

RCMP Criminal Intelligence Project Scot  
— November 10, 2008



An Assessment of Money Laundering  
Activities and Organized Crime Involvement  
within the "White Label" ATM Industry



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Source: [www.wikipedia.com](http://www.wikipedia.com) March 23, 2009

*Proceeds of crime, not only from drug trafficking but also loan sharking, illegal gaming/bookmaking operations, prostitution, immigration fraud, human smuggling, contraband tobacco, stolen properties, theft, and extortion have been reported as being laundered through “white label” ATMs. (A)*

# TABLE OF CONTENTS

---

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>KEY FINDINGS .....</b>	<b>2</b>
<b>INTRODUCTION .....</b>	<b>4</b>
Purpose .....	4
Objectives .....	4
Methodology.....	5
Background .....	5
<b>OVERVIEW OF THE "WHITE LABEL" ATM INDUSTRY IN CANADA .....</b>	<b>6</b>
Operating network: Interac .....	6
<i>Types and Category of Members.</i> .....	6
<i>Statistics on ATMs usage</i> .....	8
Suppliers of "white label" ATMs .....	9
Processor of "white label" ATM transactions .....	9
Regulatory Environment .....	10
ATMIA Canada .....	11
FATF Third Mutual Evaluation.....	12
Classification of "white label" ATM for Tax Purposes .....	13
<b>TRANSACTION PROCESS. ....</b>	<b>14</b>
Customer Using his Own Bank's ATM.....	14
Customer Using another Bank's ATM .....	15
Customer Using a White Label ATM. ....	16
<b>WAYS TO OPERATE A WHITE LABEL ATM. ....</b>	<b>18</b>
Ownership program .....	18
Placement program. ....	18
Investor program.....	18
Cost of equipment.....	18
<b>SOURCES OF REVENUE .....</b>	<b>19</b>
Fees.....	19
Gift cards, coupons and event tickets.....	19
Co-branding .....	19
Screen advertising .....	20

An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry

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# TABLE OF CONTENTS

---

<b>NEW TRENDS WITHIN THE INDUSTRY . . . . .</b>	<b>21</b>
Increased functionality . . . . .	21
Turf war . . . . .	21
<b>WHITE LABEL ATM INDUSTRY IN THE UNITED STATES . . . . .</b>	<b>22</b>
<b>CRIMINAL ACTIVITIES RELATED TO "WHITE LABEL" ATM . . . . .</b>	<b>24</b>
Counterfeit Currency . . . . .	24
Fraud . . . . .	24
Payment Card Fraud . . . . .	25
Money Laundering . . . . .	25
Tax Evasion . . . . .	29
Investigative Report On ATMs . . . . .	29
<b>IMPLICATION OF ORGANIZED CRIME WITHIN THE "WHITE LABEL" ATM INDUSTRY . . . . .</b>	<b>30</b>
Outlaw Motorcycle Gangs' Implication . . . . .	30
Drug Trafficking Organization . . . . .	30
Criminal Organizations / Individuals Involved in Other Criminal Activities . . . . .	31
<i>Contraband Cigarettes</i> . . . . .	31
<b>CONCLUSION . . . . .</b>	<b>32</b>

An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry

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# EXECUTIVE SUMMARY

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The lack of government regulation in the “white label” ATM industry has allowed it to grow at unprecedented levels and be used by organized crime to launder proceeds of crime and commit other crimes. Furthermore, this lack of supervisory overview has allowed organized crime groups, particularly the HELL'S ANGELS MOTORCYCLE CLUB (HAMC), to infiltrate this unregulated financial industry to levels close to 5% of the entire sector at this time. Recent intelligence may suggest that this level could significantly be much higher. Proceeds of crime, not only from drug trafficking but also loan sharking, illegal gaming / bookmaking operations, prostitution, immigration fraud, human smuggling, contraband tobacco, stolen properties, theft, and extortion have been reported as being laundered through “white label” ATMs. The potential amount that could be laundered within the “white label” ATM industry is approximately \$315 million and could easily reach \$1 billion annually. As the Financial Action Task Force has identified that the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* did not properly address the risk posed by this industry, it is imperative that proper measures be taken, such as the creation of a registry and implementation of a monitoring system for the owners of “white label” ATMs, in order to address legislative gaps and to prevent organized crime from further infiltrating and using the industry to launder proceeds of crime. (A)



## An Assessment of Money Laundering Activities and Organized Crime Involvement within the “White Label” ATM Industry

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# KEY FINDINGS

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- Since the 1996 Competition Bureau's ruling, the growth in the number of "white label" automated teller machines ("WLATM") in the Canadian marketplace is unprecedented. The number of ATMs grew to 55,562 in 2007 from 18,426 in 1996, an increase of 202 percent. Of the total, non-financial WLATM currently comprise 70.4 percent of all ATMs in Canada. (U)
- In Canada, any individual or business can own and/or operate an unlimited number of WLATMs. These ATMs are not covered under the Bank Act because they are not considered financial institutions, and consequently are not regulated under federal jurisdiction through the Office of the Superintendent of Financial Institutions Canada. However, certain aspects of the industry are regulated by some codes and standards. (U)
- Major concerns are rising from the newly created WLATM industry because: anybody can own or operate a WLATM, there are minimum requirements for due diligence, owners of WLATMs have access cards enabling them to load cash into the machine, WLATM owners are asked, on a one-time basis, to identify their source of funds, and WLATMs are not subject to any government regulations. (A)
- The major concerns that are arising in Canada from the WLATM industry also seem to be shared by law enforcement agencies in the United States. Studies done by the FBI and the NY State Police, as well as discussions with the Financial Crime Enforcement Network (FinCEN) confirm that WLATMs represent an ideal method to launder significant amounts of money in the United States. (A)
- WLATMs are an ideal method to launder significant amounts of money. The estimated amount of money that can potentially be laundered through those machines is close of \$315 million and could easily reach \$1 billion annually. (A)
- The use of a WLATM skips the placement stage altogether as the money loaded into the machine gets electronically deposited into the bank account attached to the ATM. It also has the added advantage of the lack of physical contact with employees of the financial sector that could detect suspected activities. (A)
- Intelligence and investigations have demonstrated, for several years that WLATMs have been and still are used for money laundering purposes. Proceeds of crime from loan sharking, illegal gaming / bookmaking operations, drug trafficking (cocaine, hashish, marihuana and methamphetamine), prostitution, immigration fraud, human smuggling, contraband tobacco, stolen properties, theft and extortion have been reported as being laundered through WLATM. (A)
- On September 21, 2007 TVA channel, in Quebec, broadcasted an investigative report on ATMs. This broadcast highlighted the fact that ATM suppliers were more than willing to sell ATMs even though the journalist stressed that he had a criminal record. Seven ATM dealers out of ten mentioned they had no problem selling an ATM to someone who had a criminal record. Furthermore, one ATM dealer even gave an explanation on how to launder money through them. (U)

## An Assessment of Money Laundering Activities and Organized Crime Involvement with the "White Label" ATM Industry

- Outlaw Motorcycle Gangs (OMG), primarily HAMC, have been involved in the WLATM industry for money laundering purposes since the late 90s. Today, HAMC members and associates are involved in the WLATM industry in Nova Scotia, Quebec, Ontario, Alberta and British Columbia. Investigations revealed that proceeds of crime from loan sharking, illegal gaming / bookmaking operations, drug trafficking (cocaine, hashish and marihuana), prostitution, stolen properties and extortion were being laundered, by various HAMC members and associates, through WLATM. (A)
- Investigations and intelligence files indicate that individuals associated to organized crime groups currently control approximately 5% of WLATMs in Canada. If other information is substantiated, the number of WLATMs used or controlled by organized crime to launder proceeds of crime can reach close to 20% of all WLATMs currently in operation in Canada. (A)
- While HAMC launders drug trafficking money through WLATMs, other drug trafficking organizations, unaffiliated with OMGs, are doing the same. These criminal organizations, located in Saskatchewan, Northwest Territories and British Columbia, are using WLATM to launder proceeds from cocaine, marihuana and methamphetamine trafficking activities. Two of those organizations had a WLATM at the restaurant they owned. Another organization had a WLATM management company that operated approximately 15 WLATMs located in restaurants, convenience stores, bars and gas stations. (A)
- Recent investigations and intelligence reports have highlighted the fact that proceeds from human smuggling, immigration fraud, theft, loan sharking and contraband cigarettes were believed to be laundered through WLATMs. (A)
- The decline in transactions per ATM in the past years has advanced the belief that the ATM market is reaching its saturation point. Statistics demonstrates that cash, as a payment method among ATM cardholders, decreased from 50% in 1997 to 26% in 2006. Furthermore, an increased involvement of organized crime groups can be seen within the WLATM industry. Some investigators believe that soon a turf war, as to the location of these WLATMs will be a concern. (A)



Source: [www.wikipedia.com](http://www.wikipedia.com) March 23, 2009

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# INTRODUCTION

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Money laundering is a major concern globally. Recent figures released by the International Monetary Fund (IMF) put it at \$2 trillion US worldwide. Estimates for Canada alone could be anywhere from \$25 to \$63 billion US. (U)

Illegal activities such as drug trafficking, contraband smuggling and telemarketing fraud generate significant amount of proceeds of crime that need to be laundered. Money laundering activities can have, in the long run, a substantial impact on our economy and society causing economic distortion or instability, unfair competition, a loss of government tax revenues, an increased need for law enforcement, increase in social costs and increasing corruption levels. (U)

The “white label” ATM<sup>1</sup> (WLATM) industry is unregulated and has been identified as an area of concern, through research and analysis of ongoing RCMP Integrated Proceeds of Crime (IPOC) investigations. It is also an area of concern to law enforcement in regards to money laundering operations by organized crime groups. Finance Canada has identified WLATMs as an “issue for further consideration” in their consultation paper<sup>2</sup> in light of their review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA). (U)

## Purpose

WLATMs have been identified as a means by which organized crime groups can launder significant amounts of proceeds of crime in Canada. Project SCOT<sup>3</sup> is intended to establish the nature and scope of the “white label” ATM industry in Canada and to assess the current situation, demonstrate the potential vulnerability of criminal activities, specifically money laundering, and to identify criminal organizations operating within the industry. (U)

## Objectives

- To understand the WLATM industry, the operating network, the acquisition and the transaction process; (U)
- To define how the “white label” ATM can be used to launder money; (U)
- To determine the implication of organized crime in the industry; (U)
- To elaborate on the advantages, to organized crime, of owning a WLATM; (U)
- To identify major concerns arising within the industry and discuss the two main vulnerabilities of WLATMs: operator anonymity and the potential for placement activities; (U)
- To identify the regulatory environment and lack of legislation in the industry. (U)

<sup>1</sup> Automated Teller Machine — ATM (Also known as Automated Banking Machine ABM)

<sup>2</sup> Enhancing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime; Consultation Paper; Finance Canada; June 2005; (Internet: [http://www.fin.gc.ca/activity/pubs/enhancing\\_e.pdf](http://www.fin.gc.ca/activity/pubs/enhancing_e.pdf))

<sup>3</sup> The ATM was invented by Scot John Shepherd-Barron. The world's first ATM was installed in a branch of Barclays in the northern London borough of Enfield, Middlesex, in 1967.

