CHAPTER 4

The BASIC AND MECHANISM OF MONEY LAUNDERING
The proceeds of major crimes run into not just hundreds of billions at dollars, but possibly a few trillion dollars. Considering the sums involved in the proceeds of crime, it is quite logical to ask the question of how these are managed. A substantial portion of the proceeds is required for the running expenses for the criminal enterprises, a large proportion of the proceeds of crime are spent in an open manner with all the attendant risks of being caught, and then there are several criminals who like to hide their wealth or secrete it away in secure hiding places. However, the overriding concern of many criminals is to make their proceeds appear legitimate.

Money laundering can be described as a process which is aimed at legitimizing the proceeds of crime. The term ‘money laundering’ has connotations of washing something which is dirty. Criminals want to launder their money or make it appear legitimate for several reasons. First at all, legitimacy enables the criminals to enjoy the fruits of crime in an unencumbered way.

These illegal proceeds can also be utilized by criminals to create truly legitimate enterprises. On the basis of these legitimate enterprises, the criminal families can become highly respectable within a couple of generations, because their criminal past generally becomes blurred. Thus, the descendants of these criminals can go on to lead normal and respectable lives as members of society.
4-1-2 – Dimensions of Money laundering: National and International

How are money laundered, or, in other words, what are the typologies for laundering money? Before one begins to discuss the types of money laundering, one must understand that there is a national dimension and an international dimension to it. The national dimension of money laundering is more easily understood by the residents of a country, because they are familiar with the socio-economic and cultural milieu of that country.

The international dimension of money laundering calls for an understanding at international finance and banking which, like high finance, seems very complicated to the general public. This international dimension is becoming more and more important with the march of most countries at the world towards economic liberalization, where in ‘free market’ is the new mantra. Since money laundering is generally not easily comprehensible, the basic idea in this chapter is to demystify the subject. The best way to do this is to have a clear understanding at the fundamentals of the subject. Once the fundamentals are clearly understood the subject becomes very simple.

4 – 1-3-Concepts, Practices, Trends, and Entities That Enable It

Money laundering first calls for an understanding at some concepts, practices, trends and entities both in their national and international dimensions. In the context at the national dimension these one:

1. Banking and instruments of commercial banking such as drafts, banker's cheques, cashier cheques and personal cheques.
2. Foreign exchange bureau or brokerage houses.

---

(3) Money transmission agents such as Western Union, and the services offered by them.

(4) Correspondent banking as an integral part at national and international banking

(5) Money orders issued by post office.

(6) The securities markets/stock exchanges.

(7) Commodities markets/commodity exchanges.

(8) Retail/wholesale trade involving high volume and high-end products.

(9) The gold, diamonds and precious stones market-how these are traded nationally and internationally.

(10) Insurance companies, both life insurance and general insurance.

(11) The role of untaxed sectors in the national economy for instance, agricultural income and export income in India.

(12) An understanding of subsidies to certain sectors of the national economy.

(13) Casinos and other forms at gambling including lotteries.

(14) A general understanding of trade and commerce.

(15) A general idea of different economic systems, viz, System where only the private sectors exists and systems where there is mix of public and private sector.

(16) The information technology sector which includes hardware and software, and also an understanding of trade and commerce.

(17) Fiscal structure and financial rules and regulation in a given country. This would include customs and excise and other forms of indirect taxes and also direct taxes such as income tax, wealth tax and gift tax.

(18) Conduct of international trade and the instruments that facilitate such trade, including letters of credit, bills of lading and other forms of certification.

(19) In voice manipulation in the context at the import/export trade.

(20) Subsidies in the export sector.

(21) Schemes to channel black money or illegally acquired proceeds into the national economy for more productive utilization.

(22) Amnesty schemes for tax-evaded income/illegally acquired proceeds.

(23) Existence and absence of foreign exchange controls.

(24) The barter trade in gems for guns or drugs, and gold for drugs.
Most of the concepts, practices and entities in the national dimension listed above are well known, those that are not will become clear in the next. It must also be borne in mind that although money laundering can have an exclusively national dimension, often there is an overlap between the national and the international dimension. It must also be clearly understood that the international dimension can only exist in the context of the national dimension.

