CHAPTER 2

MONEY LAUNDERING: AN OVERVIEW

2.1 INTRODUCTION:

“Money is like fire, an element as little troubled by moralizing as earth, air and water. Men can employ it as a tool or they can dance around it as if it were the incarnation of a god. Money votes socialist or monarchist, finds a profit in pornography or translations from the Bible, commissions Rembrandt and underwrites the technology of Auschwitz. It acquires its meaning from the uses to which it is put.\(^1\)

Mahatma Gandhi\(^2\) said

Capital as such is not evil; it is its wrong use that is evil. Capital in some form or other will always be needed.

Money – The Origin of the Problem:

The primary function of money is to serve as a medium of exchange, and as such it is accepted without question in final discharge of debts or payment of goods or services\(^3\). The term ‘money’ generally includes banknotes as well as coins, although it may be limited to such of each as are legal tender at the time and place in question\(^4\). The precise meaning of the term depends upon the content in which it is used so that, for example, it is usually given a wide meaning when used in a will and when that meaning gives effect to the


\(^2\) Mohandas K. Gandhi (1869–1948), Indian political and spiritual leader. Harijan (28 July 1940), id.


\(^4\) The term is sometimes used to include not only actual cash but also a right to receive cash, as for example, sums standing to the credit of a bank account or invested in securities; and the term may in some cases be used in a popular sense to include all personal or even, exceptionally, all real and personal property.
intention of the testator, an intermediate meaning in connection with claims for money paid or for money had and received, and a narrow meaning in the criminal law and in relation to execution\(^5\).

Money has been regarded as bone of conflict between friends and relatives. It is said lend money to a person if you want to ruin him or make rival. Money - wealth, property or estate have always caused family, feuds and even murders for it is said that all is fair in love and war. Money is devil’s child and is accountable for many trouble and evils. Some people think that wealth can bring happiness in life but it is not so\(^6\).

Money is the origin of many evils like corruption, black marketing, smuggling, drug trafficking, tax evasion, and the buck does not stop here it goes to the extent of sex tourism and human trafficking. People are passionate for money. Majority is here to become rich and money has become the basic goal of education\(^7\). The more developed the nation, the more the standard of living of the people. People want more money to satisfy their needs and at a point of time they don’t hesitate to have money from any source whether it is black or white, they are not bother about it. This offered soft corner where the concept of money laundering enters and prospers.

The influence of money on the people was appropriately portrayed by *Henry Fielding*\(^8\) as follows:

*Sir, money, money, the most charming of all things; money, which will say

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\(^7\) Based on an ad-hoc survey conducted among the students, majority of whom join National Law Universities for an attractive package. Now the studies have become package-driven. Frank Desantis remarks “Instead of acquiring learning for the sake of learning, majority has hectic aims to earn money by hooks or crooks and become rich over night.”
\(^8\) Henry Fielding (1707–54), English novelist, dramatist. Mariana, in The Miser, act 3, sc. 7, the Columbia Dictionary of Quotations.
more in one moment than the most elegant lover can in years. Perhaps you will say a man is not young; I answer he is rich. He is not genteel, People who commit crimes need to disguise their money so that they can then use it. This proverb is the basis for all money laundering and tax fraud, whether that of the drug trafficker, organized criminal, terrorist, arms trafficker, blackmailer, or credit card swindler. Money laundering generally involves a series of several transactions used to disguise the source of financial assets so that those assets may be used without compromising the criminals who are seeking to use the funds. Through money laundering, the criminal tries to convert the monetary proceeds derived from illicit activities into funds which seems to be a legal source.

It is difficult to estimate the total volume of laundered funds circulating internationally, due to the secret nature of money laundering. Analytic techniques are highly vague, involving such actions as multiplying the volume of trade in an illicit activity—such as drug trafficking, arms trafficking, or fraud—by the value of that trade. Such rough estimates place the annual, worldwide value of laundered funds in the range of $300-500 billion.

Weak financial regulatory systems, inattentive enforcement, and corruption are key factors that make certain jurisdictions particularly attractive for laundering illicit proceeds by international drug trafficking and other criminal organizations, by terrorist groups financing their activities, and by outsider states undertaking financial transactions to evade international sanctions and to acquire technologies and components for weapons of mass destruction.

Money Laundering has become a global menace threatening the stability of various regions by actively supporting and strengthening terrorist networks and criminal organizations. The links between money laundering, organized crime, drug trafficking and terrorism are not new and continue to threaten the stability of financial institutions and, ultimately, the democracy and the rule of law.
Organized crime groups generate huge sums of money by drug trafficking, arms smuggling and financial crimes. But the money generated, profits earned are tainted and are in the nature of `dirty money'. The dirty money is of little use to organized crime groups as it raises the suspicions of law enforcement and leaves a trail of incriminating evidence.

Money laundering as a crime only attracted interest in the 1980s, essentially within a drug trafficking context. It was from an increasing awareness of the huge profits generated from this criminal activity and a concern at the massive drug abuse problem in western society which created the impetus for governments to act against the drug dealers by creating legislation that would deprive them of their illicit gains.

Governments also recognised that criminal organisations, through the huge profits they earned from drugs, could contaminate and corrupt the structures of the state at all levels.

**Money laundering is a truly global phenomenon**, helped by the International financial community which is a 24hrs a day business. When one financial centre closes business for the day, another one is opening or open for business.

As a 1993 UN Report noted: The **basic characteristics** of the laundering of the proceeds of crime, which to a large extent also mark the operations of organized and transnational crime, are its global nature, the flexibility and adaptability of its operations, the use of the latest technological means and professional assistance, the ingenuity of its operators and the vast resources at their disposal.

In addition, a characteristic that should not be overlooked is the constant pursuit of profits and the expansion into new areas of criminal activity.
2.2 **BRIEF HISTORY:**

Since necessity is the master of all inventions, man has devised a misleading scheme to cover-up his wrong doings. In the early 17th century, the Catholic Church decreed against the imposition of usurious rates and considered it as a mortal sin compelling merchants and moneylenders to engage in a variety of practices that eventually become the precursors or models of modern techniques for hiding, moving and washing criminal money. The main objective was to make interests disappear or appear to be something other than what they were\(^9\). One way was to artificially inflate the exchange rates to compensate for the supposed interest, or imposed additional premiums for the business risks or as penalties for late payments.

Along the course of history, the evolution of money laundering activities could be traced to the era when traveller preyed on European traders crossing the Atlantic sea and thereafter seek financial havens in which they can luxuriously make use of the fruits of their criminal trade. They sought for financial havens where they could be welcomed to spend their money, particularly when time has come for them to retire. Mediterranean city-states competed to have the pirates as adopted residence of their domain. The traveller’s money boosted their commerce and trade and provided additional income to their national coffers. In other instances, their loot was sometimes used to buy pardons to permit them to return home. By the year 1612, the world witnessed the first modern amnesty to criminal money when England offered repeat who abandoned their trade, both full pardon and the right to keep their proceeds. Three and a half centuries later, the similar deals were requested by prominent drug barons from Latin America like Columbia, Mexico and Italy.\(^10\)

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\(^9\) Double Issue 34 and 35, Issue 8 of UNDCP Technical Series p.3  
\(^10\) R.T. Taylor unpublished manuscript (1997) on the history and practice of money laundering p.3
Under the common law tradition of England, measures were already made anticipating our modern laws today. Freezing and confiscation were then imposed on criminally derived income.