### An Assessment of Money Laundering Activities and Organized Crime Involvement withing the “White Label” ATM Industry

## Methodology

Many sources were used to collect the necessary information for this report. Initial research was conducted on the internet where information, reports and papers were located on the subject. (U)

Two ATMIA<sup>4</sup> conferences were attended, where a great deal was learned about ATM hardware as well as industry trends and challenges. Interac Association, Visa Canada, and ATM business owners met and participated in meetings with the industry to establish new rules in an attempt to self-regulate the industry. (U)

IPOC field units across Canada, Sûreté du Québec and two United States law enforcement agencies namely, Financial Crimes Enforcement Network (FinCEN) of the Department of the Treasury and the Department of Homeland Security were consulted. The content of this report is also based on information gathered through open source searches and RCMP operational databases such as NCDB<sup>5</sup>, PROS<sup>6</sup> and ACIIS<sup>7</sup>. (U)

## Background

Unregulated financial services, such as the “white label” ATM (“WLATM”) industry have made their way into Canada in the last 12 years. In 1996, the Competition Bureau in Ottawa ruled that the major financial institutions’ practices in regards to Automated Teller Machines (ATM) were monopolistic and exclusive<sup>8</sup>. In addition, the Competition Bureau allowed a surcharge to be made on ATM transactions. These two decisions opened the door to the creation of the WLATM industry. Following the 1996 Competition Bureau’s ruling, there was a tremendous growth in the number of WLATMs present in the Canadian marketplace. According to the Interac Association<sup>9</sup>, the number of ATMs grew to 55,562 in 2007 from 18,426 in 1996, an increase of 202 percent. Of the total, non-financial WLATMs currently comprise 70.4 percent of all ATMs in Canada<sup>10</sup>. (U)

Most of the growth came from the newly created industry, as the increase of ATMs from financial institutions only represented approximately 2,513 machines, or 18 percent as opposed to 34,623 machines or 767 percent for the “white label” ATM. It is also important to note that there was an increase of 4,691 “white label” ATMs (18 percent) between 2003 and 2004<sup>11</sup>. (U)

Major concerns were raised by law enforcement in regards of this newly created WLATM industry: anybody can own (including organized crime) or operate a WLATM, there are minimum requirements for due diligence, owners of WLATM have access cards which enable them to load cash into the machine, WLATM owners / lessees are asked, on a one-time basis, to identify their source of funds, and WLATM are not subject to any government regulations<sup>12</sup>. (A)

Based on these concerns, WLATMs are an ideal method to launder significant amounts of money. Other crimes can be committed within the white label industry such as: fraud, “skimming”, tax evasion, introduction of counterfeit currency and contraband smuggling. Intelligence indicates a strong involvement of the HELL'S ANGELS MOTORCYCLE CLUB (HAMC) in British Columbia, Ontario and Quebec within this industry. Furthermore, the estimated amount of money that can potentially be laundered through those machines approaches \$315 million and could easily reach \$1 billion annually in Canada<sup>13</sup>. (A)



4 ATMIA = ATM Industry Association

5 National Criminal Data Base

6 Police Reporting and Occurrence System

7 Automated Criminal Intelligence Information System

8 Abuse and Dominance: Some Reflections on Recent Cases and Emerging Issues; Competition Bureau; May 10, 1996; <http://www.competitionbureau.gc.ca/epic/site/cb-bc.nsf/en/00949e.html>

9 Internet: <http://www.interac.org>

10 Interac Association <http://www.interac.org> & Canadian Bankers Association (Internet: <http://www.cba.ca>);

Note: Data on Bank-owned ATMs includes Bank of Montreal, ScotiaBank, CIBC, Laurentian Bank, Royal Bank, TD Canada Trust and HSBC Bank of Canada. For the analysis, an assumption is made that all other ATMs are “white label” ATMs as detailed statistics are not available.

11 *Ibid*

12 Project SMURFING; Money Laundering Typologies within Canada; RCMP Criminal Intelligence; March 2006.

13 *Ibid*

### An Assessment of Money Laundering Activities and Organized Crime Involvement within the “White Label” ATM Industry

# OVERVIEW OF THE WLATM INDUSTRY IN CANADA

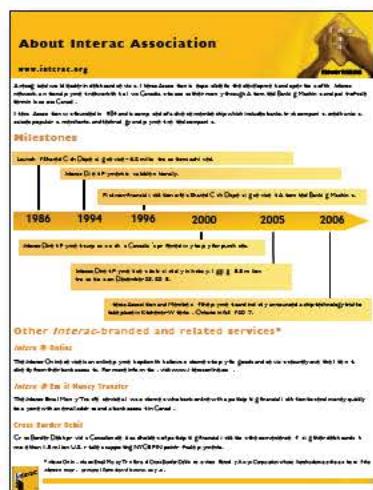


## Operating Network: Interac

In Canada, members of the Interac Association are responsible for the technology infrastructure that connects cardholders to their money. Based on an Inter-Member Network that links financial institutions and directs connectors, Interac is the most used method of electronic payment in Canada with over 406,000 merchant locations. Furthermore, 55,562 ATMs are linked to the Interac network in Canada. The Interac Association defines itself as “a national organization linking enterprises that have proprietary networks so that they may communicate with each other for the purpose of exchanging electronic financial transactions.”<sup>14</sup> (U)

### Types and Categories of Members

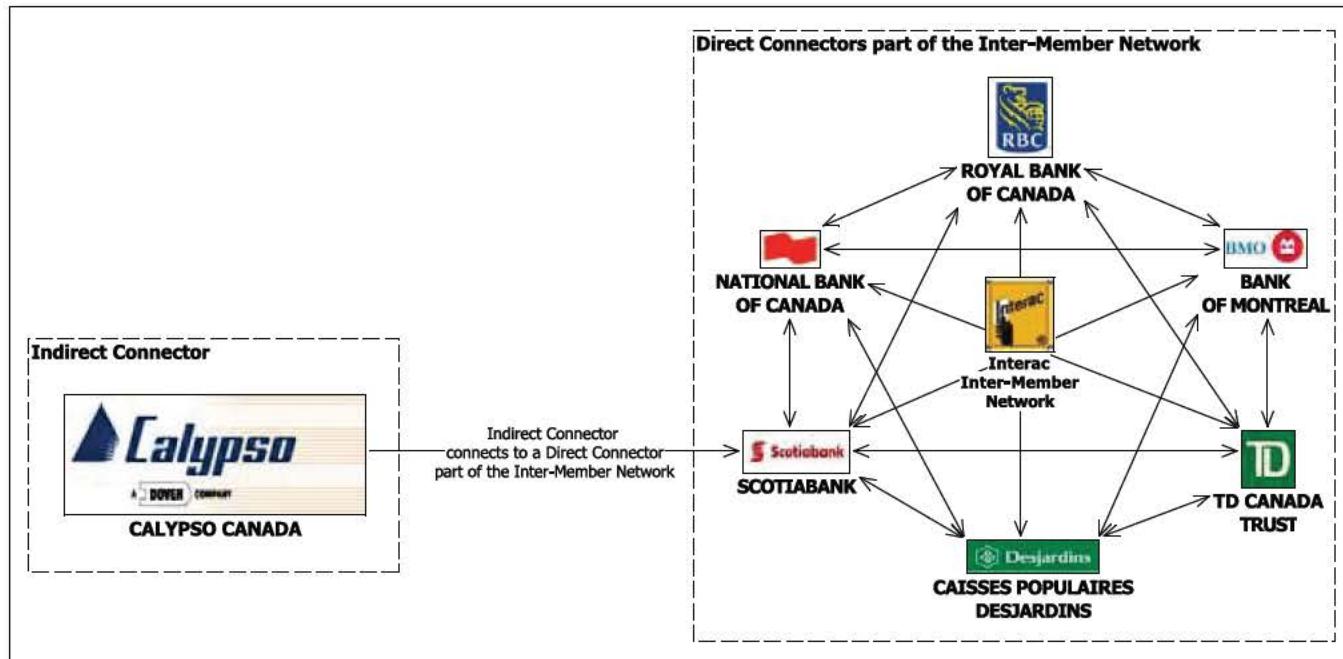
Within the Interac Association, there are two types of members: direct connectors (83 in total)<sup>15</sup> and indirect connectors (all the others). Direct connectors are defined by Interac as: “members who connect directly to the Inter-Member Network (IMN) to provide shared cash dispensing (ATMs) and direct payment services (debit cards at the point-of-sale)”. Each direct connector maintains a physical network connection to the Inter-Member Network, which allows them to connect to each other through a private telecommunications network. It is like the internet, there is no single point of failure making it virtually impossible for the entire system to shut down.” The second type of member, indirect connector, is a member who connects through a direct connector to the Inter-Member Network. *Figure 1* illustrates the relationship between direct connectors and indirect connectors. In this example, Calypso Canada, an indirect connector and Interac Acquiring Member offering cash dispensing and direct payment services, access the Inter-Member Network through Scotiabank, a direct connector part of the network.<sup>16</sup> (U)



Source: [www.interac.org](http://www.interac.org) March 23, 2009

- 14 Internet: <http://www.interac.org>
- 15 Internet: <http://www.interac.org/members/members.php> (members list)
- 16 Internet: <http://www.interac.org>

### An Assessment of Money Laundering Activities and Organized Crime Involvement with the “White Label” ATM Industry

**Figure 1: Connection to the Inter-Member Network (U)**

Within the Interac Association, there are four different categories of members: issuers, acquirers, connection service providers and settlement agents. Issuers are financial institutions that maintain demand accounts and issue debit cards to their clients to access Interac services. At present, financial institutions, money market mutual funds and insurance companies are eligible to become issuers.<sup>17</sup> Acquirers operate card-accepting devices, such as ATM or direct payment terminals at the point-of-sale, which capture and transmit to the issuer relevant data, needed to undertake a transaction.<sup>18</sup> Connection service providers are direct connectors who provide access for indirect connectors to the Inter-Member Network. Finally, settlement agents take care and clear the financial obligations of other members through the Canadian Payments Association's Automated Clearing Settlement System.<sup>19</sup> (U)

17 Internet: <http://www.interac.org/members/issuers.php> (Issuer list)

18 Internet: [\(Acquirer list\)](http://www.interac.org/members/acquirers.php)

19 Internet: <http://www.interac.org>

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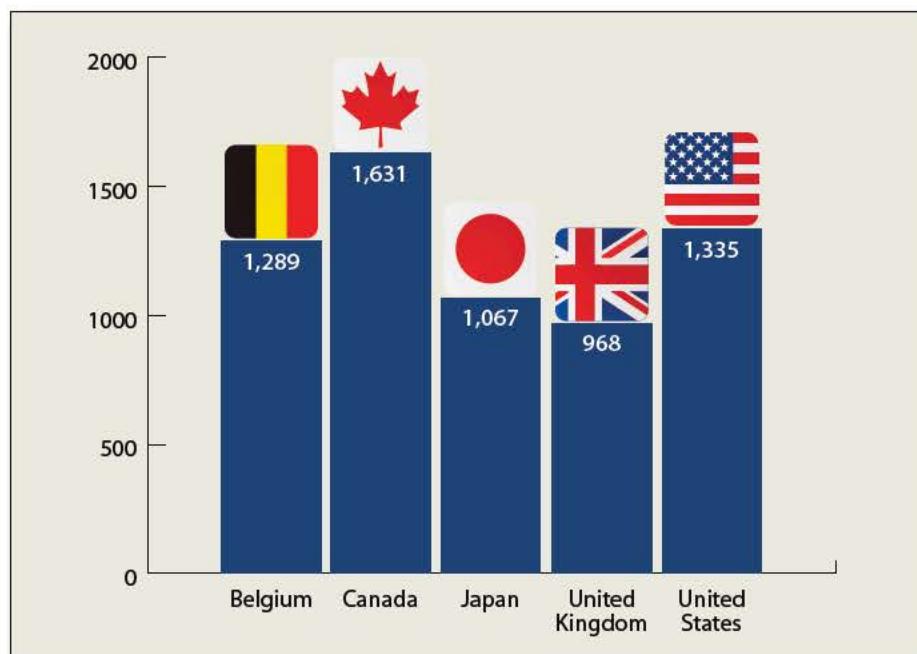
### **Statistics on ATM Usage**

ATM statistics in Canada highlights the following:

- Canada has the world's highest ratio of ATMs per 1 million inhabitants and the fourth highest ratio of ATM cash transaction per inhabitant in the world, as depicted by *graphic 1* and *2*; (U)
- With 1,631 ATMs per 1 million inhabitants, Canada ranks first, ahead of the United States with 1,335 and Belgium with 1,289; (U)
- Since 2001, the number of ATMs increased by 56% to 55,562 in 2007. During the same period, the number of shared cash dispensing transactions at ATMs decreased by 29% to 266 million. (U)
- Cash, as a payment method among ATM cardholders, decreased from 50% in 1997 to 26% in 2006 while direct payment increased from 26% to 48%.<sup>20</sup> (U)