4 -1 -4 – A Comprehensive Projection of the International Money Laundering Dimension in Operation

For a proper understanding and comprehension of the international dimension of money laundering, the following entities and practices relating to international banking and finance need to be explained of length.

4 – 1 – 4 – 1 – Offshore Jurisdictions

Legally speaking, offshore jurisdictions are those jurisdictions which exist in other countries and operate bank accounts for foreign national in currency other than that prevalent in the offshore jurisdiction. All matters of banking and finance pertaining to foreign national finance sector since the early 1950. It was after the Hungarian crisis of 1956, when Russian dollar accounts in the USA were frozen, that the Dnerdoni Bank of Russia asked a London Bank with which it had a correspondent relationship to open a dollar-denominated account in which dollars would not be convened to local currency.

Russia made this request in order to facilitate its transactions and obligations in the world of international finance. The dollars held for the Russian bank in the London correspondent bank come to be known as Euro-dollars. There are other ways in which these offshore jurisdictions have been defined and classified.
According to other definitions, offshore jurisdictions are those which are conveniently located (often islands dotted around various parts of the world) are often set up by poor countries, to raise revenue. Offshore jurisdictions not only involve correspondent banking, but also entail setting up bank branches or incorporation of banks in their respective jurisdictions. These offshore jurisdictions not only cater to the needs of genuine businesses and persons with legal and legitimate demands, but are also a useful refuge for criminal enterprises to move their illicit funds and launder the same. There is a great debate going on of present regarding offshore and onshore jurisdictions; this debate has been dealt with of length later.

4 - 1 - 4 - 1—1— Tax Haven

One of the major benefits offered by offshore jurisdiction is that they are zero-tax jurisdiction or impose a nominal amount of tax—hence they are also known as tax havens. Several multinationals have their holding companies in these tax havens in order to avoid paying heavy taxes in countries where they are conducting the major part of their business activities. For criminals, the tax aspect is only an incidental advantage, because money laundering by itself is an exercise that calls for particular expenses.

4 -1 - 4 – 1—2— Banking Secrecy

Another service the offshore jurisdiction offer is banking secrecy. The banking secrecy offered by them is of various types, ranging from numbered accounts, to nominee-operated accounts, in most of which the information regarding the owner is known only to the tap echelons of the banks. Some of the accounts are structured such that the real identity of the beneficiary is not known even to the banks—such accounts exist in Austrian banks. The local laws in the offshore jurisdictions also make the violation of banking secrecy a serious criminal or civil offence. While on the issue of banking secrecy, it should be stated that it also performs legitimate function, certain business
enterprises may like to keep some of their operations secret in order to out maneuver their operations secrecy is also very useful to protect the money of persons feeling from oppressive jurisdiction, for example, the Jews feeling Germany during the second war opened bank accounts in Switzerland because the Swiss bank provided secrecy.

4 - 1 4 - 1—3— Shell Companies

Another feature of offshore jurisdictions is the shell companies that can easily be formed with the minimum of fuss. These are companies in name only and do not transact any business. There are a number of shell companies that have been formed by professionals specializing in this field; these shell companies are for sale for nominal amounts of money: if one reads the International Herald Tribune, Newsweek or Time magazine, one will find advertisements for the sale of shell companies in offshore jurisdiction for prices ranging from US$ 100 to US$ 200. These shell companies serve as a very convenient medium to move funds in a complex web which may ultimately become a part of the international money laundering cycle for legitimizing the proceeds of crime.

4 - 1 4-1 4- Shell Corporations

Like shell companies, shell corporations are another feature of offshore jurisdictions. Once again, these shell corporations are utilized by criminals for money laundering purposes. The added advantages of Shell Corporation are the corporate veiled which comes into operation in business transactions. This corporate veiled provides another layer of secrecy. These shell corporations are also advertised like shell companies and can be purchased off the shell for nominal amounts in offshore jurisdictions.
4-1-4-1-5- Shell Banks

Shell banks are another integral feature of offshore jurisdictions. These shell banks, which are banks in name only, can also be bought off the shelf in the offshore jurisdictions. They do not conduct any legitimate banking activity and are generally unregulated in a majority of the offshore jurisdictions. Shell banks may be useful for criminals to introduce money into the international financial circuit before such money is laundered.