This was justified as necessary for deterring other subjects and as a good source of revenue for the Crown. Still, the idea of money laundering has not yet found its niche in the statutes.

It is only in 1920’s that the term money laundering emerged to have been coined in the United States, when street gangs sought an apparently legal explanation for the origins of their racket money. They tried to find a way on how to hide their criminal money by venturing on car wash services, vending machines and laundry services. It is in this context that the term “money-laundering” may have been coined. Literally, the idea is to clean the “dirty money” and make it appear to have been sourced from a legitimate business.

The traditional focus was to go after the underlying offense generating the criminal money. The penalty of seizure was imposed only as a punishment for the underlying crime committed. Law enforcement and prosecution stop there and do not bother to cut beyond the cover of the money laundering process. Today, the trend is to criminalize the act of laundering money and to make the act of laundering completely independent of the underlying offense. It started in the United States in 1986 and is progressing rapidly around the world, though recognition of this phenomenon has not yet touched the awareness of some sovereign states. One reason for delays and hesitations in some states in classifying money laundering as a crime is the difficulty in convincing and demonstrating the harmful and wide-ranging effects of this new criminal dimension.

In Asia, it is heartening to note that during the 6th ASEAN meeting on 15 December 1998, various countries have expressed recognition on transnational character of criminal activities, including the threats of money-laundering.
2.3 MONEY LAUNDERING – DEFINITIONS:

Money Laundering refers to the conversion or "Laundering" of money which is illegally obtained, so as to make it appear to originate from a legitimate source\textsuperscript{11}. Money Laundering is being employed by launderers worldwide to conceal criminal activity associated with it such as drug or arms trafficking, terrorism and extortion\textsuperscript{12}.

The establishment of organized crime groups in our society has become the mid-wife of another intricate web of criminality. Its wide and long-ranging threats undermine the sovereignty of states, their economic stability, financial structures and their criminal justice system. This is the transnational crime of Money Laundering which organized crime groups, from drug syndicates, arms trafficking and the other burgeoning areas of criminal activity, to perpetuate their existence, expand their operations and institutionalize their presence in a mafia type fashion.

1. In capsule form, organized crime groups must launder their money from their crimes for two basic reasons: First, the money trail itself can become the evidence against the perpetrators of the crime. Second, the money itself can be the subject of suspicion, investigation and seizure. Money-laundering however, has three dynamic stages:

1. Moving the funds from direct association with the crime;

2. Disguising the trail to foil pursuit;

3. Making the money available to the criminal once again with its occupational and geographic origins hidden from view.

\textsuperscript{11} Popularity this is known as making black money white.

\textsuperscript{12} S. Ganesh, Money Laundering, article available at <http://www.rbi.org.in/scripts/btcdisplay.aspx?pg=btcmoneylaunder.htm> last accessed on November 9, 2010
For reason that money laundering and its implications have just recently reached worldwide awareness, there are still several **variants of definitions** attributed to it.

Among these are:

a. The manipulation of money from illicit sources through means that make the money appears to be from legitimate sources.

b. The conversion or transfer of property knowing that such property is derived from criminal offense, for the purpose of concealing or disguising the illicit origin of the property or assisting any person who is involved in the commission of such offense, or offenses to evade legal consequence of his action.

c. The concealment or disguise of the true nature, source, location, disposition, and movement rights, with respect to or ownership of property, knowing that such property is derived from a criminal offense.

d. The acquisition, possession or use of property knowing at the time of receipt that such property was derived from a criminal offense or from an act of participation in such offense.

e. The movement of money derived by organized crime groups from their criminal activities to a semi-legal business venture, reinvesting it further to a legitimate business until the trace of its criminally derived origin faded and making the same proceeds available again for use by the organized crime groups.

Criminals wishing to benefit from the proceeds of large-scale crime have to disguise their illegal profits without exposing themselves. In a broader sense this process could be defined as money laundering.

2. **According to Robinson:**

“Money laundering is called what it is because that perfectly describes what takes place – illegal, or dirty, money is put through a cycle of
transactions, or washed, so that it comes out the other end as legal, or clean money. In other words, the source of illegally obtained funds is obscured through a succession of transfers and deals in order that those same funds can eventually be made to appear as legitimate income.”

3. Article 1 of EC Directive\textsuperscript{13} 
the term ‘money laundering’ as “the conversion of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the committing such an offence or offences to evade the legal consequences of his action, and the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime”.

Money laundering is the conversion or transfer of criminal proceeds in order to disguise their illegal origin.

5. Under the Australia's Proceeds of Crime Act, 1987 in section 81(3) money laundering is defined as follows:
A person shall be taken to engage in money laundering if and only if
(a) The person engages, directly or indirectly, in a transaction that involve money, or other property, that is proceeds of crime; or
(b) The person receives processes, conceals, disposes of or brings into Australia any money or other property, that is proceeds of crime; and the person knows, or ought reasonably to know, that the money or other property is derived or realized directly or indirectly, from some form of unlawful activity.

\textsuperscript{13} EC Directive on Prevention of the use of the Financial System for the Purpose of Money Laundering, 1991
6. Money Laundering in Australia (1991) provides an exhaustive definition of money laundering as given below:

the conversion or transfer of property, knowing that such property is derived from any serious (indictable) State or Commonwealth offence or offences, or from an act of participation in such offence or offences, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such an offence or offences to evade the legal consequences of his actions; or

the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from a serious (indictable) State or Commonwealth offence or offences or from an act of participation in such an offence or offences.

In common parlance, money laundering is thus the process by which one conceals the existence, illegal source, or illegal application of income, and then disguises that income to make it appear legitimate, or ... a process of taking the proceeds of criminal activity and making these appear legal; or an act of converting funds derived from illegal activities into spendable form.

7. The World Bank and International Monetary Fund

Money Laundering is:

The conversion or transfer of property, knowing that such property so derived from any [drug trafficking] offense or offenses or from an act of concealing or disguising the illicit origin of the property in assisting any person who is involved in the commission of such an offense or offenses to evade the legal consequences of his actions.

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14 Australia's National Crime Authority (NC Act) in its report Taken to the Cleaners:1991
15 Reference Guide to Anti-Money laundering and Combating the Financing of Terrorism (second edition and supplement on special recommendation IX) (This publication was written by Paul Allan Schott, consultant with the Financial Market Integrity Unit of the Financial Sector of the World Bank.)
The concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from an offense or offenses or from an act of participation in such an offense or offenses and;

The acquisition, possession or use of property, knowing at the time of receipt that such property was derived from an offense or offenses or from an act of participation in such offense or offenses.

8. **According to Susanne Rosner:**

Money Laundering is defined as systematically camouflage and skillfully obfuscation of property values by the use of financial transactions. The intention of money laundering is to clean money so that it can be legally accessed or distributed via legitimated financial channels and credible institutions; driving force behind all money laundering activities is profit maximization.

9. **The GAO-General Accounting Office of United States of America**

Money laundering is the act of converting money gained from illegal activity, such as drug smuggling, into money that appears legitimate and in which the source cannot be traced to the illegal activity. It is a global problem that needs to be fought collectively by the international community.

