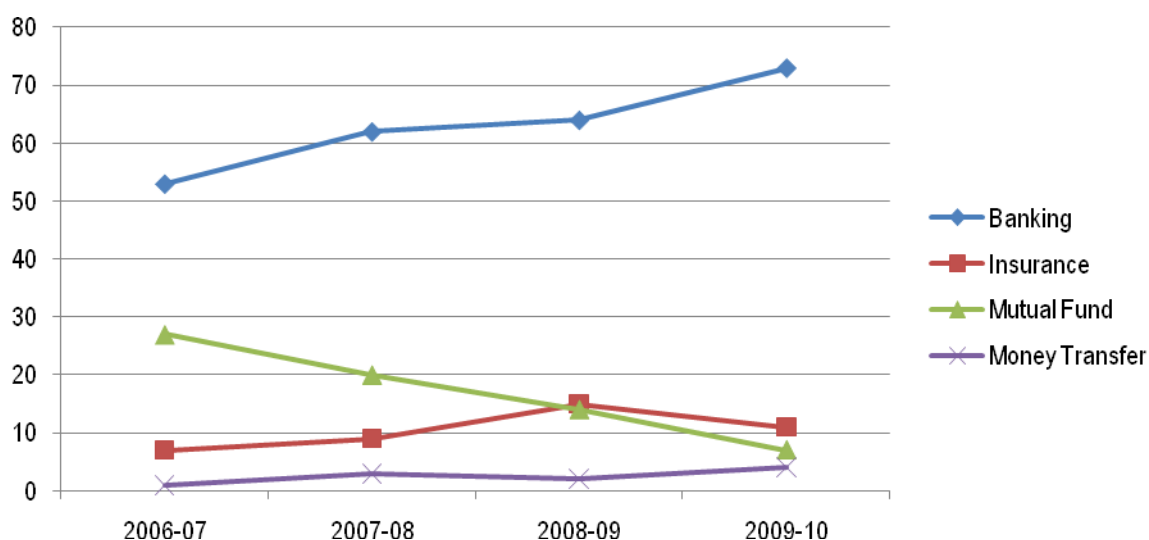


The Financial Stability Report of RBI (2010)⁵ computes the share of banking, insurance, mutual funds and others (NBFCs, HFCs, FIs and State FIs) in the financial assets at 70%, 13%, 5% and 12% respectively. The percentage share, share in assets and compound annual growth rate (CAGR) in respect of STRs received from various sectors is given in Table 6.

Table 6: Sector wise distribution (in %)

Sector	2006-07	2007-08	2008-09	2009-10	Total	Share in assets	CAGR
Banking	53	62	64	73	69	70	157
Insurance	7	9	15	11	12	13	173
Mutual Fund	27	20	14	7	11	5	45
Money Transfer	1	3	2	4	3		296
Others	12	6	4	4	5		63
Total	100	100	100	100	100		131

Chart 5: Sector wise distribution (in %)



Significant trends

- Share of STRs submitted by the banking sector (69%) is nearly in conformity with their share in the financial assets (70%).
- Share of STRs submitted by the insurance sector (12%) is nearly in conformity with their share in the financial assets (13%).
- Share of STRs submitted by mutual funds have gradually reduced from 26.7% to 6.5%, which is in line with the share of 5% of mutual funds in the financial assets.
- The compounded annualized growth rate in STRs from money transfer service (296%) is higher than the overall growth rate (131%). This is due to low number of STRs in initial years as money transfer service principals were included under PMLA in 2009.

⁵ The Financial Stability Report of RBI (rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/IFSR250310F.pdf)

Chapter 5 - Geographical distribution of STRs

India is a federal union of States comprising twenty-eight States and seven Union Territories.

States

1. Andhra Pradesh
2. Arunachal Pradesh
3. Assam
4. Bihar
5. Chhattisgarh
6. Goa
7. Gujarat
8. Haryana
9. Himachal Pradesh
10. Jammu and Kashmir
11. Jharkhand
12. Karnataka
13. Kerala
14. Madhya Pradesh
15. Maharashtra
16. Manipur
17. Meghalaya
18. Mizoram
19. Nagaland
20. Orissa
21. Punjab
22. Rajasthan
23. Sikkim
24. Tamil Nadu
25. Tripura
26. Uttarakhand
27. Uttar Pradesh
28. West Bengal

Union Territories

1. Andaman and Nicobar Islands
2. Chandigarh
3. The Government of NCT of Delhi
4. Dadra and Nagar Haveli
5. Daman and Diu
6. Lakshadweep
7. Puducherry

The STR data was processed to establish geographical linkage of STR with different States and Union Territories. The geographical linkage of STR is on account of geographical location of the address of the

- branch of the reporting entity linked to the account or transactions related to the suspicion
- customer (individual or legal entity) related to the suspicion

The geographical analysis in this report has following limitations:

- The actual location of transaction may be different from the address of the customer or branch.
- Around 11% of STRs could not be tagged to a specific geographical area due to the data quality issue, insufficient address standardization and presence of STRs relating to jurisdictions outside India.
- If one STR was linked to more than one State⁶, the analysis gives equal weightage to all linkages.