4-1-4-1-6- Trusts

Offshore Trusts are another financial vehicle that is unique feature of jurisdictions which follow the common law. A Trust enables its sector to transfer his assets to an offshore jurisdictions; the beneficiary can be located in another jurisdiction. For a better understanding of Trusts; the reader must appreciate that they involve separation of the legal and beneficial ownership of properly.

There are legitimate uses of offshore Trusts, such as making financial provisions for relatives, multinational companies transferring their assets from politically unstable jurisdictions to prevent their expropriation, or transferring assets to members of a family who would otherwise not be eligible to inheritance property and thereby defeating discriminatory inheritance laws\(^\text{13}\). Offshore Trusts have also become a popular money laundering tool. In fact some of the Offshore Trust have a ‘flee clause’ incorporated in them, according to this flee clauses to moment an investigation in to the affairs at a Trust is initiated, it automatically moves to another jurisdiction. The flee clause, by their very construction the Trust and the laws governing them have in built secrecy to the investigations.

\(^{13}\) Richards, James, Transnational criminal organization, cyber crime and money laundering, CRS press, first edition, 1998, p. 57

30
The services of a number of experts and professionals are also required in offshore jurisdictions to operate. The financial entities which are apart and parcel of them, for both legitimate and illegitimate purposes. Lawyers, professional from the financial word who specialize in forming companies, corporations and banks and charted accountants/ auditors who act as advisers so as to enable structuring of the financial transactions in the most beneficial manner, play a very important role as facilitators of transaction in these offshore jurisdiction so long as the role of these facilitators is confined to legitimate purpose, it is acceptable.

However, on a percentage basis, large commissions or certain fixed changes, some of these facilitators also provide services to the criminals in order to legitimize their proceeds. The lawyer-client relationship comes in very useful in operating the financial entities in this offshore jurisdiction, as disclosure of information passed between lawyer and client is permitted, being privileged information under the law. Like wise, nominee-operated financial entities, where in a nominee can be an auditor, a company formation agent, or any local resident, may be useful in concealing both legitimate assets, in many instances there is a nominee of a nominee and infinitum and it becomes well impossible in such cases to determine who is the real beneficiary and the financial entities in control.

The location of offshore jurisdiction plays a very important role regarding their usefulness. For instance, offshore centers in the Caribbean are preferred by persons in the North American and South American continents. Like wise, offshore centers in the in the Pacific are popular with the countries in South-East Asia.
4-1-4-1-9-Flags of Convenience

Several offshore jurisdictions also offer flags of convenience, which are flags of that jurisdiction given to ships owned by persons in other countries. Ships flying these flags of convenience can be used by criminals in variety of ways in their money laundering operations.

4-1-4-1-10-Financial Havens

The various features of those entities in offshore jurisdictions described above, together with convenient geographic locations and the facility of providing a flag of convenience, make this offshore jurisdiction financial haven. In such a financial haven both legitimate and illegitimate transactions depends upon the availability and combination of various factors described above, as well as the capability and will to regulate the financial entities in these so-called financial havens. Financial divide to three categories.

The first category of financial havens are those which serve as entry points for money into the international financial circuit, such as the small islands in the Caribbean, the pacific and the Mediterranean. In general the financial haven which serve as entry points are minuscule economics with minimal or no regulations and one often politically unstable jurisdiction. The second category of financial haven are those which have developed financial markets and other related financial transactions; these can be termed intermediate points and are useful for camouflaging the flow of money in the international money laundering circuit. Another very important feature of intermediate financial havens is that they have comparatively stable political regimes-for example, Hong Kong and Singapore. The third category of financial centers are those which have a thriving national economy, highly developed financial and banking sector and stable

---

14-Ibid,p.62
political regimes that have evolved over a period of time, financial have in this category have been used as such for the last two hundred years. Countries such as Switzerland and Austria fall into this category.

4-2-Mechanism of Money Laundering

On the issue of mechanics, a point to be borne in mind is that money laundering is not something that can be taught or learned in a comprehensive course. It is a dynamic and continually evolving process and one has to keep abreast of the latest developments in the field, with regard to both techniques and the instruments through is effected.