10. **According to William C. Gilmore in his Dirty Money, the evolution of money laundering:**

Money Laundering is not a new phenomenon – criminals have always tried to hide their bounty – but it is taking on new forms. Long considered a marginal problem, the explosion of drug trafficking has made it an important part of any serious criminal enterprise.

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16 The GAO-General Accounting Office of United States of America in its publication of money laundering framework states
The proceeds of crime, particularly cash must be laundered for reinvestment. This involves a series of odd, complicated financial operations (deposits, withdrawals, bank transfers, etc.) which ultimately results in criminal money becoming clean and acceptable for legitimate purposes.

11. In Trade-Based Money Laundering, jurist Christine Mingie-Duhaime describes it as:

“To convert dirty money – the proceeds of illegal activities – into clean cash to disguise its illicit origin.”

12. The India’s Prevention of Money Laundering Act, 2002 (POMLA):

Section 3: Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money-laundering.

2.4 CONCEPT:

The word Laundering literally means washing, cleaning, dry-cleaning. One can imagine the washed notes hanging on the rope, when the word money Laundering is expressed. But it is not so. The term “Money Laundering” is supposed to have originated from mafia ownership of Laundromats in the US. These mafias choose Laundromats because they were cash businesses.
These gangsters understood the advantage of money. Money is the nitty-gritty requirement of the human life. But money laundering has direct nexus with the criminal meeting on the vast piles of dirty cash. These criminals require cleaning up of this dirty cash and that is the reason they launder it.

Money Laundering is basically driving of the illegitimate funds into the legal channel. Cleaning the dirty money depends upon the creative ability of the launderer to operate, disguise the existence, nature, source, ownership, location, timing of the assets and properties derived from the illegal activities. It is a Big business.

Money Laundering can be illustrated by a simple example. Banks are permitted to issue Demand Drafts or the pay orders in Exchange of cash to a certain limit. The launders often buy these D.D’s or P.O’s or the Traveller’s Cheques. Another bank account is opened with all the supporting documents and the Drafts or Traveller’s Cheques are put into the clearing system of the banks. In the western part of the country the co-operative banks are usually involved for the purchasing of the Demand Drafts. The reason behind is that there is some leniency observed behind the transactions. But to transfer the funds offshore these banks prove to be worthless as they rarely have their own
tie-ups in the other countries. The co-operative banks are lacking the creditability. Sometimes the cash is withdrawn from this transferee accounts. The cash withdrawn from the bank become Legal Tender of Money. The sham transaction is shrouded as normal transaction and the nature of whole transaction is disguised.

The procedure, however, is not as easy as it seems. Any transaction requires accounting if it has to be coloured as legal. The source of cash needs to be explained. There are regulatory limitations on the cash transactions. Colouring the accounts is a great art but India is rich country of such Con artists. How these artists cook the book is explained here with the help of case study. The case discussed here is the small scale-manufacturing unit.

“It was a dare devil manufacturing unit located in the southern part of Maharashtra. In this region TATA, BAJAJ, FIRODIYA groups provide lot of opportunities for the small-scale business to grow. These groups outsource many processes and competent to some of the small scale units located in the vicinity. The unit discussed in this case one of them. It manufactured some components for one of the Giant Automobile Company. For few days the unit performed well but the promoter of the unit could not enrich at the pact that he anticipated. Rather he found the local spurious market more lucrative. After few days the promoter started removing the components from the back door without paying the excise duty. The rate of excise duty was 16% at that time on the component. Non-payment of the duties added to the margin of the unit by 16%.

In the spurious market the component never has a shortage of demand since he was well known for the manufacture of the same component for the Giant Automobile Company. This sale in the spurious market was purely cash sale. But the company required these funds for repaying the interest on the bank loans as they had utilized the limits sanctioned for the business purpose.

Directly paying the cash would have caused the excise problem. Since the production register was not flooded with good output of units. Sale of units
was not the reason to substantiate the cash. The unit initially had the trading business, which was closed due to excessive bad debts, and then the promoter entered into this relatively safe business.

The accountant of the unit was a clever con artist. He went out of the city and purchased demand drafts worth Rs. 10000 or odd amount from the various co-operative Banks. These Drafts were deposited in the Loan account of the unit maintained with the bank. The account balances in the bad-debts accounts were reversed. The recovery from the written off debtors was justified as the efforts of the marketing department”.

Though evasion of taxes may not be the crime under the scope of the money-laundering bill, this case was the effort to explain how the launderer fear detection, they turn to more sophisticated specialists.

Indian brains are very creative and the schemes designed to launder money are more imaginative. Crimes are traditional but the criminals have started involving the finance or accounting experts to shroud the whole picture. Involvements of the professionals translate the criminals into the highly successful businessman. Extortionist becomes a Builder. India lives in its villages and the extortionist too. The simple strategy most of the area Dons follow is that getting the properties transferred into their names by cheating the real owners or using fraudulent means. Very innovative schemes designed for laundering the huge amounts of Extortion Funds back into legal channels. One of the most common schemes designed for these illiterate area dons is opening of few construction businesses or the lottery centers. They earn the money first and then form the business to formalize the money collected by creating some businesses. No need to tell that these on paper businesses are basically cash insistent business.
2.4.1 MONEY LAUNDERING CHAIN:

Money Laundering is a big business carried out through a chain of people. It is observed that several individuals are involved in this laundering chain.

Agents Launderers get themselves involved in the laundering business are the individuals who are willing to earn some extra money by allowing their bank accounts to be used in a laundering scheme. The principal launderers place the cash in their accounts and then transfer the sums to accounts as indicated. The professionals who became involved in this activity were active in several types of business, including travel agencies, and import/export in received a commission on the funds transferred through their accounts. The transfers out of the accounts were justified by fictitious invoicing that corresponded to their particular business.

Couriers and postal departments arrange for the transportation of money to a site where it is converted into another form of currency. Since the courier has no apparent connection with the true owner of the funds, the criminal retains his anonymity.

Money Transfer Agents operate businesses, which might serve both legitimate business people as well as money launderers. Every Money Transfer Agent has different mode of operation, while it is conventional brick and mortar route for few but some have adhered to the Internet transfer route.

2.4.2 MOTIVES BEHIND MONEY LAUNDERING:

To convert the illegitimate money to the legitimate form (conversion of black money to white in the local parlance)

- To evade taxes (both direct and indirect)
- Swift transfer of the funds in or out of India.
2.4.3 LAUNDERING VEHICLES:

Laundering process is initiated with the movement of the funds away from the eyes of the regulators and the common man. But the movement is not possible without the laundering vehicles. The major issue in the money laundering is Transportation of funds with the aid of the traditional modes of transportation such as car, plane or auto rickshaw. Carrying hard cash from one place to another by traditional modes of transportation is a risky game. Typically, what the most of the Laundromats do is to open some fictitious accounts in the bank.