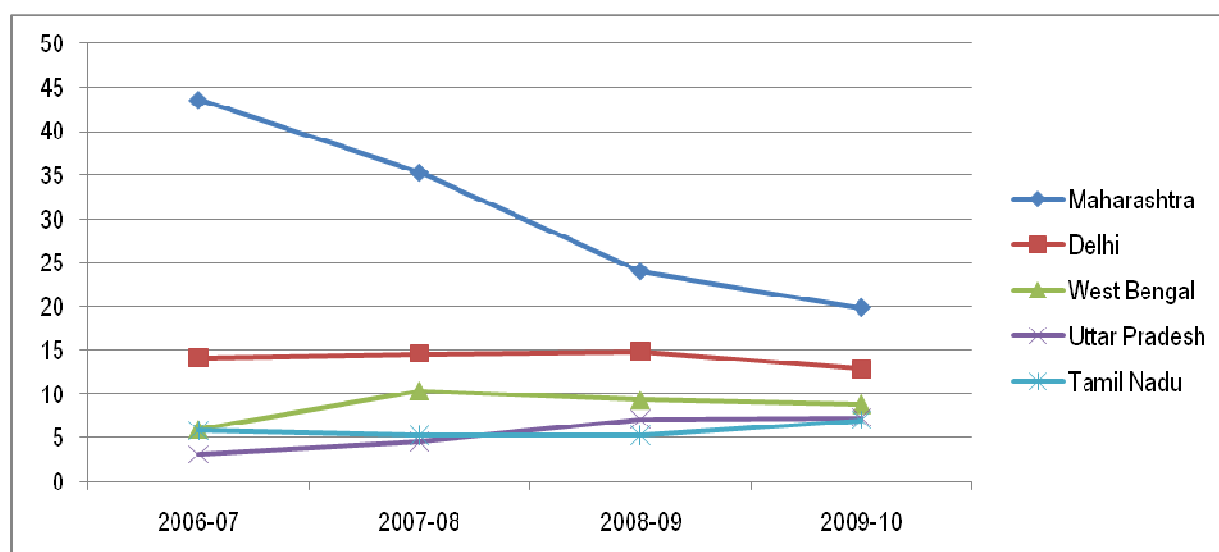
⁶ Around 26.5% of the STRs were found linked to 2 states and 1.7% STRs were linked to more than 2 states.

The geographical distribution⁷ of STRs is given in Table 7.

Table 7: Percentage share of States/UTs in STRs for all sectors

S. No.	State/Union Territory	2006-07	2007-08	2008-09	2009-10	Total
1	Maharashtra	41.6	38.5	30.6	24.3	29.0
2	Delhi	9.2	11.0	11.4	13.0	12.1
3	West Bengal	7.1	7.8	7.1	7.3	7.3
4	Gujarat	12.0	5.2	5.6	5.9	6.0
5	Uttar Pradesh	3.1	4.2	6.3	6.6	6.0
6	Tamil Nadu	5.1	6.1	5.2	6.0	5.7
7	Punjab	2.2	3.7	5.7	5.5	5.1
8	Karnataka	4.3	5.2	5.1	4.3	4.7
9	Andhra Pradesh	2.9	4.3	5.0	4.3	4.4
10	Haryana	1.4	2.4	4.1	3.6	3.5
11	Kerala	1.7	2.3	3.0	3.4	3.0
12	Madhya Pradesh	1.7	1.2	2.0	2.1	1.9
13	Rajasthan	0.8	1.4	1.7	2.2	1.9
14	Chandigarh	0.5	1.5	0.7	1.4	1.2
15	Bihar	0.3	1.6	1.3	1.1	1.1
16	Chattisgarh	3.4	0.3	0.7	1.3	1.1

Chart 6: Percentage share of States/UTs (top 5) in STRs



Significant trends

- Maharashtra (29.0%), Delhi (12.1%) and West Bengal (7.3%) account for a dominant share of STRs.
- Other significant states in terms of share in STRs are Gujarat (6.0%), Uttar Pradesh (6.0%), Tamil Nadu (5.7%), Punjab (5.1%), Karnataka (4.7%) and Andhra Pradesh (4.4%).

The geographical distribution of STRs in main sectors is presented separately.

⁷ States with percentage share equal to or greater than 1% have been mentioned in the geographical distribution tables.

Banking

RBI publishes statistics of the share of various States in terms of account balance with Scheduled Commercial Banks⁸. The geographical distribution of STRs from banking sector and the share of the States in account balance is given in Table 8.

Table 8: Percentage share of States/UTs in STRs from banking sector

S. No.	State / Union Territory	2006-07	2007-08	2008-09	2009-10	Total	Share in account balance
1	Maharashtra	43.6	35.3	24.0	19.8	24.0	25.4
2	Delhi	14.1	14.6	14.8	12.9	13.7	13.1
3	West Bengal	6.0	10.3	9.3	8.8	9.0	5.8
4	Uttar Pradesh	3.1	4.6	7.1	7.3	6.7	6.7
5	Tamil Nadu	5.8	5.3	5.3	7.0	6.2	6.3
6	Karnataka	4.5	4.4	6.7	5.3	5.6	6.5
7	Andhra Pradesh	3.9	5.4	5.8	5.1	5.3	5.6
8	Gujarat	7.2	3.2	3.8	5.6	4.8	4.8
9	Haryana	1.6	3.3	4.8	3.4	3.7	2.2
10	Punjab	2.5	2.6	3.8	3.6	3.5	3.1
11	Kerala	2.1	2.1	3.4	3.6	3.3	3.4
12	Rajasthan	0.6	1.3	2.2	2.4	2.1	2.3
13	Madhya Pradesh	1.2	1.3	2.0	2.0	1.9	2.6
14	Bihar	0.2	1.9	1.3	1.3	1.3	2.2
15	Nagaland	0.2	0.1	0.5	1.9	1.2	0.1

