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FinCEN Issues Advisory to Financial Institutions Regarding Disaster-Related Fraud

FinCEN issued advisory FIN-2017-A007 to warn financial institutions about the potential for fraudulent transactions in the wake of disasters, including recent hurricanes and wild fires. This advisory is not intended to deter legitimate donations and relief assistance efforts. Rather, the purpose is to help financial institutions identify and prevent fraudulent activity that may interfere with legitimate relief efforts.

The U.S. Department of Justice established the National Center for Disaster Fraud (NCDF) to investigate, prosecute, and deter fraud in the wake of Hurricane Katrina, when billions of dollars in federal disaster relief poured into the Gulf Coast region. Its mission has expanded to include suspected fraud from any natural or manmade disaster, including Hurricanes Harvey, Irma, and Maria. More than 30 federal, state, and local agencies participate in the NCDF, which allows the NCDF to act as a centralized clearinghouse of information related to disaster relief fraud of all types. Financial institutions are encouraged to use the resources made available by the NCDF to help identify and mitigate their potential for all types of disaster fraud risks.

While there are many indicators of general fraud, financial institutions should pay particular attention to benefits fraud, charities fraud, and cyber-related fraud. The FinCEN advisory addresses these types of frauds and identifies red flags.

Consistent with suspicious activity reporting requirements in 31 CFR Chapter X, if a financial institution knows, suspects, or has reason to suspect that a transaction has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the financial institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction, the financial institution should file a Suspicious Activity Report (SAR).

FinCEN requests, though does not require, that financial institutions reference this advisory and include the key term, "***Disaster-related Fraud***" in the SAR narrative and in SAR field 31(z) (Fraud-Other) to indicate a connection between the suspicious activity being reported and possible misuse of relief funds. Financial institutions should provide a detailed description of the known or suspected criminal violation or suspicious activity in the narrative sections of SARs.

If financial institutions encounter any of these situations, or other situations that they suspect may involve hurricane or other disaster-related benefit fraud or other potentially illicit transactions, they should complete and file a SAR and, in these instances, also contact their local office of the Federal Bureau of Investigation or the United States Secret Service.