It is observed during the audit process of one of the banks that an account was opened with the letter from the landlord mentioning that the potential deposit holder was the tenant of the introducer. Actually, there was no other relationship between these two. The bank did not ask for any other documents from the deposit holder. In reality he was the key channel in the laundering chain. He opened another 10 accounts with the photographs available on the internet. He received the funds of the drug trafficking consignment at Bhuj. His bank has branch in Bhuj. He took the cash to bank with the help of other few colleagues and wrote a simple deposit slip. He credited these funds to the 10 fake accounts which he had created. He had the ATM cards for these bank accounts. He withdrew the amounts from various ATM centers in his city and the cash was easily made available from one city to another city.

But bank is not the only laundering vehicle. On the macro level there are two types of vehicles used in any laundering scheme.

- Alternative remittance system
- Bank remittance system
2.4.4 ALTERNATIVE REMITTANCE SYSTEM:

Crux of every alternative system is that the money is transferred at a very low cost without the physical movement. They operate efficiently all over the world and are now connected with the criminal activities such as narcotics trafficking, Extortion money or Counterfeit currency. They are the cheaper sources than bank since there are no regulatory bindings. Three types of alternative remittance system prevail in the world today.

2.4.5 BMPE:

BMPE is the short name of the Black Market Peso Exchange. This system was originally developed in Latin America. This system was basically developed to challenge the foreign exchange restrictions and to facilitate the reliable and timely movement of funds. There is a close nexus between the narcotics trade and the BMPE system. At the same time this system has got a close nexus with Colombia. In the general scenario with illegal funds, the operation begins with US dollars in currency derived from narcotics sales and located in the United States. The narcotics trafficker needs to use these funds to pay the supplier In Colombia; however, he cannot use a financial institution to make an international funds transfer without drawing the attention of the US authorities. The trafficker makes use of a broker who accepts the currency into his business, and then arranges for a partner business in Colombia to make the funds available to the suppliers in local currency. For this service, the broker may often charge a higher percentage for the commission than the official dollar/peso exchange rate.

2.4.6 HAWALA:

The second of the major alternative remittance systems is the hawala or hundi system. This system originated in Southern Asia but has now spread throughout the world following the immigration patterns from that region (to
Europe, the Middle East, eastern and southern Africa, North and South America and other regions of Asia). Hawala is a traditional method for moving funds in South Asia, and its use is known to pre-date the introduction of Western banking practices by hundreds of years. Despite its prevalence, however, hawala operations are illegal in a number of locations. Hawala remains a significant method for large number of businesses of all sizes and individuals to repatriate funds and purchase gold. It is also in some cases linked to transfers associated with smuggling of the gold, trafficking in human beings, terrorism, corruption and customs and excise violations. This remittance system is discussed in detail later in this chapter.

2.4.7 CHINESE/EAST ASIAN SYSTEMS:

The alternate remittance networks known as the Chinese or East Asian system began in the Far East and have spread throughout the world following immigration patterns. The system is a traditional one predating the introduction of Western banking practices. Originally, it was based on “chits” or tokens – thus it was often referred to as the “Chit system” – today, however, most remitters no longer use chits. Many trading companies and guest houses also operate remittance agencies alongside their main business. Since operating a remittance business requires little more than a fax machine, these agencies are frequently located in residences and operated by a member of the family as a part-time job. To remit money, the customer deposits money into the Hong Kong bank account of the remittance agent and provides the details of the overseas person or bank account to which the money is to be sent. The remittance agent then contacts its sister company at the destination and instructs it to pay the money to the person or account designated by the customer. If money is sent to Hong Kong, the same process is used in reverse. Legitimate customers normally use remittance agencies because their service is rapid and inexpensive. Remittance agencies usually charge customers less than banks for international funds transfers.
Though originated in China it is believed to be an integral part of the Co-operative banking system, which is developed in India. The promoters or the owners of the co-operative banks usually keep the signed chits with the trusted men for the movement of funds in their absence.

2.4.8 COMMON CHARACTERISTICS:

Though various vehicles are identified to launder the funds there are some basic common features behind all the laundering schemes.

- The need to conceal the origin and true ownership of the proceeds.
- The need to maintain the control of the proceeds.
- The need to change the form of the proceeds in order to shrink the huge volumes of cash generated by the initial criminal activity.
- The need to transfer the money without actual movement.

Thus, Money Laundering is not an independent crime, it depends upon another crime (predicate offence), the proceeds of which is the subject matter of the crime in money laundering. From the legal point of view, the Achilles’ heel in defining and criminalizing money laundering relates to the so-called ‘predicate offences’ understood as the criminal

2.5 FACTORS CREATING VULNERABILITIES FOR MONEY LAUNDERING:

Some current estimates are that of US$ 500 billion to US$ 1 trillion in criminal proceeds are laundered through banks worldwide each year with about half of that is circulated through US banks. As the banks are widely used for money laundering they have a central role to play in curbing the menace.

Accordingly, the money laundering activities have been subject of eight prior investigations in U.S. According to the Permanent Subcommittee's Report, there are five major factors which create money laundering vulnerabilities: the role of private bankers, private banks as client advocates, powerful customers, and a corporate culture of secrecy, a corporate culture of lax controls and the competitive nature of the industry.

2.5.1 PRIVATE BANKERS AS CLIENT ADVOCATES:

Private bankers are the linchpin of the private bank system. They are trained to service their clients and to set up accounts and move money around the world using sophisticated financial systems and secrecy tools. Private Banks encourage their bankers to develop personal relationships with their clients, visiting the client’s homes, attending weddings and graduations, and arranging their financial affairs. The result is that private bankers may feel loyalty to their clients for both professional and personal reasons, leading them to miss or minimize warning signs. In addition, private bankers use their expertise in bank systems to evade what they may perceive as unnecessary "red tape" hampering the services their clients want, thereby evading controls designed to detect or prevent money laundering.

2.5.2 POWERFUL CLIENTS:

Private bank clients are, by definition, wealthy. Many also exert political or economic influence which may make banks anxious to satisfy their requests and reluctant to hard questions. If a client is a government official with influence over the banks in country operations, the bank has added reason to avoid offence. Moreover verifying information about a foreign client's assets, business dealings, and community standing can be difficult for banks. The Federal Reserve board found in its private banking review that foreign clients were particularly difficult for private banks to assess due to a lack of independent data bases of information, suit as credit reports. While private
banks routinely claim that their private bankers gain intimate knowledge of their clients, the case histories demonstrate that too often is not true. For example, in one case, a private banker was unaware for more than three years that he was handling the accounts of the some of the an African head of state.

2.5.3 CULTURE OF SECRECY:

A culture of secrecy pervades the private banking industry. Numbered accounts at Swiss banks are but one example. There are other layers of secrecy that private banks and clients routinely use to mask accounts and transactions. For example, private banks routinely create shell companies and trusts to shield the identity of the beneficial owner of a bank account. Private banks also open accounts under code names and will, when asked, refer to clients by code names of encode account transactions.

2.5.4 SECRECY JURISDICTIONS:

In additions to shell corporations and codes, a number of private banks also conduct business in secrecy jurisdictions such as Switzerland and Cayman Islands, which impose criminal sanctions on the disclosure of bank information, related to clients and restrict US bank oversight. The secrecy laws are so light; they even restrict internal bank oversight.

