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Report on
Money Laundering
Typologies

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FinCEN Advisory

This advisory is provided to alert recipients to known or suspected money laundering schemes reported by members of the Financial Action Task Force.

The new era of financial globalization is altering the roles of the financial, regulatory and law enforcement communities—they must now work closely together to combat money laundering.

The Financial Action Task Force (FATF), created by the G-7, is an international organization comprised of representatives of the financial, regulatory and law enforcement communities from 26 nations around the world, the European Commission and the Gulf Cooperation Council. It serves as the world leader in promoting the development of effective anti-money laundering controls and cooperation in counter-money laundering investigations among its membership and around the globe.

In June, FATF revised its standards for countries to follow in combating the laundering of criminal proceeds. These standards are known as the 40 Recommendations. In addition to the revised 40 Recommendations, FATF also disseminated the results of a "typologies exercise" which highlights new money laundering methods and patterns of activities used by criminals.

In keeping with FinCEN's role as an information sharing network to assist the financial, regulatory and law enforcement communities in combating money laundering and other financial crimes, we are disseminating the attached FATF-VII Report on Money Laundering Typologies. We are providing this information to alert you to the variety of techniques and the changing methods being used by money launderers around the world.





For more information about FATF and its efforts to address the problem of money laundering, please visit the FinCEN web site at <http://www.ustreas.gov/treasury/bureaus/fincen>.

We hope that you will find this information useful.

Stanley E. Morris
Director

Attachment

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**FINANCIAL ACTION TASK FORCE ON
MONEY LAUNDERING**



**FATF-VII REPORT ON MONEY LAUNDERING
TYPOLOGIES**

FATF-VII REPORT ON MONEY LAUNDERING TYPOLOGIES**I. INTRODUCTION**

1. The group of experts met in Paris on 28-29 November 1995 under the chairmanship of Mr. Jean Spreutels, President, Cellule de Traitement des Informations Financières (CTIF), Belgium. The group included representatives from FATF members Australia, Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. Experts from non-member, observer organisations Interpol and the United Nations International Drug Control Programme (UNDCP) were present as well.
2. The purpose of the 1995/1996 "typologies exercise" was to provide a forum for law enforcement experts — those primarily tasked with combating money laundering — to discuss recent trends in the cleansing of criminal proceeds, emerging threats, and effective countermeasures. While the discussions focused principally on money laundering developments in FATF member nations, the experts also sought to pool available information on prevailing laundering patterns in non-member countries or regions. In this vein, the disposal of illicit funds by interests in the former Soviet Union and Eastern Bloc was accorded significant attention.

3. In a departure from the previous session, distinct segments of the 1995/1996 typologies exercise were devoted to reviewing available information on money laundering in the securities and insurance industries. These subjects were built into the 1995/1996 agenda in an effort to flesh out evidence, surfacing during the 1994/1995 experts session, which suggested that money launderers were using these sectors to ply their trade. To facilitate the dialogue, members were invited to include in their delegations experts from the insurance and securities industries.

II. MAGNITUDE AND GEOGRAPHIC SCOPE OF THE MONEY LAUNDERING PROBLEM

4. It was agreed that as part of their advance preparation for the meeting, the experts would endeavour to determine the amount of money laundering occurring in their countries, with a view toward arriving at an estimate for all FATF members. Some members were able to produce an estimate based on narcotics seizures in their jurisdiction, in accordance with a method the FATF had used in 1990 (See FATF-I Report).

5. Unfortunately, the vast majority of members lack sufficient data to support credible estimates. Several experts identified as the best available evidence statistics regarding the number of suspicious transaction reports filed in their countries and the amounts involved in those transactions. As some acknowledged, however, it would be difficult to formulate a projection based on this information. The mere registering of a report of suspicious activity does not necessarily establish that money laundering has in fact occurred. While some members were able to establish with certainty the link between suspicious transaction reports and criminal activity, they generally were able to do so for only a portion of the reports they had received. Moreover, it was assumed that suspicious transactions reports do not account for all instances of money laundering.

6. Other experts offered data on sums seized pursuant to money laundering investigations or prosecutions. This information too does not appear to support a valid estimate of the amount of tainted funds entering the legitimate financial stream, as one member's experience demonstrates. One of the law enforcement agencies in this country reported that the aggregate volume of assets seized within its borders is decreasing, while other agencies detected higher levels of money laundering activity.

