



OPERATIONAL ALERT

Indicators: The laundering of illicit proceeds from human trafficking for sexual exploitation

Consult the 2021 Operational Alert, [Updated Indicators: Laundering of proceeds from human trafficking for sexual exploitation](#) for the latest indicators in support of Project Protect.

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Operational Alerts provide up-to-date indicators of suspicious financial transactions and high risk factors related to specific methods of money laundering and terrorist activity financing that are important either because they represent new methods, re-emerging methods or long-standing methods that present a particular challenge.

Dissemination: financial institutions, including banks, credit unions, caisses populaires, financial services cooperatives, credit union centrals; and law enforcement

The purpose of this Operational Alert is to support financial institutions in recognizing and reporting completed or attempted financial transactions that are suspected of being related to the laundering of funds from the trafficking of victims specifically for sexual exploitation, and not forced labour. The indicators in this document were synthesized from the Financial Transactions and Reports Analysis Centre of Canada's (FINTRAC) intelligence holdings and reflect the Centre's engagement with Canada's financial institutions and police services in their efforts to detect, deter and prevent money laundering and terrorist financing activity.¹

Background

The crime of human trafficking which, according to the *Criminal Code*² of Canada includes both sexual exploitation and forced labour, is often confused with human smuggling. Unlike human smuggling, which involves the transportation of individuals from other countries who have consented to a service for an agreed upon fee, human trafficking involves the coercion of victims into servitude for financial gain.³

¹ Jankovic, Lepa and Warrack, Peter. *Raising Awareness about Human Trafficking*. <http://www.acamstoday.org/warrack-jankovic-raising-awareness-human-trafficking/>. May 27, 2016.

² Canada. Department of Justice. *Criminal Code of Canada*. Section 279.1. <http://www.justice.gc.ca/eng/cj-jp/tp/legis-loi.html>.

³ Financial Action Task Force (FATF). *Money Laundering Risks Arising from Trafficking in Human Beings and Smuggling of Migrants*. <http://www.fatf->



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Sexual exploitation, which is reported to be more prevalent than forced labour⁴, has gained considerable attention as a pervasive crime that can only be solved through collaboration by government, law enforcement, the private sector and others.⁵ Human trafficking is among the fastest growing criminal activities, occurring internally within countries and between countries worldwide.⁶ Both foreign⁷ and Canadian⁸ studies suggest that the majority of victimization occurs domestically. In Canada, police-reported incidents of human trafficking have increased overall from 2009 to 2014 with rates nearly doubling between 2013 and 2014.⁹ Canada is a source, transit and destination country for men, women and children trafficked for the purposes of sexual exploitation. The money laundering indicators in this document apply equally to victims trafficked in Canada regardless of origin.

Research suggests that human trafficking for sexual exploitation, like drugs and weapons trafficking, is just another commodity in a range of criminal activities perpetrated mostly by domestic and foreign organized crime groups who often collaborate with each other to maximize illicit financial gain.¹⁰ Sexual exploitation is a high-value business for criminals because, unlike a drug that can only be sold once, a human being can be sold repeatedly over an extended period of time. This type of crime is also attractive to criminals because the risk of losing business due to detection and successful prosecution is kept low through coercion of their victims in combination with the use of well-known money laundering methods. As a result, the perpetration of this crime is reinforced because criminals are able to benefit from the illicit proceeds.

gafi.org/publications/methodsandtrends/documents/moneylaunderingrisksarisingfromtraffickingofhumanbeingsandsmugglingofmigrants.html. July 19, 2011.

⁴ The first global assessment found that 79% of human trafficking involved sexual exploitation. United Nations Office on Drugs and Crime (UNODC). *Global Report on Trafficking in Person*. <http://www.unodc.org/unodc/en/human-trafficking/global-report-on-trafficking-in-persons.html>. February 2009.

⁵ Canada. Public Safety Canada. *National Action Plan to Combat Human Trafficking*. <http://www.publicsafety.gc.ca/cnt/rsrscs/pblctns/ntnl-ctn-pln-cmbt/index-eng.aspx#toc-01.1>

⁶ United Nations Office on Drugs and Crime (UNODC). *Addressing Trafficking in Persons Since 1949*. <http://www.unodc.org/unodc/en/human-trafficking/2010/addressing-trafficking-in-persons-since-1949.html>. December 2, 2010.

⁷ United Nations Office on Drugs and Crime (UNODC). *Global Report on Trafficking in Persons*. <http://www.unodc.org/unodc/en/human-trafficking/global-report-on-trafficking-in-persons.html>. February 2009.