Interac 2006 Research Facts revealed that: 71% of cardholders used an ATM in 2006, 96% of cardholders have used an ATM, and 41% of cardholders completed an ATM transaction more than once a week.<sup>21</sup> (U)

**Graphic 1: Number of Automated Teller Machines per 1 Million Inhabitants (2005)<sup>22</sup> (U)**

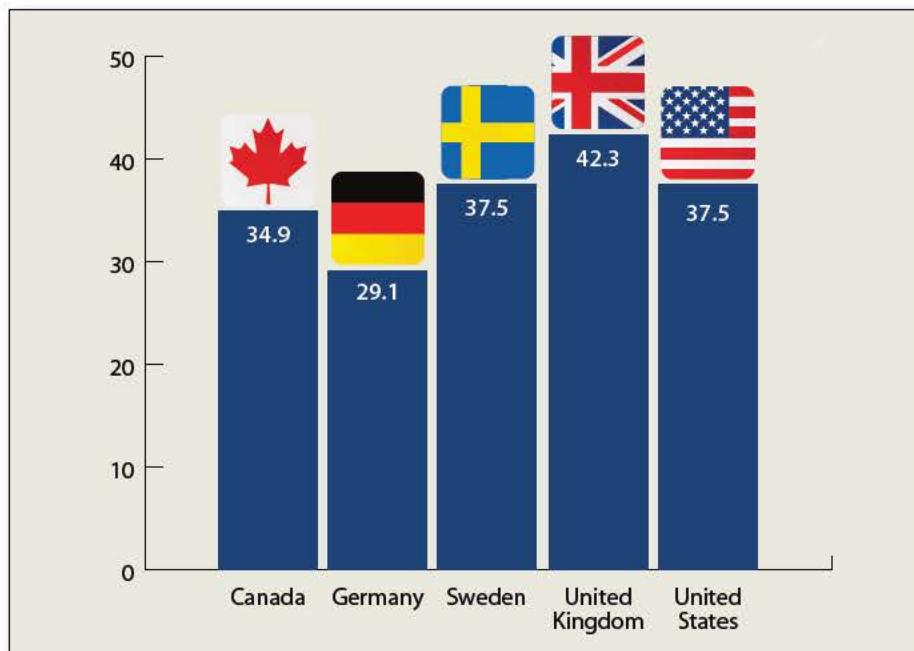


20 Internet: <http://www.interac.ca/media/stats.php>

21 Internet: <http://www.interac.ca/media/researchfacts.php>

22 Internet: <http://www.interac.ca/media/researchfacts.php>

**Graphic 2: Number of Automated Teller Machine Cash Transactions per Inhabitant (2004)<sup>23</sup> (U)**



## Suppliers of "White Label" ATMs

The suppliers are manufacturing companies that supply ATMs to Canadian markets. The major suppliers of WLATMs are: Diebold, NCR, Nextran, Tidel, Tranax, Triton, and WRG in the United States, Fujitsu in Japan and Nautilus Hyosung in South Korea. There are also market segment manufacturers such as DASH ATM (Greenlink Technologies inc.) that specialize in heavy gauge steel construction and high security features. Those ATMs are designed for banks, credit unions, or any location where a high security enclosure is needed. (U)

## Processors of White Label ATM Transactions

Processors, also called switches, process transactions on behalf of WLATM owners or operators. A processor provides transaction processing network services, such as cash management tools, live monitoring, daily cash settlements and other administrative services. TNS SMART NETWORK INC., as Canada's largest WLATM processor, currently processes transactions for more than 11,000 WLATM totaling \$5 billion annually<sup>24</sup>. *Table 1* below highlights Canada's largest non-bank processors and the number of WLATMs they manage: (U)

23 Internet: <http://www.interac.ca/media/stats.php>

24 Internet: <http://www.tns-smart.net/company.html>

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**Table 1: Non-Bank ATM Processors (U)**

<b>Calypso Canada Limited</b> Calypso Canada, A Division of Dover Corporation (Canada) Limited Suite 400, 1550 8th Street SW Calgary, Alberta (Canada) T2R 1K1 Tel: (403) 263-9955 Website: <a href="http://www.calypsocanada.com">http://www.calypsocanada.com</a> Number of ATMs managed: 4,000	<b>Open Solutions Canada</b> 700 Dorval Drive, Suite 202, Oakville, Ontario (Canada) L6K 3V3 Tel: (888) 827-1265 Website: <a href="http://www.ca.opensolutions.com">http://www.ca.opensolutions.com</a> Number of ATMs managed: 4,000
<b>Direct Cash Management Inc.</b> 10620 100 St. Westlock, Alberta (Canada) T7P 2C5 Tel: (888) 414-3730 Website: <a href="http://www.directcash.net">http://www.directcash.net</a> Number of ATMs managed: 4,100	<b>Petro-Canada</b> Petro-Canada P.O. Box 2844, Calgary, Alberta, (Canada) T2P 3E3 Tel: (403) 296-8000 Website: <a href="http://www.petro-canada.ca">http://www.petro-canada.ca</a> Number of ATMs managed: N/A
<b>First Data Acquisition Corporation</b> 2630 Skymark Ave Suite 500 Mississauga, Ontario (Canada) Tel: (740) 266-5963 Website: <a href="http://www.firstdata.com">http://www.firstdata.com</a> Number of ATMs managed: N/A	<b>Threshold Financial Technologies Inc.</b> 3269 American Dr. Mississauga, Ontario (Canada) L4V1V4 Tel: (866) 877-8384 Website: <a href="http://www.threshold-fti.com">http://www.threshold-fti.com</a> Number of ATMs managed: 1,400
<b>Global Cash Access (Canada) Inc.</b> 3525 East Post Road Suite 120 Las Vegas, Nevada 89120 United States Tel: (702) 855-3000 Website: <a href="http://www.globalcashaccess.com">http://www.globalcashaccess.com</a> Number of ATMs managed: N/A	<b>TNS Smart Network Inc.</b> 191 The West Mall, Suite 1020 Toronto, Ontario (Canada) M9C 5K8 Tel: (888) 236-4354 Website: <a href="http://www.tns-smart.net">http://www.tns-smart.net</a> Number of ATMs managed: 11,000
<b>On-Line Service Corp.</b> 5 Hill Street, PO Box 65, Kitchener, Ontario (Canada) N2G 3X4 Tel: (519) 579.3930 Website: <a href="http://www.online-service-corp.com">http://www.online-service-corp.com</a> Number of ATMs managed: N/A	<b>Westsphere Systems Inc.</b> 2140 Pegasus Way NE Calgary, Alberta (Canada) T2E 8M5, Tel: (403) 290-0264 Website: <a href="http://www.westsphereasset.com">http://www.westsphereasset.com</a> Number of ATMs managed: 920

## Regulatory Environment

In Canada, any individual or business can own and/or operate an unlimited number of WLATMs. These ATMs are not covered under the *Bank Act* because they are not considered financial institutions, and consequently are not regulated under federal jurisdiction through the Office of the Superintendent of Financial Institutions Canada. However, certain aspects of the industry are regulated by specific codes and standards. (U)

The Office of Consumer Affairs (OCA) has a voluntary code of practice for consumer debit card services, prepared by the Electronic Funds Transfer Working Group. It outlines industry practices as well as the consumer's and the industry's responsibilities.<sup>25</sup> (U)

25 Internet: [http://www.ic.gc.ca/epic/site/oca-bc.nsf/en/h\\_ca0000e.html](http://www.ic.gc.ca/epic/site/oca-bc.nsf/en/h_ca0000e.html)

In addition, merchants who offer the Interac Online service must comply with the Canadian Code of Practice for Consumer Protection in Electronic Commerce ("Code")<sup>26</sup> This Code of practice was established by the Working Group on Electronic Commerce and Consumers and endorsed by federal, provincial and territorial ministers responsible for consumer affairs. This Code establishes benchmarks in regards to good business practices for merchants engaged in commercial activities with consumers online. Merchants are required to comply with the Code, help ensure that customers are dealing with reputable online merchants. The Code is reviewed regularly to ensure its relevance to current technology and business practices, and its effectiveness in promoting consumer protection in electronic funds transfers. According to the Interac Association organizations, endorsing the Code will maintain or exceed the level of consumer protection it establishes. The Code does not preclude the protection given by existing laws and standards.<sup>27</sup> (U)

The Code further outlines industry practices, consumer and industry responsibilities which will help to protect consumers in their use of debit card services in Canada. This applies only to services that use debit cards and personal identification numbers (PIN) to access point-of-service terminals, such as automated teller machines (ATM), point-of-sale (POS) terminals and debit card terminals in the store. The code does not cover transactions that take place outside of Canada, or that transfer funds in or out of Canada, other arrangements apply to these transactions. Card issuers will also do their best to protect consumers in such transactions and to resolve any problems that may occur.<sup>28</sup> (U)

Finance Canada's White Paper on Financial Institutions Legislation Review released in June 2006, indicated that the Government would encourage the adoption of a voluntary consumer protection regime to cover electronic transactions.<sup>29</sup> ATM Industry Association (ATMIA) Canada has accepted to participate in the development of a voluntary electronic funds transfer code based on the work undertaken to establish the code for debit cards. ATMIA anticipates that the final code will be ready for industry adoption by late 2008.<sup>30</sup> (U)

Rule E1 of the Canadian Payments Association (CPA) covers the obligations of a Delivering Direct Clearer (DDC)<sup>31</sup>. This rule ensures that information protection and verification requirements are met during the encryption and decryption of the secret code (PIN).<sup>32</sup> (U)

In this unregulated industry, the main actors, which are Interac Association and the ATM Industry Association (ATMIA)<sup>33</sup>, impose rules and regulations onto their members. Since 2003, Interac has requested a minimal set of conditions (anti-money laundering controls) from their new customers. However, those new conditions are not applicable for the customers registered before 2003 and the anti-money laundering controls in place appear to be limited, rendering the deterrence ineffective. (U)

Most of those codes and standards discussed above ensure that consumers are protected during their use of debit services and that the settlement process is managed appropriately. As previously mentioned, ownership of WLATMs is currently not regulated. Discussions have taken place recently between the Government of Canada and the industry in order to mitigate legislative gaps and address money laundering concerns. While it is relatively easy for an individual involved in criminal activities or related to organized crime groups to own and/or operate a WLATM and difficult to identify ATM owners and operators, new regulations or legislative amendments could alleviate problems identified. (A)

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26 Internet: [http://cmcweb.ca/epic/site/cmc-cmc.nsf/vwapj/EcommPrinciples2003\\_e.pdf/\\$FILE/EcommPrinciples2003\\_e.pdf](http://cmcweb.ca/epic/site/cmc-cmc.nsf/vwapj/EcommPrinciples2003_e.pdf/$FILE/EcommPrinciples2003_e.pdf)

27 *Ibid*

28 Internet: [http://cmcweb.ca/epic/site/cmc-cmc.nsf/vwapj/EcommPrinciples2003\\_e.pdf/\\$FILE/EcommPrinciples2003\\_e.pdf](http://cmcweb.ca/epic/site/cmc-cmc.nsf/vwapj/EcommPrinciples2003_e.pdf/$FILE/EcommPrinciples2003_e.pdf)

29 Internet: <http://www.fin.gc.ca/activy/pubs/White06e.pdf>

30 Internet: <http://www.fin.gc.ca/activy/pubs/White06e.pdf>

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31 A DDC may act as a Settlement Agent during the white-label ATM settlement process.