7. A few experts cited figures representing deposits or investments from countries known to be bases of operations for significant criminal enterprises. Representatives from one member, for example, estimated an influx of between \$ US 40-50 million from interests in the former Soviet Union and Eastern Bloc. Again, these numbers cannot sustain a defensible estimate of laundered funds. In most cases, authorities have not been able to confirm that the funds were of illegal origin.

8. Despite the difficulties attendant to calculating the size of the money laundering problem, the experts favoured pressing forward with attempts to do so. They agreed that a statistically significant estimate would provide a wealth of information for the FATF, member governments, and the private sector.

9. One delegation introduced the results of a recently conducted study measuring the scope of its money laundering problem. The study included a review of official crime statistics, as well as anecdotal evidence based on expert opinion. It projected the amount of money laundered in this country to be approximately \$ US 4.55 billion per year. The experts determined to review the methodology employed in the study to determine whether it can be translated into a broader examination of the money laundering problem within the FATF, or even globally.

III. RECENT TRENDS AMONG FATF MEMBERS

A. The Principal Sources of Illegal Proceeds

10. Drug trafficking and financial crime (bank fraud, credit card fraud, investment fraud, advance fee fraud, embezzlement and the like) remain the most frequently mentioned sources of illegal proceeds. On the whole, drug trafficking is still considered the largest single generator of tainted funds, but the scale of laundering linked to financial crime is growing rapidly. In fact, some Scandinavian members reported vastly greater levels of illicit profits stemming from financial crime than from narcotics.

11. Organised crime continues to be responsible for a large proportion of the dirty money flowing through financial channels. The Italian Mafia, the Japanese yakuza, the Colombian cartels, Russian and Eastern European criminal enterprises, American ethnic gangs, and other, similarly structured groups are involved in a wide range of criminal activities. In addition to drug trafficking, these enterprises generate funds from loan sharking, illegal gambling, fraud, embezzlement, extortion, prostitution, illegal trafficking in arms and human beings, and a host of other offences. Frequently, they maintain extensive holdings in legitimate businesses which can be manipulated both to cloak and to invest illegally generated funds.

B. Prevailing Trends and Emerging Threats in Money Laundering

12. Two general observations can be made regarding current money laundering trends which cut across the FATF membership. First, certain traditional money laundering techniques remain preferred avenues for hiding ill-gotten wealth. Second, beyond conventional laundering techniques, the experts have become alert to new developments occurring in the financial sector which may present significant money laundering threats.

(i) Traditional Laundering Techniques: Banking Sector

13. As they have been historically, banks remain an important mechanism for the disposal of criminal proceeds. The experts reported a number of patterns of activity indicative of laundering in the banking sector.

14. One such pattern is the use of accounts in false names, or in the name of persons or interests operating on behalf of other beneficiaries. The latter category includes a class of money laundering agents such as solicitors, attorneys and accountants (a theme discussed more fully in Paragraph 25 below). It also includes shell or front companies. In all cases, the accounts are utilised to facilitate the deposit or transfer of illicit funds. Often, there are complex layers of transactions involving multiple accounts in the names of multiple persons, businesses or shell companies.

15. The experts noted several characteristics probative of laundering through such accounts. For example, transaction activity in the accounts often occurs in amounts greater than that which ordinarily would be expected given the purported nature of the account holder's business. In addition, documentation offered to support transactions, such as loan agreements, guarantees, purchase or sale contracts, and letters of credit, often appears false or legally deficient. If the account holder is a business, the business frequently has been incorporated or registered with the local chamber of commerce for only a short period of time. And in many cases, the parties on both sides of the transactions appear to be related. Indeed, the parties may even be the same. These trends have been particularly apparent in accounts opened and maintained by persons or concerns tied to the former Soviet Union and Eastern Bloc.

16. Another trend identified by some delegations is the use of representative offices of foreign banks to dispose of criminal proceeds. Representative offices may offer an important advantage to money launderers. In some countries, though not all, representative offices can accept deposits and then transfer the funds to their own accounts with a local bank, without disclosing the identities of the depositors and beneficiaries.

