CHAPTER – 3

THE PROCESS OF MONEY LAUNDERING:
TECHNIQUES AND TRENDS

3.1 NEED TO LAUNDER MONEY:

The basic purpose of any underlying criminal activity concerning money laundering is to eliminate the risks of seizure and forfeiture so that the ultimate goal of enjoying the profits could be realized. Obviously, 'hiding' dirty money is not the same as 'laundering' it. Even if a criminal hides his/her dirty money, he/she cannot spend it until it is laundered.

Money Laundering is thus a survival and sustenance issue for any crime group. Successful money laundering enables criminals to:

- Remove or distance them from criminal activity thereby making their prosecution more difficult;
- Distance profits from the criminal activity to prevent them from being confiscated if they are caught;
- Enjoy the benefits of the profits without bringing attention to themselves;
- Reinvest the profits in future criminal activity or in legitimate businesses.

Law enforcers' objective in fighting money laundering, on the other hand is, to wipe out the basic incentive of profit from crime, thus using anti money laundering measures to cleanse the society from the crimes. In addition the anti money laundering measures save the economy from the deleterious effects

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2 The Consequences of Money Laundering and Financial Crime By John McDowell
of money laundering itself. The consequences of money laundering are bad for business, development, government and the rule of law\(^3\)

3.2 CRITERIA FOR TECHNIQUES APPLIED:

There is a variety of techniques being applied by organized crime groups in money-laundering depending largely on the following criteria\(^4\):

3.2.1 THE IMMEDIATE BUSINESS ENVIRONMENT:

The launderers assess the make profile of the normal business transactions in the area and jurisdiction they will operate. Their choice will largely reflect the economic policies and financial principles being enforced in the area of operation.

3.2.2 THE ORDERS OF MAGNITUDE:

Small sums laundered periodically will require quite different techniques than comparatively large amounts.

3.2.3 THE TIME FACTOR:

The technique chosen will likely reflect the operation is once-and- for-all, or sporadic, event or something to be conducted on an on-going basis. It will reflect as well the degree of which haste is essential.

3.2.4 THE AMOUNT OF TRUST THAT CAN BE ACCORDED TO COMPLICIT INSTITUTIONS AND INDIVIDUAL:

This requires judgment about how many potential partners and/or accomplices have at stake in cooperation or betrayal and where, on the fear-greed trade-off curve, they happen to be.

\(^3\) http://www.unodc.org/unodc/en/money-laundering/index.htm. UNODC on money-laundering and countering the financing of terrorism

\(^4\) R.T. Taylor unpublished manuscript (1997) on the history and practice of money laundering p.6
3.2.5 THE RECORD OF LAW ENFORCEMENT:

Laundering requires time and money. How much money and energy will be put into the effort to multiply levels of cover and obscure the trail will depend on an assessment on how serious and effective police probes are likely to be in the place or places where the process is conducted.

3.2.6 THE PLANNED LONG-TERM DISPOSITION OF THE FUNDS:

Money may be subjected to differing processes depending on whether it is planned for direct consumption, for savings in evident or in evident forms or for reinvestment.

It is a basic rule in criminal law that prosecution and conviction of the accused include the forfeiture of the object of the crime particularly in the crimes against property or the confiscation of the same in cases of prohibited or illegal items. More so, in the law of evidence these are the "corpus deictic" or body of the crime itself. These are the very evidence which is needed in the prosecution and conviction of the offenders\(^5\).

Forfeiture of the fruits of the crime becomes more difficult when it undergoes the money-laundering process. There is further difficulty if the state having jurisdiction of the underlying criminal offense has no enforceable laws on money-laundering.

3.3 MONEY LAUNDERING CYCLE:

After having amassed incredible profits from illegal activities, a criminal is immediately faced with following issues:

How to convert the mountains of cash into an anonymous and reasonably portable form of cash or other monetary instrument?

\(^5\) http://www.pctc.gov.ph/papers/MoneyLaundering.htm
How to convert the bulk cash so as not to leave any evidentiary trail back to him/her or his/her criminal activities?

### 3.3.1 THREE BASIC STEPS OF MONEY LAUNDERING:

To meet above needs, money launderers must complete three basic steps namely placement, layering and integration, to convert illicit funds into legitimate funds.

The Stages of The Process are used depends on the available laundering mechanisms and the requirements of the criminal organisations.

The table below provides some typical examples.  

<table>
<thead>
<tr>
<th>Placement Stage</th>
<th>Layering Stage</th>
<th>Integration Stage</th>
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<tbody>
<tr>
<td>Cash paid into bank (sometimes with staff complicity</td>
<td>Wire transfers abroad (often using shell</td>
<td>False loan repayments or forged invoices used as</td>
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<tr>
<td>or mixed with proceeds of legitimate business)</td>
<td>companies or funds disguised as proceeds of</td>
<td>cover for laundered money.</td>
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<tr>
<td>Cash exported</td>
<td>Cash deposited in overseas Banking system.</td>
<td>Complex web of transfers (both domestic and international) makes tracing original source of funds virtually impossible.</td>
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<tr>
<td>Cash used to buy high</td>
<td>Resale of goods/assets.</td>
<td>Income from property or</td>
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These are a small selection of the ways that people clean their "dirty money". However, these schemes are still being used on unsuspecting businesses as even though the authorities know about them, not many people do, or even have access to this type of information.

| Value goods, property or business assets. | Legitimate business assets appear "clean". |
3.3.2 STAGE: I – PLACEMENT:

This is the first stage in the washing cycle Placement represents the initial entry of the funds into the financial system. It involves changing the money derived from criminal activities into a more portable and less suspicious form, then getting those proceeds into the mainstream financial system. The aims of the launderer are to remove the cash from the location of acquisition so as to avoid detection from the authorities and to then transform it into other asset forms; for example: travelers cheques, postal orders, etc. Money laundering is
a "cash-intensive" business, generating vast amounts of cash from illegal activities (for example, street dealing of drugs where payment takes the form of cash in small denominations). The monies are placed into the financial system or retail economy or are smuggled out of the country. It is the most difficult and vulnerable step, simply because most illegal activities generate profits in the form of cash, and cash is bulky, difficult to conceal, and, in large amounts, very noticeable to the average bank teller, casino employee etc.

The placement stage in the money-laundering process entails the physical movement of cash or property away from the location where it was obtained and its placement in the legitimate financial system. Traditional smuggling methods are used to transport the cash or property. These include concealing money or property in luggage or cargo, swallowing it, or mailing it in express packages. In typical cases, money or assets are transported to other countries.

The most common method of placing money in the financial system is to deposit it into a bank account. During this stage, illegally obtained property is converted into money that can be placed in the financial system. The illegally obtained money is often commingled with the legitimate income of a cash-intensive business. When the money is deposited, it becomes indistinguishable from the legitimately earned income of the business.

The placement stage is often referred to as the ‘*splashdown point*’ for the proceeds of criminal activities. This is where the illegally acquired money or property comes into contact with the financial system. At this point, the money-laundering scheme is most vulnerable to detection. Large quantities of cash in small denominations have to be transported and infused into the financial system involving a considerable risk of detection by law enforcement authorities.\(^7\)

To overcome these difficulties, money launderers make use of a variety of techniques, for example, ‘smurfing’. This method is used to reduce the

\(^7\) http://www.iss.co.za/pubs/Monographs/No51/Chap2.html
volumes of cash that have to be transported and deposited. The cash that is obtained from whatever illegal activity is distributed in small amounts among a large number of people who take the cash to financial institutions where it is deposited or converted into negotiable instruments.

• **PLACEMENT TECHNIQUES OF MONEY LAUNDERING**

India has politicians, bureaucrats and businessmen who are aiding and abetting money laundering. Any political party in India cannot win election without bribing their voters. If voters are to be bribed money has to come through bureaucrats and businessmen who are given ample opportunities to loot the revenue of this country and siphon it off. We call them criminals. These criminals aid terrorist who can dare to attack innocent people and our parliament.