2.5.5 CULTURE OF LAX CONTROLS:

In addition to secrecy, private banking operates in a corporate culture that is at times indifferent or resistant to anti-money laundering controls, such as due diligence requirements and accounts monitoring. The problem begins with the private banker, who, in most private banks, is responsible for the initial enforcement of anti-money laundering controls. It is the private banker who is charged with researching the background of prospective clients, and it is the
private banker who is, asked in the first instance to monitor existing accounts for suspicious activity. But it is also the job of the private banker to open accounts and expand client deposits.

According to John Reed, Co-chairman of Citigroup (with 30 years of banking experience), private bankers tend to become advocates for their clients and has lost the detachment needed to monitor their transactions. He also observed that private bankers often don't have the temperament or discipline needed to ask clients detailed questions about their funds and transactions and to record the information provided in a proper form.

The fundamental problem is that private bankers are being asked to fill contradictory roles—to develop a personal relationship with a client and increase their deposits with the bank, while also monitoring their accounts for suspicious activity and questioning specific transactions. Human nature makes these contradictory roles difficult to perform, and anti-money laundering duties often suffer. Private Banks have dealt with this problem by setting up systems to ensure that private banker activities are reviewed by third parties, such as supervisors, compliance personnel or auditors. The subcommittee staff investigation has found, however, that while strong oversight procedures exist on paper, in practice private bank oversight is often absent, weak or ignored.

2.5.6 CUT THROAT COMPETITION:

Another factor creating money laundering concerns is the ongoing competition among private banks for clients, due to profitability of the business. A Federal Report on private banking states: “As the target market for private banking is growing, so is the level of competition among institutions that provide private banking services”\(^1\). Private Banks interviewed by the subcommittee Staff confirms that the markets remain highly competitive; most also reported to have plans to expand operations. The dual pressures of competition and

expansion are disincentives for private banks to impose tough anti-money laundering controls that may discourage new business or cause existing clients to move to other institutions.

In addition to the general factors cited above, the actual products and services offered by the private bank also create opportunities for money laundering.

2.5.7 MULTIPLE ACCOUNTS:

A striking feature of the private bank accounts examined is their complexity. Private bank clients often have many accounts in many locations.

Some are personal checking, money market or credit card accounts. Others are in the name of one or more shell companies and multiple investment accounts are common, including mutual funds, stock, bonds and time deposits. The reality right now is that private banks allow clients to have multiple accounts in multiple locations under multiple names and do not aggregate the information. This approach creates vulnerabilities to money laundering by making it difficult for banks to have a comprehensive understanding of their own client's accounts. In addition, it complicates regulatory oversight and law enforcement, by making it difficult for banks to have a comprehensive understanding of their own client’s accounts. It also complicates regulatory oversight and law enforcement, by making it nearly impossible for an outside reviewer to be sure that all private bank accounts belonging to an individual have been identified.

2.5.8 SECRECY PRODUCTS:

Most private banks offer a number of products and services that shield a client's ownership of funds. They include offshore trusts and shell corporations, special name accounts, and codes used to refer to clients or fund transfers.
2.5.9 MOVEMENTS OF FUNDS:

Current account transactions at private banks routinely involve large sums of money. The size of client transaction increases the bank's vulnerability to money laundering by providing an attractive venue for money launderers who want to move large sums without attracting notice. In addition, most private banks provide products and services that facilitate the quick, confidential and hard-to-trace movement of money across jurisdictional lines.

2.5.10 CREDIT:

Another common private bank service involves the extension of credit to clients. Several private bankers told the subcommittee that private banks urge their private bankers to convince clients to leave their deposits in the bank and use them as collateral for large loans. This practice enables a bank to earn a free not only on the deposits under their management, but also on the loans. This practice also however, creates vulnerability for money laundering by allowing a client to deposit questionable funds and replace them with “clean” money from a loan. Moreover, as the client loans are fully collaborative by assets on deposits with the bank, the bank may not scrutinize the loan purpose and repayment prospects as carefully as for a conventional loan, and may unwittingly further a money launderer's efforts to hide illicit proceeds behind seemingly legitimate transactions.

2.5.11 DEVELOPMENT OF OFF-SHORE BANKING:

Originally, off-shore centers were quite literally islands, hence the expression. Today the term is used rather loosely for financial centers, which operate within a low tax regime; this enables international transfers of money to take place with a great deal of facility and with no hindrance to capital flows.

i. The development of the offshore banking sector has made it difficult to prevent money laundering.
ii. As Helmut Schmidt once observed, central banks "did not see that they were losing their grip over the markets when they allowed commercial banks to establish offshore affiliations."

iii. Governments regard it as synonymous with enhanced competitiveness.

iv. Competitiveness is deemed to be inconsistent with tight monitoring and control, and offshore banks and corporations attract funds largely because they promise both anonymity and the possibility of tax avoidance, and in some cases, tax evasion.

v. The Cayman Islands, the Netherlands Antilles, Aruba and Cyprus are all examples of offshore banking havens that have been used or confirmed to be used by criminal organizations for laundering the proceeds from their illicit activities.

vi. Such centers offer offshore attractive opportunities for the transfer and secretion of funds in places where they are relatively safe from identification and seizure by law enforcement.

vii. Most often, offshore corporations are created simply to launder and hide money.

2.6 EXTENT OF THE PROBLEM:

Estimated size of the money laundering problem is more than $500 billion annually world-wide. This is a staggering amount and detrimental by any calculation to the financial systems involved.

Clearly the problem is enormous. It is also clear that money laundering extends far beyond hiding drug profits. In the UK this is evidenced in the legislation that has been enacted to counter this crime. For example, confiscation and money laundering provisions are contained in the Drug Trafficking Offences Act 1986 (DTOA), in the Criminal Justice Act 1988 and
the Criminal Justice (International Co-operation) Act 1990. These provisions focus particularly on drug trafficking.

However, the Criminal Justice Act 1993 makes the laundering of the proceeds of non-drug trafficking crimes and offence for the first time. It was not until the enactment of the Criminal Justice (Consolidation) (Scotland) Act 1995 and the Proceeds of Crime (Scotland) Act 1995 (both came into effect from 1-4-96) that Scotland came into line with England regarding the extension of money laundering to cover all crime proceeds.

As the dangerous implications of the money laundering are being realized, it is becoming imperative that one has an estimate of amount of money laundering occurring worldwide. A reliable estimate will determine the magnitude of the problem and also will indicate, over time, the success of counter-measures but arriving at some reliable estimate is proving difficult, money laundering being a concealed activity.  

In 1987, UN estimated total money laundering in the range of $600 billion worldwide and concerning drug trafficking at $300 billion. Others estimate that annually around $300 billion to $500 billion of `dirty money' is placed into world financial system, or roughly 2% of global GDP. In 1998 International Monetary Fund (IMF) gave the magnitude of money laundering as follows:

"While we cannot guarantee the accuracy of our figures ... the estimates of the present scale of money laundering transactions are almost beyond imagination-2% to 5% of global GDP would probably be a consensus range."

Crime-economic model based on international crime databases too determines the size of global money laundering flows. Walker's model proceeds by

---

20 UNDCP, 1997
estimating the quantity of money that could be generated by crime and made available for laundering in each of 226 countries. It also estimates that how much money is laundered within the same country and how much sent to other countries. It further estimates that which destination-countries will receive the funds exported and in what proportions.