17. In addition to the typologies outlined above, other familiar laundering techniques continue to figure prominently in the banking sector. Wire transfers remain a primary tool at all stages of the laundering process. Transactions are still structured, even when there are no large cash reporting requirements. And large cash deposits are still being made in some areas, especially by persons and interests connected to the former Soviet Union and Eastern Bloc.

(ii) Traditional Laundering Techniques: Non-Banking Sector¹

18. Non-bank financial institutions and non-financial businesses are still attractive avenues for introducing ill-gotten gains into regular financial channels. Some delegations continue to report a significant shift in laundering activity from the traditional banking sector to the non-bank financial sector and to non-financial businesses and professions.

19. Bureaux de change pose an increasing money laundering threat. The experts cited an apparent marked increase in the number and volume of transactions conducted through these entities, and a commensurate rise in actual or suspected laundering activity. The criminal element continues to be attracted to bureaux de change because they tend not to be as heavily regulated as banks and other traditional financial institutions — if they are regulated at all.

20. Another important trend has been the rise of a class of professional money laundering facilitators. The experts report an increase in the number of solicitors, attorneys, accountants, financial advisors, notaries and other fiduciaries whose services are employed to assist in the disposal of criminal profits. Among the more common tactics observed have been the use of solicitors' or attorneys' client accounts for the placement and layering of funds. This method offers the launderer the anonymity of the solicitor-client privilege.

21. Other ploys include the establishment of shell corporations, trusts or partnerships by attorneys, accountants and other professionals. Working through these business entities, the professionals spin webs of intricate transactions to mask the origin of criminally derived funds and to conceal the identities of the parties and beneficiaries. In many cases, the professionals will act as directors, trustees, or partners in these transactions, or they will supply nominal directors, trustees, or partners.

22. One of the oldest money laundering techniques, common smuggling, appears to be on the rise. A number of experts reported an appreciable increase in the amount of cash moving covertly across borders. Smuggling can occur by physically transporting currency or monetary instruments, or by hiding the cash in outbound cargo shipments. Criminals have shown growing sophistication in these operations, often purchasing businesses engaged in the shipment of goods and hiding dirty money inside the product. Experts are also detecting a significant amount of cash stockpiling, particularly in port or border regions — a phenomenon generally regarded as a step precedent to smuggling. Both trends have been attributed in part to the success of anti-money laundering measures in banks and other financial institutions.

23. A number of other money laundering techniques in the non-bank sector remain prominent. Substantial amounts of illegal proceeds, or at least funds of potentially criminal origin, are still being invested in real estate. This trend increasingly is linked to interests in the former Soviet Union and Eastern Bloc. The purchase and import/export of gold and jewellery remains a frequently cited trend as well. Finally, the use of international trade in the money laundering process is growing. The proceeds of crime are used to purchase goods and products which are then shipped out of the country for re-sale.

¹ As was mentioned in Paragraph 3 above, special segments of the typologies exercise were devoted to money laundering in the insurance and securities industries. Accordingly, these non-banking sector topics will be treated separately, in sections III.B(v) and III.B(vi) of this paper.

(iii) Emerging Threats: Banking Sector

24. In addition to the more familiar money laundering methods discussed above, the emergence of new payment technologies has presented new challenges. The banking and financial services industry has been developing and testing an array of new products, referred to generally as “cyberpayments,” designed to act as cash surrogates or to provide alternative means of effecting transactions.

25. A key component of cyberpayments technology is the use of so-called “smart cards,” credit-card like devices containing a microchip on which value is encoded. The cards can be read by vending machines or terminals that deduct the amount of each transaction from the total stored value. When the card’s value is used up, it may be re-loaded via ATM, telephone, “electronic wallet” or personal computer, or it may be discarded. The term cyberpayments also includes “electronic banking” systems wherein value is held in a personal computer and transferred electronically over the Internet.

26. Early cyberpayments products tended to be very limited in application. For the most part, they operated in a closed system; transactions had to begin and/or conclude at a financial institution. They also placed limits on the active life of the cards, or on the amount of value that could be stored on them. The telephone cards in use in many European nations are an example of this predecessor technology.

