



Proximal Consulting Archived White Papers



The Proximal Consulting white paper series began when Proximal Consulting launched in 1999. The white papers provided precise and detailed information on cutting edge business crime topics during a period when the Internet as a source of business information was in its infancy. We are now making these white papers available again.

Whilst the specific cases and examples used in the white papers are historical, the fundamental issues and potential red flags have remained the same.

Please note that the white papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.

PROXIMAL CONSULTING WHITE PAPER 1 WHAT IS MONEY LAUNDERING?

Money laundering by international criminal enterprises challenges the legitimate authority of national governments, corrupts officials and professionals, endangers the financial and economic stability of nations, diminishes the efficiency of global interest rate markets, and routinely violates legal norms, property rights, and human rights

-US Foreign Money Laundering Deterrence and Anticorruption Act

The perception that still endures of money laundering is that of a suspicious character turning up at the counter of a bank with a suitcase (probably helpfully labelled Swag) overflowing with used notes. Until recently even more sophisticated analyses of the problem have attempted to reduce the process to a neat three stage technique (placement, layering and integration). It is perhaps only now that it is becoming clear that money laundering is a robust, corrosive, all consuming and dynamic activity that has far reaching consequences and effects. Traditionally money laundering has been viewed (in isolation) as the cleaning of dirty money generated by criminal activity; in the collective mindset these crimes are probably associated with the drug trade. Of course, money laundering is this, but it is also a whole lot more. To understand and appreciate the all consuming power and influence of money laundering one needs to go back to the purpose of crime. The vast majority of illegal acts are perpetrated to achieve one thing: money. If money is generated by crime, it is useless unless the original tainted source of funds can be disguised, or preferably obliterated. The money laundering dynamic lies at the corrupt heart of many of the social and economic problems experienced across the globe.

- Laundering is obviously a natural by product of financial fraud; but simultaneously fraud is also a continuance, in some cases, of laundering where the fraud itself is financed by the proceeds of an earlier crime
- Terrorist groups need to launder funds, but parallel to this are the claims that such groups are active in widespread organized criminal activity (predominantly drug running) sometimes in league with more recognized criminal groupings. Such claims have been made about the PLO, KLF, ETA and the IRA to name just a handful
- Entire countries have been brought to their knees by criminal activity and the requirement to convert the resultant ill gotten gains into a universally acceptable currency (which is predominantly US dollars). Colombia is an obvious example; Mexico is fast approaching the same situation. Elsewhere in South America in Bolivia 300,000 citizens are involved either indirectly or directly in the coca business, and elimination of half of the producing fields in recent years has significantly contributed to unemployment and poverty. In Russia the influence of criminal groupings is all pervasive from street level to the upper echelons of the Kremlin itself. In Burma it is widely believed that the military junta itself is involved in drug trafficking - and this country is merely one of a group of suspected "narco states"
- The fall of the Berlin Wall and the ending of the cold war has given rise to more localised outbreaks of warfare, many such conflicts have direct links to organized criminal activity
- Money laundering is an essential follow on from such activities as human trafficking, the sex trade, extortion, blackmail: but more crucially once the funds have been cleaned they are reinvested in such activities thus perpetuating the most vicious of circles

Money laundering is the dynamic that enables criminal activity of all descriptions to grow and expand. This process - the delivery channel of cleaned funds - is now so embedded in the "normal" business environment that we may well have little chance to control it, never mind eradicate it.

The term money laundering appears to have originated in the United States in the 1920s. Criminal gangs then were trying to do much the same as today: disassociate the proceeds of their criminal endeavours from the activities themselves. To do this they took over businesses with high cash turnovers - such as laundrettes and car washes and then proceeded to mingle the cash generated from nefarious activities with legitimate income, thus simultaneously creating a logical commercial reason for the existence of large sums of cash. Whilst the term laundering is today stressed for the word's association with washing and cleaning, the original criminal link was because of the use of laundering businesses. In essence then, as cash rich businesses are still high on various warning lists issued by regulatory authorities (particularly in the United States) little has changed in the intervening eighty years. The money laundering world is based on a subversion of the old maxim, because in this twilight and murky environment of this dirty dealing, evil is the root of all money. The well used phrase "money laundering" has become

almost meaningless as it does not adequately convey the method by which the vast amount of funds involved across the world have been generated.