32 Internet: <http://www.cdnpay.ca/home/home.asp>

33 Internet: <http://www.atmia.com/>

#### An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry

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## ATMIA Canada

The ATM Industry Association (ATMIA) is a global, non profit trade association with over 1,000 members in 50 countries. Their mission is to promote and to protect the ATM industry as well as to provide education, best practices, networking opportunities and, a political voice for its member organizations.<sup>34</sup> (U)

### Discussion with the Industry

Over the last 12 months, the RCMP Proceeds of Crime Branch has worked with Finance Canada, ATMIA Canada and the Interac Association in order to enhance current requirements. The RCMP's initial recommendation was to propose an amendment to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) to oblige the WLATM owners and operators to register their companies and ATMs with Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), for money service businesses (MSB) through the MSB registry. (A)

Members of law enforcement agencies from Toronto, Montréal and the RCMP Proceeds of Crime Branch in Ottawa, participated in the Working Group meetings. As requirements were defined with Finance Canada, working relationships were developed with ATMIA Canada and the Interac Association to identify risk areas and mitigating factors. During those meetings, it was suggested that additional measures should be taken to strengthen current processes in order to strengthen the framework in place, prevent, mitigate the risk of money laundering and to improve information sharing processes needed to identify and communicate criminal activities to law enforcement agencies. (A)

As a result of discussions, the RCMP minimum proposed requirements for white label ATMs are: (U)

- Customer Due Diligence responsibilities; (U)
- Person or entity to be identified; (U)
- Identity verification; (U)
- Information and Records to be kept on persons; (U)
- Information and Records to be kept on entities; (U)
- Criminal Record Checks; (U)
- Source of Funds Declarations Responsibility; (U)
- Information to be collected in declaration on each ATM; (U)

- Information to be collected on the source of funds; (U)
- Timing of declarations; (U)
- Audit and Security Unit. (U)

Although the WLATM industry, Canadian government and law enforcement agencies have different views and motivations on how the industry should be structured, all parties would benefit from a more regulated industry. Maintaining the industry's reputation and image, the Canadian government's credibility towards international bodies such as the FATF and reducing criminal activities related to the WLATM industry are all factors that address various goals of parties involved. One of the key goals of the Working Group should be the establishment of a framework that will help reduce the vulnerability of the WLATM industry to money laundering and organized crime involvement. (A)

Since the initial meeting, law enforcement's position has been to create a registry and a security unit located within Interac Association. This unit would be responsible for establishing a database of records of WLATM owners and operators. Furthermore, this security unit would be responsible for the auditing of WLATM owners to assess client identification requirements and compliance issues and would serve as liaison to law enforcement agencies' enquiries. (A)

As negotiations are coming to an end, it appears that the WLATM industry, represented by ATMIA Canada and the Interac Association, is not receptive to government regulation. Self-regulation of the WLATM industry is what the industry is aiming for. This position is clearly reflected on ATMIA Canada's website as they stated:

*"The ATMIA Canada Board continues to have face-to-face meetings and conference calls with the Canadian Government and Law Enforcement to neutralize the Department of Finance's proposed requirements for white label ATMs".<sup>35</sup> (A)*

34 Internet: <http://www.atmia.com/canada>

35 Internet: <http://www.atmia.com/canada>

### An Assessment of Money Laundering Activities and Organized Crime Involvement with the "White Label" ATM Industry

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## FATF Third Mutual Evaluation

On February 28, 2008, the Financial Action Task Force (FATF) published the final version of Canada Third mutual evaluation.<sup>36</sup> The evaluation was based on the review of money laundering and terrorist financing laws and regulations, law enforcement efforts and prosecution, as well as other materials supplied by Canada. Further information was also obtained by the evaluation team during its on-site visit to Canada in March 2007. (U)

The report provided an evaluation of the white label ATM industry. It was determined that the industry is not under federal jurisdiction as white label ATMs are not considered financial institutions. The government's approach to date has been to rely on safeguards put in place by the Interac Association and on financial institutions holding the settlement account of the owner of those white label ATMs.<sup>37</sup> (U)

The assessment team believed at the time that the current measures do not adequately address the risks and that authorities should undertake further action, possibly with the objective of introducing a registration and monitoring system for the owners of white label ATMs.<sup>38</sup> (U)



Source: [www.fatf-gafi.org](http://www.fatf-gafi.org) March 23, 2009

36 Internet: <http://www.fatf-gafi.org/dataoecd/5/3/40323928.pdf>

37 Ibid

38 Ibid

## Classification of White Label ATMs for Tax Purposes

Canada Revenue Agency (CRA) has a division responsible for all projects related to the underground economy. While division members are aware that WLATMs can be used in schemes of tax evasion and money laundering, CRA has little information regarding the white label ATM industry in general. (A)

Within the corporate income tax return (T2 Form), the North American Industry Classification System (NAICS) is used to provide a definition of the industrial structure and sector of operation. NAICS is a comprehensive system encompassing all economic activities in 20 sectors and distinguishing the different economic activities in which businesses are engaged. The NAICS does not have any specific code or category for WLATM companies. (A)

A WLATM company can be coded under any of the existing categories such as financial sector, retail, bar or restaurant. As a result, it is impossible for CRA to produce a list of WLATM owners or to find an ATM company based only on its activity sector. (A)

Based on the lack of information available to CRA, without a specific code or category, the revenues from a WLATM company is mixed with other revenues and is reported to CRA as total revenue. (A)

Unless CRA audits the company, there is no way to find any specific information on a company based exclusively on its activity sector. During its audit process, CRA has *carte blanche* to access financial statements and ask for any documents related to the WLATM activity and the source of funds. (A)

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# TRANSACTION PROCESS



The following figures illustrate three types of settlement processes for a transaction performed at an ATM. The first scenario illustrates a transaction by a customer using his own bank's ATM, which in this example, is Royal Bank of Canada (RBC). The second scenario highlights a transaction conducted by the same RBC customer but at a National Bank of Canada ATM. Finally, the RBC customer of scenario one and two, does a transaction at a white label ATM. (U)

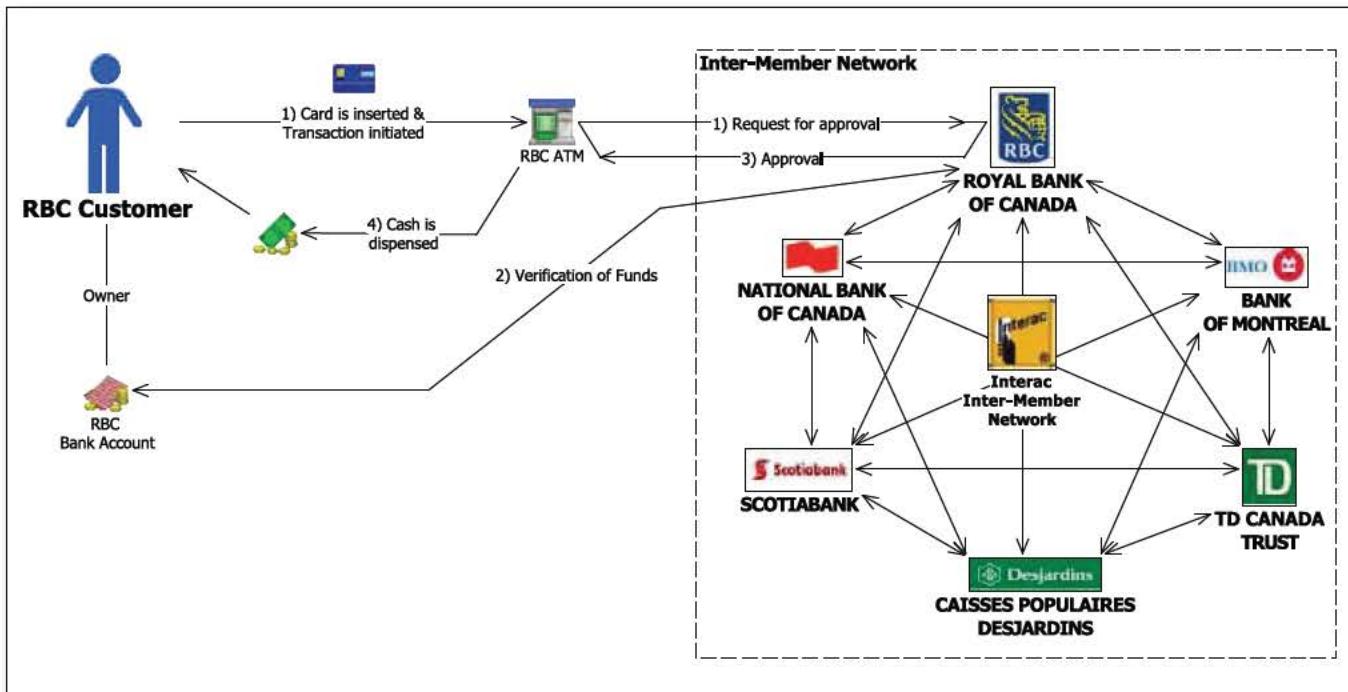
## Customer Using his Own Bank's ATM

*Figure 2* below, illustrates a typical transaction using a bank-owned ATM. As noted in the diagram, the customer who has an account with the Royal Bank of Canada (RBC) is using an RBC ATM. Steps to provide a cardholder with the funds they have requested during a cash withdrawal at the ATM are as follows: (U)

- 1) The cardholder initiates the transaction by placing his card in the ATM and making a request for a withdrawal; (U)
- 2) The issuing financial institution verifies if the funds requested are available in the customer's bank account; (U)
- 3) The transaction is validated and approved. The approval is sent back to the ATM; (U)
- 4) Cash is dispensed. (U)

It is important to note that the transaction does not take place on the Inter-Member Network as the customer is using his own bank account. (U)

**Figure 2: Transaction Process of an RBC Customer using an RBC ATM (U)**



## Customer Using another Bank ATM

*Figure 3* illustrates a transaction using a bank-owned ATM by another bank customer. As noted in the diagram, the customer who has an account with the Royal Bank of Canada (RBC) is using a National Bank of Canada (NBC) ATM. The steps to provide a cardholder with the funds they have requested during a cash withdrawal at the ATM are as follows: (U)

- 1) The cardholder initiates the transaction by placing his card in the NBC ATM and making a request for the withdrawal; (U)
- 2) The transaction clearing data is sent to the sponsoring financial institution (NBC). The request for approval is then forwarded, through the Interac Inter-Member Network, to the issuing financial institution (RBC); (U)
- 3) The issuing financial institution verifies if the funds requested are available in the customer's bank account; (U)
- 4) Once the funds in the customer's account have been verified, the transaction is validated and approved. This approval is sent back through the Interac Inter-Member Network; (U)
- 5) The transaction is settled by a settlement agent<sup>39</sup>, through the Canadian Payments Association's (CPA) Automated Clearing Settlement System (ACSS)<sup>40</sup>. At this point, the funds are credited to the sponsoring financial institution's account and; (U)
- 6) The debit memo is posted to the customer's account, and, finally, the cash is dispensed. (U)

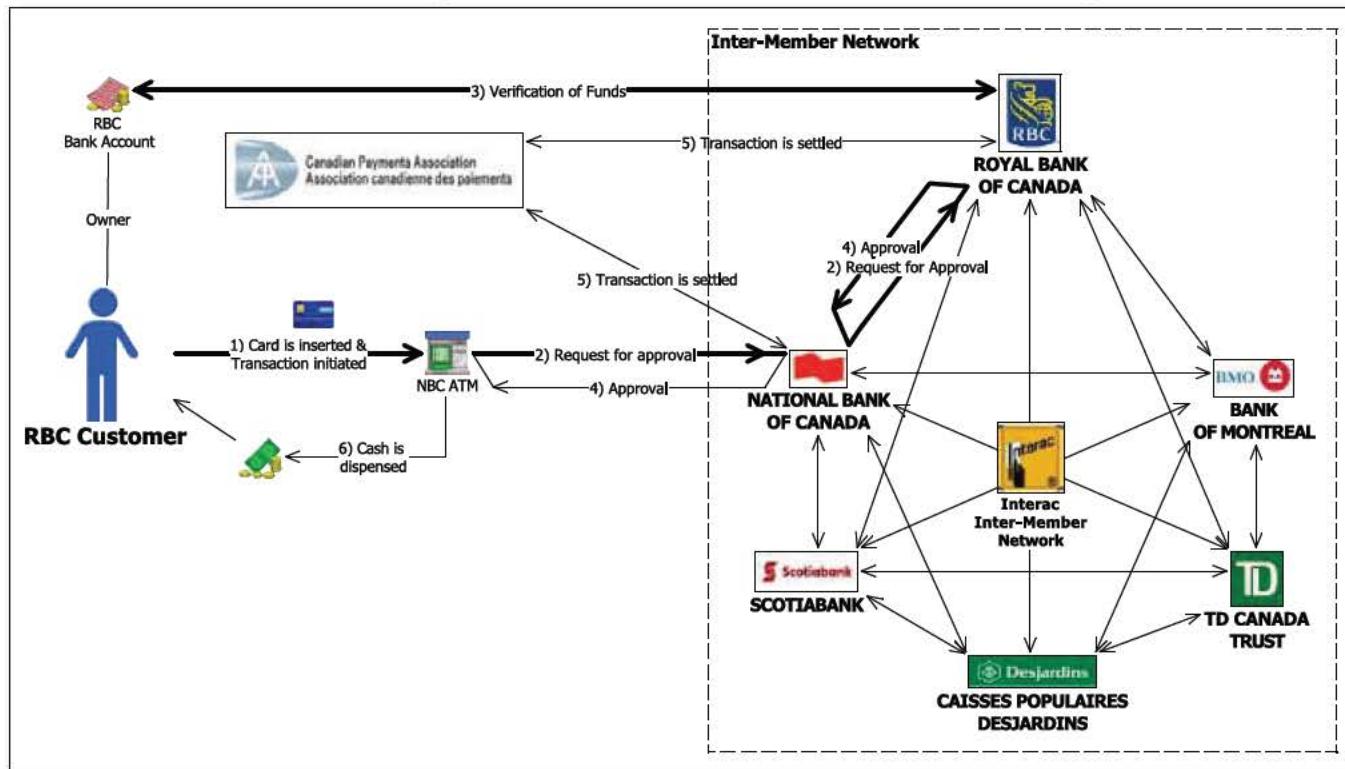
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39 Settlement agents are members of both the Interac Inter-Member Network and the Canadian Payments Association

