



## 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an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.**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 19 FAQs ON MONEY LAUNDERING

The perception that still endures of money laundering is of a suspicious character turning up at the counter of a bank with a suit case (probably helpfully labelled swag) overflowing with used notes. Until recently, the most widely accepted analysis of the problem has attempted to reduce a complex and global 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 is viewed (in isolation) as the cleaning of dirty money generated by criminal activity; initially in the collective mind set, these crimes were associated with the illegal drugs or narcotics 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 and the people who launder money, one needs to go back to the purpose of the original crimes.

The vast majority of relevant illegal acts are perpetrated to achieve one thing: money. If money is generated by crime, it is useless until the original tainted source of funds can be disguised or preferably obliterated. Thus, the dynamic of money laundering lies at the corrupt heart of many of the social and economic problems experienced across the globe.

#### WHY IS THE PROCESS CALLED MONEY LAUNDERING?

The phrase probably originated in the United States in the 1920's. Criminal gangs were trying to disguise how they got their money so they took over businesses with high cash turnovers such as laundrettes and car washes. Then they mingled their dirty cash with genuine clean cash receipts. Thus whilst laundering today is associated with washing criminal funds, the original use of the phrase is because of the actual use of the real laundering business. However, the techniques that were used in the beginning are very similar to those of today: co-mingling dirty money with clean funds and trying to pass it off together as legitimate business receipts.

#### WHERE DOES THE DIRTY MONEY THAT NEEDS TO BE LAUNDERED COME FROM?

Dirty money comes from every kind of criminal activity on a global basis, this includes, but certainly is not limited to, the drugs (illegal narcotics) trade, illegal arms trading, illegal sex business, corruption, fraud, forgery, armed robberies, blackmail, extortion, arts and antique fraud, internet fraud, smuggling, tax fraud and trafficking in human beings.

#### WHAT KINDS AND AMOUNTS OF MONEY ARE INVOLVED?

In truth, nobody knows how much dirty money is being laundered or attempted to be laundered on a global basis. I like to think of it like this: Any and every criminal act anywhere on this planet that involves obtaining money illegally produces funds that need to be laundered. In 1999, the United Nations Development Report estimated that organised criminal syndicates made \$1.5 trillion each year. Recent figures from the International Monetary Fund suggest that the amount of global criminal activity which involves a financial component is near to \$2 trillion. The OECD has estimated that money laundering now exceeds \$2 trillion annually. These then are good base figures to begin from – but remember these are probably just the start points.

#### WHY IS MONEY LAUNDERING SUCH A GLOBAL PROBLEM?

Money laundering is an essential follow on from the criminal activities described above, but more crucially, once the funds have been cleaned they then can be reinvested in such activities thus perpetuating the most vicious of circles. Crime can only fully succeed if the funds generated can be utilised without their true source being known. Moreover, criminal activities continue to expand because the washed funds are then reinvested in the businesses. Money laundering is the critical tool to enable this to happen.

#### ISN'T ALL THIS STUFF ABOUT GLOBAL ORGANISED CRIMINAL ACTIVITY A BIT OF AN EXAGGERATION?

In fact, probably the exact opposite is true – this is no media hype story. Numerous organised crime groups are active in each country and on a global basis – the successful ones are being run as effectively as normal businesses. In fact, it could be argued that the clever criminals are running their businesses far more efficiently and effectively than a normal legitimate business. Amongst the groups involved are Colombian drug cartels, Mexican drug cartels, Russian criminal groups, Japanese Yakuza, the Italian Mafia, Chinese triads, Turkish and Kurdish gangs, West African / Nigerian fraudsters and Balkan gangs.

These are highly organised and sophisticated operations – David Blunkett when he was UK Home Secretary commented that criminal groups are probably more organised than the official bodies trying to fight and defeat them.

### **ARE THERE ANY BUSINESSES THAT ARE PARTICULARLY SUSCEPTIBLE TO MONEY LAUNDERING?**

Yes there are, so much so that clever launderers have in the past created dummy businesses just as a front to launder funds. Traditionally, these are businesses that have a large cash turnover such as Bureau de Change, bars, night-clubs, fairgrounds, car parks and petrol garages. However, the connected global world of the 21st Century means that any company could be set up anywhere as a front for launderers. False invoices can be issued from country A to country B seeming to represent legitimate transactions. The proliferation of on-line businesses also present a remarkable opportunity for criminals to create front companies.