Whether it is hundreds of thousands or millions of dollars that the criminal has to hide, government regulations which require the reporting of large cash transactions force them to either stockpile the cash generated, then spend it in dribs and drabs, or be creative in legitimizing and accounting for it so they can purchase huge mansions and luxury yachts without concern.

i. **Smurfing/Structuring**

If the criminal only needs to move a few million dollars a year, the simplest way to launder cash without detection is "smurfing"—having people deposit random amounts of less than Rs.10,000 into variously named accounts at many different banks. They will also buy bank drafts from various financial institutions to circumvent thresholds for transaction reporting. Then a middleman can ship the compact negotiable for deposit elsewhere. Due diligence rarely catches this activity. Laundering of accounts held by relatives or friends is also popular.

One small-time drug trafficker had his wholesalers deposit money into his account using the "Interacts" bank tellers. He then withdrew the money to
purchase money orders in U.S. funds which he sent out of the country both to
purchase more drugs and for safekeeping.

This first hurdle is bypassed by customers paying by certified cheque, money
order or credit card as opposed to the more prominent use of cash in drug
sales.

ii. Shipping Money Abroad

Sometimes they have to resort to shipping the money abroad in bulk cash then
arrange to get it back. Someone might smuggle cash to Mexico, deposit it in a
United States dollar account, draw out a draft, mail or carry it back into the
U.S., deposit or cash it in a bank, with no requirement for the bank to report
the transaction.

Sometimes less bulky items are purchased domestically such as diamonds,
gold or even precious stamps and other collectibles. The principle is that they
be of high value in relation to bulk, making them physically easy to smuggle
as well as relatively easy to reconvert into cash at the point of destination.

Commonly, the proceeds will be wire transferred to accounts back in the U.S.
Enforcement officials believe that as much as Rs.100 crores in Mexican bank
drafts is laundered through such schemes each year in Panama alone.

The currency of choice for illegal transactions is the U.S. dollar, which
circulates widely outside of the borders of the United States. Indeed, of the
$400 billion in U.S. currency in circulation, Rs.300 crores is in circulation
outside the United States.

iii. Placement through Banks

Banks and other financial institutions may unwittingly be used as
intermediaries for the transfer or deposit of money derived from criminal
activity.

One drug smuggler is believed to have laundered approximately $100 million
(US) a year over a six year period through deposits into a branch of a
Canadian bank located in Nassau, Bahamas.
Several accounts would be used, all of them in the name of Nassau-registered corporations. The money was then wired to the bank’s Cayman Islands branch and into the account of a company. From there the money was wired back to the U.S. into the bank's New York City branch. It would then be dispersed among numerous corporations owned by the individual in the U.S.

**Suspicious activity may include:**

- use of Letters of Credit and other methods to move money between countries where such trade is inconsistent with the customer's usual business;
- customers who make regular payments or receive wire transactions from countries which are tax havens;
- frequent requests or use of travelers cheques, foreign currency drafts or other negotiable instruments;
- reluctance to provide normal information or providing minimal or fictitious information that is difficult or expensive for the financial institution to verify when applying to open an account;
- using accounts with several financial institutions then consolidating them prior to onward transmission of the funds;
- greater or unusual use of safe deposit facilities;
- companies' representatives avoiding contact with the branch; and
- requests to borrow against assets held by the financial institution or a third party, where the origin of the assets is unknown or the assets are inconsistent with the customer's standing.

iv. **Use of "Pass through" or "Payable Through" Accounts for Placement**

Financial institutions must take care in opening accounts for foreign deposit-taking institutions because a foreign bank may open a cheque account to enable their clients, whom the domestic bank may not have sufficient knowledge of, to conduct financial transactions.
v. Placement Using Electronic Wire Transfers

Criminals are making extensive use of the electronic payment and message systems for wire transfers. Modern financial systems permit criminals to transfer instantly millions of dollars through personal computers and satellite dishes. The rapid movement of funds between accounts in different jurisdictions increases the complexity of investigating and tracing the source of funds especially when non-customers and non-correspondent banks transfer to equally unknown third parties.

vi. Placement Using Insurance Products

A particular area where the life insurance industry is vulnerable is the single premium product so they must now keep the client application form for every purchase of an immediate or deferred annuity and any insurance policy for which the client will pay $10,000 or more.

An individual who was convicted of stealing over $100,000 from two charitable organizations was discovered to be the owner of a fully paid annuity policy having a value of $140,000.

Unusual signs include:

- a request by a client to purchase an insurance product where the source of the funds to purchase the product is inconsistent with the customer's financial standing or is a third party cheque;
- a client who does not wish to know about the performance of an investment but is concerned only about the early cancellation provisions of a particular product.

vii. Placement Using Investment Related Transactions

Every person engaged in the "business of dealing in securities" must keep appropriate client data and records. Unusual activity includes requests by customers for investment management services (either foreign currency or securities) where the source of the funds is inconsistent with the customer's
apparent standing, large or unusual settlements of securities in cash form and buying and selling a security with no discernible purpose.

viii. Placement through Collusion of Financial Institution Employees and Agents

Suspicious indications include changes in employee characteristics such as lavish life styles or performance, remarkable or unexpected increase in business volume of selling products for cash; consistently high levels of single premium insurance business far in excess of any average company expectation.

ix. Placement Using Non-Bank Financial Services

There is a growing trend of money launderers moving away from the banking sector to the non-bank financial institution sector where the use of currency exchange houses and wire transfer companies to dispose of criminal proceeds remain among the most often cited threats.

3.3.3 STAGE: II – LAYERING:

Layering is the second of the three stages of laundering illicit funds. In the course of layering, there is the first attempt at concealment or disguise of the source of the ownership of the funds by creating complex layers of financial transactions designed to disguise the audit trail and provide secrecy. The purpose of layering is to disassociate the illegal monies from the source of the crime by purposely creating a complex web of financial transactions aimed at concealing any audit trail as well as the source and ownership of funds.

The layering stage in the money-laundering process entails the transfer of funds between different locations and the continuous conversion of these funds from one type of instrument to another. During the layering stage, the funds or instruments are distributed through the financial system by using a series of transactions including electronic wire transfers, shell corporations, false invoicing, and fictitious import and export transactions.
Shell corporations (sometimes referred to as front companies) are legal entities, such as companies, created to establish a layer of anonymity between certain assets, funds or activities and the individuals with interests in those assets or funds, or who benefit from those activities. In most cases, such companies exist on paper only without true shareholders who have an interest in the profitability of the company. Shell corporations do not participate in the commercial sphere with a profit motive by carrying on some kind of business as is the case with normal commercial enterprises. Those that do business do so as a front to lend credibility in order to disguise their activities and assets.

False invoicing refers to a practice where false information is reflected in an invoice in order to create the appearance of a legitimate business transaction. This is used as a justification for the movement of funds or assets. In some cases, the goods or services indicated on the invoice will be completely fictitious. In other cases, goods or services will have been delivered, but the amounts payable in terms of the invoice will be substantially inflated (so-called over-invoicing). In both these instances, the invoice will be used to provide an apparent reason for payment, in other words, for the transfer of funds. When goods are undervalued in an invoice (so-called under-invoicing) the invoice is used as an apparent reason for the transfer of the goods.

The layering stage is recognised by a large number of transactions concluded with the funds or instruments derived from the original proceeds of criminal conduct. These transactions are normally carried out through the facilities offered by institutions that are part of the legitimate financial sector.

The primary purpose with these transactions is not to make a profit, but to give the illegally acquired money or assets an appearance of having a legitimate source. To achieve this, the money launderer will be willing to suffer a loss from the transactions in the layering stage in most cases. This loss is regarded as part of the overhead investment in achieving the primary purpose of ‘cleaning’ the money or property. The transactions forming part of the layering stage are therefore not conducted according to normal market
principles. If these transactions are examined objectively, they will often not make much economic sense.