Significant trends

- In the banking sector, the share of major states such as Maharashtra, Delhi, Uttar Pradesh, Tamil Nadu, Gujarat etc. is almost in conformity with their share of State in account balance with Scheduled Commercial Banks.
- Maharashtra, the financial capital of India, has a dominant share in STRs from banking sector (24.0%), which is in line with its share in the account balance (25.4%). With the stabilisation of STR regime, the share of Maharashtra in STRs has reduced from 43.6% in 2006-07 to 19.8% in 2009-10.
- West Bengal has a relatively larger share in STRs from the banking sector (9.0%) as compared to its share in the account balance (5.8%).
- Nagaland has a relatively larger share in STRs from the banking sector (1.0%) as compared to its share in the account balance (0.1%).

⁸ Table No. 1.20 – State –Wise Deposits Of Scheduled Commercial Banks According To Type Of Deposits (Aug 20, 2010) (<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=12504>)

Insurance

The geographical distribution of STRs from insurance sector is given in Table 9.

Table 9: Percentage share of States/UTs in STRs from insurance sector

S. No.	State/Union Territory	2006-07	2007-08	2008-09	2009-10	Total
1	Maharashtra	49.5	35.4	32.1	21.4	27.3
2	Punjab	2.9	7.0	11.7	9.0	9.5
3	Gujarat	8.6	11.4	10.1	8.1	9.1
4	Uttar Pradesh	5.7	4.8	7.1	7.9	7.2
5	Haryana	1.9	2.6	6.5	6.3	5.8
6	West Bengal	6.7	2.6	3.3	7.0	5.3
7	Delhi	3.8	5.9	3.2	6.3	5.1
8	Tamil Nadu	3.8	5.5	4.5	4.9	4.8
9	Kerala	2.9	3.7	3.5	5.3	4.5
10	Karnataka	1.0	8.9	2.1	3.1	3.2
11	Andhra Pradesh	2.9	3.0	3.4	3.0	3.1
12	Madhya Pradesh	1.0	1.8	2.8	2.9	2.7
13	Rajasthan	1.9	0.7	1.8	2.5	2.1
14	Orissa	0.0	0.4	0.7	1.7	1.2
15	Bihar	1.0	0.0	1.1	1.3	1.1
16	Chandigarh	1.0	0.0	0.6	1.6	1.1
17	Assam	0.0	1.5	0.7	1.1	1.0
18	Chattisgarh	1.9	0.0	0.8	1.2	1.0

Significant trends

- Maharashtra has the largest share in STRs from the insurance sector (27.3%).
- Punjab has a relatively bigger share in STRs from the insurance sector (9.5%) as compared to its share of STRs from the banking sector (3.5%).
- Gujarat has a relatively larger share in STRs from the insurance sector (9.1%) as compared to its share of STRs from the banking sector (4.8%).
- Delhi has a relatively smaller share in STRs from the insurance sector (5.1%) as compared to its share of STRs from the banking sector (13.1%).

Mutual Fund

The geographical distribution of STRs from mutual fund sector is given in Table 10.

Table 10: Percentage share of States/UTs in STRs from mutual fund sector

S. No.	State/Union Territory	2006-07	2007-08	2008-09	2009-10	Total
1	Maharashtra	48.5	56.3	55.6	57.1	55.5
2	West Bengal	11.0	6.2	5.6	4.5	5.9
3	Delhi	4.4	4.0	4.4	6.2	4.9
4	Tamil Nadu	3.8	6.0	5.2	4.2	4.9
5	Gujarat	5.2	2.7	4.6	5.3	4.5
6	Uttar Pradesh	3.3	4.0	4.3	3.9	4.0
7	Karnataka	4.9	5.6	2.8	2.9	3.7
8	Andhra Pradesh	1.6	2.7	4.8	3.0	3.4
9	Punjab	0.8	3.4	1.4	2.1	2.0
10	Madhya Pradesh	2.7	0.7	1.7	2.5	1.9
11	Kerala	0.3	1.5	1.7	2.1	1.6
12	Chattisgarh	8.2	0.6	0.3	0.6	1.4
13	Haryana	1.1	1.0	1.2	1.9	1.4
14	Bihar	0.3	1.9	1.5	0.3	1.0

Significant trends

- Maharashtra has a dominant share in STRs from the mutual fund sector (55.50%). This is due to high level of centralization of mutual fund operations in Mumbai.
- Delhi has a relatively smaller share in STRs from the mutual fund sector (4.9%) as compared to its share of STRs from the banking sector (13.1%).