27. More recently, however, cyberpayments developers have been experimenting with fewer restrictions. These new products have higher or even no value limits. They can be used at any participating retail establishment. Some will permit value to be stored and transactions conducted in multiple currencies. And, most disturbingly, some will allow value to be accessed and transferred without the need for financial institution intervention.

28. Clearly, this technology offers tremendous benefits for both government and private business. Instantaneous access to banking services from remote locations can enhance efficiency and reduce operating expenses. Unfortunately, the same advantages cyberpayments generate for legitimate commerce render it equally attractive to the criminal element. The ability to conduct significant transactions anonymously and entirely outside the banking system could enable launderers to skirt the regime of cash and financial institution-based preventative measures FATF members have worked so diligently to implement.

29. At present, the experts have no evidence to suggest that cyberpayments technologies are being manipulated by criminal interests. Still, there was general agreement that this issue must be addressed directly. Given the speed with which the cyberpayments industry is developing, and the fundamental threat its abuse would pose to existing anti-money laundering mechanisms, the FATF cannot afford to wait until the launderers have already begun to exploit cyberpayments products. Rather, the experts were adamant that the FATF must be proactive, working with the vendors and users of cyberpayments technology to identify vulnerabilities, and to build the appropriate safeguards into system design and operation.

(iv) Emerging Threats: Non-Banking Sector

30. Outside of the banking context, the casino industry has recently been identified as vulnerable to money laundering. Willing casinos would be attractive to money launderers because they frequently provide the same services as do banks (including extending credit, changing currency, and transmitting funds). However, those experts who cited casinos as a potential problem were quick to note that money laundering does not appear to be prevalent in the industry at this time.

(v) Special Section: Insurance

31. Expanding on evidence uncovered during last year's typologies exercise, a number of money laundering trends were identified or suspected in the insurance sector. The experts reported that single premium insurance bonds of one sort or another continue to be increasingly popular. Launderers purchase these products and then redeem them at a discount, the balance becoming available to the launderer in the form of a "sanitised" check from an insurance company. Single premium insurance bonds have another advantage as a money laundering vehicle because they can be used as guarantees for loans from financial institutions.

32. Another problematic aspect of the insurance industry noted by many members is the fact that a significant percentage of insurance products are sold through intermediaries. These brokers are often the only ones having personal contact with the clients. Yet, it is the insurance companies, and not the brokers, that are responsible for reporting suspicious activity.

33. Several experts offered a sampling of the kinds of activity which should arouse suspicion in connection with the purchase of insurance products. The insurance companies should be on alert when a cash payment is made upon subscription and the subscriber changes his mind during the legal cancellation period. Another suspicious circumstance occurs where a single premium policy purchase is made in cash or by cashier's check in an amount that is patently disproportionate to the subscriber's stated occupation or income. A subscription for a large amount, the premiums to be paid from abroad (often from an offshore financial centre) is patently suspect. So too is a subscription calling for the periodic payment of premiums in large amounts.

34. During the life of the insurance product, insurance companies should be concerned when the named beneficiary of a policy is changed to a person with no clear relationship to the subscriber. In addition, insurance companies should look carefully when they receive a request for security or a certificate that funds have been invested with the insurer.

35. At the termination stage, suspicions should heighten when a client displays no concern for significant tax or other penalties associated with early cancellation. Insurance companies should also pay attention to capitalisation bond redemptions requested by persons other than the subscriber. This is particularly the case when the redeemer and subscriber appear to bear no relationship to one another. Finally, firms should scrutinise cases where bonds originally subscribed by an individual in one country are redeemed by a business in another country.

36. A number of experts mentioned as an emerging trend the laundering of funds through the re-insurance industry. Criminal enterprises appear to be moving money to this sector to take advantage of its unregulated or under-regulated status.

37. Another noteworthy trend is the purchase of life insurance policies in the secondary market. Criminal interests may be purchasing these policies at a discount from beneficiaries desperate for cash. The death benefits are then paid to the purchaser, who makes a profit and receives his money in the form of an insurance company check.

(vi) Special Section: Securities

38. The FATF remains concerned about the susceptibility of the securities industry to money laundering. The experts presented more evidence than last year that the securities sector was being

compromised by tainted funds. As compared to the analysis of the insurance industry, however, the volume of proof is still limited.

