

## Security Class 01

13th March, 2024 at 1:00 PM

### INTRODUCTION (01:05 PM):

- **What is Internal Security?**
- For this, you need to know about the evolution of life on Earth.
- Upper Paleolithic Age - Scavengers and **foragers**.
- Adaptation - Natural and cultural.
- When threats emanate from within the group itself, you need internal security.
- Core functions of State:
- Law and Order - Safety.
- Resources required to maintain law and order.
- **Syllabus (01:40 PM):**
- Linkages between Development and Spread of Extremism.
- Role of External State and Non-state Actors in Creating Challenges to Internal Security.
- Challenges to Internal Security through Communication Networks, Role of Media and Social Networking Sites in Internal Security Challenges, Basics of Cyber Security; Money-Laundering and its Prevention.
- Security Challenges and their Management in Border Areas - Linkages of Organized Crime with Terrorism.
- Various Security Forces and Agencies and their Mandate.
- **Sources:**
- **2nd ARC:** Conflict resolution: Naxalism Insurgency in North East (NE).
- Development Challenges in Extremist Affected Areas: Committee headed by D.K Bandyopadhyay.
- Standing Committee Report: NE Insurgency.
- Annual report of the Ministry of Home Affairs: Data.
- Websites: Institute Of Peace & Conflict Studies: The Institute of Peace and Conflict Studies (IPCS), Observer Research Foundation (ORF), Institute for Defence Studies and Analyses (IDSA), Naavi.org (Cyber security).
- ORGANISED CRIME IN INDIA: PROBLEMS & PERSPECTIVES: Madan Lal Sharma Prakash Singh Report.
- PRS: Standing Committee report on CAPF.
- Value-added material.

### MONEY LAUNDERING (01:53 PM):

- **Prohibition Era** (1920-1933):
- An explicit ban on three things - **manufacturing, sale, and distribution** of liquor.
- Temperance Movement:
- It contributed to the establishment of regulations on alcohol sales and consumption, advocating for reforms to protect families from the damaging effects of alcohol abuse.
- Volstead Act:
- Many gangs were shot down who were **Bootlegging** Liquor.
- Al Capone - One of the gangsters.
- **Definition:**
- Money laundering is the act of cleaning up illicit/dirty money.
- The term "Money Laundering" describes a range of practices to **disguise** the source of illicit proceeds and to integrate them into the legitimate economy or to make them appear legitimate.

-> Black money is the money which is unaccounted for i.e. authorities do not know about money.

-> Illicit money associated with something illegal or crime or corrupt.

-> Corruption has three forms which are -

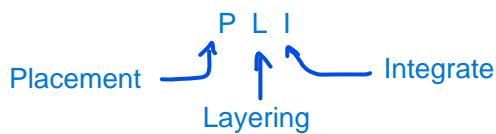
Bribery :- Taking money for doing something.

Embezzlement :- Using money for their personal use which is given for something else.

Self Dealing :- Benefitting from their own position by making organization and giving contract to himself.

- **Operational Principles of Money Laundering:**

- The **operational principles** of money laundering include:
  - i) Moving the funds away from any direct association with the crime.
  - ii) **Disguising the trail.**      iii) **Re-inject the money as legitimate money.**
  - ~~iii) Making the money available to criminals once again while keeping its source secret.~~
- These three operational principles correspond to **three stages of money laundering:**
- i) **Placement Stage:**
  - It is the first stage which involves the **physical disposal of cash** wherein the launderer introduces illicit money **into the financial system**.
  - It is usually done by breaking up large amounts of cash into smaller sums which are then deposited into bank accounts or used to make purchases of valuable assets.
- ii) **Layering Stage:**
  - It refers to the separation of illicit proceeds from their source by creating complex layers of financial transactions which may include a series of conversions or movement of funds across jurisdictions.
  - The objective is to **concede the audit trail** and provide anonymity.
- iii) **Integration Stage:**
  - It refers to the re-injection of laundered proceeds back into the economy in such a way that they re-enter the financial system as legitimate funds.



- **Mechanisms of Money Laundering (03:05 PM):**
- *Casinos.*
- *Lottery tickets.*
- *Ownership of valuable assets (i.e. painting of women III).*
- *Legitimate business ownership (i.e. front companies) - includes high-frequency transactions and most of these transactions are in cash.*
- *Shell companies.*
- *Real estate.*
- *Informal value transfer (i.e. hawala transactions).*
- **a) Cash Smuggling (03:30 PM):**
- It is one of the oldest placement techniques wherein launderers purchase shipping businesses (freight) so that they can smuggle cash across the destination.
- **b) Casinos:**
- Casino chips are bought in cash, then after some time in which gambling may or may not take place, these chips are redeemed for cash via electronic transfers.
- Similarly winning lotteries could be bought from actual winners for a certain cash consideration.
- **c) Smurfing:**
- Ordinarily, countries have reporting requirements.
- For instance, in India, there is a general restriction on every person receiving cash of 2 lakhs or more from a single person for one or more transactions in a day.
- In such cases, the services of Smurfs, who are cash couriers, are used to make small deposits.
- **d) Informal value transfer systems:**
- For instance, the services of hawala operators, which is a parallel banking network, could be used to make payments without any actual movement of money.
- **e) Legitimate business ownership/Front companies:**
- Dirty money can be added to the cash revenues of a legitimate business and then invoices can be manipulated to give the money a legitimate appearance.
- **f) Shell companies:**
- A shell company is one that exists only on paper and doesn't have any legitimate underlying business.
- Such companies are used to either invest money, offer loans, or acquire assets on behalf of the launderer.
- **g) Valuable assets/Art market:**
- Launderers have a deep interest in the art market wherein valuable commodities are bought at high premiums, to act as a store of value.
- For example, watches.
- **h) Real estate transactions:**
- Properties can be bought or sold under false names or shell corporations, also can serve as collateral in layering transactions, or could even be used to integrate illicit proceeds back into the economy.

**THE TOPIC FOR THE NEXT CLASS - THE IMPACT OF MONEY LAUNDERING.**