Chapter 6 – Number of Transactions reported in STRs

FIU-IND has adopted an approach of active engagement with the institutions to improve the effectiveness of the STR reporting regime. The key features of the alert generation and review process adopted by the reporting entities are:

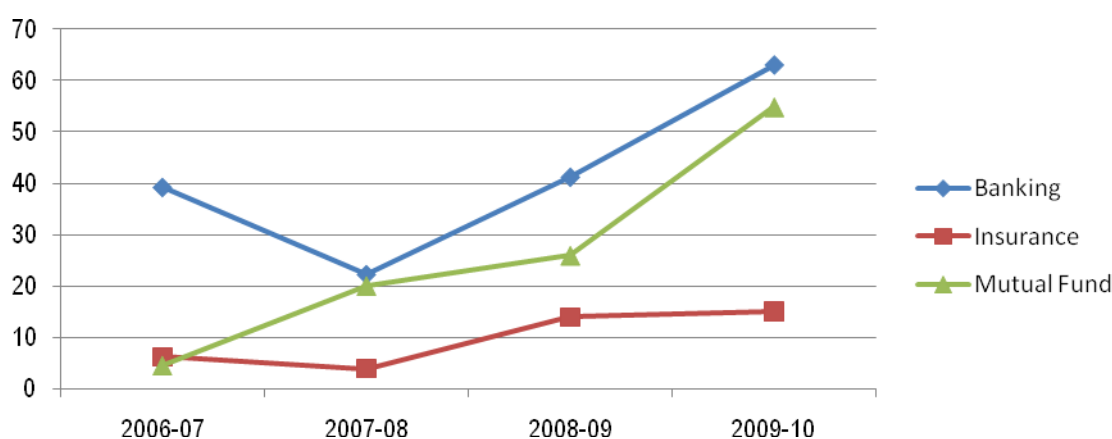
- **Alert Generation:** FIU-IND shares a wide range of red flag indicators (employee initiated alert, process exception alert or system generated alert) with the reporting entities to detect suspicious transactions. Reporting entities detect suspicious transactions using automated AML software. The employees at the branches also raise alerts using the behavioural indicators.
- **Alert Review:** Reporting entities use automated pre-processing of alerts to link related accounts and transactions using common IDs. Alerts are closed if the nature of the customer's business or other information adequately explains the alert. Alerts that are not closed are submitted as STRs.

One STR contains information about all individuals, entities, accounts and transactions related to the suspicion along with the grounds of suspicion. The number of transactions reported in a STR reflects the effectiveness of the alert generation and review systems deployed by the reporting entity.

Table 12: Average number of transactions reported in STRs

Sector	2006-07	2007-08	2008-09	2009-10	Overall
Banking	39.2	22.2	41.2	63.1	52.9
Insurance	6.2	3.9	13.9	15.0	13.4
Mutual Fund	4.6	20.1	26.0	54.9	32.4
	26.0	19.8	34.5	56.5	45.3

Chart 7: Average number of transactions reported in STRs



Significant trends

- The average number of transactions reported in STRs by the banking, insurance and mutual fund sectors has increased from 26.0 in 2006-07 to 56.5 in 2009-10. This is on account of implementation of red flag indicators involving linkage of multiple transactions and increasing effectiveness of alert review process.
- The average number of transactions reported in a STR by banking sector has increased from 39.2 in 2006-07 to 63.1 in 2009-10.
- The average number of transactions reported in a STR by mutual fund sector has increased from 4.6 in 2006-07 to 54.9 in 2009-10.

Chapter 7 – Types of suspicion reported in the STRs

The reporting format for STR requires reporting entity to indicate broad categories of reason for suspicion. Guidance issued by FIU-IND⁹ provided following examples of suspicious transactions to assist the reporting entities in classifying broad categories of suspicion.

<i>Category of Suspicion</i>	<i>Examples of suspicious transactions reported to FIU-IND</i>
Identity of Client	<ul style="list-style-type: none"> • Identification documents were found to be forged • Address details given by the account holder were found to be false • Doubt over the real beneficiary of the account
Suspicious Background	<ul style="list-style-type: none"> • Positive match of name and date of birth with a person on the Interpol Watch List • Account of publicly known criminals
Multiple Accounts	<ul style="list-style-type: none"> • Doubtful large number of accounts having a common account holder, introducer or authorized signatory with no rationale • Unexplained transfers between multiple accounts with no rationale
Activity in Accounts	<ul style="list-style-type: none"> • Unexplained activity in dormant accounts • Unexplained activity in account inconsistent with what would be expected from declared business
Nature of Transactions	<ul style="list-style-type: none"> • Doubtful source of funds • Doubtful overseas fund transfer • Doubtful foreign remittance to non relatives • Cash deposits in a bank account at multiple locations • Suspicious use of ATM/Credit card • Doubtful foreclosure of loan account in cash • Suspicious off market transactions in demat accounts
Value of Transactions	<ul style="list-style-type: none"> • Multiple transactions of value just under the reporting threshold amount in an apparent attempt to avoid reporting • Unexplained large value transaction inconsistent with the clients apparent financial standing

The number of STRs reported for different types of suspicion is given in Table 13.