While discussing the various techniques of money laundering, it will be observed that some are foolproof methods, some are half-hearted attempts and some are down right amateurish attempts. During the course of this chapter, money laundering techniques which have strictly national and international orientation will be discussed.

4-2-1- Techniques at the National Level

4-2-1-1- Retail Businesses

The business is merely fronts where most of the sales are fictitious, for instance, a general merchant could have a limited stock, but in its accounts books fictitious sales could be shown. The extent to which the sales are fictitious is the extent to which money can be laundered and ultimately projected as legitimate sales proceeds of business.

Retail businesses with a large turnover, such a fast food restaurants, are another convent medium for laundering money. In these retail businesses with large turnovers, the illegal money can be commingled quite easily with legitimate sales with out coming to anyone’s notice because of the arduous mechanics of keeping accounts. In this case the
extent to which illegal money is commingled with the final sales proceeds in the extent to which money can be laundered. Retail businesses that are exclusive and deal in very expensive items, e.g., high-end fashion shapes, sales of garments are shown of highly inflated prices, where as garments would actually be sold of much lower prices, or the sales could even be totally fictitious. In this instance, illegal money can be passed off as legitimate to the extent of the price inflation\textsuperscript{15}.

Simulation of a retail business can also be another way to launder money. For instance, one can set up a jewelry shop, having a limited stock of genuine jewelry items. All of the sales that would be affected in the shop would be of counterfeit jewelry, but sale transaction would be projected as sale of genuine jewelry. Illegal money counterfeit jewelry being sold off as genuine-in this instance, sales proceeds minus the price of counterfeit jewelry would be the laundered money.

4-2-1-2 Wholesale Trade

As regards money laundering techniques, what is true of the retail trade (as indicated above) is also true of the wholesale trade, by and large. However, in both the retail and wholesale trade a lot of explaining has sometimes to be done, in such instances, greasing the palms of inspectors is often resorted, to make turn a build eye towards the criminal business activities\textsuperscript{16}.

4-2-1-3- Manufacturing Units

Another way to launder money is through a false manufacturing unit. Such a unit would have a building and a billboard indicating a factory. By projecting sales through this bogus manufacturing unit, money is laundered to the extent that bogus sales are

\textsuperscript{15} Trehan, Tyoti, Crime and money laundering, Oxford university press second edition, 2006, p. 104
\textsuperscript{16} Ibid, p. 105
affected. Manufacturing units which are genuine can also be used to launder money. In such units, inflated invoices are issued for the product that is manufactured; the extent to which the price has been inflated is the extent to which money can be laundered.

4-2-1-4- Charity Shows

Organizing charity/entertainment shows is another way to launder money. In this modus operandi, fraudulent sale of tickets can be resented to, because a person buying a ticket is not under an obligation to attend the show. The extent to which fraudulent tickets have been sold is the extent to which money can be laundered. However, there is a price to be paid for this type of money laundering in the form of entertainment tax.

4-2-1-5-Lottery Tickets

Lottery tickets are big business in several countries, especially India. Money Launderers buy lottery tickets from genuine winners of a premium with their illegally acquired proceeds. Encashment of lottery tickets results in money being legitimized by these criminals.

4-2-1-6- Race Courses

Like the purchase of lottery tickets, the purchase of winning tickets of racecourses is another way to launder money. Money launderers use their proceeds to buy winning tickets of a premium from the actual winners.

By encashing the winning tickets, the money launderers launder their money of a price, the money launderers launder their money of a price, which in this instance is the premium paid on the winning tickets.
4-2-1-7-Casinos

Casinos, which are popular in most countries, are another convenient way to launder money. Money counters take their proceeds to these casinos, buy a large number of chips and do little or practically no gambling. At the end of the day, the launderer encases his chips by passing them off as genuine winnings. For the money laundering operation to be really effective in casinos, encashment of chips is done by money launderers in the form of cheques drawn on banks. Often there is complicity on the part of persons running the casinos in money laundering being effected through them¹⁷.

4-2-1-8-Large Numbers of Banking Accounts

A large number of accounts with small sums of money, in an individual’s own name or in fictitious names, in bank branches scattered all over, in another way to avoid arousing suspicion as to the origins of illicit money. This is an unimaginative way to launder money, in which a façade of bank accounts is used to project the money as legitimate.

