Exercise 1 - Material

United States General Accounting Office

GAO

Report to the Chairman, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate

July 2002

# MONEY LAUNDERING

# Extent of Money Laundering through Credit Cards Is Unknown


GAO-02-670

## The Extent to Which Credit Cards Are Used in Money Laundering Is Unclear

The consensus from industry, bank regulatory, and law enforcement officials we interviewed was that credit card accounts were not likely to be used in the initial stage of money laundering when illicit cash is first placed in the financial system, primarily because of restrictions on cash payments. Some credit card industry representatives and bank regulators we interviewed acknowledged that credit cards could be used in the layering or integration stages of money laundering; however, the extent to which this may be occurring is unknown. These officials, as well as most law enforcement officials we spoke with, were not aware of any cases of money laundering through credit cards in U.S.-based institutions. An analysis of FinCEN's SAR database also did not identify any instances in which the suspicious activity reported by financial institutions developed into an actual case of money laundering. However, we received information from one law enforcement agency that individuals have used credit cards to access illicit funds held in banks or trusts established in certain offshore jurisdictions.

### Credit Cards Are Unlikely to Be Used in Placement Stage, but Their Use in the Later Stages of Money Laundering Is Unknown

Credit cards are not likely to be used to place illicit funds in the U.S. financial system because of restrictions on cash payments, according to industry, bank regulatory, and law enforcement officials we interviewed. For example, most issuers and acquirers told us that they did not accept cash payments for credit card accounts and generally restricted payments to checks. Some industry and regulatory officials indicated that credit cards would be an ineffective way to launder money because each transaction creates a paper trail. They also indicated that credit cards would be an inefficient way to launder funds because of the limits on access to cash.

Nevertheless, some of these officials acknowledged that credit cards could be used at the layering and integration stages of money laundering; however, the extent to which this may be occurring is unknown. They indicated that once money launderers had placed their illicit funds in the financial system, they could layer and integrate the funds using credit card accounts. These officials provided us with examples of how this could occur:

- The money launderer prepays his credit card using funds already in the banking system, creating a credit balance on the account. The launderer then requests a credit refund, which enables him to further obscure the origin of the funds, which is layering.

- The money launderer uses the illicit funds that are already in the banking system to pay his credit card bill for goods purchased, which is an example of integration.

Officials from one bank told us that once its bank receives a check payment for a credit card account, it has no way of knowing how the funds were put into the system, let alone the origin of funds. Officials from another bank stated that if a money launderer were able to deposit funds into another institution, they could easily obtain a credit card. Appendix IV contains information on six money-laundering scenarios that we discussed with industry and regulatory officials.

Although industry and regulatory officials acknowledged that credit cards could be used in the layering or integration stages of money laundering, they, along with most law enforcement officials we interviewed, were unaware of actual cases in which credit cards were used to launder money through U.S.-based financial institutions. An analysis of FinCEN's database of SARs filed by U.S.-based financial institutions also did not identify any instances in which the suspicious activity reported by the financial institution developed into actual cases, but it provided some insights about possible money laundering linked to the use of credit cards. The database analysis FinCEN conducted in response to our request found that some banks had filed SARs pertaining to possible money laundering/BSA/structuring violations and credit, debit,[12] or ATM cards.[13] FinCEN conducted an analysis of the database and found that between October 1, 1999, and September 30, 2001, banks had filed 499 SARs related to credit, debit, or ATM cards and potential money laundering. This represents a significantly small percentage of the total of all SARs filed in this period: about one-tenth of 1 percent. FinCEN's analysis identified some examples of the type of suspicious activity banks reported that related to the layering and integration stages of money laundering:

[12]A debit card is a plastic card that is tied directly to an individual's checking or savings account. The debit card has the logo of one of the major associations, allowing the individual to make a purchase with the card from merchants who accept the association's credit cards. Transactions from debit cards are quickly deducted from the individual's checking or savings account, which differs from a credit card transaction, which the individual pays at a later date.

[13]The ATM card is a plastic card that, like the debit card, is tied directly to an individual's checking or savings account. It can be considered a debit card if it contains the logo of a major association. The ATM card is used to conduct banking business at an Automatic Teller Machine, such as depositing or withdrawing funds or checking on account balances.

- Fifteen of the 499 SARs related to customers overpaying their credit cards and subsequently asking for refund checks. FinCEN noted that overpaying a credit card could be used as a means to launder money because it provides a simple means to convert criminal or suspicious funds to a bank instrument with minimal or no questions as to the origin of the funds.

- One hundred fifteen of the 499 SARs related to customers trying to structure deposits—that is, making multiple deposits below the $10,000 threshold that would trigger a bank's filing a Currency Transaction Report (CTR). Most of these SARs related to cash transactions wherein the customer asked to deposit funds into various accounts, pay down loans, purchase cashiers' checks, and make credit card payments. FinCEN noted that the total payments on the credit cards were typically well over $5,000 and often exceeded $10,000.