Table 13: Number of STRs for different types of suspicion

<i>Category of Suspicion</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>Total</i>
Identity of Client	107	396	180	350	1 033
Background of Client	80	98	201	501	880
Multiple Accounts	164	129	482	1 139	1 914
Activity In Account	287	705	1 869	5 605	8 466
Value of transactions	176	489	2 026	6 281	8 972
Nature of transactions	159	685	2 871	7 480	11 195
Other Reasons	115	357	626	1 211	2 309
Total STRs ¹⁰	817	1 916	4 409	10 067	17 209

⁹ FIU -IND's brochure on 'How to Detect and Report Suspicious Transactions'

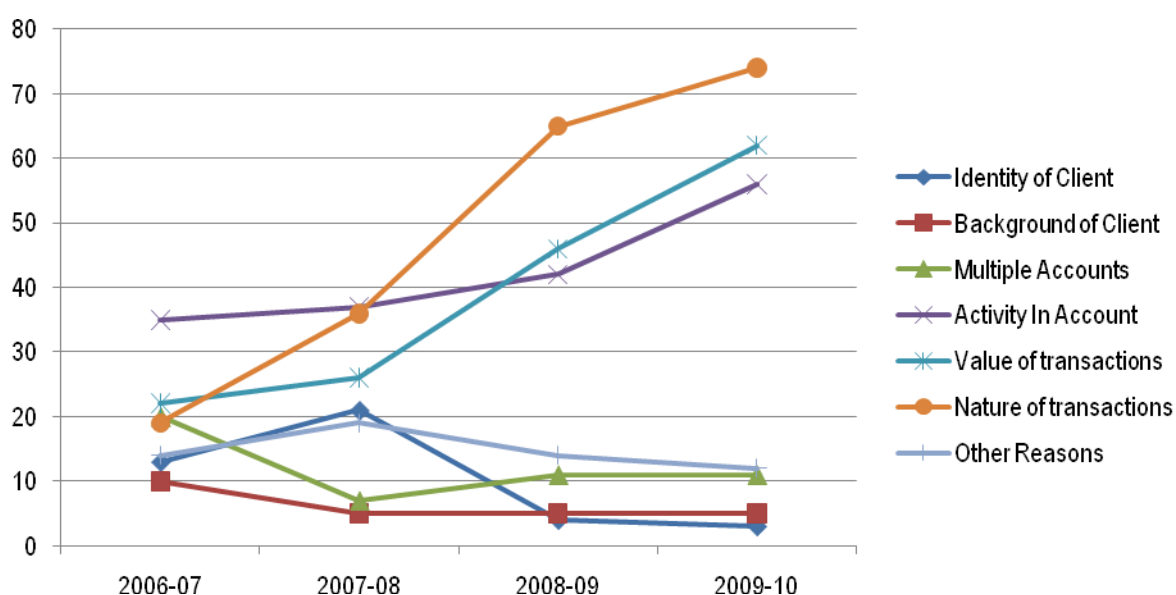
¹⁰ The sum of figures is greater than total number of STRs for the year as one STR can have more than one type of suspicion.

The percentage share of different types of suspicion in all STRs is given in Table 14.

Table 14: Percentage share for different types of suspicion

Category of Suspicion	2006-07	2007-08	2008-09	2009-10	Total
Identity of Client	13	21	4	3	6
Background of Client	10	5	5	5	5
Multiple Accounts	20	7	11	11	11
Activity In Account	35	37	42	56	49
Value of transactions	22	26	46	62	52
Nature of transactions	19	36	65	74	65
Other Reasons	14	19	14	12	13
Total ¹¹	133	149	187	224	202

Chart 8: Percentage share for different types of suspicion



Significant trends

- The average number of suspicion tagged in a STR increased from 1.33 in 2006-07 to 2.24 in 2009-10 indicating greater capability of reporting entities to tag multiple suspicions to one STR.
- The percentage of STRs having 'Activity in Account' (35 to 56), 'Value of transactions' (22 to 62) and 'Nature of transactions' (19 to 74) in the category of suspicion has an increasing trend.

¹¹ The sum of percentages is greater than 100 as one STR can have more than one type of suspicion.

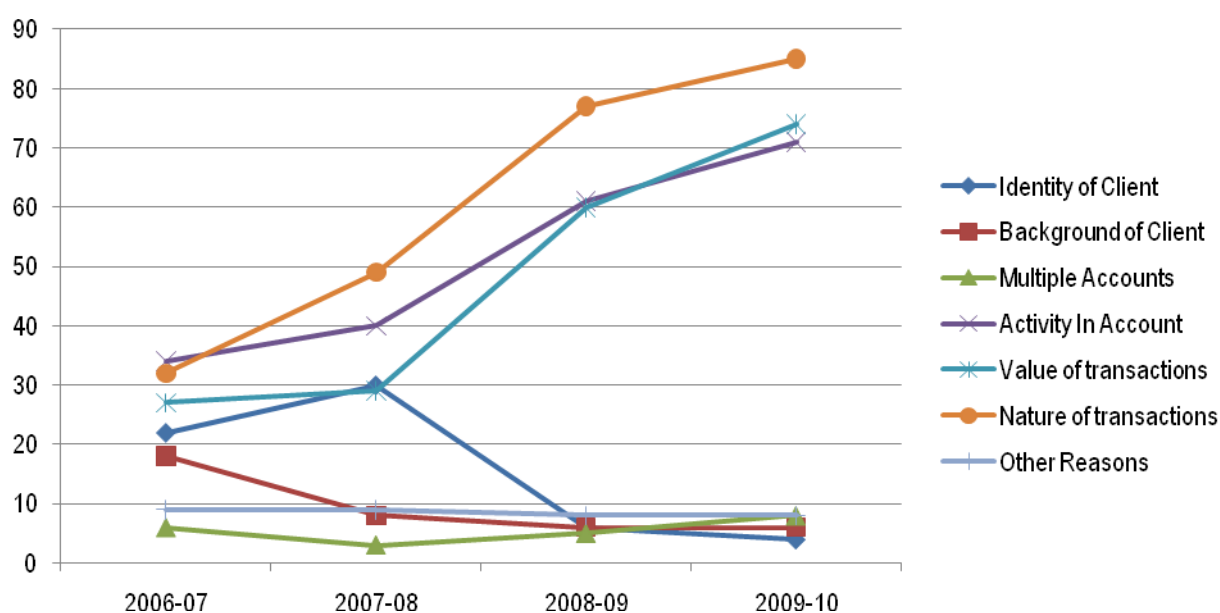
Banking

The percentage share of different types of suspicion reported in STRs of Banking Sector is given in Table 15.