39. Nevertheless, it remains the general opinion of the experts that the securities sector is vulnerable to infiltration by money launderers, particularly at the layering stage. A number of features make this business an attractive target. First, it is by nature international. Brokerage firms frequently have offices all over the world, and it is ordinary for transactions to be conducted by wire transfer from, to or through multiple jurisdictions. Second, the securities markets are highly liquid. Purchases and sales can be made and settlements consummated within a very short period of time. Third, securities brokers operate in a competitive environment. Because their compensation is often based primarily on sales commissions, there is ample incentive to disregard the source of client funds. Finally, in some countries, securities accounts can be maintained by brokerage firms as nominees or trustees, thus permitting the identities of true beneficiaries to be concealed.

40. Several experts reported cases in which securities were purchased or sold, or securities accounts manipulated, in an effort to cleanse criminal profits. They sometimes entailed many series of transactions, with purchases and sales being made by shell companies, limited partnerships and front companies so as to mask the identities of the real parties in interest. In addition, a number of the cases involved a securities industry professional who actively assisted in a money laundering scheme.

41. One delegation cited a case in which a securities professional laundered over \$ US 157,000 on behalf of a client, a public official who had misappropriated over \$ US 1.4 million. The professional first opened an account in the name of the client's wife, into which the proceeds of a legitimate real estate sale were deposited. He then engaged in a series of fraudulent "put" and "call" transactions on the client's behalf, fabricating contracts after the price trends of the underlying securities were already known. The contracts were designated as a put or a call based on the established price trend of the security, so as to ensure in every case that the client would realise a profit. Through this process, the professional was able to introduce over \$ US 157,000 in tainted funds into the client's account and justify its presence on the books as profit from securities investments.

42. Detecting money laundering activity in the securities context continues to be very difficult. The experts noted that additional efforts must be expended to identify the indicia of suspicious activity in this area. Several cited difficulty in discerning whether the funds involved in suspicious transactions were actually criminally derived.

43. Despite these difficulties, the experts agreed that it is important to forge ahead with efforts to address money laundering through the securities sector, in tandem with the securities regulators and the major exchanges.

C. **Developments in Counter-Measures**

44. Nearly all FATF members have implemented the major elements of the Forty Recommendations. However, a number have made refinements to their basic anti-money laundering framework (or intend to do so) in light of the changing nature of the threat they face. The following are some of the more noteworthy developments either already undertaken or planned.

45. Almost all members that have not already done so are taking action to extend the scope of their money laundering offence to non-drug related crimes. This trend is continuing in response to growing evidence regarding the significance of non-drug related crime as a source of illegal wealth. Examples include one member, which has pending a bill to criminalise money laundering in connection with all

serious crimes (including tax fraud). Another member has introduced draft legislation to include terrorism, financial crime, corruption, kidnapping, extortion and other crimes as predicate offences within the ambit of its money laundering statute.

46. Similarly, members are continuing to extend the reach of money laundering prevention measures to additional groups of businesses and institutions. The general thrust of these changes is to provide for more comprehensive coverage of non-bank financial institutions — in recognition of the large scale migration of criminal funds to this sector. Thus one member enacted legislation requiring bureaux de change to register with its central banking authority. The statute subjects bureaux de change to strict conditions of management integrity, identification, and compliance with disclosure obligations. Another member has passed legislation bringing consumer credit firms, mortgage companies, financial leasing companies and firms issuing or managing credit cards within the scope of its anti-money laundering framework. Another still has included casinos and some sellers of luxury items in its draft anti-money laundering law.

47. Some members have taken steps to better facilitate the investigation and dismantling of potential money laundering operations. One, for example, has enacted legislation which allows a court to assume that all assets held by a defendant are the proceeds of crime if the defendant is convicted of two or more serious offences (which includes laundering the proceeds of crime). One member is also modifying its legislation to lessen the burden of proof for prosecutors regarding the illegal origin of funds, and another has done so.

48. Several members have heightened efforts to invigorate the private sector in the battle against money laundering. One has established a working group comprised of representatives from the financial services sector (including non-bank financial institutions), the regulatory authorities and the law enforcement community. The group meets regularly to discuss the impact and utility of existing and proposed anti-money laundering regulations, as well as trends in criminal practices. Other members are generating or improving guidelines on suspicious transactions for dissemination to financial institutions, and pursuing money laundering awareness programs targeting at-risk industries.