This stage is referred to as layering because, traditionally, the transactions formed a layered construction. The transactions are performed in a sequential manner where one transaction is stacked on top of another. When the whole sequence of transactions is viewed retrospectively, it resembles a layered cake that can be disassembled to find the origin of the funds.

However, since the early 1990s, a new trend has emerged. More often than not funds are spread throughout the financial system by means of their division between varieties of transactions that are performed simultaneously. One part of the funds may be used to buy and sell property while another part is deposited in a financial institution and transferred between accounts and yet a third is used in investment schemes such as long-term insurance products or unit trusts.

During the layering stage, the money that is laundered becomes virtually indistinct from ‘legitimate’ money in the commercial sphere.

Layering involves making a series of financial transactions that in their frequency, complexity, and volume often resemble a legitimate financial activity. Typically, layering involves the wire transfer or continuous movement of funds within financial or banking system by way of numerous accounts in an attempt to hide the funds' true origins. Launderers attempt creating large number of companies, moves the funds across these companies putting up a baffling structure, the ‘Spaghetti Jungle’ or a `corporate maze’ to the investigators.

The most common method of layering is to wire transfer funds through offshore-banking havens such as Panama, Cayman Islands, Bahamas and increasingly, Pakistan and Chile. Once out of the country of origin and into the countries with strong bank-secrecy laws, the funds' origins become even more difficult to trace. To add to the complexity, funds can be routed through shell
corporations, or using counter-balancing loan schemes. The sheer volume of wire transfers adds to the problem of tracing the origins.\(^8\)

The key to a successful layering operation is to ensure that the layering transactions cross several national borders—either physically or electronically, or through corporate structures involving entities in a number of different countries. The layering usually involves at least two, if not three, jurisdictions. In layering, the funds are moved constantly to elude detection, each time hoping to exploit loopholes or discrepancies in legislation, and delays in judicial or police cooperation.\(^9\)

- **LAYERING TECHNIQUES OF MONEY LAUNDERING**

The amount of energy and expense that will be put into an effort to multiply the levels of cover and obscure the trail will depend on an assessment of how serious and effective police probes are likely to be in that jurisdiction.

I. **Tax Havens and Offshore Banks**

Launderers tend to move their activity to jurisdictions where there are few or weak money-laundering countermeasures. Main resources in money-laundering are the financial havens and offshore centers which started out as a business to service the needs of a privileged few.

An "offshore bank" can be a bank anywhere in the world that accepts deposits solely on behalf of non-residents. While we generally think of the Caribbean when referring to offshore banks there are dozens of locations right around the world which are just as accommodating.

Offshore banking centres are home to more than $5,000 billion in assets - $1,000 billion in bank deposits and $4,000 billion held in the form of stock, bonds, real estate and commodities.

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The Cayman Islands, for example, one of the most important offshore jurisdictions, is generally judged to be the fifth largest financial centre in the world behind London, New York, Tokyo and Hong Kong. There are over 570 banks licensed there, with deposits of over $500 billion.

During the last decade, many countries, drained of foreign exchange and with limited natural resources and no prospects of significant economic opportunities, have realized gains in economic and financial strength by becoming safe havens for foreign tax and law evaders.

They freely offer low or non-existent tax rates that are attractive to investors, company owners and ordinary citizens anxious to reduce their tax burdens for they do not regard tax evasion in another country as a crime. These havens also offer tools, available only to non-residents and only to be used offshore, which are designed to defeat the laws of other countries.

**II. Bank Secrecy Laws as a Layering Tool**

In many cases, these havens enforce very strict financial secrecy, effectively shielding foreign investors from investigations and prosecutions from their home countries.

Money-laundering can still occur without bank secrecy and some depositors actively avoid it precisely because it acts as a red flag. Professional launderers advise their clients that the only really effective form of secrecy is keeping their mouths shut.

**III. Corporations and Shell Companies as a Layering Tool**

Any reasonably sophisticated money launderer will establish a bank account in a financial haven as a corporation rather than as an individual with a "numbered account". To increase the appearance of legitimacy it is preferable that such a company already have a history of actual activity. Once the corporation is set up, a bank deposit is then made in the haven country in the name of that offshore company.

The incentive for businesses to be registered in offshore havens is to escape the severe tax and registration regulations on domestic companies. They can
funnel large amounts of capital to and from offshore countries without the need to declare the transactions to domestic fiscal authorities.

On the condition that it do no business where it is set up, having an international business (IBC) or "offshore" corporation enables its owners to act with complete anonymity and not pay taxes.

In many jurisdictions it is not even required to keep corporate books or records and thus is perfect for concealing the origin and destination of goods in international commerce. Companies can even be capitalized with bearer shares, so that while there is no owner on record anywhere, the person who physically possesses the share certificates owns the company.

IV. Use of Trusts as a Layering Tool

In many jurisdictions, trusts and IBC’s are administered by unregulated trust companies. Many laundering schemes then devise another layer of cover where control of the company is transferred to the offshore trust.

The trustees then simply give the owner instant access and control over the assets while hiding true ownership.

The unregulated trust companies can help conceal assets by moving the shares of a corporation from one account to another, by changing corporate names, by merging corporations and by changing trust documents on the instruction of the account holder.

They have also been known to manufacture false paper trails and false documentation to assist money launderers and they have routinely provided invoices, receipts and other documents to help fool the customs and tax authorities of other countries.

Offshore trusts may have an additional level of insulation in the form of a "flee clause" that compels the trustee to shift the location of the trust whenever the trust is threatened by war, civil unrest, or more likely, the activities of law enforcement officers or litigious investors and consumers.
V. Use of Walking Accounts as a Layering Tool

In some instances, criminals will open an account in one jurisdiction but with instructions for any incoming funds to be transferred immediately to another location. Additionally, the bank will be instructed that, in the event of inquiries, bank officials in the second location must be informed. Once they are informed, they in turn have instructions to transfer the money elsewhere.

These schemes, known in law enforcement circles as "walking accounts", pose serious problems for efforts aimed at seizing dirty money.

The first account is simply the initial depository, and money moves in to it and then immediately moves out. The function of the account is, essentially, to act as an early warning mechanism to identify any inquiries by law enforcement and to set off further countermeasures to protect the money.

VI. Establishing a Self-Owned "Instant Bank" as a Layering Tool

The trail can be further complicated if the launderer purchases their own "instant bank" in one of several jurisdictions that offer such facilities. He then just makes sure that his "bank" is one of those through which his money passes so he can either close the bank or destroy the records to evade authorities.

On just one of the haven islands there are approximately 300 banks operating with only about ten actually maintaining physical banking offices there. The others are operated by management firms for absentee owners or exist only as accounts in other banks.

VII. Use of Intermediaries as a Layering Tool

Money launderers frequently use various lawyers along the route so that they will also be protected by the confidentiality of the lawyer/client relationship. There is also an increasing reliance in offshore centres on brokers and agents to generate customers, to act as intermediaries in establishing accounts, trusts, and the like, and to act as an additional layer of insulation and confidentiality.
These professional launderers include accountants, lawyers and private bankers who, while offering money-laundering services to a wide range of criminals, are adept at not asking questions that would require them to refuse business or even to report their clients or potential clients to the authorities. They are aware that those who fail to comply with professional "best standards" might be liable under the "want of probity" principle.

Some offshore financial institutions will generate false invoices, bills of lading, end-user certificates and other forms of documentation to give the appearance of legitimacy to a variety of illicit transactions. Over-invoicing using false documents can be an excellent cover for moving the proceeds of drug trafficking and other crimes, while false invoices, bills and receipts can be used for a variety of tax frauds.

3.3.4 STAGE: III-INTEGRATION:

The integration stage of the money-laundering process entails that the money infused into the normal commercial sphere is collected and made available to criminals to be enjoyed or reinvested into their criminal activities. The funds that were processed during the layering stage are placed in apparently legal businesses. This is done by investing in shell corporations, buying stocks, real estate or art, or by using other avenues of investment. At this stage, it is virtually impossible to connect the funds to the original proceeds from the underlying criminal activity.