40 Settlement agents enter transactions directly into the ACSS system and settle them through their settlement accounts at the Bank of Canada. In order to be eligible to become a direct clearer, an institution must: be a member of the CPA; be a deposit-taking institution or securities dealer; process payment items the volume of which is at least 0.5% of the total national volume of payment items; establish and maintain a settlement account at the Bank of Canada; and satisfy the operational requirements of the ACSS

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**Figure 3: Transaction Process of an RBC Customer using an NBC ATM (U)**

### Customer Using a White Label ATM

*Figure 4* illustrates the settlement process for a typical transaction using a WLATM. The settlement process for a WLATM-related transaction can be divided in two parts in which the first involves the Interac Inter-Members Network only and the second involves the independent sale organization (ISO) and the indirect connector. (U)

At the Interac Inter-Members Network level, the steps taken to provide a cardholder with the funds they have requested during a cash withdrawal at the WLATM are the same as the ones using a bank-owned ATM described in *figure 3*. When the transaction-related information enters the Interac Inter-Members Network, the system exchanges information with the involved members and — upon approval — sends a message to the Settlement Agent (Canadian Payment Association) to debit the client's account and to credit the WLATM owner's account. (U)

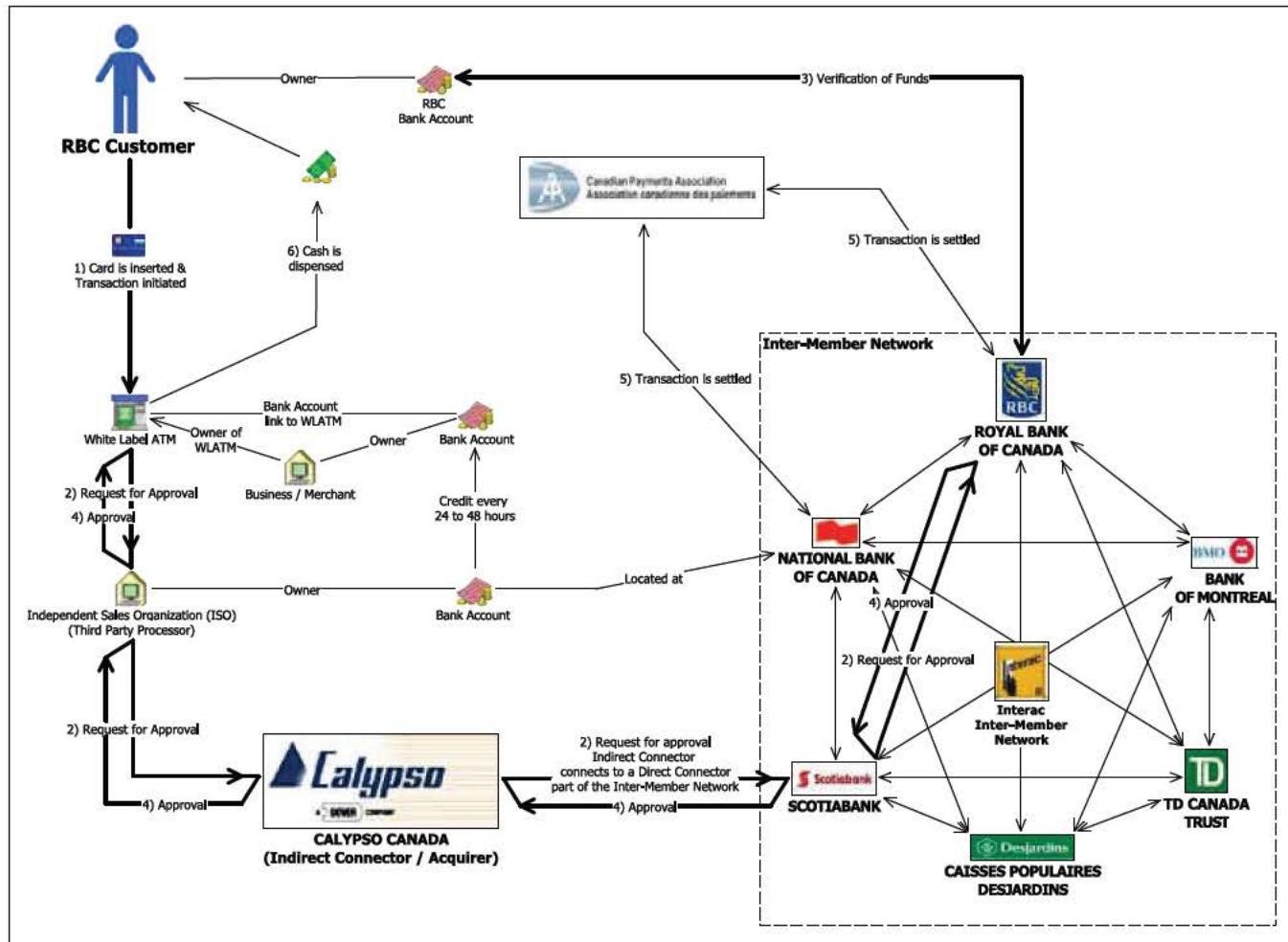
The difference between a customer dealing with a bank-owned ATM and the one dealing with a WLATM is in the way the transaction-related information enters the Interac Inter-Members Network. As shown in the *Figure 4*, the request for approval must go through the Independent Sales Organization (ISO) or third party processor and the indirect connector that connects to the Interac Inter-Member Network. (U)

As noted the *figure 4*, the Royal Bank of Canada customer's transaction will first have to go through the Independent Sales Organization (ISO) or third party processor. An ISO is a person or an entity that does not perform the function of the acquirer, but maintains a contractual relationship with the acquirer to market or sell services on behalf of the acquirer. An ISO is considered a larger ISO if its contractual relationships involves more than 2,000 ATMs. (U)

Finally, the ISO goes through an indirect connector to an Interac Inter-Member Network. The same relationships take place between the indirect connector and the Interac member where the indirect connector sells services to a larger ISO on behalf of the Interac member. (U)

In the process defined above, several intermediaries could be added to the process. For example, a sub-ISO could be part of the process. This sub-ISO is defined as an Independent Sale Organization that does not have a direct relationship with an acquirer, but maintains a contractual relationship with another ISO to market or sell services on behalf of a larger ISO. The sub-ISO is in a way, a kind of retailer for small businesses who own one or few ATMs. Those sub-ISOS get their connections to the network by dealing with a larger ISO who acts as a wholesaler. (U)

**Figure 4: Transaction Process of an RBC Customer using a White Label ATM (U)**



#### An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry

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# WAYS TO OPERATE A WHITE LABEL ATM

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There are several ways to operate a WLATM: the ownership program, the placement program and, the investor program. Each program has different advantages, disadvantages and revenue structure. (U)

## Ownership program

In the ownership program, the owner of the WLATM is responsible for everything. In this program, the WLATM owner purchases, owns and operates the machine as well as providing the money and all logistics involved. Whether buying or leasing the WLATM, the ownership program option is more appealing to store owners who want total control of their investment. (U)

## Placement program

In the placement program, an Independent Sales Organization (ISO) owns the ATM. The site (corner store, restaurant, etc.) where the WLATM is located is responsible for providing money and logistics in regards to the machine. Another option under this program is the ISO involvement as it handles everything from the cost of the WLATM, installation, maintenance, cash services, insurance, signage, paper supplies, and transaction processing. The latter option is ideal for high traffic locations looking for a revenue opportunity at no cost. Renting is also another option for event organizers. Mobile WLATM can be rented for special events such as country fairs, shows and festivals and are provided with cash, security features, advertisement, wireless communication and maintenance services. (U)

## Investor program

In the investor program, the ISO places the WLATM at a specific location and provides money and logistics for the investors who purchase and own the WLATM. (U)

## Cost of equipment

The price of a brand new WLATM with basic ATM functions starts at around \$2,000 while a used refurbished ATM may be as low as \$1,000.<sup>41</sup> The high-end price may vary according to the size, the security features as well as the ability to offer advanced ATM functionalities. Lease terms of 36, 48 and 60 months can also be offered as well as lease buyouts. For example, a 48 month lease on a \$5,000 ATM will cost approximately \$150 per month. For the lease buyout, the amount would be around \$250. (U)

<sup>41</sup> Cardholder's Choice ATMs, Markham (Ontario)

# SOURCES OF REVENUES

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Initially, the basic business model for Independent Sales Organizations (ISO) deploying WLATMs was to buy low-cost ATMs and put them in as many stores as possible and collect dollars in surcharge revenue every time it was used. Consequently, the goal was to find attractive locations and negotiate advantageous sharing revenue agreements with retailers. (U)

With the tremendous growth in the number of WLATM since 1996 (767 percent) and the establishment of no-surcharge bank ATM transactions for financial institution's customers, the average number of transactions generated per WLATM declined 5 % in 2005.<sup>42</sup> Therefore, WLATM owners and operators are looking for other revenue opportunities that go beyond the surcharge fees. (U)



## Fees

Fees are the primary source of income for WLATM owners. The types of fees associated to an ATM are: regular transaction fees (charged by the customer's financial institution), network access fees or Inter-Member Network fees (paid when accessing an ATM other than one's financial institution ATM) and convenience fees (charged by WLATM operator and could be charged by other financial institution to non-customers). The usual amount charged by fee is as follows: between \$0-\$1.50 for a regular transaction fee, between \$0-\$1.50 for the network access fee, and \$1.00-\$5.00 for a convenience fee. Investigations revealed that convenience fees could be 3\$ or 3% of the transaction amount, 5\$ or 5% of the transaction amount, and can even reach 10% of the transaction amount.<sup>43</sup> There are no regulations pertaining to fees associated to an ATM transaction however, the operator is obliged to disclose the fee to be charged and give the customer the option of canceling the transaction. (A)

## **Gift cards, coupons and event tickets**

With surcharge revenues declining, WLATM owners and operators are looking for other revenue streams. One option is to provide not only cash but also promotional coupons, event tickets and gift cards. New models of WLATM are currently allowing these functionalities. (U)

## **Co-branding**

While the addition of functionality to WLATM is likely to continue, a more popular strategy seems to be emerging: co-branding WLATM with financial institutions. In the co-branding scenario, a financial institution would pay to put the bank's name and logo on WLATM. An added advantage to this scenario is the no-surcharge for the advertised bank's customer. In order to compensate WLATM operators for the loss of surcharge and interchange revenue from transactions made by the bank's customers, the co-branded financial institution pays the WLATM operator monthly fees based on the number of cards the bank has deployed in the regions served by the WLATM, the number of WLATMs involved, and the volume of transactions. (U)