FinCEN noted that the activity reported in virtually all of the SARs was considered "an isolated incidence" by the reporting banks. The only exception involved six SARs filed in early 2001 by the same bank, which reflects some kind of organized or criminal activity involving credit cards. Specifically, this bank filed SARs on four suspects. The bank reported that check payments credited to the four suspects' credit card accounts were made by a fifth individual. The individual making the payments on these accounts had earlier been indicted on money laundering, contraband, cigarette smuggling, and visa/immigration fraud charges.

Of the 499 SARs that FinCEN identified, 70 were referred directly to law enforcement by the financial institution, in addition to being filed with FinCEN. FinCEN was unable to tell us if any of them resulted in money laundering cases. Appendix V contains more details on the FinCEN analysis of the SAR database.

## Credit Card–Accessed Accounts in Offshore Banks Create Vulnerabilities to Money Laundering

One U.S. law enforcement agency has found instances of the use of credit cards associated with bank accounts in offshore jurisdictions to launder money, but the extent of this activity is unknown. For example, the Internal Revenue Service's Criminal Investigation group has found that U.S. citizens have placed funds intended to evade U.S. taxes in accounts at banks or trusts in certain offshore jurisdictions and then accessed these funds using credit and debit cards associated with the offshore account. In other instances, individuals generating cash from illegal activities have smuggled the cash out of the United States into an offshore jurisdiction with lax regulatory oversight, placed the cash in offshore banks, and—again—accessed the illicit funds using credit or debit cards. The credit or debit card provides a money launderer access to the cash received through the criminal activity without having to be concerned about a CTR or SAR being filed, according to this law enforcement agency. A United Nations report on offshore jurisdictions[14] reported that credit cards are a common and nontraceable means by which individuals access their funds in these offshore jurisdictions. The report indicated that banks assure cardholders that their account information will be protected by strict bank secrecy laws in these jurisdictions.

The Senate Permanent Subcommittee on Investigations report on Correspondent Banking describes two cases in which offshore banks engaged in money laundering, provided their clients with credit or debit cards to access their illicit funds. Guardian Bank and Trust (Cayman) Ltd., was an offshore bank licensed in the Cayman Islands. Its owner, who pleaded guilty to money laundering, tax evasion, and fraud, described how the bank allowed U.S. citizens to establish accounts with the bank for the purpose of evading taxes. The owner promoted the use of credit or debit cards so that his clients could covertly access funds stored in the Cayman Islands. He stated that these techniques were promoted and used to evade U.S. taxation. Caribbean American Bank, which was licensed in Antigua and Barbuda, was involved in a major fraud scheme. Through its relationship with another bank, it was able to offer its clients credit cards to charge purchases. The balance on the card was paid out of the illicit proceeds the clients had on deposit at Caribbean American Bank.

[14]*Financial Havens, Banking Secrecy and Money Laundering*, United Nations Office for Drug Control and Crime Prevention, Global Programme Against Money Laundering, May 29, 1998.

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Exercise 1 - Questions

## Exercise "GAO – Credit Cards"

### July 2002 GAO Report 02-670 Money Laundering: "*Money Laundering – Extent of Money Laundering Through Credit Cards is Unknown*"

**Instructions:** Read the PDF provided (Pgs. 15-18 of the GAO Report) to answer the following questions.

1. Why are credit card accessed accounts in offshore banks attractive to money launderers?

2. What is a "credit balance"?

3. Name a few red flags of money laundering with credit cards.

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Exercise 2 - Questions

# Exercise "Terrorist Financing"

*This exercise contains excerpts from the ACAMS Preparation Guide. Fill in the blanks, or choose the right answer.*

**1)** From a technical perspective, the laundering methods used by terrorists and other criminal organizations are:

A. similar
B. different
C. an issue from the past

**2)** Although it would seem logical that funding from legitimate sources does not need to be laundered, there is a need for the terrorist group to:

A. capture
B. disguise
C. proceed

_____the link between it and its legitimate funding sources.

**3)** In doing so, the terrorists use: cash smuggling, structuring, purchase of _____ instruments, wire transfers, and use of debit or credit cards.

**4)** The ancient _____ system has also played a role in moving terrorist related funds.

**5)** In addition, money raised for terrorist groups is also used for:

A. mundane
B. PEP
C. nesting

_____expenses like food and rent, and is not always strictly used for just the terrorist acts themselves.

Fill in the chart (select the correct answer) in each box:

| | **Money Laundering** | **Terrorist Financing** |
|---|---|---|
| **6)** Purpose of crime | A. Profit<br>B. To scare population | A. Profit<br>B. To scare population |
| **7)** Amounts involved | A. Small<br>B. Large | A. Small<br>B. Large |
| **8)** Origin of the funding/financing | A. Dirty money<br>B. Clean money<br>C. Mix | A. Dirty money<br>B. Clean money<br>C. Mix |
| **9)** Money trail | A. Linear<br>B. Circular | A. Linear<br>B. Circular |