The integration stage is the culmination of a successful money-laundering scheme. It allows the criminal to regain control over the proceeds of the underlying criminal activities without fear of detection.

It must be borne in mind that the stages described above do not necessarily exist in the mind of the designer of a money-laundering scheme. They are generalizations based on the experience of investigators who have succeeded in uncovering such schemes. In no money-laundering scheme is there an exact and clearly defined delineation between these stages. Instead, the stages flow into each other creating an overlap between one stage and the next.
It is also not necessary for a successful money-laundering investigation to be able to indicate on which date a specific stage ended and the next one started. The relevance of distinguishing between these stages is simply to explain the basic structure of a money-laundering scheme and to be better equipped to recognize a certain activity as being part of such a scheme. People who are in a position to detect money-laundering transactions should therefore not be blinkered by these traditional perceptions of money-laundering schemes.

People should also not be misled by the traditional concept of the identity of a money launderer. Professional money launderers are not attached to a specific organized criminal group, but make their services and expert knowledge available on a ‘consulting basis’ to whoever is willing to pay. They are often involved in a profession, for example, accountants and lawyers.

This is final stage in the process. It is this stage at which the money is integrated into the legitimate economic and financial system and is assimilated with all other assets in the system. Integration of the "cleaned" money into the economy is accomplished by the launderer making it appear to have been legally earned. By this stage, it is exceedingly difficult to distinguish legal and illegal wealth.

**INTEGRATION TECHNIQUES OF MONEY LAUNDERING**

The fraudsters all over the world have same mindsets. The money which has been looted or earned through fraudulent mean has been utilized by those who have laundered it. Once the funds have been moved through the international financial system enough to make their origins extremely difficult, if not impossible, to trace, it is time to move them home again, to be enjoyed as consumption or employed as capital.

**i. Use of Haven Bank Credit Cards as an Integration Tool**

Funds can be repatriated through a debit or credit card issued by an offshore bank without leaving a financial trail. The banks assure their clients that the card account information is protected by the same rules that protect the other account information.
Bills incurred at home can also be settled by an offshore bank through their deposit account or even more discretely by an offshore company.

Scammers and tax evaders using this method may soon hear a tax man knocking on their door, as a result of a federal judge’s order for American Express and MasterCard to hand over all records on cards issued or paid out of banks in Antigua, Barbuda, the Caymans and the Bahamas in 1998/99.

The IRS estimates that as many as 2 million people may be depositing funds in tax havens based on MasterCard's reported 230,000 accounts in just four Caribbean countries.

ii. Receiving Consulting or Directors Fees as an Integration Tool

For truly regular income flows, the criminal might arrange to collect the money in the form of income by having one or more of their offshore companies hire them as a consultant or director so that they can then pay themselves generous consulting fees, as well as possibly a company car or a condominium in a prime location, out of the offshore nest-egg.

iii. Arranging Corporate Loans as an Integration Tool

Probably the craftiest solution of all is to bring the money home in the form of a business "loan". The criminal arranges for money held in an offshore account to be "lent" to their local business. Not only is the money returning home in completely non-taxable form, but it can be used in such a way as to reduce taxes due on strictly legal domestic income. Once the "loan" has been incurred, the borrower has the right to repay it, with interest, effectively to them.

In effect, they can legally ship even more money out of the country to a foreign safe haven while deducting the "interest" component as a business expense against domestic taxable income.

iv. Proceeds of Gambling as an Integration Tool

Money can be brought back from trips disguised as casino winnings. Money is first wired from their offshore bank account to a casino in some tourist centre
abroad. The casino pays the money in chips; the chips are then cashed in; and the money is repatriated via bank check, money-order or wire transfer to their domestic bank account where it can be explained as the result of good luck during a gambling junket. Organized crime groups have been known to purchase winning race track and lottery tickets for a premium to help account for their cash.

v. Real Estate Transactions as an Integration Tool

Another option is for the criminal to use international real estate flips. Here they arrange to "sell" a piece of property to a foreign investor who is, in reality, themselves working through one or several offshore companies. The "sale" price is suitably inflated above acquisition cost, and the money is repatriated in the form of a capital gain on a real estate "deal".

Similar local property deals occur where they will purchase a piece of property, paying below the real market value on the paperwork. The rest of the purchase price is paid in cash, under-the-table. The property is then resold for the full market value and the money recouped, with the illegal component now appearing to be capital gains.

An increasingly common method involves placing a deposit on a house purchase and then pulling out of the deal after a few days. Although it usually involves the solicitor (lawyer) deducting a 5% commission on a failed deal, the criminals then get a legitimate check from the solicitor's office.

vi. Using Stock Purchases as an Integration Tool

With the aid of dishonest stock or commodity brokers the person seeking to launder money buys spot and sells forward, or the reverse. One transaction records a capital gain, the other a capital loss.

The broker then destroys the record of the losing transaction and the launderer exits with the money now appearing as capital gains. The cost is the double commission plus any hush money demanded by the broker.
vii. Use of Businesses as an Integration Tool

To handle ongoing flows of criminal money, cash-rich launderers like to use cash-based retail service businesses such as Laundromats, car washes, vending-machine routes, video-game arcades, video rentals or bars and restaurants, then mix the illegal and legal cash and report the total as the earnings of the cover business.

In so doing, the money is distanced from the crime, hidden in the accounts of a legitimate business and can then resurface as the earnings of a firm with a plausible reason for generating that much cash. The technique chosen will depend on the amounts and whether the criminal operation is a onetime event or something to be conducted on an ongoing basis.

viii. International Importing and Exporting as an Integration Tool

The criminal might also choose to repatriate the money as business income. It is merely a matter of setting up a domestic corporation and having it bill an offshore company for goods sold or services provided.

If commodities are the chosen vehicle, it is safer that they actually exist and are overvalued (if on the way out) or undervalued (on the way in), rather than completely fake. The same can happen with services as well, without the need to be bothered with physical inventory.

They may take over a company that engages regularly in international trade in goods and/or services then divide the payments between "suppliers" in several countries, alternate between wire and written forms of remittance and ensure that the nominal recipients appear to have sound business reputations. Service companies are the best for there are no clear rules against which to check the prices being charged to the domestic company.

Money launderers also receive the assistance of accountants, notaries, lawyers, real estate agents, and agents for the purchase and sale of luxury items, precious metals, and even consumer durables, textiles, and other products involved in the import-export trade.
ix. Use of Free Trade Zones as an Integration Tool

Free trade zones are convenient places to arrange to have dirty money pay for goods that will generate bank deposits in other countries. In this type of money-laundering, they pay for the goods with money in the country where the goods are manufactured.

The goods are then shipped to a company in a free trade zone to conceal the source of the payment. They are then shipped to the final destination where the goods are sold for the local currency and a local currency account is created whereby a legitimate trade transaction has covered the criminal laundering.

In India the politician’s senior bureaucrats and businessmen are using above mentioned methods blatantly and no agency or law of land is effective to initiate action against them.

Methods popular to money launderers at this stage of the game are:

- The establishment of anonymous companies in countries where the right to secrecy is guaranteed. They are then able to grant themselves loans out of the laundered money in the course of a future legal transaction. Furthermore, to increase their profits, they will also claim tax relief on the loan repayments and charge themselves interest on the loan.
- The sending of false export-import invoices overvaluing goods allows the launderer to move money from one company and country to another with the invoices serving to verify the origin of the monies placed with financial institutions.
- A simpler method is to transfer the money (via EFT) to a legitimate bank from a bank owned by the launderers, as ‘off the shelf banks’ are easily purchased in many tax havens.

It is at the integration phase that funds fully get mixed with the funds of legitimate origin. Once funds are sufficiently layered, they are then integrated into the mainstream financial world by a limitless variety of financial
instruments, such as letters of credit, bonds, securities, bank notes, bills of lading and guarantees.