### **WHERE IS IT EASIEST TO IDENTIFY POTENTIAL MONEY LAUNDERING ACTIVITY?**

It is actually getting more and more difficult to identify suspicious activity because criminals are becoming increasingly clever in how they wash their dirty money. However, there are some basic steps that form the part of any AML regime.

Two essential anti money laundering procedures are that companies must Know Their Customer (KYC). Secondly, relevant companies should actively look for red flags that signify money laundering such as unusual transactions, large cash payments and movements of funds that have no real logic. There is a big BUT though... while such red flags may identify money laundering, there is no guarantee that they will spot terrorist financing. Moreover, there is no such thing as a definitive list of red flags. As money launderers become cleverer, they too are studying the anti money laundering regulations and devising methods of getting the money through without appearing on official radar screens.

### **WHAT ABOUT PROFESSIONAL ADVISERS, SUCH AS LAWYERS AND ACCOUNTANTS? SHOULDN'T THEY BE ABLE TO SPOT MONEY LAUNDERING BY THEIR CLIENTS?**

Yes, but all the historical data tells us that these professions have not previously done a very good job. They have generated a very low level of reports of suspected money laundering to relevant authorities. On reflection, this is particularly strange as much of their core businesses centres on money and having detailed knowledge of clients together with complex financial systems, products and structures.

### **WHY ARE OFFSHORE FINANCIAL CENTRES ALWAYS MENTIONED IN RELATION TO MONEY LAUNDERING?**

Offshore financial centres ("OFC"), offshore jurisdictions, tax havens – call them what you will, have always played a vital part in money laundering. However, we should not forget that there are other onshore financial centres such as London that act as large offshore financial centres to non-UK citizens. OFC's have in the past provided products and services in which the actual account holder is virtually anonymous thus making money laundering and the hiding of assets easier. One could suggest that this still may be the case – where for example, are the fortunes of major terror groups, corrupt politicians and criminal groups and why haven't they been located and frozen yet?

### **IS THE FINANCING OF TERRORISM THE SAME AS MONEY LAUNDERING?**

No, but since 9/11, this topic has become strongly linked to money laundering. Traditional ideas on money laundering do not apply to terrorist financing. The basic of criminal money laundering is to wash large amounts of dirty money. However, terrorist funding can and does operate on a shoestring. That being said, the actual funding of terrorism, generating the funds as opposed to supplying them to front line terrorists – does involve large amounts of money. This money is generated through donations, fake charities, front companies, criminal activities and other supply mechanisms. All of this money has to be processed and hidden in the world's financial system. However, as with traditional money laundering, there is mounting evidence that this is being increasingly achieved outside the traditional western banking system through such methods as informal exchange systems (such as Hawala or Hundi), diamond trading and on-line share trading (to name but three). A further key problem is that because the amounts involved in mounting a terrorist operation are remarkably low, it is not necessarily feasible or possible for regulated institutions or companies to identify terrorist customers by analysing their financial transactions. Or to put it in very simple terms, the front line terrorist bank account is more likely to have very small sums of money in it and transfers to it rather than transfers of large amounts and a high balance.

### **WHY IS IT VITALLY IMPORTANT TO STOP MONEY LAUNDERING AND THE FINANCING OF TERRORISM?**

Money laundering supports and facilitates global criminal activity; Terrorist financing is the underlying facilitating mechanism of violent attacks by fanatics. If we could ever reduce the financial flows that underpin these activities, we would be able to tackle the problems themselves. Criminals and terrorists have no respect whatsoever for laws, regulations, decency – or ultimately – human life. They will do whatever they need to do to wash the proceeds of their crimes, or in the case of terrorists, ensure that the funds are available when and where they need them to mount their latest outrage.

The history of money laundering by organised criminals, is that such groups always surmount any obstacle in their path, using cutting edge technologies and any new produce or facility that can be exploited to clean dirty money. Terrorists – with strong and waving ideologies powering them – must be expected to do the same.


## IF THE MONEY LAUNDERING PROBLEM IS SO SERIOUS WHAT MORE CAN BE DONE TO CONTROL IT AND ULTIMATELY STOP IT?

Clever criminals, who are generating substantial sums through their activities, realised a long time ago that if you transfer these funds through numerous countries, you create a very difficult trail for law enforcement agencies to follow.

Money laundering is a world-wide activity. Criminals have embraced the 21st century global economy rather more effectively and quicker than governments and lawmakers. Countries still think of this problem in national rather than international terms. Money laundering can only effectively be fought through continuous and effective co-operation between countries and their organisations through such topics as common laws, sharing of information and co-operation between police forces and other effected countries.

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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.