42 Why ATM ISOs Are Hunting for New Revenues.  
Internet: <http://www.digitaltransactions.net/files/0107acq.doc>

43 NCDB Document #V2 Privileged

Consequently, the WLATM operator benefits from increased revenues and the financial institution benefits from being able to serve their existing customers in more locations. Potential customers may even switch banks if they know they can use a nearby ATM without fees, a factor financial institutions consider when signing co-branding agreements. Many financial institutions also own WLATM and do not brand them in order to generate higher user fees as opposed to their own ATM. (U)

### Screen advertising

Some WLATM screens can display and be programmed to inform ATM customers, as well as people walking by, about special features and promotions at various retailers. This added functionality can provide WLATM owners and operators with additional revenues. (U)



Source: www.wikipedia.com March 23, 2009

#### An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry

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# NEW TRENDS WITHIN THE INDUSTRY

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The ATM industry is evolving. It has seen many business-changing events occurring over the last three decades; but none will compare to what the future holds. Banks and independent sales organizations (ISO) are working together to co-brand ATMs so that bank customers can use privately owned machines without paying surcharges. Technology and market saturation are also leading to new developments and changing dynamics within the WLATM industry. (U)



## Increased functionality

There are still efforts by ISO to increase the functionality of their machines in order to increase revenues such as bill payments and person-to-person transfers. This increased functionality has allowed the appearance of “white label” electronic transaction machines (ETM). These machines allow customers to withdraw cash as well as purchase goods and services with their debit or credit cards and allow them to access web browser enabled applications. As an example, WLETM are located at almost every movie theater and allow you to buy your tickets, popcorn and soft drinks. (U)

In the US, many ATMs are now available with optional bill acceptors that are capable of handling multiple banknotes. In addition, many ATMs can be outfitted with a single-check acceptor that allows one check to be deposited into the ATM without a deposit envelope. The check is scanned, the image recorded and the document enters the bank without human intervention.<sup>44</sup> (U)

## Turf war

The decline in transactions per ATM in the past years has advanced the belief that the ATM market is reaching saturation point. Furthermore, an increased involvement of organized crime groups can be seen within the “white label” ATM / ETM industry. Some investigators believe that soon a turf war as to the location of these WLATMs will be raging. (A)

<sup>44</sup> The Check 21 Act (October 24, 2004) allows the recipient of a paper check to create a digital version, thereby eliminating the need for further handling of the physical document

# WHITE LABEL ATM INDUSTRY IN THE UNITED STATES

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The major concerns that are arising in Canada from this newly created “white label” ATM industry are shared by law enforcement agencies in the United States. Studies by the FBI<sup>45</sup> and by the NY State Police<sup>46</sup> as well as discussions with the Financial Crime Enforcement Network (FinCEN) confirmed that “white label” ATMs represent an ideal method to launder significant amounts of money in the United States as well. (A)

Both the FBI and New York State Police report, written in 2004, indicated that money was laundered using white label ATMs in the United States for many years. The first report, written in March 2004 by the New York State Police, reviewed and assessed the privately owned ATM (or “white label” ATM) industry in the United States. The report mentioned that Independent Service Operator (ISO — or Independent Sales Organization in Canada) owning and operating these ATMs were not considered financial institutions. Therefore, the *Bank Secrecy Act*, the *Money Laundering Control Act*, the *Annunzio-Wylie Act*, as well as the *U.S Patriot Act* were not applicable to them. (U)

This paper also identified and described the most important recommended remedies for the areas of concern within the privately owned ATM industry. Among the recommendations, are the obligations for the financial institutions to update their Anti-Money Laundering policies and the introduction of an auditing function for the accounts of any ISO. It was also recommended that all ISOs must have bank accounts for their ATM operation only. Furthermore, the report suggested the creation of a central registry of all the ATMs and a license for placement and operation of any ATM. (U)

On October 21, 2004, the FBI Criminal Investigative Division released an intelligence assessment titled “Privately Owned ATM facilitates Money Laundering Activities.” At the time, it was estimated that approximately 180,000<sup>47</sup> ATMs were privately owned in the U.S. The assessment stated that: “the banking industry views ATMs as the “weak link” in the banking chain”. It also stated that: “the privately owned ATMs operates with no federal regulations and provide criminals with the ability to transfer money and launder illicit funds with little scrutiny”. That assessment acknowledged the fact that criminals were able to purchase an unlimited number of ATMs to launder illicit proceeds and that no requirements existed for ISOs to register any subcontractors they may employ or to identify the physical location of ATMs. (A)

<sup>45</sup> Federal Bureau of Investigation Intelligence Assessment; FBI Criminal Investigative Division; Privately Owned ATMs Facilitate Money Laundering Activities; October 21, 2004.

<sup>46</sup> New York State Police; NY H.I.F.C.A.; Inv. Kevin Sullivan; A Review and Analysis of the Privately Owned ATM Industry

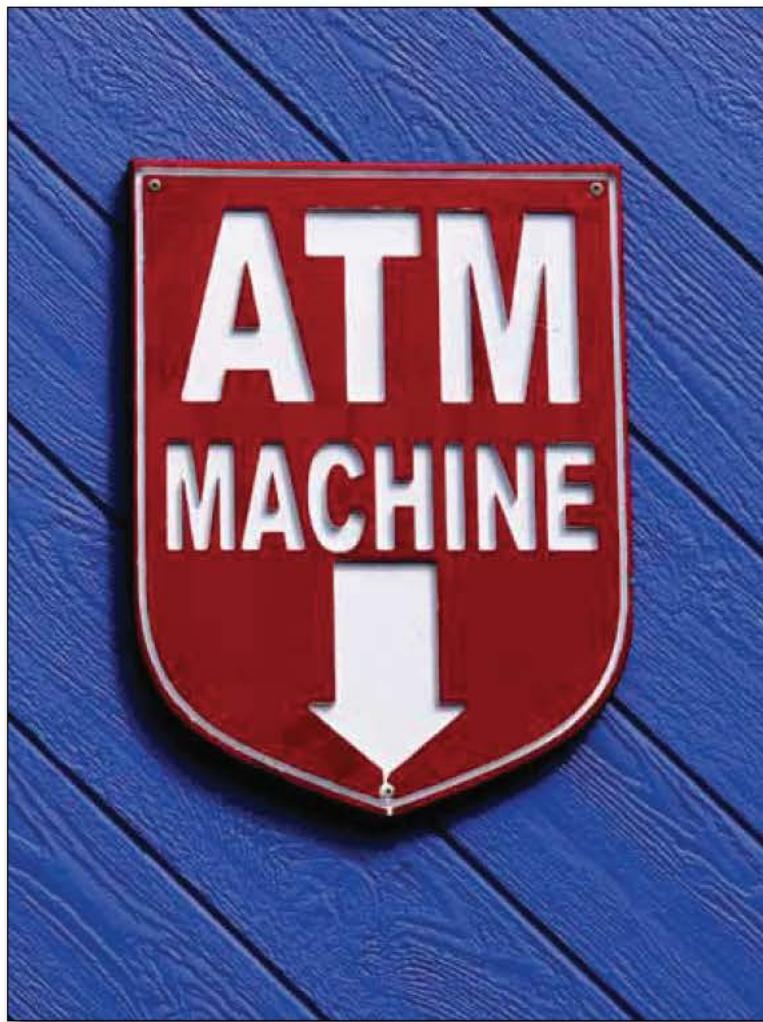
<sup>47</sup> According to the ABA, there was 395,000 ATMs in the United States in 2006.

## An Assessment of Money Laundering Activities and Organized Crime Involvement withing the “White Label” ATM Industry

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Apart from those assessments, the Bank Secrecy Act Anti-Money Laundering Examination Manual (2006)<sup>48</sup> stated a list of risk factors identified by the legislator. Among them, “most states do not currently register, or limit ownership, or monitor, or examine privately owned ATM or their ISOs.” It further stated that: “while the provider of the ATM transaction network and sponsoring bank should be conducting adequate due diligence on the ISOs, actual practices may vary.” Finally the manual stated that “the provider may not be aware of ATM or ISO ownership changes after an ATM contract has already been established.” (U)

The assessments and the BSA Manual indicate that the money laundering problems within the white label ATM industry are well known in the United States. Furthermore, it appears that some of the U.S. concerns (ownership and the source of funds) are exactly the same as the ones identified in Canada. Finally, although the white label ATM industry associated risk factors are known, the U.S. and Canadian legislators, at this time, are not ready to impose any legislation to frame the industry to mitigate any associated risk with these cash businesses. (U)



48 Internet: [http://www.ffiec.gov/pdf/bsa\\_aml\\_examination\\_manual2006.pdf](http://www.ffiec.gov/pdf/bsa_aml_examination_manual2006.pdf)

#### An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry

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# CRIMINAL ACTIVITIES RELATED TO “WHITE LABEL” ATM



## Counterfeit Currency

Counterfeit currency offenses fall under Part XII of the Canadian Criminal Code. Possession, use, and creation of counterfeit currency are an indictable offense punishable by up to 14 years of prison. As counterfeiting requires a network of people to distribute and pass counterfeit notes, with more than 39,000 WLATMs in Canada, these machines could in theory represent a good distribution method for counterfeitors. (U)

While several cases have been reported, such as the one described below, law enforcement do not have reliable statistics on the origin of counterfeit bills (e.g. WLATM, bank ATM, convenience store, etc.). Investigations will usually identify “hot spots” or main distribution areas, and issue warning statements through the media in order advise the general public and ultimately identify and prosecute the criminal organization behind the counterfeiting operation. Furthermore, as WLATMs are usually static, it would not take long for law enforcement agencies to identify the distribution point. (A)

In 2003, the RCMP Integrated Proceeds of Crime Unit in H Division, reported that an individual obtained, from a WLATM, fifteen 20\$ bills of which twelve were counterfeit. The ATM, located in a Halifax pool hall, belonged to an individual known to have drug connections.<sup>49</sup> Since that time, the WLATM industry has been seriously affected by several “skimming” operations (discussed in a later section) and is therefore known to reimburse consumers that can clearly demonstrate proof that the counterfeit bills came from their WLATM. Counterfeit bills will still appear once in a while in WLATM and bank-owned ATMs as it did in the past but current intelligence does not identify this as a major problem or a potential threat. (A)

## Fraud

Fraud can be committed in various ways. In regards to the WLATM industry, information reveals that individuals buying or investing in a “white label” ATM program can sometimes be misled in terms of costs, sales and profit they can make with their investments. As the industry is not regulated, there are several companies selling or offering “white label” ATM investor programs. The case extensively discussed below demonstrates how 15 investors were defrauded of more than \$1.3 million in regards to more than 85 WLATMs. Several reasons are listed for the reported loss such as: ATM removed from location, ATM resold to other investors, ATM stolen during shipping, ATM never placed in location agreed upon, ATM was shut down, etc. The *modus operandi* of the corporation investigated was to sell WLATM investors’ packages, collect the money from the potential investors and come up with various reasons as to why they were not receiving monthly payments on their investment. In essence, this company defrauded investors across the country and in other jurisdictions. In addition to the ongoing criminal investigation, these matters were also dealt with in civil courts. The Equifax Commercial Law Records showed that in April 2003, \$3.3 million in claims were filed against the corporation for reasons of monies due, damages and breach of contract. In July 2008, an additional amount of \$8.3 million in claims were filed for similar reasons<sup>50</sup>. (A)

49 Insp. R. Keith Sherwood, RCMP Halifax Integrated Proceeds of Crime Unit; 2003-04-22

50 NCDB Document **V2 Privileged** Equifax Commercial Law Records

Another fraudulent activity that is occurring within the WLATM industry is the changing of an ATM processor company to the detriment of another ATM processor or private investor. This type of fraudulent scheme occurred when two partners of an ATM processor drifted apart. This WLATM company provided ATMs to private investors and provided locations as well as operation and maintenance services. The fraud started to occur when two sales representatives were helping one of the partners, to the detriment of the other, in transferring a maintenance contract to a new WLATM company resulting in loss revenues generated from ATM activities<sup>51</sup>. (A)