Some of the largest seizures of laundered funds occur when integration fails and the entire accounts are seized.\(^{11}\)

Once the funds are fully integrated, they can again be used for any purpose. It is pointed out that aforesaid three steps of money laundering do not always follow a linear pattern i.e. integration following layering and layering following the placement. Illegal money may be mixed with legitimate money prior to placement into financial systems. For example with cash rich businesses like casinos, restaurants and bars; or illegal money may not enter the mainstream financial system at all. Instead it may go through various underground banking systems like hawala. A typical money laundering cycle (three stages) is graphically presented below (figure)\(^{12}\).

\(^{11}\) Richards James R, Transnational Criminal organisation, Cybercrime and money laundering- A hand book For Officers, Auditors and Financial Investigator 1998:50

\(^{12}\) Source: UNODC, 2003
3.4 Example on Money Laundering Technique

Following are the some of the examples which illustrate the various ways of money laundering techniques which can be used separately or in combination with other money laundering techniques which make to difficult to understand the origins of illegal funds and complicate efforts to trace this money.

3.4.1 INDIA’S BIGGEST MONEY LAUNDERING SCHEME:

Extent: The fake stamp paper scam was the biggest money laundering scam in the history of the Frauds in India, running into probably Rs. 30,000 crores.

About Telgi: Abdul Karim Ladsahab Telgi is the father of Stamp Paper scam. In his early forties, he kept the police force of at least 19 states on tenterhooks. He is the native of Belgaum district on the border of Maharashtra and Karnataka. He began as a vendor in a small railway station before coming to Mumbai. His meeting with the forger was a turning point in his life. It eventually led him to the stamp and stamp papers business.

The market: This was the market just waiting to be exploited. The inefficient governments never produced the stamp papers to meet statutory and legal requirements. Also the process of purchasing the stamp papers or getting the papers franked from the traditional government offices involved a long queue and frustrating battles with the employees in the government offices.

Bond Washing: This scenario was encouraging for Mr. Telgi. He decided to capitalize on this by printing duplicates. In the initial years of the business the syndicate led by him in all probabilities used chemically washed stamps. This was possible because there was no system of branding or cancellation of the stamp papers once they are used. This loophole in the system provided the opportunity to Telgi and Company to re-introduce the used stamp papers back into the system simply by washing them in the chemicals to remove original contents.
Laundering (Placement): This was a great business plan except the legality aspect. His business grew by leaps and bounds when he acquired the machine disposed of by Indian Security Press of Nashik. He started generating crores of Rupees by sale of specially manufactured stamp papers. One cannot handle such a huge amount in cash. He badly needed the banking system in conduit. But unlike the prior mega scams of Harshad Mehta, Ketan Parekh, C. R. Bhansali, the banks are not the ultimate losers rather who has lost the money is a great question. The printer of the fake stamp papers accepted the cheques as against the cash, which is normal mode of payment in the government offices. To realize these cheques he opened approximately 160 Bank accounts. These accounts were not opened in the names of Mr. Telgi himself but were opened in the names of associates. These associates were given the mandates to operate the accounts. The mandated person was changed more than once to ensure security of the funds.

Worth of Assets: Today the worth of assets of Mr. Telgi is approximately Rs. 500 millions but the scam runs into 320 billion.

3.4.2 NARCOTICS DEALER:

One Narcotics dealer required some funds as a working capital for his business. It is noteworthy that these dealers in the narcotics are highly respected in their respective societies. They do the illegal businesses under the veil of the successful and legal businesses. This is a story of a big builder in the City, who used very novel technique to penetrate the banking system. He had main business of Building Construction. He approached the banks for the funding when the banking was getting more competitive and conservative job. RBI declared the Real estate sector as the sensitive sector. For the banks it was the non-priority area for Project Financing. The Banks refused the proposal of the Builder unanimously. But Builder didn’t give up the Battle. He created 23 different entities registered under shop act and having excise and Sales Tax registration. All these 23 entities were doing the trading business of Printing
and Manufacturing of the paper and Books. He approached a nationalized bank with a big name. There was no problem for the bankers to finance the trading concerns. He got the Bills Discounted Facility approved from the Bank. It is a prudence that Bills Raised on very trusted parties are discounted but this is the not a written rule. Since the builder has a big name in the society the bankers raised no controversial issues. He went to another private sector bank and got the Letter of Credit facility sanctioned from that bank. He got the bills discounting facility sanctioned in all the 13 Trading concerns. The bills that came for discounting were from the remaining 10 parties. Ex, A raised the Bill for Rs. 1000 on B and B got it discounted from the bank for Rs. 900. Unfortunately, these bills were not at all supported by the physical sales transaction. Hence, it was a pure clean finance for entity A. In similar manner C raised the bills on D, E on F, G on H, I on J and so on. But the circular references were strictly avoided. The precaution that was taken in this case was that the party on which bills were drawn never had the banking accounts with the nationalized bank. At the due date the bills used to be honored by discounting the bills under the inland letter of credit facility opened in another bank.

He raised the total working capital required for his Narcotics Business. All these funds were utilized for spoiling the young generation in the country. This scheme run smoothly till the repayments were made in time. But when one of the consignments was seized the loan accounts started running in losses. The bankers telephoned the Parties. But no such entities were existent on those places. Though the banner of the Builder was big he was absconding. Bank was required to write-off the bad loan.

3.4.3 BCCI (LAUNDERING AND THE ROLE OF THE BANKERS):

Bankers play a vital role in the many of the laundering schemes. They are empowered with the internal transactions in bank. Various reports have shown that the internal fraudsters far greater than the costs of the frauds committed by the internal fraudsters is far greater than the costs of external frauds. As
seen in the topic of collusive bribery the frauds committed by the shareholders of the organization are the costliest. The same was observed in the case of the collapse of Bank of Credit and Commerce International. This was referred to as the world’s worst banking scandal. BCCI’s history and criminality are traceable to the personality of its founder; Agha Hasan Abedi. He was related with Habib bank and United bank, which were the two dominating banks of that time in Pakistan. Abedi formed BCCI 1972. Abedi built his organization to provide as little information as possible to his underlings. Officers in one operation knew little about the function of officers in other areas. He bribed and manipulated auditors, dividing his annual audits between Ernst & Whiney and Price Waterhouse, with each firm examining pieces of the business without getting the whole picture.

The BCCI was the umbrella under which one could have found out several layers of entities

- Series of related entities
- Series of holding companies
- Affiliates
- Banks-within bank
- Promoters and other insider dealings

The bank had heavy relations with the CIA and the terrorist organizations. Rather Bank of America and the CIA funded its establishment. CIA operatives used the bank to launder the money from CIA enterprises.

Abedi and his insiders used shell corporations, bank confidentiality and secrecy havens, front men and nominees; back-to-back financial documentation against BCCI controlled entities, kickbacks and bribes, intimidation of witnesses and retention of well-placed insiders to discourage governmental action.

The Sandstorm report forced the shutdown of the bank globally. This report pointed the $ 600 million deposits not recorded in the books. The bank basically relied on the deposits, rather than generating revenues from the
assets. It insisted always on the growth of deposits for that matter it also paid the bribes to the Government officials for drug trafficking and laundering of the money.

3.4.4 MONEY LAUNDERING AND SWISS BANK:

It has been accused of offering the hiding place for stolen or looted money providing a screen for the stock market manipulations and dubious promoters of the companies. 1993-96 was the period of the IPO bubble in India. Many came and many went away. The account holders are protected from disclosing their assets and the income from tax authorities. Many political leaders are expected to have the Swiss bank account. The ex-prime minister of the neighboring country is alleged to have laundered huge amounts to Swiss bank. It is purely a bad luck. It is quite possible that many of the politicians have huge chunk of funds in the Swiss bank accounts.

Extent: The Pakistani Ex-Prime minister perpetrated the laundering scheme, which runs into $ 11.91 million.