⁸ Canada. Royal Canadian Mounted Police. *Domestic Human Trafficking for Sexual Exploitation in Canada*. <http://www.rcmp-grc.gc.ca/ht-tp/publications/2013/proj-safekeeping-eng.htm>. October 2013.

⁹ Canada. Statistics Canada. *Trafficking in Persons in Canada, 2014*. <http://www.statcan.gc.ca/pub/85-002-x/2016001/article/14641-eng.htm>. July 12, 2016.

¹⁰ United Nations Office on Drugs and Crime (UNODC). *Human Trafficking Facts: How Widespread is Human Trafficking*. <http://www.unodc.org/unodc/en/human-trafficking/faqs.html>.



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Recognizing the money laundering activity of human traffickers in sexual exploitation

Who may be involved in money laundering

In looking for indicators of money laundering, it is important to consider contextual factors which, although not indicators on their own, provide insight into how businesses may be targeted by criminals in an attempt to launder funds that have been generated by sexually exploiting victims. Consisting primarily of young Canadian-born women and girls as young as 12 years of age, victims come from various backgrounds and are coerced or compelled into servitude through various means.¹¹ Victims can also be used to facilitate money laundering by acting as personal/business account holders, or by handling cash deposits that are below the reporting threshold. Traffickers in Canada are typically male and born in Canada. A small percentage of females act as traffickers and may also be former victims of sexual exploitation. They usually work with at least one male in a partnership that is sometimes relationship-based. Traffickers work with friends, trusted associates, family members, boyfriends/girlfriends, or other females involved in prostitution.¹²

Reasonable grounds to suspect and how to use indicators

Criminals disguise their money laundering methods through what they hope will appear to be normal financial transactions in a normal business context. As a result, the decision to submit a suspicious transaction report to FINTRAC (for either a completed or attempted financial transaction) requires more than a “gut feel” or “hunch,” although proof of money laundering is not required. Reporting entities are to consider the facts related to a transaction and its context that can, when taken together, give rise to reasonable grounds to suspect that the transaction is related to the laundering or attempted laundering of proceeds of crime.

Indicators of money laundering can be thought of as red flags indicating that something may very well be wrong. Red flags typically stem from one or more characteristics, behaviours, patterns and other contextual factors related to financial transactions that make them appear inconsistent with what is expected or considered normal. The review of the trail of indicators may follow various scenarios and lead to different conclusions depending on whether the level of suspicion is strengthened or weakened.

¹¹ Canada. Public Safety Canada. *National Action Plan to Combat Human Trafficking*. Note 4. <http://www.publicsafety.gc.ca/cnt/rsrscs/pblctns/ntnl-ctn-pln-cmbt/index-eng.aspx#toc-01.1>

¹² Canada. Royal Canadian Mounted Police. *Domestic Human Trafficking for Sexual Exploitation in Canada*. <http://www.rcmp-grc.gc.ca/ht-tp/publications/2013/proj-safekeeping-eng.htm>. October 2013.



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When a reporting entity concludes that another individual, with similar knowledge, experience or training, having reviewed the same material, would likely come to the same conclusion that there are reasonable grounds to suspect that a financial transaction (completed or attempted) is related to illicit funds, then the reporting entity must submit a suspicious transaction report to FINTRAC. The reasons for having reasonable grounds to suspect, as well as the details and facts associated with the indicators that led to those grounds, must be included in the report.

Although some indicators listed in this document, when taken on their own, may identify victims of sexual exploitation or those facilitating the crime¹³, the decision to submit a suspicious transaction report requires that a financial transaction be completed or attempted, and that the relevant indicators raise suspicion of money laundering in relation to that transaction. FINTRAC's *Guideline 2 on Suspicious Transactions*¹⁴ provides more comprehensive guidance and additional indicators that may be useful either as initial triggers or in addition to the indicators listed in this Operational Alert.

Indicators

The following indicators are specific to human trafficking for sexual exploitation and reflect types and patterns of transactions, contextual factors and those that emphasize the importance of knowing your client. These indicators and other facts surrounding a financial transaction should be considered as a whole. This is important because a single transaction taken in isolation may lead to a false assumption of normalcy. Considering all indicators may reveal otherwise unknown links that taken together could lead to reasonable grounds to suspect that the transaction consists of proceeds from human trafficking.

Types of financial transactions

- Online advertising and promotional services (e.g. escort services, massage services, relationship services, related peer-to-peer online booking services): frequent payments in multiples of small amounts (e.g. \$3, \$12, \$24) in relatively short timelines and inconsistent with expected activity;
- Accommodations (e.g. hotels, motels, peer-to-peer online booking services for private and commercial lodgings): payments for short stays and/or stays in multiple cities in a relatively short time period;
- Distance transportation: frequent purchases for airline, train, and/or bus tickets, possibly for multiple individuals, in relatively short timelines and inconsistent with expected activity;

¹³ Suspicions related to the identification of victims or those facilitating the crime should be directly reported to law enforcement.