4-2-1-9-Property

In the property business, the sale of worthless houses at highly inflated prices is also resorted to in order to launder money, the extent to which the price has been inflated in this property deals is the extent to which criminal proceeds can be laundered. Of course, there is a price to be paid in this modus operandi in the form of higher registration fees for the sale of property or purchase of property with a high block money component is another way to disguise the money. The extent to which the purchase price is in block money is the extent to which illegal money is disguised in the purchase of property. Strictly speaking, this modus operandi cannot way to disguise illicit money.

¹⁷-Bear, Margaret, Critical reflection on transnational organized crime, money laundering and corruption, Univ of Toronto press, first edition, 2003, p. 77
Commission from properly deals amongst relatives could also be used to pass off illegal proceeds as legitimate. By floating a property finance company and taking a loan from it the criminal could launder the money to the extent that a loan has been taken.

4-2-1-10-Inheritance Laws

In some countries the use of inheritance laws pertaining to jewelry is another way to launder money. According to this law, any married women can have, for example in India, Rs. 500,000- worth of jewelry; to this extent illegal money can be laundered by each family. By systematic structuring of a group of families, which might even be numbers of criminal gangs, substantial amounts of illegal money could be laundered\(^{18}\).

4-2-1-11-Commodities Market

Commodities market, which deal in futures contracts in commodities, are also a very effective medium for laundering money. Illegal proceeds can easily be passed off as fabricated or inflated gains on futures trading in commodities.

4-2-1-12-Securities Market

The capitalization of markets, in the other words raising capital from the general public financial institutions, is the one of the principal ways to mobilize funds for economic growth. The markets so capitalized are also known as securities markets or stock exchanges.

In the stock market, capital raised is in two forms; one is equity capital, which denotes ownership in the form of company shares, the other form of capital is interest-bearing bonds, which are debt instruments issued to the general public or financial institutions.

\(^{18}\)-Ibid.p.79
institutions. Another feature of the securities/stock markets is that so long as the price of shares or equities is that so long as the price of shares or equities, indicated by the stock market index, is moving up or down, the participant in this market make money.

In the securities market, profits can easily be recorded on paper to launder the illegal proceeds. Losses on paper can also be recorded in the securities market to save on income tax. Although quite a few securities markets ask for identification from customers, money launderers are able to get around that by having aliases or false identities.

4-2-1-13-Insurance Sector

Insurance companies are also frequently used by money launderers to legitimize their proceeds. Insurance companies generally offer life insurance and other forms of general insurance including health and property insurance\(^\text{19}\). Money launderers generally take out very expensive insurance policies and after typing a few premiums, apply for premature encashment of policies of a discount rate, the cheques paid out by the insurance companies for premature surrender of policies is generally passed off as legitimate money.

In this modus operandi, aliases and false identities come in very handy and a certain complicity of insurance officials in sometimes also observed when the premium paid in cash is a large sum of money.

4-2-1-14-Amnesty Schimeso

Often when the black money component in the national economy is high, due to the negative effects which block money exerts on the national money by bringing it into the open so that it might be utilise in a more productive manner. To bring black money into the open, government often introduce amnesty schemes, where by people can declare

\(^{19}\) Ibid, p.82
their illegally acquired proceeds or black money to government on payment of a certain amount of tax in these amnesty schemes, no question are asked about the source of the money and after payment of tax it becomes legitimate money which can be used openly in the economy.

These amnesty schemes have often been criticized as government-sponsored money laundering schemes which reward the criminal elements at the expense of honest taxpayers.

4-2-1-15- Use of Gold/Diamonds/Precious Gems

Criminals can also buy gold, diamonds and precious gems and use them to launder money. For instance, in India there is a great demand for gold; India is also the longest center in the world for the cutting and polishing of diamonds. Before the gold control order was abolished, the amount of gold smuggled into the country was estimated to be in the region of 500-700 tons, worth roughly US $5-7 billion.