Parties Involved: Bomer Finances Inc. received the kickback of $ 8190085 and Nassam Overseas received the kickback of $ 3807338 from Societe Generale De Serveillance SA (SGS). Apart from this Maristone Securities Inc. received $ 120000 as commission for allotting the inspection work to Cotecna Inspection SA. The ex-prime minister of Pakistan or her relatives directly or indirectly controlled the three parties, viz. Maristone, Bomer and Nassam.

The Transactions: At the beginning of 1990 during the tenure as a Prime Minister she awarded the contract of Customs surveillance and inspection to Cotecna. As a consideration Cotecna paid 6% of the amount received from Pakistan to the account number 622.902 in Barclays Bank. The account was owned by Maristone. The beneficiary of Maristone was mother of the Pakistani Prime minister. The beneficiary of Maristone was mother of the Pakistani Prime minister. Cotecna was subsequently bought out by SGS. The commission of $ 8190085 was received in the account of Bomer at UBS Geneva. The Prime Minister and her husband in the 50-50 proportions with the rights of disposition of assets lying with the Prime minister owned Bomer.
Swiss Banks: In all of the above transactions the Swiss banks were the parties to the transaction. But apart from this the historical Necklace, which supported the links between Ex-prime Minister and the Bomer, was also seized from the one of the Swiss bank vaults. She purchased this necklace for 117000 pounds. Half the amount being paid in cash and half of it was paid through the bank account of Bomer.

Laundering: Unfair management of Public interests is a crime as per the Swiss laws and does not make any difference whether the crime was committed abroad or in the country. The money laundering from the Criminal activities is a punishable offense and hence, the husband of ex-prime minister was reproached.

If the prime minister of Pakistan had acted fairly it would not be herself but rather the state of Pakistan, which should have benefited. But she performed all the jobs, which she felt correct in her own interest, with or without the support from the public servants.

In reality material flowing to the country should be under strict observation from the Customs authorities. The unauthorized inflow damages the economy (the counterfeit notes), youth (narcotics and drugs) and also promotes smuggling. Outsourcing of the inspection and surveillance services of the imported goods could really be a harmful decision to the economy of the country, since the foreign companies doing such jobs have nothing to do with the social values, they are always interested in money factor involved but the ex-prime minister of Pakistan despite the opposition from the custom services of the country implemented the decision.

At the first site no importer is willing to pay the customs duties. However, some businesses willing to export the consignments suffer due to heavy customs duties on the raw material they intend to import from other countries. Some cancel the export programs, some pay the import duties and some evade it by using many innovative techniques. Some try to bribe and some play accounting gimmicks. International crooks use brilliant techniques to avoid customs duties. Normally, these are given birth by the loopholes in the legal
statutes only. These techniques are so unbelievable that one tempts to say that the truth is really stranger than fiction. Such fictions are not a new phenomenon for the Indian Customs department too.

Customs department auction the consignments remaining unclaimed in the custody of the customs authorities for a specific period. Generally, the low quality or the damaged goods, which the importers deny, are auctioned. To take advantage of this provision in the Customs Act, a simple conspiracy was planned. In one of the corporate laundering case the promoter formed two different companies in the names of son and wife. The business of these companies was to trade in the imported shoes. However, the demand for the shoes was not picking up because of the high pricing. The trader was selling them at lowest possible price but was unable to create the market for these imported shoes. He tied up with the party in USA to send the consignments in two parts. In first consignment on left legs were sent and second consignment was for the right legs. The additional costs were borne by him. The first consignment of 1000 shoes was received at Mumbai in the month of January. Since all the shoes were for left leg the trader refused to take the delivery. Customs department decided to auction the shoes. There were very few bidders. The shoes were auctioned at throwaway price. The bid of the Kolkata based sister concern of the shoe trader was accepted. Another shipment for the right leg was received at Kolkata in the month of June and similar auction. The Mumbai firm took the delivery of these shoes. The burden of customs duties worth lacs of rupees was disposed-off by paying few thousand rupees. Customs officials were just fooled.

3.4.5 CALCUTTA BASED SOFTWARE COMPANY CASE:

There are various creative schemes designed by the people to layer the funds. In one of the classic cases of the Calcutta based Software Company his deal of
layering was supported with the resolutions passed at the board meetings. The details are given in the table

<table>
<thead>
<tr>
<th>Date</th>
<th>Details of Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2000</td>
<td>Company announced the Acquisition of the USA company (US Technologies)</td>
</tr>
<tr>
<td>November 2000</td>
<td>The Board of Directors of the company approved the Preferential allotment of 1.4 crore shares to certain overseas Corporate bodies.</td>
</tr>
<tr>
<td>December 2000</td>
<td>The shareholders approval was sought for the Acquisition of the US Technologies.</td>
</tr>
<tr>
<td>January 2001</td>
<td>Allotment of shares was made to One Trust- 60 lacs shares, Two Corporation 40 lacs shares, Three Investments- 40 lacs shares.</td>
</tr>
</tbody>
</table>

When the above details are put forward, the first impression a shareholder will get that the three firms, which were allotted the shares, were the owners of the US Technologies or the second possibility if not owner they could have the pledged shares of US Technologies. But there is a vast difference between the understanding of the investor and the actual situation. The Calcutta based company is believed to have opened about 13 accounts in the overseas branch of the bank. It created fictitious transactions in these accounts. Transfer funds from one account to second and from second to third, when the total horoscope of the transactions was made up, it was concluded that these funds found its way to some trust which was in turn sponsored by the promoter of the same Calcutta based company. But the important point in this case is that the transfers from one account to another are most of the times supported with

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some intention. Most of the times the bankers in India feel that these are made to increase the load of work on them but in reality they are made to substantiate some facts from which the perpetrators gain heavily.

This scheme is believed to be the tip of the iceberg. Such kinds of schemes are regularly perpetrated in the stock markets.

3.4.6 KETAN PAREKH (SPECULATION PROFITS AND MONEY LAUNDERING):

Laundering comes into picture when one generates the huge piles of dirty cash. Some people face the problems of generating the enough wealth whereas some people face the problem of managing the wealth. The laundering and hawala were the responses to managing the wealth, without paying much to the Government. One should know the story of Ketan Parekh in order to understand the methods of generating huge piles of cash. Laundering is the next step in the chain of the frauds. Ketan Parekh was a modest Mumbai broker running his father’s brokerage firm who eventually turned fingertips. It was the greed of making a quick buck that brought about the downfall of a man they say had powers wide enough to move the stock markets across the country.

He had the great skills to manage and manipulate the prices at the same time keeping the control over the price fluctuations. He took advantage of low liquidity in stocks. He held major proportions of these shares through the layer of brokerage firms he created. This was a big game of the laundering operations. The method he used to acquire such huge chunks of shares was to borrow money from banks and corporate whose market prices he rigged. But single person can never move the markets only the strong network led by the person can do so. He lured other brokers and fund managers into buying the stocks where he was active. And what followed was a frenzied buying by hordes of investors who started pumping in money into these momentum stocks.
Brokers and retail were not the only ones who were dazzled by the allure of these stocks. Several mutual funds also started buying these stocks in order to improve the Net Asset Values of their portfolios. His judgment of the timing was perfect. This was the time when the global boom in the technology stocks pushed world markets higher.

However, the great crash in the US technology shares in December 2000 put paid to all his hopes of any revival. Mutual funds again started dumping technology stocks and a few brokers in Mumbai decided to hammer down these stocks, which created payment troubles for KP once again.

However, the huge sum of profits that he had earned in the previous year some Rs. 200-300 bn came to his rescue as he invested some of them as private placement in media companies such as ABCL and a few others. He also floated a VC firm called KVP with friends Vinay Maloo of HFCL and Kerry Packer of Channel Nine. In the meantime, he still continued his earlier game plan of buying stocks at low levels and selling them at higher prices.

