

RECENT TRENDS AND TYPOLOGIES

In case of Nepal, following are some of the major examples of ML related trends and typologies for last few years: -

(a) *Underground Banking / Alternative Remittance Services (Hawala / Hundi etc)*

Hundi is used to send remittance through informal channel. In Nepal, it's seen that fund is received by the agent in foreign jurisdiction and payment is made through payment service provider and different person (including agent/ representative) depositing cash in many accounts throughout the country. This year FIU-Nepal disseminated many such STR/SARs were to relevant LEA's.

Case Example:

The conductor, Mr. R made cash deposits of NPR 2.9 million through 5 transactions in various accounts maintained at Bank's various branches for the purpose of loan payment, business and savings. Similarly, he has deposited NPR 56 million in duration of 3 months in same bank. Further, during analysis it was noted that person has deposited 715 million in cash (as per TTR reporting) in the different firm's account along with 297 million in different personal account held at different bank. Nepal Police arrested him for Hundi related offense.

(b) *Cyber Enabled Fraud*

Cyber enabled crimes, especially fraud using social media and internet is in rise in recent times. FIU-Nepal has published Strategic Analysis Report 2024 which has covered it in great detail (Please visit <https://www.nrb.org.np/departments/fiu/> to access this report).

Case Example:

ABC Pvt. Ltd. is an importer and distributor of computer and computer related accessories

located in Kathmandu. The company regularly imported items from an exporter XYZ Pvt. Ltd. based in Singapore and made payment from a bank in Nepal. On November 2019, ABC Pvt. Ltd. received a Performa Invoice in e-mail, seemingly from XYZ Pvt. Ltd. Bank account detail of exporter was changed in the Performa Invoice from CITI Bank, Singapore to LLOYDS Bank PLC, United Kingdom. On request of the client, the bank in Nepal transferred the invoice amount \$ 17,520.00 to LLOYDS Bank PLC, United Kingdom, for the import hard disks from Singapore. But XYZ Pvt. Ltd. did not receive the payment.

Upon inquiry, it was found that the email regarding Performa Invoice was fraud and email of ABC Pvt. Ltd. was hacked. The email regarding Performa Invoice was spear phishing email and hackers changed bank account details from CITI Bank, Singapore to LLOYDS Bank PLC, United Kingdom. The account at LLOYDS Bank PLC, in which fund was transferred, was found to be of an Individual. When ABC Pvt. Ltd. communicated with Lloyd's Bank regarding the fraud amount, the bank suggested the customer to go to the remitting bank and send swift to 'call bank funds under scam'. Until then most of the transferred amount was already withdrawn. Hackers had also sent spoofed emails to XYZ Pvt. Ltd. appearing like they were sent from ABC Pvt. Ltd. Such email domains were blocked after discovery of the incident.

(c) *Gaming Activities (Internet Betting/Casino)*

Online betting site like 1xbet, Fifiya, Metabet etc. are operating in Nepal and is been advertised through social media. This companies hire people who provide their personal account for certain commission. The account is advertise/ shown for certain time in the platform to receive

the deposit. Similarly, Small business unit like Stationary shop, Auto Workshop, etc. are also used in process for layering of fund including receiving of fund and showing it as legitimate fund derived from revenue income.

Case Example:

Small value transaction in huge number i.e. NPR 5.3 million was deposited into the account through Interbank Payment System (IPS) transaction in from 432 different individuals accounts from different 35 Bank and Financial Institutions. Nearly Same amount was transferred to the account of different unrelated individuals through IPS on same or following days. Transaction is not found reasonable, conducted with irrelevant party and not justifiable. The account was also appeared in 1xbet site.

(d) Virtual Assets Cryptocurrency (Bitcoin etc.)/ Illegal Virtual Assets

STR's/SARs are on rise where people has actually purchase the virtual assets using Nepalese account. Similar Pre-paid dollar card is also used to purchase such assets which is not legal as per current law of Nepal.

Case Example:

Mr. R was issued a dollar prepaid card for making various international payments for goods and services. He has top-up of \$350 and has made payment to different areas such as facebook ad boosts. However, some payments remarks have been mentioned as "POS Trn @ CRYPTO PAYMENTS" and "POS Trn @ ***** JEWELRY".

On enquiry with the customer by the bank, he mentioned that he owns a shop which deals with recharge and e-sewa top-ups. He further added that his customer Mr. G paid him cash (who own jewellery shop) used the dollar card to purchase jewellery through it.

- 7/5/2022 POS Trn @ CRYPTO PAYMENTS USD 14.26
- 6/4/2022 POS Trn @ ***** JEWELRY USD 8.25

(e) Tax Evasion

There are good number of people using their personal account to deposit proceed of business related income to understate the actual sales revenue. The detail of which is in Strategic Analysis Report 2023 published by FIU Nepal. (Please visit <https://www.nrb.org.np/departments/fiu/> to access this report).