Walker model estimates how the foreign laundered part of the total dirty money generated in each country is distributed amongst over-200 other countries around the world. The quantity of money being attracted to each country is mainly dependent upon following factors:

i. Foreign countries with a tolerant attitude towards money laundering; those with bank-secrecy laws or uncooperative attitude towards the prevention of money laundering will attract a greater proportion of funds than more vigilant countries.

ii. High levels of corruption and conflict will deter money laundering, because of the risks of losing the funds.

iii. Countries with high levels of GNP/capital Will be preferred since it would be easier to hide the transactions, and

iv. Other things being equal, geographic distance and linguistic or cultural differences work as deterrents to launderers.  

In addition to this, The UN mentions ten factors calling them as fundamental 'laws' of money laundering, which when present in an economy would attract the launderers more.

The Ten Fundamental Laws of Money Laundering

- The more successful a money laundering apparatus is in imitating the patterns and behaviour of legitimate transactions, the less the likelihood of it being exposed.

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25 UNDCP, 2001
• The more deeply embedded illegal activities are within the legal economy and the less their institutional and functional separation, the more difficult it is to detect money laundering.
• The lower the ratio of illegal to legal financial flows through any given any business institution, the more difficult it is to detect money laundering.
• The higher the ratio of illegal "services" to physical goods production in economy, the more easily money laundering can be conducted in that economy.
• The more the business structure of production and distribution of non-financial goods and services is dominated by small and independent firms or self-employed individuals, the more difficult the job of separating legal from illegal transactions.
• The greater the facility of using cheque, credit cards and other non-cash instruments for effecting illegal financial transactions, the more difficult it is to detect money laundering.
• The greater the degree of financial deregulation for legitimate transactions, the more difficult it is to trace and neutralize criminal money.
• The lower the ratio of illegally to legally earned income entering any given economy from outside, the harder the job of separating criminal from legal money.
• The greater the progress towards the financial services super market and the greater the degree to which all manner of financial services can be met within one integrated multi-divisional institution, the more difficult it is to detect money laundering.
• The greater the contradiction between global operation and national regulation of financial markets, the more difficult the detection of money laundering.
### 2.7 MAJOR MONEY LAUNDERING FLOWS AROUND THE WORLD:

Walker's estimates of major money laundering flows around the world are given in Estimates of the Major Money Laundering Flows around the World. ($US billion/year)ML Destinations

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#### ML Origins

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### 2.7.1 TOP 20 ORIGINS OF LAUNDERED MONEY:

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<td>2</td>
<td>Italy</td>
<td>150054</td>
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<tr>
<td>3</td>
<td>Russia</td>
<td>147187</td>
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<td>4</td>
<td>China</td>
<td>131360</td>
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<tr>
<td>5</td>
<td>Germany</td>
<td>128266</td>
<td>4.5%</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>124748</td>
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<tr>
<td>7</td>
<td>Romania</td>
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<td>8</td>
<td>Canada</td>
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<td>9</td>
<td>United Kingdom</td>
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<tr>
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<td>Hong Kong</td>
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<td>Spain</td>
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### 2.7.2 THE TOP TWENTY DESTINATION COUNTRIES FOR MONEY LAUNDERING:

#### Table 3. Top 20 Destinations of Laundered Money

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<th>Rank</th>
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<th>Amount ($US mill/yr)</th>
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<td>Cayman Islands</td>
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<td>Russia</td>
<td>120493</td>
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<td>Italy</td>
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<tr>
<td>5</td>
<td>China</td>
<td>94726</td>
<td>3.3%</td>
</tr>
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</table>
This model suggests a global money-laundering total as $2.85 trillion per year heavily concentrated in Europe and North America (Walker, 1998). Looking at the figures of estimates, money laundering is highly significant problem amounting to trillions of dollars a year. Part of these funds would be adding to
an international stock of illicit cash and assets, thereby increasing the strength of TRANS-NATIONAL CRIMINAL ORGANIZATIONS (TCOs)\textsuperscript{28}

2.8 MECHANICS AND TYPOLOGIES OF MONEY LAUNDERING:

The term Money Laundering refers to the criminal practice of converting ‘dirty’ money by virtue of serial transactions, in effect depicting the money as ‘clean’ and look like proceeds from legitimate activities. The understanding of the process of money laundering requires comprehensive analysis of the mechanics and typologies involved in the process of money laundering.

2.8.1 MECHANICS/CLASSIFICATIONS OF MONEY LAUNDERING:

1) Money laundering is multi-dimensional, constituting of both a national as well as an international dimension; thus the typologies of money laundering are observed at both levels.

2) Money laundering on an international level necessitates it having a national dimension as well. Money laundering may, however, be practices exclusively on a national level. Also there exists a possibility of overlap between the national and international dimension of laundering money.

3) Money laundering requires embracing of economic liberalization, a consequence of which is greater integration of financial and banking systems worldwide.

\textsuperscript{28}http://www.johnwalkercrimetrendsanalysis.com.au/ML\%20method.htm
2.8.2 TECHNIQUES/TYPOLOGIES OF MONEY LAUNDERING AT THE NATIONAL LEVEL:

Money laundering is a vibrant and continually evolving process which demands keeping abreast of its latest developments with regard to its techniques and instruments through which it is affected. Some of the techniques of money laundering maybe depicted as follows:

- **Retail Businesses:**

  These businesses may be used as mere fronts where most of the sales disclosed are fictitious. Owners of such fronts may convert their illegally obtained income into legitimate income by showing sales through the retail business and paying the requisite taxes as applicable. The same technique of money laundering as applicable to retail sale also applies to wholesale businesses.

- **Charity Shows:**

  Money laundering by way of organizing charity and entertainment shows constitutes an effective method of money laundering. The key to laundering money by this mode lies in the fraudulent sale of tickets. The extent to which fraudulent tickets can be sold is the extent to which money can be laundered.

- **Lottery tickets:**

  The lottery constitutes big business in several countries especially in India. Money launderers buy lottery tickets from genuine winners at a premium with their illegally acquired proceeds. Encashment of lottery tickets results in money being legitimized by these criminals.

- **Casinos:**

  Casinos, which are popular in most countries, is another convenient way to launder money. Money launderers 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 en-cash 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 them.

➢ **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 these 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.

➢ **Inheritance laws:**

Laws of inheritance related to jewellery comprise yet another technique of laundering money. Indian inheritance law permits a married woman to acquire jewellery worth Rs. 500,000\(^{29}\). Illegal proceeds may be laundered to this extant by the families of such married women.

➢ **Securities market:**

The primary ways to mobilize funds for economic growth is the capitalization of the market. Which also known as the stock exchanges. The one of the basic feature of stock market is that as long as the prices of shares moves up or down, the participants in this market make money. In the securities market, the profits can easily be recorded on paper to launder the illegal proceeds.

\(^{29}\) Tehran, Jyoti, *Crime and Money Laundering-The Indian Perspective*, pp-99.
➢ **Insurance sectors:**

Insurance companies offer life insurance and other forms of general insurance, including health and property insurance. Laundering of money is given effect by investing in very expensive insurance policies and after paying a few premiums, applying for premature encashment of policies at a discounted rate. The payment of the premature policies received by the insurer is passed on as legitimate money.