49. Finally, one member is testing a program whereby financial institutions will have at their disposal computerised systems for detecting patterns of related transactions which may be indicative of money laundering. However, the system does not automatically generate reports of suspicious transactions and the financial institution's compliance officer must determine whether a report is warranted.

D. The Situation in Non-FATF Members

50. Money laundering obviously is not a problem restricted to FATF members. All jurisdictions linked to the international financial system are at least potentially capable of being infiltrated by illicit funds. Information on the money laundering situations in non-FATF members continues to be substantially less developed than that covering FATF members. Indeed, with the exception of the Former Soviet Union and Eastern Bloc, members had little information to report regarding money laundering developments in other parts of the world.

51. The following sections thus reference information which surfaced during last year's typologies exercise. The membership has no evidence to suggest that these earlier reported trends have changed appreciably. Also referenced in the section pertaining to Asia are summary conclusions from a recent typologies exercise on Asian money laundering trends sponsored by the FATF Asian Secretariat.

(i) Asia (Excluding the Former Soviet Union)

52. The money laundering situation in Asia is characterised by several factors, although not all of these factors are unique to the region. First, Asian economies typically are very cash intensive, and there generally are no mechanisms in place to track large cash transactions. Second, underground banking (known variously as hundi, hawalla, chit or fei-chien systems, according to the area and ethnic groups involved) is a long-standing tradition in this part of the world. Underground banking offers a quick, cheap, efficient and anonymous means of moving money. One member observed that the rates charged by Asian underground banks tend to be extremely competitive as compared to the prevailing charges for disposing of criminal funds in other regions. Finally, few non-FATF countries in Asia have anti-money laundering laws on the books.

53. Drug trafficking has been identified as one of the principal sources of illegal proceeds in the Asian region. In the Golden Crescent (Afghanistan and Pakistan) and Golden Triangle (Myanmar, Laos and Thailand), Asia contains the world's most significant areas of opium production. The other primary source of illegal wealth is financial crime. Smuggling, arms trafficking and corruption were also cited as less significant sources.

54. Not surprisingly, organised crime figures prominently in all of these activities. The Japanese yakuza is one of the world's most prominent and profitable criminal organisations. Evidence indicates that the yakuza is investing in assets in various Asian and Pacific countries. In addition, overseas Chinese organised crime groups are engaged in criminal enterprises in Asia and elsewhere in the world. There are also terrorist groups in India using crime to fund their operations. And there are signs that Russian criminal enterprises are extending into East and South East Asia, supplying Russian prostitutes, buying real estate and becoming involved in gambling operations.

55. Among the money laundering techniques most frequently employed in the Asian region are: currency smuggling across national borders; the use of shell corporations; the use of bearer instruments; the use of wire transfers; the use of remittance services; the purchase of luxury items and real estate; false invoicing; laundering through casinos; and laundering through securities transactions.

(ii) South America, Central America and the Caribbean

56. South America is one of the most important areas in the world for narcotics production, particularly cocaine and cannabis. Central America and the Caribbean are significant transit areas for narcotics. Drug production and trafficking are therefore a very significant source of illegal proceeds in these regions.

57. Money laundering methods in this part of the world are in many respects similar to those in FATF members. Counter-measures are substantially underdeveloped, however, and as a consequence the banking sector is still of great importance at the placement stage. This reflects the important role offshore financial centres (particularly some of the Caribbean jurisdictions) play in the global money laundering process. There is considerable physical movement of currency from North America and Western Europe into the region, which is then deposited in banks or used to purchase high value items. Criminal funds are also invested in the construction of luxury hotels and supermarkets with apparently little effort to conceal the source of the investment. In other areas, supposedly legitimate commercial transactions are used as a cover for repatriating proceeds of crime via over or under-valued invoices for the material.

58. Some members reported on important new initiatives being pursued in the region. One delegation noted that the thirty-four governments in the Western Hemisphere would soon be signing a Communiqué on money laundering. The Communiqué, part of the follow up to the 1994 Summit of the Americas, sets forth a co-ordinated, multilateral approach to combating money laundering in the hemisphere.