Table 15: Percentage share for different types of suspicion in banking sector

Category of Suspicion	2006-07	2007-08	2008-09	2009-10	Total
Identity of Client	22	30	6	4	8
Background of Client	18	8	6	6	7
Multiple Accounts	6	3	5	8	7
Activity In Account	34	40	61	71	64
Value of transactions	27	29	60	74	64
Nature of transactions	32	49	77	85	78
Other Reasons	9	9	8	8	8
Total ¹²	149	168	223	257	236

Chart 9: Percentage share for different types of suspicion in banking sector



Significant trends

- In the banking sector, the percentage of STRs containing suspicion relating to 'Activity in Account' (34 to 71), 'Value of transactions' (27 to 74) and 'Number of transactions' (32 to 85) has an increasing trend.
- In the banking sector, the percentage of STRs containing suspicion relating to 'Identity of Client' (22 to 4) has a declining trend.

¹² The sum of percentages is greater than 100 as one STR can have more than one type of suspicion.

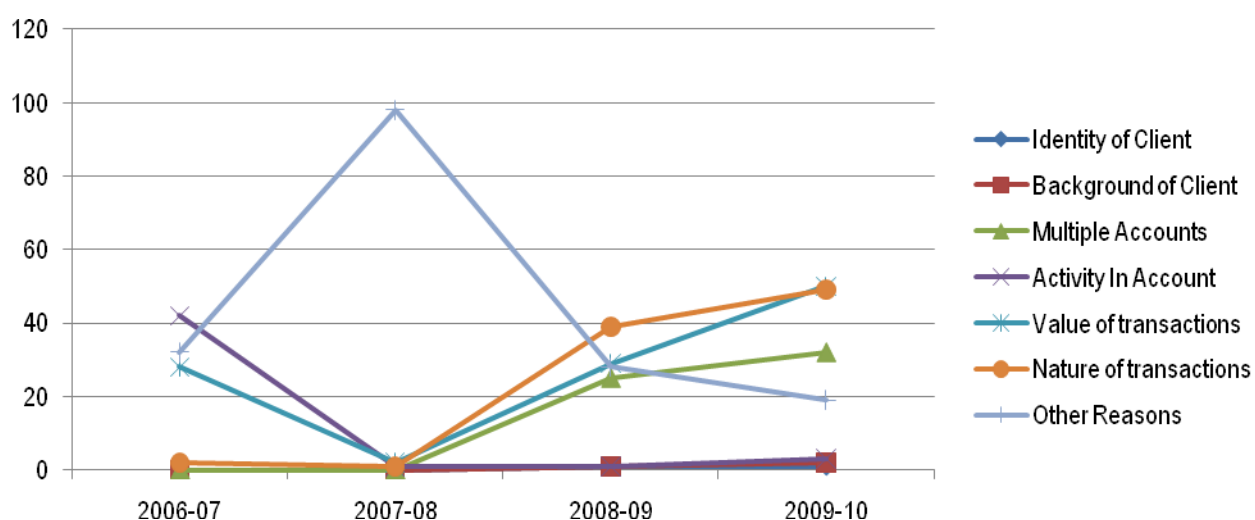
Insurance

The percentage share of different types of suspicion reported in STRs of insurance sector is given in Table 16.

Table 16: Percentage share for different types of suspicion in insurance sector

Category of Suspicion	2006-07	2007-08	2008-09	2009-10	Total
Identity of Client	0	0	1	1	1
Background of Client	0	0	1	2	1
Multiple Accounts	0	0	25	32	26
Activity In Account	42	1	1	3	3
Value of transactions	28	2	29	50	38
Nature of transactions	2	1	39	49	40
Other Reasons	32	98	28	19	29
Total ¹³	104	102	124	156	139

Chart 10: Percentage share for different types of suspicion in insurance sector



Significant trends

- In the insurance sector, the percentage of STRs containing suspicion relating to 'Multiple Accounts' has jumped from 0% in 2007-08 to 25% in 2008-09. This increase indicates development of ability to link multiple policies relating to same customer/household.
- In the insurance sector, the percentage of STRs containing suspicion relating to 'Nature of transactions' has increased from 2% in 2006-07 to 49% in 2009-10.

¹³The sum of percentages is greater than 100 as one STR can have more than one type of suspicion.