➢ **Amnesty schemes:**

Money laundering is an offence which is punishable by law but it is no secret that laws against money laundering have not entirely succeeded in curbing its practice. The government, therefore, introduces amnesty schemes from time to time. These schemes are introduced to bring black money into the open. Under these schemes the government facilitates for the people to declare their illegally acquired proceeds on the payment of a certain amount of tax. The scheme also provisions for non-inquiry of the source of the money and after payment of tax it becomes legitimate money. The Indian government too had implemented such a scheme in the form of the ‘Indira Vikas Patras’.

➢ **Indira Vikas Patras:**

The Indian economy is flooded with a high component of black money. The Government, needless to say, faced the urgent requirement of channeling this huge amount of black money circulation into more productive means for the upbringing and development of the country. To achieve this prerogative the Government introduced the Indira Vikas Patras. These bearer certificates offered to double the investment amount in a matter of six years and more importantly required no identification. This scheme prompted huge sums of illegitimately earned income to be pushed into the government machinery.
2.8.3 TECHNIQUES/TYPOLOGIES OF MONEY LAUNDERING AT THE INTERNATIONAL LEVEL:

The international dimension of money laundering is far more effective as compared to the national dimension; it also becomes extremely difficult, if not impossible, to unravel the complex web transactions in order to expose the origin of the money that is the proceeds of the crime. The international money laundering circuit essentially comprises of three stages; i.e. placement, layering and integration whereby illegal money is legitimized. All such techniques are discussed in detail in Chapter 3.

2.9 TEN MOST NOTORIOUS MONEY LAUNDERING CASES OF TWENTIETH CENTURY:

Money laundering, to put it simply, is the process by which illegally obtained cash is made to appear as if it has been obtained by legal means. The funds are moved into valid accounts or businesses in order to hide or disguise the financial trail that leads back to the criminal activity. In 1996, it was estimated that between 2 and 5 percent of the world’s gross domestic product consisted of laundered money. That’s a lot of dirty money made to look whiter than white. Here we present ten of the most notorious money laundering cases of the 20th century30 …

1) PABLO ESCOBAR:

He was the most victorious criminal ever known. According to one estimate Pablo Escobar was so rich he spent $1,000 a week on rubber bands in order to wrap his bundles of cash. Escobar’s business was drugs at one time his lobby controlled 80% of the world’s cocaine trade. Laundering money was fundamental to Escobar’s empire, and his formula for success was relatively

30 http://www.businesspundit.com/10-most-notorious-money-laundering-cases-of-the-20th-century/
simple: You bribe someone here, you bribe someone there, and you pay a friendly banker to help you bring the money back.” In 1989, Escobar’s personal wealth was estimated at $9 billion, making him the seventh richest man in the world. His criminal career and life ended in 1993 following a gun fight with Colombian authorities.

2) **PRESIDENT SUHARTO:**

Coming in at number one most corrupt leaders list, Suharto was President of Indonesia from 1967 to 1998. After his forced resignation, according to one estimate of Time Asia magazine the Suharto family’s wealth at $15 billion and of this $9 billion was alleged to have been deposited in an Austrian bank. Allegations were also made that up to $73 billion had passed through the family’s treasury during Suharto’s presidency. He died in 2008, aged 86, and escaped trial due to his advanced age.

3) **FERDINAND MARCOS:**

Ferdinand Marcos, an ex-lawyer, was president of the Philippines from 1965 to 1986 before being removed from power by a popular revolution. During his reign he laundered billions of dollars of stolen public funds through banks in the US and Switzerland. It took the Philippines a massive operation, known as “Operation Big Bird,” to retrieve the money estimated as US$7.5 billion. As an unforgettable sign of Marcos’ wealthy lifestyle it is widely remembered that his wife Imelda owned over 2,500 pairs of shoes.

4) **MEYER Lansky:**

Following Capone’s imprisonment one of his generation, the Polish born “mob’s accountant” Meyer Lansky, deduced that he needed to hide the root of money gained through illegal means in order to avoid the law. It has been said

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31 Transparency International’s report
that he can be credited with establishing the modern form of money laundering. He siphoned off around $1 billion from his growing casino empire into Swiss bank accounts and businesses in Hong Kong, South America and the Caribbean. He was never convicted and died in 1983 with an estimated net worth of $100 million.

5) AL CAPONE:

The best known of America’s mobsters was at the front position of the birth of modern money laundering schemes. It is estimated that he laundered $1 billion through various businesses. His first businesses were in fact Laundromats, which, being cash operated, were very helpful in hiding and disguising illegal gains. The fact that Capone made use of the laundry trade is repeatedly given as the origin for the phrase “laundering”. Capone was eventually indicted in 1931 for a different financial crime e.g. tax evasion.

6) NAURU:

Nauru is a tiny Pacific island, 1,200 miles off the coast of New Guinea. It may well be one of the most ambiguous places on earth. However, this little-known landmass was also at the center of some of the highest profile money laundering activity of recent years. In the late 1990s, Russian criminal gangs laundered around $70 billion through “shell banks” registered on Nauru. Shell banks exist only “on paper”, and Nauru allowed its banks to operate without recording the identities of its customers or the trail of deposited money in its accounts. All of which made them extremely popular with money launderers. Since 2001, Nauru has taken steps to clean up its act and has accepted financial aid from Australia.
7) **FRANKLIN JURADO:**

In 1996, Harvard educated Franklin Jurado pleaded guilty to laundering $36 million on behalf of Colombian drug lord José Santacruz-Londoño. By using his economic smartness, Jurado had moved the cocaine profits like legitimate earnings. After being funneled through various European banks and companies, the funds would ultimately make their way back to Santacruz-Londoño’s businesses in Colombia. Finally, a bank collapse in Monaco highlighted Jurado’s connection to several accounts. An extremely noisy bank counting machine at his house in Luxembourg did not help his cause, either. He was sentenced to seven-and-a-half years in jail.

8) **THE BENEX SCANDAL:**

In world history it was popular as the “Benex Scandal.” Enormous sums of money with alleged links to the Russia mafia made its way into “Benex Worldwide” accounts at the Bank of New York. It was the one of the oldest and most prestigious banks in America. This called capital flight.\(^{32}\) It is estimated that between 1996 and 2002 between $7 and $9 billion was laundered through the Bank of New York accounts. After a massive police operation, numerous arrests were made.

9) **THE BCCI SCANDAL:**

The Bank of Credit and Commerce International (BCCI) was the seventh largest private bank in the world. During the mid-1980s the bank was found to be involved in various fraudulent activities including enormous amounts of money laundering. Billions in criminal profits, including drug money, went through its accounts. The bank was not too particular about its customers, included Saddam Hussein, former military autocrat of Panama Manuel

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\(^{32}\) Money the economic term applied when money or assets rapidly flow out of a country was then distributed amongst various European companies before returning to Russia.
Noriega, and Palestinian terrorist leader Abu Nidal. It has also been suspected that the CIA used accounts at the BCCI to fund the Afghan Mujahideen during their war with the Soviet Union in the 1980s.