59. It was also reported that the Netherlands Antilles and Aruba recently passed new anti-money laundering legislation which closely tracked the Dutch legal framework. However, the legislation of the Netherlands Antilles is expected to be in force on 1 January 1997.

(iii) Africa

60. Africa remains the region on which the least information is available. FATF members simply lack evidence to suggest that the African nations harbour prominent international money laundering centres. The problems in Africa that have been detected still relate to the operations of Nigerian organised crime groups which engage in a wide range of criminal activity, including some very sophisticated fraud schemes. Other northern African nations have been connected to drug trafficking operations extending into Western Europe, where the proceeds of that activity have circulated back to the drug producing countries. Some members reported a significant amount of money laundering stemming from drug trafficking between African emigre communities in FATF member nations.

(iv) The Former Soviet Union and Eastern Bloc

61. Russia and the newly independent states of the former Soviet Union and Eastern Bloc present a troublesome problem for FATF members. In last year's typologies exercise, experts reported that large volumes of cash were making their way from these countries into member banks and financial institutions. While the experts harboured suspicions that a significant portion of these funds were tied to criminal conduct, however, they expressed frustration at being unable to confirm the criminal ties in most cases.

62. This year, by contrast, the experts presented much more hard evidence that Russian organised crime groups and other illegal enterprises were penetrating legitimate financial channels to launder ill-gotten wealth.

63. Organised crime in the former Soviet Union and Eastern Bloc is involved in more or less every type of criminal activity, including drug trafficking, prostitution, trafficking in human beings, financial fraud, extortion, and trade in stolen vehicles. It is also involved in tax fraud schemes and the theft of assets from companies or state enterprises. Russian enterprises in particular have shown themselves to be extremely well managed, with a network of international contacts extending to other international criminal organisations and to emigre communities.

64. Several consistent typologies involving funds from the former Soviet Union and Eastern Bloc have been observed. First, experts reported cases in which individuals opened accounts at financial institutions and deposited large amounts of cash tied to interests in Russia and Eastern Europe. Once deposited, the funds were then transferred out of the country. Often these schemes involved the assistance of a lawyer or other middle person. One delegation, for example, detected cases in which Russian money entered the banking system under the cover of solicitors' client accounts. In another variation of this approach, a delegation reported having a number of cases where individuals exchanged large amounts of currency in banks and then, presumably, returned the money to its criminal owners in the east.

65. Another frequently cited trend involves the establishment of trading or other front companies in FATF countries. Accounts have been established at financial institutions in the names of these companies and moneys transferred to the accounts from accounts in other countries (including offshore financial centres). Often the explanation is that the transferred sums are payments for the export or import of items to and from the former Soviet Union or Eastern Bloc nations.

66. The experts reported a number of factors which suggest that a scheme of this sort is taking place. These include the fact that: 1) transaction activity in the accounts often occurs in amounts greater than that which ordinarily would be expected given the ostensible nature of the account holder's business; 2) the documentation offered to support transactions appears false or deficient; 3) the account holder has been incorporated or registered to do business for short period; and 4) the parties on both sides of the transactions appear to be related. Again, these schemes often involve a professional money launderer, a lawyer or other citizen of the FATF country that assists in establishing the company, setting up the account and effectuating the transactions.

67. Groups tied to the former Soviet Union and Eastern Bloc are continuing to make extensive investments in real estate, hotels, restaurants and tourist businesses in a number of Western European countries. The assets are often purchased through offshore companies with the assistance of an intermediary. One delegation reported an attempt by a Russian bank to purchase a member of its stock exchange that was on the brink of bankruptcy. Working through a solicitor, the bank tried to structure the transaction so that it obtained a controlling interest in the firm but did not own enough shares to trigger ownership disclosure requirements.

68. Although the bulk of the money is flowing from east to west, there is evidence that money from crimes committed by Russian gangs in the west is being moved back to Russia. For instance, over the past eighteen months, approximately \$ US 100 million in cash has been shipped from the US to Russia every day, primarily through two US banks, in response to orders from Russian banks. Given the high levels of currency ordered, it is at least conceivable that some portion of the funds will be used to supply the needs of Russian organised crime, in addition to that which is applied to legitimate ends.