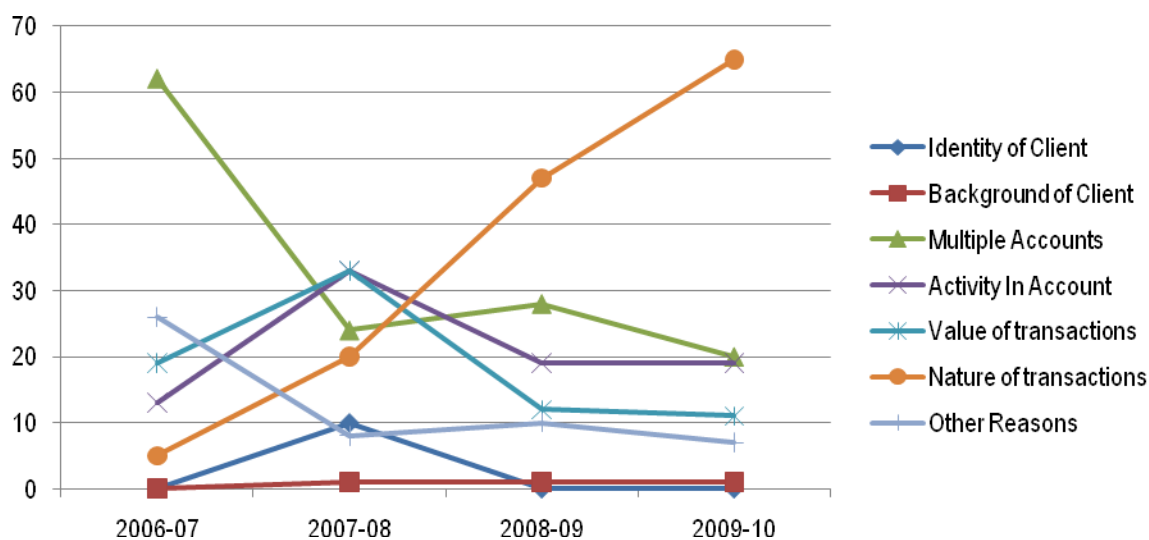
Mutual Fund

The percentage share of different types of suspicion reported in STRs of mutual fund sector is given in Table 17.

Table 17: Percentage share for different types of suspicion in mutual fund

Category of Suspicion	2006-07	2007-08	2008-09	2009-10	Total
Identity of Client	0	10	0	0	2
Background of Client	0	1	1	1	1
Multiple Accounts	62	24	28	20	28
Activity In Account	13	33	19	19	21
Value of transactions	19	33	12	11	17
Nature of transactions	5	20	47	65	43
Other Reasons	26	8	10	7	10
Total ¹⁴	125	129	117	124	123

Chart 11: Percentage share for different types of suspicion in mutual fund



Significant trends

- In the mutual fund sector, the percentage of STRs containing suspicion relating to 'Multiple Accounts' has gradually reduced from 62% to 20% over the period of four years.
- In the mutual fund sector, the percentage of STRs containing suspicion relating to 'Nature of transactions' has increased from 5% to 65% over the period of four years.

¹⁴ The sum of percentages is greater than 100 as one STR can have more than one type of suspicion.

Chapter 8 – Emerging, Declining and Continuing Trends in STRs

Emerging Trends

- Use of bank account for lottery fraud or employment fraud. The victims were asked to deposit money in bank account which were immediately withdrawn using ATMs
- Use of bank accounts by multi- level marketing (MLM) companies to lure investors for depositing money with the promise of abnormal returns

Declining Trends

- Substantial investment in multiple folios of mutual funds to avoid quoting of Income Tax number (PAN) (The securities market regulator has made it mandatory to quote PAN for all investment in mutual funds)
- Payment of large amount of insurance premium in cash in one or more policies (The insurance regulator has prohibited collection of insurance premium exceeding Rs 50,000/- in cash)
- Use of multiple accounts with common introducer/ authorized signatory for making multiple applications in the Public Issue of companies (The securities market regulator has taken several measures to address this issue)

Continuing Trends

- Use of forged identification documents for opening the account. The identification documents were found to be forged during customer verification procedure. The account holder was not traceable
- Substantial inter-account transfers between related accounts either controlled by self or through associates without any economic rationale
- Topping of credit card by substantial cash and then used for incurring expenses. Cumulative payment during the year was beyond known sources of income
- Frequent cash transactions of value just under the reporting threshold. Cash transactions split across accounts to avoid reporting
- Large value cheques deposits in bank account followed by immediate cash withdrawals. Account used for providing fictitious purchase bills
- Name of remitter/ beneficiary matching with watch lists
- Withdrawal of large foreign remittance in cash without any valid explanation
- Splitting of inward foreign remittances to collect funds in cash in an apparent attempt to avoid fund trail
- Foreclosure of large value housing and auto loans by cash payments
- Use of forged documents for obtaining loans against property from multiple financial institutions
- Payment of substantial premium on one/more policies by multiple Demand Drafts
- Assigning an insurance policy to a person with no clear relationship to the policy holder, without adequate consideration
- Large investment in mutual fund using third party cheques without any valid explanation

Chapter 9 – Summary of Trends

General

1. The total number of STRs has increased at a compound annual growth rate (CAGR) of 131% during the period from 2006-07 to 2009-10.
2. The compound annual growth rate (CAGR) of 52% in case of intermediaries is lower than the overall growth rate of 131%. This accounts for the decline in the relative share of intermediaries in the STRs from 36% to 10%.
3. Maharashtra (29.0%), Delhi (12.1%) and West Bengal (7.3%) account for a dominant share of STRs.
4. Other significant states in terms of share in STRs are Gujarat (6.0%), Uttar Pradesh (6.0%), Tamil Nadu (5.7%), Punjab (5.1%), Karnataka (4.7%) and Andhra Pradesh (4.4%).
5. The average number of transactions reported in STRs by the banking, insurance and mutual fund sectors has increased from 26.0 in 2006-07 to 56.5 in 2009-10. This is on account of implementation of red flag indicators involving linkage of multiple transactions and increasing effectiveness of alert review process.
6. The average number of suspicion tagged in a STR increased from 1.33 in 2006-07 to 2.24 in 2009-10 indicating greater capability of reporting entities to tag multiple suspicions to one STR.
7. The percentage of STRs having 'Activity in Account' (35 to 56), 'Value of transactions' (22 to 62) and 'Nature of transactions' (19 to 74) in the category of suspicion has an increasing trend.

