



How Financial Institutions Can Reduce Trade-Based Money Laundering (TBML) Risk

A closer look at the challenges of reducing TBML risk, and what compliance professionals need to do to stay ahead of the curve

Executive Summary

Trade-Based Money Laundering (TBML) remains one of the most pressing threats to financial institutions worldwide, with criminals exploiting gaps in global trade systems to launder illicit funds. As regulatory frameworks intensify and criminal tactics grow more sophisticated, the urgency for financial institutions to implement advanced, technology-driven compliance solutions has never been greater. Failure to act risks severe penalties, reputational damage, and exposure to financial crime.

This white paper examines the critical developments in TBML risk management, highlighting the latest regulatory mandates and emerging threats that demand immediate attention. Financial institutions must prioritize proactive measures to stay compliant and mitigate risks in an increasingly volatile trade environment.

Key highlights:

- **Stricter enforcement under updated Bank Secrecy Act (BSA) frameworks**, with heightened scrutiny on trade finance transactions.
- **New Federal Maritime Commission (FMC) requirements** for containerized shipments, mandating detailed invoice data and stricter timelines to curb TBML loopholes.
- **Department of Justice (DOJ) final rule implementation**, elevating compliance standards and penalties for lapses in TBML detection.
- **The imperative of AI and machine learning** to combat evolving TBML schemes, from misinvoicing to phantom shipments.

The time to act is now—delaying robust TBML safeguards could result in catastrophic financial and regulatory consequences.

The Current State of Play

The complexity of sanctions regulations has reached unprecedented levels.

Following geopolitical events such as the Russian invasion of Ukraine, governments worldwide have rapidly issued amendments, clarifications, and FAQs to address legislative gaps. While necessary, these efforts have left financial institutions struggling to keep pace, particularly in maritime trade.

Key Regulatory Updates 2024-2025

- Canadian Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PMCLTFA) amendments expand reporting scope
- Financial Action Task Force (FATF) guidelines enhance National Risk Assessments
- New FMC requirements for containerized shipments
- DOJ final rule implementation strengthens compliance standards

These regulatory changes have created a complex landscape where criminal organizations can exploit legislative grey areas for illicit activities. TBML remains at the forefront of financiers' concerns, exacerbated by the rapid growth of the global economy and the volatility of international trade. According to the latest data from the International Chamber of Commerce (ICC), fraudulent transactions could lead to an annual cost of around \$5.5 billion in total business disruption.

In response to these challenges, governments are demanding higher levels of due diligence from financial institutions. Compliance professionals must now navigate an intricate web of regulations while efficiently screening trade transactions against government-issued sanctions lists to identify and prevent suspicious TBML activity.



Tackling the Rise of Trade-Based Money Laundering

TBML continues to pose formidable challenges for banks and financial institutions due to its transnational nature and the complexity of the international trade system. As Toni Weirauch, Director of Legal and Compliance at BDO, notes, "As law enforcement and financial institutions have become quite adept at identifying traditional money laundering, more complex methods such as TBML become more common."

Emerging TBML Trends and Regulatory Responses

The landscape of TBML is evolving rapidly, with new techniques emerging alongside regulatory efforts to combat them. Here's a summary of the latest FMC requirements and their impact on TBML prevention:

FMC requirement	Description	Impact on TBML Prevention
Detailed invoice information	Mandatory provision of BoL numbers, container numbers, ports of discharge	Enhanced data for transaction verification
Strict timing requirements	Specific timelines for invoice issuance and dispute resolution	Improved tracking of trade transaction timelines
Compliance certifications	Certifications of compliance with FMC rules	Additional layer of due diligence

Documentary fraud is pervasive tactic in TBML schemes, involving deliberate manipulation of trade documents to conceal illicit activity. Common methods include the misdeclaration of goods (e.g., labeling high-value items as low-value commodities), misreporting counterparty details to obscure beneficial ownership, and falsifying bills of lading to legitimise phantom shipments. Inconsistencies across documents—such as mismatched cargo descriptions between invoices and shipping manifests—are red flags often overlooked in manual reviews. These schemes thrive on the complexity of global trade, where fragmented documentation systems and reliance on paper-based processes create fertile ground for exploitation. Like mis invoicing, documentary fraud relies on collusion between parties, making detection exceptionally challenging without advanced analytics to cross-verify data across the entire trade lifecycle.