The diamond trade today runs to US $ & billion considerable smuggling of gold into India is still going on, large numbers of diamond are also diverted from exports, ultimately to be sold in the retail black market. With their illicit proceeds, the criminal buy gold and diamonds as a convenient store for holding money, using the same modus operandi as that of the finance company and the criminals could launder their proceeds.

4-2-1-16-Use of False Identities to Launder Money

False or store identities are also useful for money launderers, who could utilize false and stolen identities in the various operation in the national sphere described above, in such cases the investigation would generally come to a dead end. False or stolen identities are also very useful for introducing money into the subsequent legitimization.20

20-Ibid, p.85
4-2-1-17- Role of Facilitators

In the money laundering exercise in the national sphere, financial experts, accountants and auditors play a very important role in advising the criminal. There is also complicity of various financial institutions such as banks, in securities and commodities markets in laundering the money.

However, money laundering carried out of the national level is highly unalterable to investigation and even the most perfect of scheme can be prized open once adequate intelligence is available and the political and bureaucratic will is there to see these money laundering investigations through to their logical conclusion.

In should be mentioned that in a country such a India where the black money component is very high, the need, incentive or desire to launder money is rather limited. In economic with a large component of block money, money laundering is generally directed towards maximizing wealth and, to a limited extent, providing a faced of legitimate money.
Once the international dimension of money laundering comes into play, money in
laundered more effectively and it becomes extremely difficult, if not impossible, to
unravel the complex web of transactions in order to expose the origin of money that is the
proceeds of crime.

At the outset, one may also ask where the money that has been laundered through
the international circuit goes. One answer is that the money that moves from the national
jurisdiction to the international circuit returns to the national jurisdiction. Another trend is
that money which has gone from the national jurisdiction to the international circuit need
never return to the original national jurisdiction.

The international money laundering circuit, comprising the stage of money
laundering, i.e., placement, Layering and Integration, where by illegal money is
transformed to legitimate money, has also been mentioned briefly.

The international money laundering circuit can be structured in various ways, so
that each corresponds to a particular technique or classification of money laundering. The
structuring of money laundering circuit is one of several permutations and combinations
of concepts, practices, trends and structures.

In a particular money laundering circuit/technique/typology, some features might
be preferred to others, depending upon service rendered by the particular financial haven
being used. These structured variations, permutations and combinations in the
international money laundering circuit will become clear when discussing placement,
layering of money and its integration in greater detail later.
4-2-2-1- Introduction / Placement of Money

4-2-2-1-1- Physical Placement

The introduction or placement of illegal money in the international money laundering circuit is not only an essential step in the money laundering exercise, but also the weakest operation. Money laundering circuit through those financial havens classified as ‘entry point safe havens’ in past.

There are various ways in which money can be placed in these financial havens. The simplest way is through movement of cash; cash, however, means bulk, because crime money generally comprises small bills. In order to reduce this bulk, the criminal’s convert these small bills into high denomination currency note. Cash movement is effected through couriers who carry a certain amount of cash an other person and in accompanying baggage on a particular trip.

Money in the form of cash is also sent via speed boats and aero planes to entry point financial havens; cash is also moved to entry point financial havens concealed in cargoes being transported by ships or aero planes. However, because of large sums of cash can sometimes create in surmountable problems for the money laundering. On one occasion Pablo Escobar, one of the heads of the Colombian cocaine drug cartels, lost up to US$ 500 million lying in cash in a warehouse in California due to its rotting, because of his inability to move it in time\(^{21}\).

4-2-2-1-2 Conversation to Valuable Securities

Criminals have now become smart and they know that cash can be exchanged for a valuable security such as a banker’s cheque (also known as a cashier’s cheque), bank drafts, equity shares and company bonds. Cash easily be smuggled out of the country in a convenient manner because the ‘bulk’ has been done away with.

Most countries that have money laundering legislation have also introduced cash reporting requirements pertaining to monetary instruments and cash.

4-2-2-1-3 Smurfing

Transactions exceeding a certain amount have to be reported in the US this reporting requirement applies to all transactions exceeding US$ 10000. To be reporting requirement, criminals resort to a Technique which is known as ‘smurfing’; in smurfing cash is connected into a valuable security of an amount which is less than the reporting requirement.