Banking

8. The share of STRs from banking companies has increased from 53% in 2006-07 to 73% in 2009-10. The compound annual growth rate (CAGR) of 157% in case of banking companies is higher than the overall growth rate of 131%.
9. The share of STRs from public sector banks has increased from 2.0% in 2006-07 to 28.7% in 2009-10. The high growth rate of 465% is mainly due to operationalisation of AML software and low number of STRs in the base year (2006-07).
10. STRs from foreign banks have increased at a rate of 60% as against the overall growth rate of 131%. This accounts for the decline in share of STRs from foreign banks from 22.5% in 2006-07 to 7.5% in 2009-10.
11. Share of STRs submitted by the banking sector (69%) is nearly in conformity with their share in the financial assets (70%).
12. In the banking sector, the share of major states such as Maharashtra, Delhi, Uttar Pradesh, Tamil Nadu, Gujarat etc. is almost in conformity with their share of State in account balance with Scheduled Commercial Banks.

13. Maharashtra, the financial capital of India, has a dominant share in STRs from banking sector (24.0%), which is in line with its share in the account balance (25.4%). With the stabilisation of STR regime, the share of Maharashtra in STRs has reduced from 43.6% in 2006-07 to 19.8% in 2009-10.
14. West Bengal has a relatively larger share in STRs from the banking sector (9.0%) as compared to its share in the account balance (5.8%).
15. Nagaland has a relatively larger share in STRs from the banking sector (1.0%) as compared to its share in the account balance (0.1%).
16. The average number of transactions reported in a STR by banking sector has increased from 39.2 in 2006-07 to 63.1 in 2009-10.
17. In the banking sector, the percentage of STRs containing suspicion relating to 'Activity in Account' (34 to 71), 'Value of transactions' (27 to 74) and 'Number of transactions' (32 to 85) has an increasing trend.
18. In the banking sector, the percentage of STRs containing suspicion relating to 'Identity of Client' (22 to 4) has a declining trend.

Insurance

19. Share of STRs submitted by the insurance sector (12%) is nearly in conformity with their share in the financial assets (13%).
20. Maharashtra has the largest share in STRs from the insurance sector (27.3%).
21. Punjab has a relatively bigger share in STRs from the insurance sector (9.5%) as compared to its share of STRs from the banking sector (3.5%).
22. Gujarat has a relatively larger share in STRs from the insurance sector (9.1%) as compared to its share of STRs from the banking sector (4.8%).
23. Delhi has a relatively smaller share in STRs from the insurance sector (5.1%) as compared to its share of STRs from the banking sector (13.1%).
24. In the insurance sector, the percentage of STRs containing suspicion relating to 'Multiple Accounts' has jumped from 0% in 2007-08 to 25% in 2008-09. This increase indicates development of ability to link multiple policies relating to same customer/household.
25. In the insurance sector, the percentage of STRs containing suspicion relating to 'Nature of transactions' has increased from 2% in 2006-07 to 49% in 2009-10.

Mutual Fund

26. STRs from mutual funds have increased at a rate of 45% as against the overall growth rate of 131%. This accounts for the decline in share of STRs from mutual funds from 26.7% in 2006-07 to 6.5% in 2009-10.
27. Share of STRs submitted by mutual funds have gradually reduced from 26.7% to 6.5%, which is in line with the share of 5% of mutual funds in the financial assets.
28. Maharashtra has a dominant share in STRs from the mutual fund sector (55.50%). This is due to high level of centralization of mutual fund operations in Mumbai.
29. Delhi has a relatively smaller share in STRs from the mutual fund sector (4.9%) as compared to its share of STRs from the banking sector (13.1%).
30. The average number of transactions reported in a STR by mutual fund sector has increased from 4.6 in 2006-07 to 54.9 in 2009-10.
31. In the mutual fund sector, the percentage of STRs containing suspicion relating to 'Multiple Accounts' has gradually reduced from 62% to 20% over the period of four years.
32. In the mutual fund sector, the percentage of STRs containing suspicion relating to 'Nature of transactions' has increased from 5% to 65% over the period of four years.

Money transfer

33. The compounded annualized growth rate in STRs from money transfer service (296%) is higher than the overall growth rate (131%). This is due to low number of STRs in initial years as money transfer service principals were included under PMLA in 2009.

Abbreviations used

AML	Anti Money Laundering
CDD	Customer Due Diligence
CFT	Combating Financing of Terrorism
CTR	Cash Transaction Report
FIU-IND	Financial Intelligence Unit, India
KYC	Know Your Customer
PMLA	Prevention of Money Laundering Act
STR	Suspicious Transaction Report

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