In terms of **mis invoicing**, which accounts for 63% of cases, it can involve the over- and under-invoicing of goods and services. Over-invoicing aims to transfer criminal proceeds out of a country while maintaining the appearance of legitimate business dealings. This deceptive practice is difficult to detect manually because of two main reasons. Firstly, there are no universally accepted reference points, which allows for subjectivity. Secondly, there are often legitimate reasons for price variations, such as timing, Incoterms, or product nuances. Therefore, price discrepancies cannot always be assumed to be a result of mis invoicing.

Dual-use goods are another notable concern. According to a January 2023 report from Global Financial Integrity, almost any type of merchandise can be exploited in TBML schemes. As the report states, cars/transport vehicles (24%) are the most common items, followed by metals and minerals (17%), agricultural products (13%), and textiles (11%). This goes to highlight that entities not regulated for anti-money laundering, such as manufacturers and retailers, can still become unwittingly involved in crime.

"As law enforcement and FIs have become quite adept at identifying traditional money laundering, more complex methods such as TBML become more common."

Toni Weirauch,
Director, Legal and Compliance, BDO

“The cost of doing business with Russia... is a steep one, and companies and financial institutions should not wait for their governments to make the decision for them.”

Elizabeth Rosenberg
Assistant Treasury Secretary
for Terrorist Financing and
Financial Crimes,
US Government

The Implications of TBML for Financial Institutions

TBML poses a significant and evolving threat to banks and financial institutions because a failure to implement and adhere to appropriate compliance measures may result in negative outcomes, including reputational damage.

Recent enforcement actions have resulted in record-breaking penalties, underscoring the critical importance of robust TBML prevention measures. Enforcement agencies now wield expanded powers in investigating TBML activities, placing additional pressure on financial institutions to enhance their compliance frameworks.

Regulators are increasingly emphasizing the adoption of advanced technologies in AML compliance. As trade transactions grow in complexity and volume, traditional rule-based systems are increasingly insufficient to detect sophisticated TBML schemes. This is where AI and machine learning machine learning become highly relevant. By analysing vast quantities of structured and unstructured trade data—such as invoice descriptions, shipping records, and vessel movements—AI can identify patterns and anomalies that may indicate illicit activity. Machine learning models, particularly when trained on historical TBML cases, can help surface high-risk transactions that might otherwise go unnoticed. These technologies not only improve detection accuracy but also enhance operational efficiency by reducing false positives, allowing compliance teams to focus their attention on genuinely suspicious activity.

What Are the Key Challenges of Reducing TBML Risk?

Financial institutions face a myriad of challenges in their efforts to combat TBML. The DOJ's new regulatory framework has introduced additional complexities to compliance processes, while new beneficial ownership transparency requirements have expanded the scope of due diligence efforts.

Emerging Compliance Challenges in 2024–2025

- Adapting to extended record-keeping requirements (10-year retention period)
- Implementing systems for bulk data transaction monitoring
- Ensuring compliance with stricter beneficial ownership due diligence
- Developing expertise in digital asset transaction monitoring
- Balancing increased compliance requirements with operational efficiency

The increasing complexity of monitoring digital asset transactions presents a particular challenge, requiring financial institutions to develop new expertise and technologies to keep pace with evolving TBML techniques.

Process more checks per day

Sanctions, compliance, and trade finance professionals face the formidable task of processing up to 500 to 1,000 business transactions per day without impeding the smooth flow of legitimate transactions.

This challenge becomes even more complex when considering structural risk indicators such as unusually complicated corporate structures and entities with addresses that do not reflect their business activities.

The second hurdle in this pursuit of efficiency is the labour intensive nature of manual TBML and sanctions screening. Compliance professionals are often immersed in time consuming, paper-based processes that involve reviewing data across the entire voyage of a vessel. This painstaking effort is both resource-intensive and prone to human error, making it an increasingly impractical approach in today's fast-paced financial landscape.



Flag risk beyond sanctions

Sanctions screening is difficult because sanctions lists and guidelines are constantly changing.

For instance, EU member states have recently adopted an 11th package of sanctions aimed at banning access to EU ports for ships suspected of engaging in ship-to-ship transfers of Russia-origin cargo.

However, monitoring sanctions lists alone is not enough for effective and accurate risk identification. Compliance professionals need a more complete view of maritime trading risk but are often hindered by the difficulty of comprehensively linking individuals of interest to counterparties.