At the start of the year 2001, his large empire developed cracks as he became desperate for funds and kept on borrowing from banks like Madhavpura Mercantile Bank and that too without pledging too many securities. He managed the 1.40 billion pay order from this co-operative bank. Prudent bankers issue the bankers cheque when they receive payment for issuing pay order or give it as a loan at least if they have the capacity to honour the obligation. When presented in Bank of India, the funds were deposited in KP accounts but the pay order when sent through clearing produced no results. Madhavpura Bank was not in the position to make any kind of payment. These funds are believed that Ketan Parekh must have used the Hawala route to transfer funds. Ketan was caught on the wrong foots. He never wanted to repeat the mistakes that Harshad Mehta did in the previous bull runs but the hefty gifts, luxurious cars and the relations with promoter companies spoiled the total plan. In addition to that one of his friends were also involved in the laundering of the funds of Underworld don Dawood and one involved in the match fixing scandal could have tempted him to do the laundering scams.
This scam has exposed only tip of the iceberg. The stock market men indulge into such transactions heavily and very frequently. It was ultimately his fate that he was required to step down from the position of the hero of the technology boom. Some of the foreign institutional investors active on the Indian bourses are believed to be investing the same money, which flows, abroad by this route.

In the Bull Run the stockbrokers earn unlimited money. They earn the money from the brokerage, from the price rigging, from arbitrage, from their share dealings and from speculations. The money flowing through these channels is limitless. Ketan Parekh, for instance, developed a network of some 150 brokers who bought shares on his behest. He reimbursed the brokers for any price losses and would also pay the 2.5% weekly interest or to elaborate 120% as interest. Can a common man think of these deals? These funds are transferred to the tax havens like Bahamas, Mauritius and Luxemburg, Switzerland.

The things don’t end up there. The share brokers frequently indulge into selling of the profits and losses. They sell the book entries. It is a normal transaction to buy goods, services or the tangible assets. Profit or loss is the phenomenon, which occurs as a result of the purchasing and the selling operations, profit or the loss is earned and not bought. But the launderers pay to buy the losses and profits. There are certain transactions like speculation profits which are bought from the share brokers for certain amount of the commission.

### 3.4.7 JAIN HAWALA SCANDAL (INDIA’S FIRST EXPOSED HAWALA SCANDAL):

Extent: The Jain Hawala scandal is all about the Rs. 65 crore payments made without the documents.

About Jain’s: The Indian Construction Magnate S.K. Jain and his two brothers are at the center of this infamous scandal. Jain and his family company sought connections and favours; when Jain paid off someone, the amount was
recorded in one of three spiral notebooks, which became the scandal’s central theme.

Business: The Jains were also in the Hawala business, and one of their clients was a militant group from Kashmir. When the militants got busted in 1991, so did the Jains, which is how the CBI ended up with notebooks detailing payments to 115 notable figures in India’s political and Government scene. This case turned out to be as convoluted as the famous Iran-contra deal during the Regan Presidency. The complication in the Jain Hawala Case was that why did the politicians receive the doubly tainted money if they really received any.

Complications: Many politicians had the direct nexus with India’s number one enemy called Dawood, but the case ended without any convictions. The reason for this is believed to be one person called Amirbhai, who is in the custody of the CBI.

While the politicians have gone scot-free due to technical flaw in the evidence presented to the court, the Supreme Court judgment has resulted in arming the Central Vigilance Commissioner with sweeping powers to combat corruption in Civil Services.

3.4.8 A CRIMINAL ORGANIZATION OF CANADA:

A criminal organization exports a relatively small shipment of scrap metal, but falsely reports the shipment as weighing several hundred tons. Commercial invoices, bills of lading and other shipping documents are prepared to support the fraudulent transaction. When the cargo is loaded on board the ship, a Canadian customs officer notices that the hull of the ship is still well above the water line. This is inconsistent with the reported weight of the shipment scrap metal. The cargo is examined and the discrepancy between the reported and actual weight of the shipment is detected. It is assumed that the inflated value of the invoice would have been used to transfer criminal funds to Canada.
In this case, the criminal organization appears to have intended to over-invoice a colluding foreign importer by misrepresenting the quantity of goods. Using the international trade system, the criminal organization would then have been able to transfer illegal funds back into the country using the transaction to justify payment through the financial system.

3.4.9 AN ALTERNATIVE REMITTANCE SYSTEM (ARS):

An alternative remittance system (ARS) operator (e.g. a “hawaladar”) in the United States wants to move funds to his Pakistani corresponding person to settle an outstanding account.

The US operator co-operate illegally with a Pakistani exporter, who agrees to considerably over-invoice a US importer for the purchase of surgical goods.

The US operator transfers funds to the US importer to wrap the extra cost related to the over-invoicing.

The Pakistani exporter uses the over-invoiced amount to settle the US operator’s outstanding account with his Pakistani corresponding person.

The Pakistani exporter in addition received benefits of a 20 percent VAT rebate on the higher prices of the exported goods.

In this case, rather than simply wiring the funds to his Pakistani counterpart, the US operator convinces a Pakistani exporter co-operate secretly with US importer to make over-invoice. Using the international trade system, the US operator was then able to transfer the funds to settle his account using the trade transaction to justify payment through the financial system.

3.4.10 A COLOMBIAN DRUG CARTEL:

A Colombian drug cartel smuggles illegal drugs into the United States and sells them for cash.
The drug cartel arranges to sell these US dollars at a discount to a peso\textsuperscript{14} broker for Colombian pesos.

The broker “smurfs” the US dollars from the drug sales into the US banking system.

The broker uses these funds to pay a Canadian company to ship grain to Colombia on behalf of a Colombian grain importer. The payment is in the form of a letter of credit covering 70\% of the value of the contract and third party cheques and electronic fund transfers covering 30\% of the value of the contract.

The Colombian grain importer sells the grain in Colombia for pesos and repays the broker for financing the shipment.

This is a black market peso arrangement. Unlike the example that is used earlier in the paper, the peso broker smurfs the US dollars from the drug sales into the US banking system, but then uses these funds to purchase grain from a Canadian company for export to Colombia. In this case, the Colombian importer also made use of the two types of payments to try to defraud the Colombian Government of import duties by only declaring the 70\% percent of the cost of the shipment covered by the letter of credit.

3.4.11 U.S. CONGRESSMAN TOM DELAY:

In October 2005, a Texas county indicted U.S. congressman Tom DeLay on charges that included money laundering and conspiracy to violate election codes.

In Texas, candidates for legislature are not allowed to receive corporate campaign donations. The prosecution holds that DeLay took part in an alleged scheme to bypass that rule and hide the corporate origins of money that ended up in the hands of Republican candidates in Texas. The suspected laundering scheme involved transfer of corporate donations from Texas to the Republican

\textsuperscript{14} It is a unit of money that is used in Argentina, Colombia, Cuba, the Dominican Republic, Mexico, the Philippines and Uruguay.
National Committee headquarters in Washington D.C., and the RNC then transfer an equal amount of money back to Texas for use in campaigning.

Two of DeLay’s aides and his top campaign donor have already pleaded guilty in a separate investigation to crimes including conspiracy; wire, tax and mail fraud; and corruption of public officials.

3.4.12 BEASSURE INSURANCE:

In 2006, Mr. Sukhdeep Singh; the branch manager of Beassure Insurance company Delhi. Mr. Sunderlal, a businessman, wanted to purchase an insurance plan worth 10 crores with a single premium payment of 10 lacs. Mr. Sunderlal however told Mr. Sukhdeep that he had only 6 lacs in his account to be paid through cheque and the remaining he would pay in cash. Mr. Sukhdeep did not want to lose his customer who would surpass his targets, A few months later; Mr. Sunderlal cancelled his policy and was returned 9.5 lacs rupees. 10 days after cancellation of the policy Mr. Sunderlal was arrested on norms of being part of a cocaine market.

The Branch manager Mr. Sukhdeep breached all guidelines prescribed by the IRDA with regard to payment of insurance premiums governed by the PML (Prevention of Money Laundering) Act 2002 in India that prescribed the AML guidelines in India. It is not allowed to accept cash in excess of 50000 rupees from customers.

The cancellation of the scheme lead to the cocaine sale generated money becoming clean.