## Payment Card Fraud

Payment card fraud through ATMs is done through a "skimming" operation which consists of the modification of the ATM (card reader and pad) to capture the card information and the cardholder's personal identification number (PIN). While these frauds most often occur at a bank-owned ATM or point-of-sales terminals, the WLATM industry was affected in 2001 and 2002 by a cross-country payment card fraud operation. In September 2001, two individuals were apprehended by an RCMP member of the White Rock Detachment in British Columbia with two way radios, numerous blank cards and PIN numbers in their possession. These cards were part of a large counterfeit debit card scheme that defrauded bank account owners of more than \$450,000. Investigations revealed that the same modus operandi was also used by the same criminal organization in July 2000 with an approximate loss of \$50,000<sup>52</sup>. (A)

In December 2002, a joint task force investigated a national debit card skimming operation involving an organized crime group of Russian origin. The debit card information as well as PIN were collected, through WLATMs, at various locations in Vancouver over a period of several months. In order to commit the fraud, the OC group brought to Canada several individuals from former Soviet Union countries on visitor's visas as well as Russians with landed immigrant status. These individuals withdrew approximately \$1.2 million across the country with counterfeit debit cards in a period of three weeks until they were apprehended in Kamloops and Toronto. Five of the individuals involved were arrested, charged and are serving prison sentences<sup>53</sup>. (A)

## Money Laundering

Intelligence and investigations have demonstrated, for several years, that WLATMs have been used and are still used for money laundering purposes. Proceeds of crime from loan sharking, illegal gaming / bookmaking operations, drug trafficking (cocaine, hashish, marihuana and methamphetamine), prostitution, immigration fraud, human smuggling, contraband tobacco, stolen properties, theft and extortion have been reported as being laundered through WLATMs. The lack of government regulation, minimum requirement for due diligence of ownership, criminal records checks and source of funds and cash loading by owners are all attributes that facilitate money laundering operations by organized crime within the industry. (A)

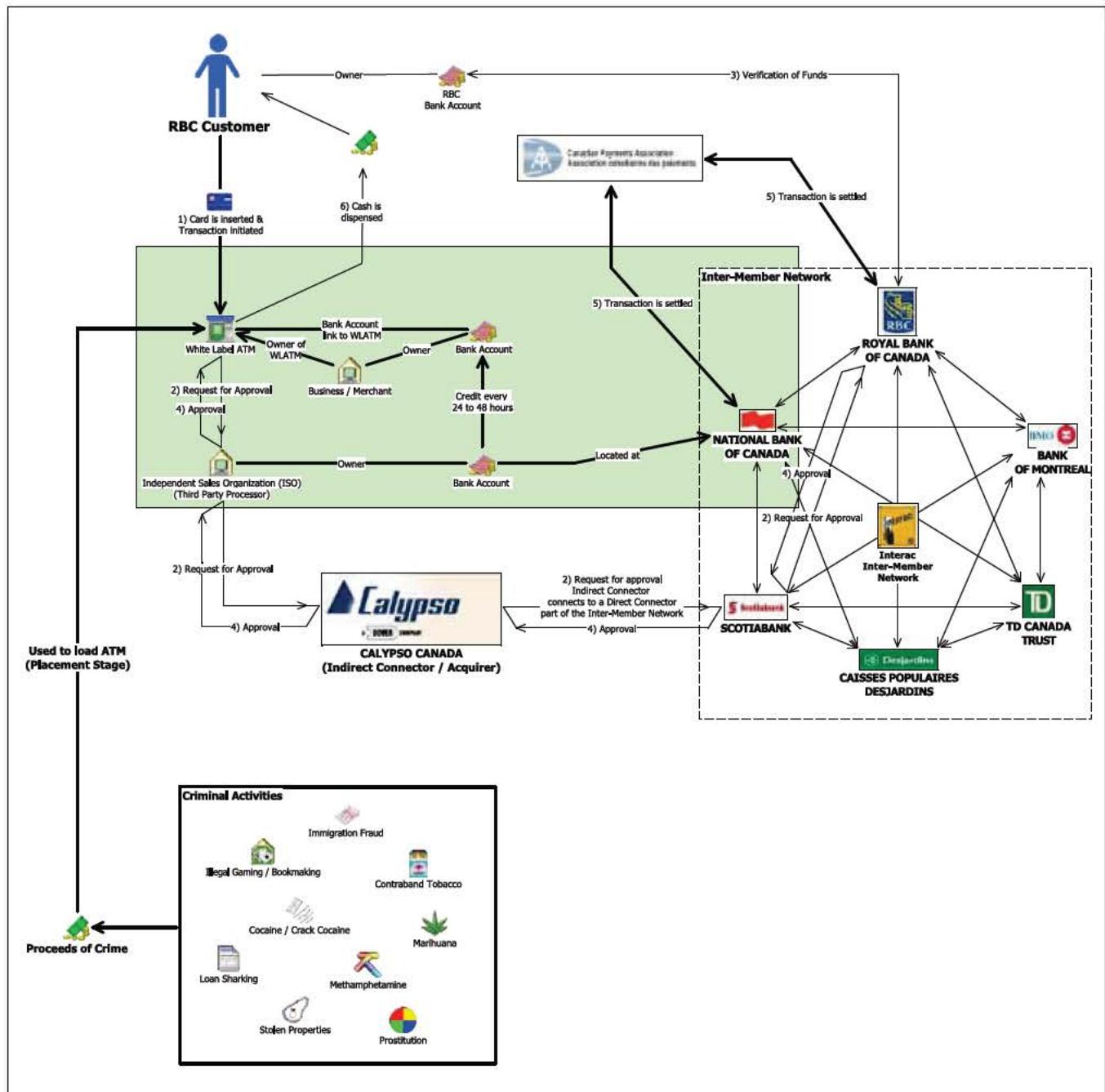
The most vulnerable stages of the money laundering process to organized crime are the movement of proceeds of crime at the domestic and international level, mainly United States - Canada cross border currency smuggling, and the placement of the proceeds within the financial system. Furthermore, the placement stage will usually require a physical presence at a financial institution, money service business or casino to deposit, transfer or purchase a bank draft or purchase casino chips with cash. Since these locations are all reporting entities under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) any large cash transaction or suspicious transaction will be reported to Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). The use of a WLATM allows the skipping of the placement stage altogether as the money loaded into the machine will get electronically deposited into the bank account attached to the ATM. It also has the added advantage of the lack of physical contact with employees of the financial sector that could detect suspected activities. (A)

51 NCDB Document V2 Privileged

52 NCDB Document V2 Privileged

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**Figure 5: Money laundering process within a WLATM (U)**



**An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry**

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Figure 5 above depicts the laundering process through a WLATM. This diagram is similar to Figure 4 outlining the WLATM transaction process. The only difference is that proceeds of crime obtained from various criminal activities such as drug trafficking are used to fill the machine instead of legitimate money obtained from a financial institution. It is possible that proceeds of crime maybe co-mingled with money obtained from financial institutions. This was discovered during investigations of individuals involved in marihuana trafficking, loan sharking and illegal gaming<sup>54</sup>. The laundering process occurs in the green highlighted portion of the diagram. In essence, the placement stage occurs upon filling the WLATM with proceeds of crime. Money withdrawn from the ATM will usually get settled every 24 to 48 hours and get deposited electronically, by the third party processor, into the bank account linked to the WLATM. Once the money is introduced into the bank account, the layering and integration process follows, successfully completing the money laundering process. (A)

Proceeds of crime can also be laundered internationally via WLATM, circumventing cross-border currency declaration requirements and electronic funds transfer requirements as defined in the PCMLTFA. An investigation uncovered that proceeds of crime used to load the WLATM were subsequently wire transferred, by the WLATM processor, into offshore accounts located in the Cayman Islands. The money was then repatriated back in the form of a cheque that was deposited into a Canadian bank account. In order to complete the money laundering cycle, the money was then used to open a bar or restaurant. Figure 6 illustrates the overall process. Settlements by the third party processor usually occur every 24 to 48 hours after the money has been withdrawn from the ATM. Nothing prevents the WLATM owner from linking the machine with a foreign bank account located in a different jurisdiction such as Barbados or Panama for every WLATM. As the ATM activity for one or two days is usually below the \$10,000 reporting threshold for international money transfers, nothing was being reported to FINTRAC. The added advantage of having a separate foreign bank account for each WLATM even though they are all controlled by the same company, also allows circumventing of the PCMLTFA. Furthermore, the fact that settlements and money transfers occur electronically, facilitates the movement of money offshore as it was sometimes done physically through a money courier at a cost of \$2,000 to \$3,000 for every segment of \$10,000<sup>55</sup>. (A)

WLATMs can also be used as a tool to move and transfer money domestically and internationally. Money deposited in a bank account in Canada can be accessible anywhere in the world through ATM networks. For example, drug proceeds deposited in a Canadian bank account could be accessible by a drug supplier located in Colombia who has a debit card linked to the account. While daily withdrawal limits exist on debit cards, a significant amount can be redeemed on a monthly basis. This process also allows transferring money internationally, accessing local currency and circumventing some countries' currency import / export restrictions. (U)

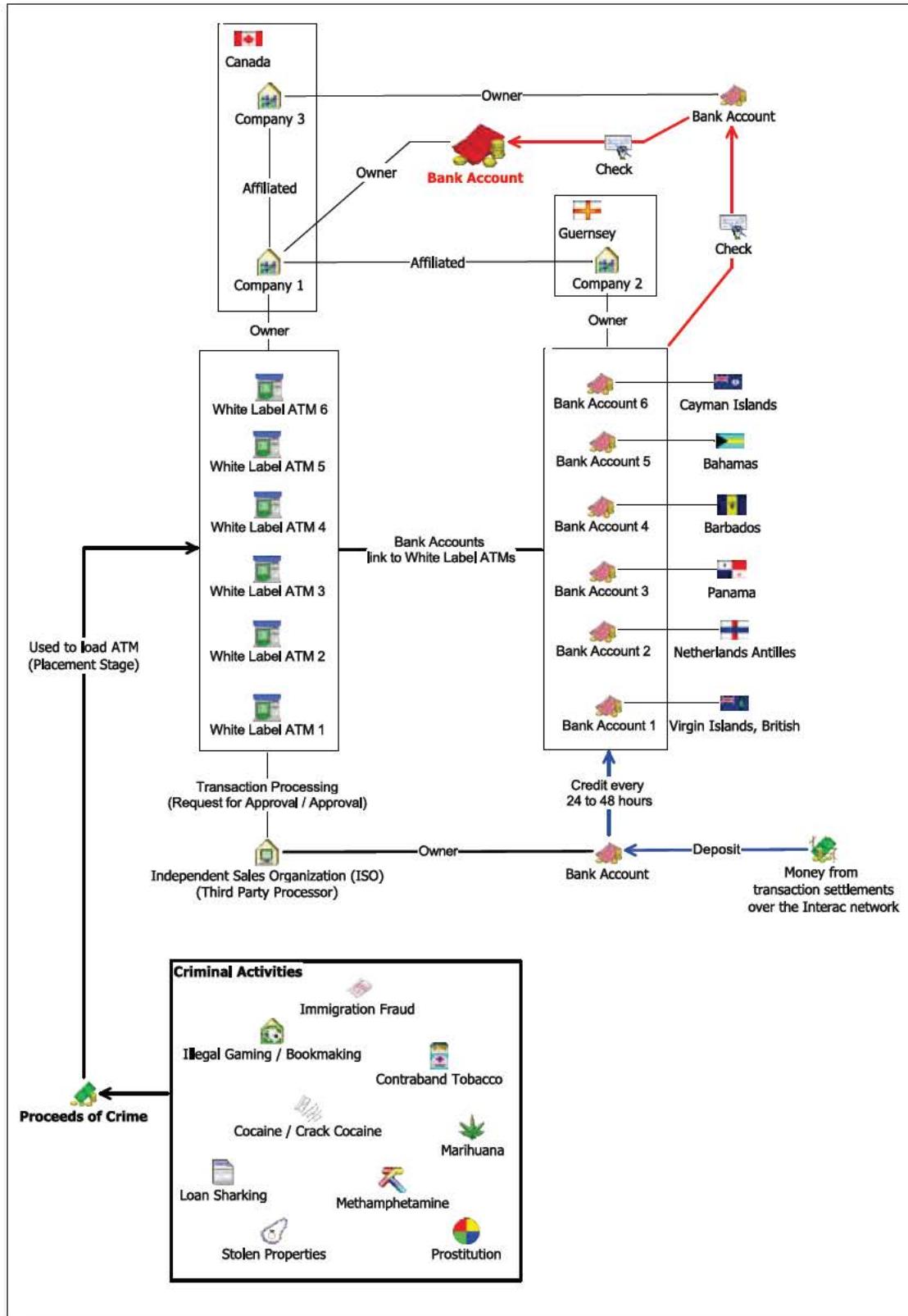
54 Project E-DROP; RCMP "E" Division; Pacific Integrated Border Enforcement Team; File # 2002-0008295