Another challenge is identifying potential dark activity and high-risk behaviour before a vessel becomes subject to sanctions. As TBML tactics continue to evolve, the challenge of spotting illicit activity grows. Hence, sanctions, compliance, and trade finance professionals must proactively seek solutions to address trading risk indicators (such as dual-use goods and price discrepancies) and protect against emerging threats.

Streamline record-keeping and escalation for transactions

Because TBML schemes are becoming more sophisticated, banks must have efficient detection and response mechanisms in place.

Efficient record-keeping is paramount to documenting suspicious transactions, especially when inconsistencies or discrepancies across trade documents are involved. It serves as a critical foundation for investigations and audit trails, enabling banks to maintain a clear and concise history of flagged transactions and their subsequent handling. Such audit trails are essential for demonstrating compliance with anti-money laundering regulations.

Financial institutions that lack a unified tool for documenting and providing evidence of compliance checks may encounter significant operational inefficiencies. These inefficiencies manifest as incomplete or disorganised records, complicating compliance professionals' efforts to effectively manage and respond to potential risks, including account and transaction risk indicators.

Finding the Right Solution

Not all maritime intelligence tools are created equally. Front-line sanctions and compliance professionals looking for a solution to enhance their TBML screening processes should prioritise the following factors:

Prioritize High-Risk Trade Segments

Financial institutions deploys solutions that strategically concentrate enhanced due diligence on high-risk trade corridors, free trade zones, and dual-use goods transactions. Effective systems provide configurable risk parameters that automatically escalate scrutiny where threats are most acute. This risk-based approach requires **comprehensive, reliable data on vessel movements, ownership structures, container transshipment, cargo pricing, and sanctions status**—ensuring that incorrect or outdated information doesn't undermine detection efforts.

Adopt Advanced Risk Scoring Models

The limitations of basic sanctions screening have become increasingly apparent as TBML techniques evolve. Leading institutions now implement sophisticated risk scoring models that integrate **historical trade data, behavioral analytics, and AI-driven pattern recognition**. These advanced models detect subtle anomalies in trading patterns, pricing discrepancies, and suspicious relationships that traditional methodologies consistently miss, significantly reducing false positives while enhancing detection rate.

Enhance Ownership and Network Visibility

Shell companies and multi-layered corporate structures remain the primary vehicles for obscuring illicit trade. Financial institutions require tools that penetrate complex ownership arrangements to reveal **ultimate beneficial owners of vessels, cargo, and counterparties**. Solutions offering automated corporate relationship mapping reveal hidden connections between seemingly unrelated entities, providing the critical context needed to identify coordinated evasion tactics and satisfy intensifying regulatory expectations for beneficial ownership due diligence.

Why Our Seasearcher Trade Risk is Your Solution of Choice

Seasearcher Trade Risk provides a new view of validated maritime TBML risk with unprecedented context and insight. Our solution combines container-tracking data, deep insights into dual-use goods, analysis of over- and under-invoicing, and a complete view of vessels' voyages and ownership data – all in one place.

Dual-use goods check: Through our partnership with Dow Jones, screen over 8,000 restricted items for compliance risks. Cross-reference HS codes and descriptions to ensure goods satisfy international trade regulations.

Price verification: Screen your price against prevailing and historical pricing data sourced from official governmental sources to detect potential over- or under-pricing, based on the Incoterms in your transaction. Our data coverage supports up to 13-digit HS codes and goods description search. Set your own price screening tolerance threshold for more accurate risk assessment.

Comprehensive shipment validation: Validate container movements, transshipments, and bulk cargo shipments through an evidence-based approach. Access complete and verified movement data for containers and bulk commodities.

Vessel cargo compatibility: Check if the vessel is suitable for the goods it's carrying, ensuring compliance with trade regulations and insurance requirements for both container and bulk cargo vessels.

Anomalous trade movement: Detect anomalous trading behaviour. We scan our database to identify trades similar to your transaction and alert you if no similar trades are found in the preceding 12 months.

AI-powered HS code detection: Convert goods names and descriptions into the right HS codes with the help of an AI-powered language model that has shown much better accuracy than traditional fuzzy-match lookup models.

Find out more about how Seasearcher Trade Risk can help your bank meet evolving compliance challenges and avoid regulatory penalties.

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