Case Example

Customer has used saving account to receive the business related inward fund from foreign jurisdiction. He has deposited NPR. 9 Million (approx. USD 75,000) in saving account which was sent by third party of Country 'A' through Inward telex payment. After few days, he has transferred that fund to his current account and has done Telegraphic Transfer (TT) to import various medical items from country 'B' related to Covid-19 (i.e. Mask and Infrared Temperature Gun). Customer have been trying to get some short term benefits by taking the advantages of lockdown for his business, which seems to be unregistered. Same was also published in several newspapers. Based on adverse news and unusual transactions in personal account, Bank submitted STR to FIU-Nepal. After analysis, FIU-Nepal found suspicion about personal saving account been used by customer to evade tax evasion and disseminated to IRD for further investigation.

(f) Corruption

Corruption amount settled in foreign jurisdiction and disguise as a payment of consultancy service. Despite being officiated employee person has worked as a consultant to receive proceed of crime in his/her account held in foreign jurisdiction. Similarly use such proceed to purchase real estate in foreign jurisdiction and transfer in Nepal in his /her relatives (Close family member) account.

Case Example:

- Mr A is a ward chairperson. He is involved in formation of Upbhokta Samiti (Consumer

Group) where his wife became a member of the samiti. The fund was transferred from the samiti account to Ward chairperson's wife personal account and ultimately the fund was transferred to Ward Chairperson personal Account. The transactions seems to be embezzlement of Upabhokta Samiti fund created for development work.

- Mr B was high level official of a public entity. He has procedure many IT related component. Even one of supplier's partner was his close relative. The proceeds of crime were settlement in foreign Jurisdiction.

(g) Trade Based Money laundering (TBML)

Using trade to disguise the origin of money. TBML used to transfer of fund to shell company in foreign jurisdiction, which was ultimately used for payment of settlement for corruption. In some case the IT components are imported which price is rarely be known and huge amount being transferred to foreign jurisdiction and ultimately the amount is used for different purpose including settlement of Corruption amount.

Case Example:

Company N has imported huge amount of IT related product from Singapore based company "Company C" whose beneficiary owner are same as Nepalese Company. Documents Against Acceptance (DAA) documents were pending for payment which gave suspicion of actually imported product being received in Nepal. The company was involving in settlement of fund in foreign jurisdiction.

(h) Donation

Misuse of Online platform or selling grief of person to collect the fund through crowd sourcing and that amount been used for personal expenses rather than used for intended purpose. Similarly receiving of fund from foreign people and entity without relevant approval in personal account.

Case Example:

One famous youtuber/tiktoker famous for helping poor in need for health treatment has actually collected 1.75 crore in her one account

through many small value donation including remittance for Nepali diaspora throughout the world. The account has unused balance of 1.3 crore. Out the expenses i.e. 45 lakhs it is been used for purchase of gold, jewelry and other personal expenses. She has used other mule account (Friend's account) too for receiving such fund.

(i) Shell Companies

Small business unit like auto workshop, stationary shop, retail shop, etc. account is being opened for receiving payment generated from online fraud, Virtual assets, hundi, etc. The account is used as mule account.

Case Example:

Mobile no. 98***** appeared 1xbet site. Further, mobile number was verified and observed that this mobile no. was related with B***** Shoes Collection which is a proprietorship firm in the name of Mr. S. Mr. S has been arrested by Nepal Police for betting related offence.

(j) Use of New Payment Technologies

Nepal has recently provided license for payment related service providers. Some of such institutions are used for informal remittance payment, settlement of illegal activities including payment for gold smuggling.

Case Example:

Hundi and illegal payment settlement by using system of Payment Service Provider

Some Payment Service provider using its network for carrying illegal transaction including payment of Illegal trade and hundi.

A Payment Service Provider (PSP) which was licensed for financial transaction including deducting use of cash transaction was actually involve high cash transaction activities. Where its platform was used for settlement of illegal trade settlement (i.e. Gold) and hundi related transaction.

Modus operandi

- PSP established an agent network to carry out transaction.
- Agent deposit huge cash in the bank account of PSP provider from different location.
- PSP create the balance (in the account of agent) which was again withdrawn in cash. In the way PSP account was used as placement of cash in the banking system.
- During the investigation process it was reveal that people deposit the cash in the PSP account and that slip was send the receiver to get the cash from its' agent network.
- There was instance when NPR 95 crore cash was deposited by a single person in the account of one of the PSP.
- Nepal police has conducted the investigation and found that billions of rupees for settlement of illegal gold import was actually being paid through these network with the help of PSP

As the system function such that agent can deposit any amount of cash in the PSP bank account, this has allowed them to penetrate the system to inject huge amount of cash in the banking system. Similarly, instance was there when the agent account was loaded with fund without actually amount deposited by the agent. Currently illegal payment of gold and hundi related case is filed in the court.