55 *Ibid.*

#### An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry

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Figure 6: International Money Laundering Process with WLATMs (U)



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Although it is difficult to assess the amount of money laundered through WLATMs, significant operational findings and intelligence has been gathered to estimate the size of the problem. Currently there are approximately 39,100 WLATMs. Investigations and intelligence files indicate that individuals associated to organized crime groups currently around 5 percent of WLATMs in Canada. Furthermore, it is well known in the law enforcement community that the vast majority of strip clubs are controlled by organized crime, primarily the Outlaw Motorcycle Gangs. Restaurants and bars are commonly used by organized crime to launder their proceeds of crime. Over 1,000 establishments meet these criteria. The following scenario uses \$15,000 in monthly withdrawals to illustrate the amount that could be laundered. This amount came from an investigation where the suspect, at the time, had approximately 15 WLATMs that were located in restaurants, convenience stores, bars and gas stations<sup>56</sup>. Intelligence also indicates that monthly disbursements can be as high as \$60,000 to \$80,000 for an ATM located in a strip club<sup>57</sup>. Compiling all elements for the estimate reveals that the total amount that can potentially be laundered through these machines is \$315,000,000. If some of the parameters are changed, the amount can easily reach \$1 billion per year. Recent intelligence also indicates other WLATM companies may have links to organized crime. Adding these WLATM to the "compromised" lot signifies close to 18% of the WLATM industry could potentially be under the direct or indirect control of organized crime groups. (A)

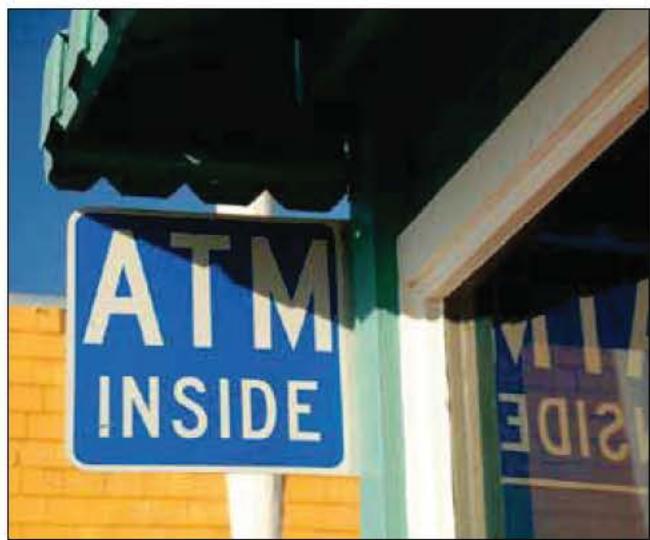
## Tax Evasion

According to the *Income Tax Act* all types of income (legal or illegal) are taxable. Therefore, proceeds of crime constitute an income according to the Act and are taxable. Tax evasion can also occur through WLATMs as undeclared income ("black money") gets used in order to load the machine. The tax evasion process is the same as the one described in the money laundering section. Anecdotal evidence suggests that increasingly restaurants and bars have stopped accepting debit card payments and are reverting to credit card or cash as payment methods. At the same time, a WLATM is being installed in the establishment in order to give the customer access to cash. (U)

## Investigative Report on ATM

On September 21, 2007 TVA channel, in Quebec, broadcasted an investigative report on ATMs where the journalist portrayed himself as having a criminal record. While during the first part of the broadcast basic information was provided about the state of the ATM industry and the nature of the regulations, the second portion of the broadcast highlighted the fact that ATM suppliers were more than willing to sell him ATMs even with his criminal background<sup>58</sup>. (U)

The investigative reporter approached ten ATM dealers with a hidden camera pretending he was a convenience store owner looking to purchase an ATM. During the conversation, he asked if it was a problem for someone with a criminal record to become an owner of an ATM and to operate them. To his dismay, seven dealers out of ten mentioned they had no problem selling him an ATM. One ATM dealer even said there were ways to get around the criminal record check, after the reporter specifically said he had one. One ATM dealer, who refused to sell one to the journalist, did however provide advice on how to get around the criminal record check by having the ATM registered under his wife's name. Furthermore, one ATM dealer even gave an explanation on how to launder money through them<sup>59</sup>. (U)



56 Project E-DROP; RCMP "E" Division; Pacific Integrated Border Enforcement Team; File # 2002-0008295

57 Insp. B. M. Reteff; RCMP Edmonton Integrated Proceeds of Crime Unit; 2003-04-22

58 Internet: <http://tva.canoe.ca/emissions/je/reportages/18067.html>

59 Ibid.

# IMPLICATION OF ORGANIZED CRIME WITHIN THE "WHITE LABEL" ATM INDUSTRY



## Outlaw Motorcycle Gangs

Outlaw Motorcycle Gangs (OMG), primarily the HAMC, have been involved in the WLATM industry for money laundering purposes since the late 90s. Today HAMC members and associates are involved in the WLATM industry in Nova Scotia, Quebec, Ontario, Alberta and British Columbia. Investigations revealed that proceeds of crime from loan sharking, illegal gaming / bookmaking operations, drug trafficking (cocaine, hashish and marihuana), prostitution, stolen properties and extortion were being laundered, by various HAMC members and associates, through WLATM. (A)

Intelligence obtained from various sources and Operation HAMMER<sup>60</sup> (the investigation that led to the dismantlement of the HAMC Halifax Chapter) indicated that they were involved within this industry with a distributor that was formally located in Nova Scotia in the late 90s. This distributor, now located in Ontario, currently has a cross country presence and has developed strong business relationships with HAMC members and associates in British Columbia and Ontario<sup>61</sup>. Other WLATM distributors appear to also be involved with HAMC particularly in the Western Canadian provinces<sup>62</sup>. Individuals involved in marihuana trafficking and linked to another OMG associated to HAMC in Ontario may also be using WLATMs as a means to launder proceeds of crime<sup>63</sup>. Furthermore, a 2004 investigation in Quebec dubbed Project ZIPLOCK, uncovered that the HAMC South Chapter controlled approximately 30 WLATMs located primarily in bars and strip clubs. It is suspected that money from prostitution and drug trafficking activities were being laundered through these machines<sup>64</sup>. (A)

## Drug Trafficking Organizations

While the HAMC launders drug trafficking money through WLATMs, other drug trafficking organizations, not affiliated to the HAMC or any other OMG, are doing the same. These criminal organizations identified are located in Saskatchewan, Northwest Territories and British Columbia and are using WLATMs to launder proceeds from cocaine, marihuana and methamphetamine trafficking activities. Two of those organizations had WLATMs at the restaurant they owned. Another organization had a WLATM management company that operated approximately 15 WLATMs located in restaurants, convenience stores, bars and gas stations. This organization has also been associated to marihuana grow operations. Analysis of financial documents seized during the investigation revealed a monthly discrepancy of \$30,000 to \$50,000 in the amount of cash withdrawn at his financial institution, for the purpose of filling the ATM, and the amount redeemed from the WLATMs. It is suspected this discrepancy occurred as he loaded his ATMs in part with proceeds obtained from the sale of marihuana in the United States and Canada. (A)

60 RCMP "H" Division; Operation HAMMER, RCMP Halifax Drug Section; File #1999-0000935

61 Tactical Intelligence Brief #3: Potential Implication of Entrepreneur Expansion Corporation in Money Laundering Activities through "White Label" ATM; RCMP Criminal Intelligence Directorate; 2004-05-27. Tactical Intelligence Brief #4: An update on Entrepreneur Expansion Corporation – Expanding into all Canadian provinces as well as Australia, New Zealand and the United States; RCMP Criminal Intelligence Directorate; 2004-11-05.

62 V2 Privileged ; Cpl. D. A. REECE; RCMP Vancouver Integrated Proceeds of Crime Unit

63 NCDB Document V2 Privileged

64 Les Hells ont leurs propres guichets automatiques ; Journal de Montréal; Michel Auger ; 12 novembre 2004

## Criminal Organizations / Individuals Involved in Other Criminal Activities

While drug trafficking is considered to be the source of the majority of money laundered in Canada, proceeds of crime from other criminal activities are nevertheless significant. Recent investigations and intelligence reports have highlighted that proceeds from human smuggling, immigration fraud, theft, loan sharking and contraband cigarettes were believed to be laundered through WLATMs. The investigation in regards to the contraband cigarette ring called *Projet CONQUETE* demonstrates that proceeds were laundered through a network of WLATMs controlled by the organization. Furthermore, two other criminal organizations involved in those in criminal activities listed above operated a network of WLATMs located in Ontario and Quebec. (A)

### Contraband Cigarettes

On March 19, 2008, Gerald O'REILLY (DOB: 1933-04-06) was arrested at his residence following the culmination of *Projet CONQUETE* launched in June 2006 by the Contraband Investigation Division of the *Sûreté du Québec* (S.Q.)<sup>65</sup>. O'REILLY was charged with fraud in relation to contraband cigarettes, money laundering, possession of proceeds of crime, offenses for the benefit of a criminal organization and gangsterism<sup>66</sup>. The fraud aspect of this investigation in relation to the contraband cigarettes, affecting both the provincial and federal government is estimated at more than \$5 million. Overall, *Projet CONQUETE* resulted in the execution of 23 search warrants, 15 arrests, and various items seized such as 102 cases of contraband cigarettes, 5,000 counterfeit CDs, 10 vehicles, \$474,849 CDN, \$73,690 US, 2 residences valued at \$6 million and \$300,000 respectively and 2 WLATMs with their money content estimated at \$36,000 CDN<sup>67</sup>. (A)

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65 Projet Conquête; Division des enquêtes de contrebande – M. Faubert ;  
20 mars, 2008

66 *Ibid.*

67 *Ibid.*

### An Assessment of Money Laundering Activities and Organized Crime Involvement within the "White Label" ATM Industry

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# CONCLUSION

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Money laundering is a major concern globally. Recent figures released by the International Monetary Fund (IMF) puts it at \$2 trillion US worldwide. Estimates for Canada alone could be anywhere from \$25 to \$63 billion US. (U)

Money laundering activities can have, in the long run, a substantial impact on our economy and society causing economic distortion or instability, unfair competition, a loss of government tax revenues, an increased need for law enforcement, increase in social costs and increasing corruption levels. (U)

"White Label" ATM (WLATM), an unregulated industry, has been identified as an area of concern due to its extensive use in money laundering operations by organized crime groups. Major concerns arise from this newly created WLATM industry due to the fact that: anybody can own (including organized crime) or operate a WLATM, there are minimum requirements for due diligence, owners of WLATM have access cards which enable them to load cash into the machine, WLATM owners / lessees are asked, on a one-time basis, to identify their source of funds, and WLATM are not subject to any government regulations. (A)

Based on these concerns, WLATMs represent an ideal method to launder significant amounts of money. Other crimes can also be committed within the WLATM industry such as: fraud, "skimming", tax evasion, introduction of counterfeit currency and contraband smuggling. Intelligence indicates a strong involvement of the HELL'S ANGELS MOTORCYCLE CLUB in British Columbia, Ontario and Quebec within the industry. Intelligence currently indicates that close to 5% of the WLATM industry is control by organized crime. The estimated amount of money that can potentially be laundered through those machines is upwards \$280 million and could easily reach \$1 billion annually. (A)

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Activities and Organized Crime Involvement  
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