

SAR Bulletin

Information drawn from the Suspicious Activity Reporting System

June 2001

Issue 3

Suspicious Activity Related to Phone Card Businesses

A review of Suspicious Activity Reports (SARs) filed with the Treasury Department's Financial Crimes Enforcement Network (FinCEN) identified over 160 reports indicating suspicious financial activity related to businesses involved in phone card sales. Some of the companies or businesses involved in the reported activity offer other services such as check cashing, money orders, beepers, cellular phones, faxes, lottery tickets, and travel tickets. This activity has been observed by financial institutions in fourteen states, particularly in New York, New Jersey, Texas, California, and Florida.

Businesses involved in phone card sales routinely generate significant legitimate cash flow. However, SAR information reported by financial institutions characterizes the types of problematic transactions suggestive of money laundering or other illicit financial activity (large and unexplained cash flow increases, transactions structured to stay below CTR reporting requirements, etc.) associated with illegitimate use of these businesses. Additionally, law enforcement information indicates that phone cards are being used as a mechanism to launder funds.

The suspicious activity reported by

financial institutions that may reflect illicit use of phone card businesses falls into the following categories:

- ☐ unusual deposit of funds into or withdrawal of funds from bank accounts maintained by businesses engaged in phone card activity;
- ☐ cash deposits containing a large number of \$100 bills;
- ☐ unexpectedly large transactions occurring over relatively brief periods of time;
- ☐ lack of, or improbable reasons for financial activity;
- ☐ frequent structured transactions followed by immediate withdrawals;
- ☐ unusual outgoing wire transfers, cashiers check purchases, check cashing, and check and money order deposits;
- ☐ unexpected check cashing activity occurring at businesses whose principal activity is phone card sales;
- ☐ small retailers suddenly or irregularly experiencing high volumes of phone card sales, with accompanying major increases in cash deposits.

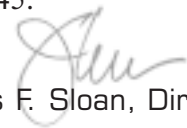
The reported dollar volumes associated with these activities range from

\$300,000 to \$50 million. In one instance, information from the SARs indicated that over \$50 million in deposits (checks, cash, and money orders) were received in one year by a communications company involved in the sale of prepaid telephone cards by convenience stores. In another instance, a bank reported 370 cash deposits by a prepaid phone card business totaling more than \$3 million in approximately three months, exceeding the business's expected cash flow. In a third case, a bank reported a home-based phone card business with more than \$500,000 deposited within a two-month period. Another scenario involved daily cash deposits of \$9,000 from a phone card business continuing over an eight-month period. In some instances, the use of phone cards and the connection with volume wholesale or retail sales of phone cards were central to the suspicious activity. In other cases, the phone card connection appeared as an adjunct to the main suspect activity.

What to do:

Financial institutions should alert key personnel to the possible use of phone card sales to facilitate and/or conceal money laundering. Financial institutions should be sensitive to financial transactions by phone card businesses, retail or wholesale, when those businesses generate cash flows that are well beyond their normal business activity. The specific suspicious activity/methodology observed that involves phone cards and/or businesses involved in phone card sales should be described fully in the narrative section of the SAR, including the involvement of participants in foreign countries.

For additional information, comments, or questions concerning suspicious phone-card-related transactions, please call FinCEN's Office of Strategic Analysis at (703) 905-3545.


James F. Sloan, Director

This "SAR Information Bulletin" is part of a series of overviews of trends and patterns in money laundering derived from the SAR database. The SAR Information Bulletin Series is designed to highlight activities or issues that appear significant based on such factors as number of reports, number of financial institutions filing similar reports, aggregate dollar values, geographic distribution, and especially recurrent patterns of activity identified in SAR narratives. In no cases will information relating to particular institutions, businesses, or individuals be included in any Bulletin. Whether the information in a particular Bulletin is of relevance to a particular financial institution, of course, depends in many cases upon that institution's operating realities. In all cases, comments or other feedback would be welcome. Please forward comments on SAR Bulletins to the Financial Crimes Enforcement Network at 703-905-3698 (fax) or email ora@fincen.treas.gov.

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