¹⁴ Canada. FINTRAC. *Guideline 2: Suspicious Transactions*. <http://www.fintrac-canafe.gc.ca/publications/guide/Guide2/2-eng.asp>. July 2016.



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- Local transportation: purchases for taxi, limousine, vehicle rentals, and ride sharing services in relatively short timelines and inconsistent with expected activity;
- Fast food restaurants: frequent low value purchases in relatively short timelines and inconsistent with expected activity;
- Drug stores, clothing stores, beauty stores (e.g. lingerie, make-up): frequent purchases in relatively short timelines and inconsistent with expected activity;
- Strip clubs, massage parlors, beauty salons and modelling agencies: credit card payments for purchases made after the establishments' normal hours of business;
- Bitcoins or other virtual currencies: frequent purchases in multiples of small amounts (e.g. \$3, \$12, \$24), directly by the client or through exchanges;
- Online payment services companies: personal account activity inconsistent with expectations involving frequent deposits and payments through an online payment service in small amounts typically under \$100. Account funds may then be used for virtual currency deposits/redemptions, or payment of bills, such as personal or third party credit cards;
- Rent payments: for addresses where prostitution is reported to occur by media, law enforcement, or classified ads; and,
- Credit card purchases: for online purchases which provide relative anonymity.

Patterns of financial transactions and account activity

- Cash deposits/withdrawals between the hours of 10 p.m. and 6 a.m.;
- Multiple cash deposits conducted at different bank branches/ATMs, possibly across different cities and provinces;
- Frequent transactions (e.g. purchases, payments, account debits/credits, electronic transfers) across different cities and provinces within short timelines;
- Multiple deposits and/or incoming email money transfers or other forms of electronic transfers, possibly using a temporary address (e.g. hotel), from unrelated third parties with little or no explanation;
- Account funded primarily via third party cash transactions;
- Deposits (e.g. via ABM, in-branch, email money transfers, other forms of electronic transfers) followed rapidly by cash withdrawals, bill payments, and/or electronic transfers;
- Personal account receives frequent deposits but is typically kept depleted, showing no purchases or transactions that would indicate normal activity;
- Account appears to function as a funnel account; deposits occur in locations where the client does not reside or conduct business;



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- Deposits (e.g. via ABM, in-branch) conducted in one city followed by same day or next day withdrawal and/or purchase conducted in another city;
- Unrelated third parties sending email money transfers or other forms of electronic transfers to the same beneficiary with no apparent relation to the recipient or no stated purpose for the transfers;
- Email money transfers to third parties with alternate names provided in brackets [e.g. jane@example.com (Bambi)];
- Large and frequent electronic transfers between senders and receivers with no apparent relationship;
- Common address provided by different people undertaking domestic/international funds transfers;
- Rounded sum hotel transactions;
- Hotel transactions by the same individual for two separate rooms for the same dates;
- Hotel transactions followed by a refund for the same amount; and,
- Pre-authorized hotel by credit card, but accommodations are actually paid for using cash.

Contextual indicators

- Media or other reliable sources suggest that a client may be linked to criminal activity which could generate proceeds of crime;
- Media coverage of account holder's activities relating to human trafficking in the sex trade and/or prostitution rings;
- Use of addresses where prostitution is reported to occur by media, law enforcement, or classified ads;
- Phone number provided on online advertising and promotional services is used in different cities and provinces in a short period of time;
- Use of a third party to execute transactions (for example, under the pretext of requiring an interpreter); and,
- Client makes deposits accompanied or watched by a third party who may, on separate occasions, accompany or watch clients who are making deposits. The third party may be handing over to the client what is subsequently confirmed to be the client's identification.



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Know your client

- Financial activity is inconsistent with that expected based on one or more of the following: the client's financial status, stated occupation, type of account or stated business activity;
- Clients give contact/identifying information that is traceable through open sources to advertising related to escort services;
- Use of someone else's identification, or opening an account in the name of an unqualified minor;
- Use of aliases for the purpose of opening multiple accounts in different banks, or in different branches of the same bank; and,
- Addition of an unusual number of individuals as joint account holders, or authorized users to products such as credit cards.

CONTACT US

Please use "**Operational Alert**" with the **reference number** in the subject heading of your communications with FINTRAC, and in any related STR/TPR reporting to FINTRAC:

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