Thus, through smurfing, a large number of cashier’s cheques, drafts, equity shares and bounds which are the proceeds of crime are available for moving out of the country in several ways, of which smuggling is one, in order to be placed on the international money laundering circuit.

4-2-2-1-4 Money Orders

Money orders issued by post offices, which in the US can be a maximum of US $3,000 are also used by criminals to move their money out of the country.

---

22 -Ibid.,p.49
4-2-2-1-5- Brokerage Houses

Brokerages houses dealing in securities, commodities futures and foreign exchange, by the very nature of the function they perform, are also very convenient channels for moving illegal money out of the country circuit. By using brokerage houses, one may introduce illegal money not only through entry-level financial havens, but also through intermediate financial havens such as Hong Kong and Singapore.

4-2-2-1-6- Expensive Art Objects

Antiques and precious item of art are also purchased by the criminals from their illicit funds in order to introduce money into international money laundering circuit. Antiques and precious items of art purchased by the criminals can easily be smuggled out of the country and sold abroad. The sale proceeds can then be introduced through a convenient safe haven in order to pass through the complete money launderings cycle before reappearing as legitimate money.

4-2-2-1-7- Correspondent Banking Channels

Correspondent banking is another very convenient way to move illegal money out of the country and to bring laundered money back into it. In order to understand this, an understanding of correspondent banking is necessary. Banks in the world normally do not maintain branches in every country, as that would be a very expensive exercise with numerous over heads.

The bankers generally enter into a correspondent relationship with other banks having branches in each other’s countries. In this correspondent relationship deposits are maintained in the other country’s currency by the bank, the money can be moved

---

from one correspondent account to another as and when required. Of course, the account books have to be balanced at the end of day in this correspondent relationship.

4-2-2-1-8-Underground Systems

Another way to place money in the international money laundering circuit is through underground and parallel banking systems, which eliminate the physical movement of money.

4-2-2-1-9- Exempt Financial Entities

In any country that has enacted money laundering legislation, there are also financial entities which are exempt from financial transaction reporting requirements because of overriding business consideration. Through these entities in the exempt list money laundering circuit by the criminals by way of wire transfers to a convenient haven.  

4-2-2-2- Disguising / Layering of Money

For disguising the trail of money, or what is also known as layering, entities such as shell companies, shell corporations, shell banks and offshore trusts are used in conjunction with offshore jurisdictions offering their brand of services. Money is passed through shell companies, shell banks, shell corporations, offshore trusts and offshore jurisdictions through various permutation and combinations which are only limited by the laws/regulations of those offshore jurisdictions.  

While disguising the money trail, money could also be made to move through legitimate businesses and genuine banks in the world of international finance. In the

24 -Ibid, p.27
layering process, electronic transfer of money is very useful because it enables movement of money through various entities and several jurisdictions in a matter of hours.

In Layering dirty money another trend that has been noted is that the money moves from unstable/not so stable financial havens to intermediate havens to secure financial havens.

4-2-2-3- Legitimization / Integration of Money

The ultimate aim of the international money laundering circuit is to make the illicit money appear as legitimate. This legitimization process is also known as integration of money. The legitimization process to some extent utilizes the same modus operandi as that used in disguising the trail of money becomes legitimized. At the integration stage in the international financial circuit illegal money, by way of investment in legitimate commercial enterprises is made to appear legitimate.

From this legitimate commercial enterprises operating in other countries, the money can be repatriated to the home country as legitimate earnings. Money from these legitimate business enterprises operating abroad can also be shown as a loan to the money launderer in the home country; of course, the money launderer can always default on the loan, and even if he repays it a cycle has been established to launder money. In the Integration process, money from the legitimate enterprises or bank accounts abroad need never come back to the home country, as already stated and can be further utilized abroad for legal or illegal activities. Illegal money, introduced in the international financial circuit through a process of layering, is also often secreted away in the form of gold in Swiss vaults guarantees ensures that criminals can always draw upon this source of money and surreptitiously pass it off as legitimate.

While going around the international money laundering the integration stage, the illegal money can eventually also end up in the Euro-dollar market, where the money not only earns a decent interest rate, but becomes very difficult to track down because the Euro-dollar market itself is very large runs into trillions of dollars.

\[26\quad \text{Ibid}, p.113\]