69. Despite mounting evidence that FATF member countries are being affected by organised crime in Russia and other areas of the former Soviet Union and Eastern Bloc, in too many cases the experts are still unable to confirm the criminal nature of funds coming from these countries. Many attribute this problem to a lack of co-operation on the part of law enforcement authorities in the countries where the funds are originating. Widespread corruption within authorities in Russia and the former Soviet Union is another factor.

70. It was noted that the states of the former Soviet Union and Eastern Bloc possess many features which make a country attractive to money launderers: banking systems that are corrupt or corruptible; no money laundering legislation or an absence of meaningful legislation; the ability to buy or establish a bank with very little capital; law enforcement structures ill-equipped to investigate financial crime; a high propensity for official corruption; a desperate need for capital; disinclination on the part of law enforcement authorities to co-operate with one another. Hence, the potential exists for Russia and other Eastern European countries to become money laundering centres for proceeds of crime generated in the west.

IV. CONCLUSIONS

71. Money laundering remains a very serious problem in FATF countries and around the world. The “life blood” of any profit-generating criminal activity, the laundering process allows narcotics traffickers, terrorists, perpetrators of financial fraud, and every other criminal enterprise to perpetuate, and to live lavishly from, their illegal activity. The phenomenon is still a matter of concern even though we are better able to understand it, thanks in significant part to the implementation of the FATF Forty Recommendations.

72. It is difficult at the present time to assess the scale of the money laundering problem. Although the experts generally agree that it amounts to hundreds of billions of dollars annually, they also acknowledge that previous attempts to arrive at a precise estimate have been empirically flawed. Nevertheless, the collective opinion is that developing a methodologically sound measure is a laudable objective and must be pursued.

73. Drug trafficking remains the single largest source of illegal proceeds, although there is general consensus among the experts that non-drug related crime is increasingly significant. Indeed, in some members, non-drug related crime is by far the predominant source of illicit funds.

74. Conventional money laundering techniques are still prevalent. Cash smuggling across national borders, for example, is a time-honoured ploy that appears to be escalating. The use of bureaux de change to dispose of criminal proceeds has increased significantly. Professional money launderers are playing an increasingly active role, facilitating transactions to mask the origin and ownership of tainted funds.

75. In addition to these traditional methods, potential money laundering threats have been identified in certain rapidly developing industries. Foremost among these is the emerging cyberpayments technology sector. While there is no evidence to suggest that this industry is currently being manipulated by criminal interests, the experts agree that the FATF cannot afford to wait until it happens. The ability to access cyberpayments systems to launder illicit profits could seriously undermine the effectiveness of existing anti-money laundering measures. Accordingly, the FATF must be proactive, working with the cyberpayments industry to incorporate the necessary safeguards into the design and operation of these products.

76. In the insurance sector, there is an expanding pool of evidence indicating that single premium insurance products are being utilised to hide illegal wealth. Evidence also suggests that the criminal element is moving into the reinsurance industry to capitalise on the lack of effective regulation there.

77. With respect to the securities industry, there is comparatively little proof that large scale money laundering is occurring. Still, the international character of the securities business, and the liquidity and speed of securities transactions, render this sector susceptible to exploitation. It is thus important to continue working with the securities sector to develop a better understanding of any vulnerabilities inherent in this field.

78. Recognising what has become a tautology — that the money laundering problem is not confined to the proceeds of narcotics activity alone — virtually all FATF members have expanded or are in the process of expanding their money laundering laws to include non-drug related predicate offences. Also, in response to the ever-diversifying nature of the money laundering problem, many members are taking new steps to apply prevention measures to non-bank financial institutions and non-financial businesses. And members are making the dismantling of money laundering operations easier by removing legal impediments to investigation and prosecution, for instance by easing the burden of proof regarding the illicit origin of funds.

79. The problem of money laundering stemming from the former Soviet Union and Eastern Bloc is increasingly acute. There is an expanding body of evidence indicating that organised crime groups in those countries are seeking access to the financial systems of FATF members, often with the assistance of intermediaries based in member countries. There also appears to be a significant amount of capital flowing back from FATF members to interests in the east. The problem of establishing the criminal source of suspicious funds continues to plague law enforcement authorities. This problem is due in some degree to a lack of co-operation from law enforcement counterparts in the former Soviet Union and Eastern Bloc.

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