10) SANI ABACHA:

During Sani Abacha’s five year reign (1993–1998) as military autocrat of Nigeria he and his family member had transported the national funds of up to £5 billion to $8 billion into foreign bank accounts. The Transparency International had declared him as the fourth most corrupt leader in recent history of the word. Abacha was responsible for wholesale looting of up to 10% of Nigeria’s national income. Due to the sudden death in 1998, the Nigerian government was able to recover $2 billion of the funds. Abacha’s family insists to this day that the vast amount of money was generated by wholly legal means.

2.10 TOP WORST 10 MONEY LAUNDERERS:

The most amazing thing about the following list of the world’s worst money launderers is that, although managing to launder over US$50 billion between them, the combined total amount spent behind bars for their crimes is less than one year. We guess that really makes them the “best” money launderers, in a way.

I. PRESIDENT SUHARTO:

Suharto was President of Indonesia from 1967 – 1998. Soon after his forced resignation, Time magazine published an article alleging it had traced some $15 billion in wealth accumulated by his family in 11 countries. The magazine also documented more than $73 billion in revenues and assets that had passed through the Suharto family’s hands during his tenure as President of

http://www.toptenz.net/top-10-worst-money-launderers.php#ixzz23bPwGBoF
Indonesia. He is number 1 on Transparency International’s list of most corrupt leaders.

**Amount Laundered:** US$15- US$35 billion.

**Punishment:** In his mid-eighties, Suharto was considered too old to be brought to trial and died in 2008.

**II. PABLO ESCOBAR:**

He is regarded as the richest and most successful criminal in world history. Escobar was the seventh richest man in the world, with an estimated personal fortune of US$ 9 billion\(^{34}\).

He and his brother’s action were so successful that at its height they were spending US$1,000 a week just purchasing rubber bands to wrap the stacks of cash. Further they had more illegal money and it is difficult for than to deposit in the banks, they stored the bricks of cash in their warehouses, annually writing off 10% as “spoilage” when the rats crept in at night and nibbled on the hundred dollar bills.

**Amount Laundered:** US$5-US$10 billion.

**Punishment:** Confined in what became his own luxurious private prison for several months in 1992, he escaped after hearing he would be transferred to another prison, and was killed soon after.

**III. FERDINAND MARCOS:**

He was a lawyer who ruled as President of the Philippines from 1965 to 1986 before being overthrown by a popular people’s revolt. He studs second position in most corrupt leaders list having laundered billions of dollars of embezzled public funds through the United States, Switzerland, and other

\(^{34}\) In 1989, Forbes magazine declared
countries, during his 20 years in power. His wife, Imelda, famously left over 2,500 pairs of shoes in her closet when the pair fled Manila.

**Amount Laundered**: USD5Billion – USD10 Billion

**Punishment**: Marcos died of a heart attack in 1989 while in exile in Honolulu, Hawaii, awaiting his trial.

**IV. DAWOOD IBRAHIM:**

He is accused of heading a 5,000 member criminal syndicate that operates mainly in Pakistan, India and the United Arab Emirates. It is alleged that he has managed to launder billions of dollars through the Hawala financial network. He is also consider as the organizer and financier of the 1993 Mumbai bombings and laundered huge amounts of money on behalf of Osama Bin Laden. In 2003 the United States declared Dawood Ibrahim a “global terrorist.” He has an estimated wealth of about US$5 billion.

**Amount Laundered**: US$3-US$5 billion.

**Punishment**: He remains free and his whereabouts are unknown although he is thought to be currently living in Pakistan.

**V. KING LEOPOLD II OF BELGIUM:**

In 1885, on condition that the people were to be brought into the modern world and that all nations were permitted to trade freely with it, Leopold was effectively appointed the patriarch and benefactor of the Congo Free State by the world’s most powerful nations. However, as soon as he came into such powerful position he closed all borders, took personal control of all business, and curved the country into a slave labour camp brutally administered by his thugs. He secretly channeled the huge gains from the Congo for eight years

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35 [www.transparency.org](http://www.transparency.org) › ... › Research › Corruption perceptions index
36 In the 1890’s the Congo was the world’s largest supplier of rubber
through several trading companies which were wholly owned on his behalf by a private holding company. Hug ill-gotten gains were used to finance the construction of major public buildings in Belgium, which were ultimately settled into a Will Trust for the ultimate benefit of the people of Belgium. By 1907, when King Leopold was forced to hand over control to the government of Belgium, the population of the Congo had halved from an estimated 20 million to ten million.

**Amount laundered:** Pretty well the whole GNP of what is now the Democratic Republic of Congo for 22 years.

**Punishment:** The Belgian Government bought Leopold’s rights ‘in gratitude’ to the Congo for about US$5 million.

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**VI. MOBUTU SESE SEKO:**

He was President of the Democratic Republic of the Congo from 1965 to 1997. He studs third position\(^{37}\) most corrupt leaders list having embezzled an estimated US$5 billion a large amount of which has never been recovered. He was known to regularly charter a Concorde from Air France for personal use, including shopping trips to Paris for himself and his family. He died in exile in Morocco in 1997.

**Amount Laundered:** Estimated US$5 billion

**Punishment:** None.
VII. SANI ABACHA:

He was a military leader who became President of Nigeria in 1993. During his 5 year rule, he and his family managed to drain off the country’s treasury a total of £3 billion. He studied fourth position in the world as most corrupt leader in recent history. He died suddenly in 1998 at the age of 54 years and was buried immediately without any autopsy, fuelling rumors that he’d been poisoned.

**Amount Laundered:** Estimated US$3 billion.

**Punishment:** None.

VIII. AL CAPONE:

He was probably the most famous of all mob gangsters. He created a criminal association in America in the 1920s, during the US Prohibition Era. According to one of the estimates annually he received $100 million from his illegal activities, which he laundered through a series of businesses transactions. Notably, his subsequent imprisonment in Alcatraz in the 1930s was not as a result of money laundering or his criminal activities such as bootlegging, prostitution and gambling, but in fact was as a result of being found guilty of tax evasion.

**Amount Laundered:** Estimated US$1 billion.

**Punishment:** Served seven years in prison for tax evasion.

IX. MEYER LANSKY:

He is known as the father of the modern form of money laundering. In the 1930s, he was the first to use the Caribbean to conceal the criminal proceeds, which had been laundered through Casinos in Las Vegas. Before he moved to

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38 www.transparency.org › ... › Research › Corruption perceptions index
Cuba he oversaw gambling concessions. Later in life, he would hold untold millions in Swiss bank accounts. He was known for corporations in Hong Kong, Israel and throughout South America. He was an expert at exploiting flexible governments and their officials and was never convicted of any charges brought against him.

**Amount Laundered:** About US$1 billion.

**Punishment:** None.

X. **SEMION YUDKOVICH MOGILEVICH:**

He is believed by European and United States federal law enforcement agencies to be the “boss of bosses” of most Russian Mafia syndicates in the world. He is famous with his nicknames “The Brainy Don” because of his business sharpness. He has been called “the most dangerous mobster in the world”. He was arrested in Moscow in 2008, for alleged tax evasion but was released less than a year later. The Russian interior ministry stated that the charges against him are not of a particularly serious nature. He is on the FBI ‘Ten Most Wanted list’.

**Amount Laundered:** Estimated more than US$1 billion.

**Punishment:** None.