Such proceeds of crime come from a vast and growing assortment of oppressive yet extremely profitable activities such as:

1. The drugs trade – and we are not talking about low level street operations but the manufacturing of illegal substances on a highly organized and commercial basis. If money laundering was only related to income derived from illegal drugs that would be catastrophic enough in itself. It has been estimated that the knock on effects of drug usage in the United States cost \$67 billion annually. This figure includes drug-related illness, crime and death. 16,000 US citizens die each year because of illegal drugs
2. Sales of arms – although recent media coverage has focused on the illegal sale of nuclear material and weapons from the former Soviet Union the more mainstream illegal dealing in weapons of death and destruction continues unabated: from hand grenades through small arms to high tech weaponry
3. Prostitution – again we are not referring to isolated incidents such as one girl on a dark street somewhere but the trade in women and children where they are effectively permanently kidnapped or "sold" and forced to perform sexual acts for money until they are effectively too exhausted or ill to be of any further use. This isn't only happening in far flung locations: Russian pimps and girls, for example, are active in all major European cities. The United Nations estimate that over 500,000 women and girls are entrapped in this modern version of the slave trade each year
4. Terrorism – virtually every week brings news from some outpost of the globe concerning the latest terrorist outrage. All of these groups need money – and the ability to use it – to support their infrastructures and buy weapons and equipment
5. Corruption – one of the money laundering favourites is where heads of state or political leaders of countries after their physical or political demise are accused of, or found guilty of, accepting corrupt payments or bribes
6. Fraud – every type of successful financial crime and other fraudulent activity generates amounts which need to be infiltrated into the banking system such as mortgage fraud, advance fee fraud, credit card fraud, pyramid schemes, Insurance fraud
7. Forgery
8. Large scale theft of money - one of the first major cases that showed how easy laundering was to achieve was the Brink's-Mat robbery in the United Kingdom where on 26 November 1983 £26 million worth of gold bullion was stolen from Brink's-Mat warehouse near London's Heathrow Airport
9. Blackmail and extortion - activities which, if successful, usually result in payments being made which the criminals hope, or ensure, will be untraceable
10. Art and antique fraud – theft, forgery and resale through the major auction houses and dealers of the world
11. Smuggling of historical icons or works of cultural importance: which has been particularly prevalent from the former Soviet Union
12. Smuggling - of illegal alcohol and tobacco
13. Customs and/or VAT fraud
14. Large scale theft and illegal exportation of new or used vehicles
15. The heinous crime of trafficking in human beings
16. Tax avoidance – yes I hate to tell you this but at the time of writing tax avoidance is coming to the forefront of money laundering investigations and regulation. In the past there has been a gaping loophole in the reporting of suspicious transactions and persons: the money launderers and/or their professional advisors could claim a "fiscal excuse" - that their funds and transactions relate to tax matters only. Increasingly this control gap is being closed with a vengeance

Laundering is the method by which all proceeds of crime are integrated into the banking systems and business environments of the world: black money is washed so it ends up whiter than white (hence the descriptive French terminology Blanchiment d'argent). This is the process whereby the identity of dirty money that is the proceeds of crime and the real ownership of these assets is transformed so that the proceeds appear to originate from a legitimate source. Criminal amassed fortunes held in unstable locations and/or currencies are metamorphosed into legitimate holdings in centres of financial respectability. In this way the origins of the funds disappear forever and the criminals involved can reap the benefits of their hard work. Money is the life blood of all criminal activities: the process of laundering can be viewed as the heart of the process as it enables the money to be purified and pumped around the body to ensure health and survival.

Adapted from "Dirty Dealing: the untold truth about global money laundering" by Peter Lilley (Published by Kogan Page)

Revised November 2006

Please note that the White Papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.

 Proximal Consulting	Telephone: +44 (0) 1672 516725	Offices:
Email: enq@proximalconsulting.com		Poughcombe Barns Rue Du Rhone 14 Ogbourne St Andrew 1204-Genève Wiltshire Switzerland SN8 1SE UK

Proximal Consulting have unrivalled experience in providing KYC enhanced due diligence background reports on individuals and companies on a global basis. We also offer a complementary range of services including AML training, country risk reports and bespoke investigations.

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfil their AML obligations.

We work with a variety of global clients including regulatory agencies, law firms, individual companies, private banks, trust companies and other firms in the financial sector.