3.4.13 FRANKLIN JURADO:

In the late 1980s and early 1990s, Harvard-educated economist Franklin Jurado ran an operation to launder money for Colombian drug lord Jose Santacruz-Londono. His was a very complex scheme. In its simplest form, the operation went something like this:
Placement: Jurado deposited cash from U.S. drug sales in Panama bank accounts.

Layering: He then transferred the money from Panama to more than 100 bank accounts in 68 banks in 9 countries in Europe, always in transactions under $10,000 to avoid suspicion. The bank accounts were in made-up names and names of Santacruz-Londoño’s mistresses and family members. Jurado then set-up shell companies in Europe in order to document the money as legitimate income.

Integration: The plan was to send the money to Colombia, where Santacruz-Londoño would use it to fund his numerous legitimate businesses there. But Jurado got caught.

In total, Jurado funneled $36 million in drug money through legitimate financial institutions. Jurado’s scheme came to light when a Monaco bank collapsed, and a subsequent audit revealed numerous accounts that could be traced back to Jurado. At the same time, Jurado’s neighbor in Luxembourg filed a noise complaint because Jurado had a money-counting machine running all night. Local authorities investigated, and a Luxembourg court ultimately found him guilty of money laundering. When he’d finished serving his time in Luxembourg, a U.S. court found him guilty too, and sentenced him to seven-and-a-half years in prison.

3.4.14 WHITE-COLLAR LAUNDERING: EDDIE ANTAR:

In the 1980s, Eddie Antar, the owner of Crazy Eddie’s Electronics, skimmed millions of dollars from the company to hide it from the IRS (Internal Revenue Service-tax authority in the US). That was the original plan, anyway, but he and his co-conspirators eventually decided they could make better use of the money if they sent it back to the company disguised as revenue. This would inflate the company’s reported assets in preparation for its IPO. In a series of trips to Israel, Antar carried millions of dollars strapped to his body and in his suitcase. Here’s a basic recounting of how the scheme worked:
Placement: Antar made a series of separate deposits to a bank in Israel. On one trip, he made 12 deposits in a single day.

Layering: Before U.S. or Israeli authorities had a chance to notice the suddenly huge balance in the account, Antar had the Israeli bank wire transfer everything to Panama, where bank secrecy laws are in effect. From that account, Antar could make anonymous transfers to various offshore accounts.

Integration: Antar then slowly wired the money from those accounts to the legitimate Eddie’s Electronics bank account, where the money got mixed in with legitimate dollars and documented as revenue.

Overall, Eddie laundered more than $8 million. His scheme boosted the initial offering stock price so that the company ended up worth $40 million more than it would have been without the added revenue. Antar sold his stock and left with $30 million in profit. Authorities found him in Israel in 1992, and Israel extradited him to the United States to stand trial. He received an eight year prison sentence.

3.4.15 HASSAN ALI KHAN:

Hassan Ali Khan, son of a Hyderabad based excise officer, is a scrap dealer with an annual income of Rs. 30 lacs. He has a Swiss bank account with $8 billion in deposits.

The government of India has confirmed the existence of this account in UBS, and ordered him to pay Rs. 50,000 crore in tax on that wealth. He is known to throw the most lavish parties in Mumbai and Pune. He has a fleet of cars worth crores of rupees. He has huge foreign funds at his disposal in different Swiss accounts and many places all over the world where he deposits and keeps frequent access. Pune Police had interrogated Hassan Ali in March 2007 when there were allegations of his involvement in a multi-crore hawaladar racket. His wealth is said to be between $8-9 billion or much more, and most of it is unaccounted. In March 2001, Hassan Ali Khan, the man who owes India a whopping Rs. 70,000 crore in taxes, has been arrested by the
Enforcement Directorate in Mumbai under the Prevention of Money Laundering Act.

Mr. Khan, a flashy entrepreneur based in Pune, describes himself as a dealer in scraps. Known for his fancy cars, homes and horses, he acquired a new sort of prominence in January 2007, when the Income Tax Department raided Mr. Khan’s residencies and came across documents that proved he had multiple bank accounts in Switzerland. The Enforcement Directorate then contacted different countries including the UK and the UAE for information on financial transactions made by Mr. Khan, which originated in his Swiss bank accounts. Investigating officials say Mr. Khan’s businesses cannot justify the sort of wealth he has accumulated.

Money laundering is an important channel of criminal activity and given the expansion in world trade. It represents an increasingly important money laundering and terrorist financing vulnerability.

Money laundering practices vary complex in nature. The most basic schemes are deceitful trade practices e.g. under or over invoicing of receipts. However, more complex schemes incorporate these deceitful practices into a web of complex transactions, which also involve the movement of value through the financial system e.g. cheques or wire transfers and/or the physical movement of bank notes e.g. cash couriers. The use of these multifaceted transactions make the money laundering trail and detection more complicated.

Trade data analysis and the international sharing of trade data are useful tools for identifying trade anomalies, which may lead to the investigation and prosecution of trade based money laundering cases.

The customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors can exchange trade related information, this is frequently restricted to certain circumstances or undertaken on a voluntary rather than mandatory basis. In addition, most financial intelligence units do not consistently receive suspicious activity reports related to trade transactions.
Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors appear less capable of identifying and combating trade based money laundering than they are in dealing with other forms of money laundering and terrorist financing. In part, this appears to reflect their more limited understanding of the techniques of this form of money laundering.

Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors identified a pressing need for more training to ensure that their staff has sufficient knowledge to recognize trade-based money laundering.

Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors indicated serious concerns about the vulnerabilities of their countries to trade-based money laundering. In addition, most believe that their countries have only limited measures in place to mitigate trade-based money laundering activities.

### 3.5 MONEY LAUNDERING TECHNIQUES: APPLICATION OF MONEY LAUNDERING CYCLE MODEL:

The three steps of money laundering described above viewed separately may not be present in various techniques used by a launderer. Specific steps however may be crucial in a particular scheme and need be seen in the context of overall laundering process. For example use of carriers to physically transport cash may not be central to the laundering of funds. But it is crucial in a scheme involving transportation of cash from large number of cities to one place where a mechanism for `placement' has been established.\(^{15}\)

The techniques mentioned below may not comprise all the three steps of laundering process. However they all at least make an attempt to conceal the origin of the funds constituting something different than just simply spending the proceeds of the crime by an offender.

\(^{15}\) National Crime Authority, *Taken to the Cleaners: Money Laundering in Australia*, vol. 1, December 1991, p.31-32
Techniques and Tools Used by Launderers - A few important techniques used to circumvent anti-money laundering laws are described below. It should be kept in mind that laundering schemes may be of infinite variety and are limited only by the creative imagination and expertise of the entrepreneurs who devise them. The suitability of the laundering technique is influenced by the aims of the criminal and the circumstances concerning the crime.

3.5.1 STRUCTURING:

Many countries often set reporting requirements for large-scale cash transactions with the ceiling normally at $10,000. Normally for every above ceiling cash transaction, financial institution needs to send a suspicious transaction report, if the transaction does not meet the customer's business circumstances.

Structuring is the technique used to avoid the reporting requirements of the Bank Secrecy Act of US (BSA) by dividing large deposits of cash into multiple smaller transactions of less than $10,000 each\(^{16}\). The crime groups use large number of individuals, each responsible for certain quantity of cash. As per making a deposit, the smurf purchases a bearer monetary instrument drawn at other banks, which are then deposited in the criminal's account. Smurfing is labour intensive, expensive and time consuming but still used for it enables the disbursement of large amounts of bulk cash\(^{17}\).

3.5.2 SMUGGLING AND USE OF CASH COURIERS:

Smuggling gets the cash out of the country, with strict bank reporting laws, and into the countries with strict bank-secrecy laws. Thereafter the proceeds can be layered and repatriated or smuggled back in the form of non-cash


financial instruments\textsuperscript{18}. Smuggling through physical transportation method is popular with launderer, as it leaves no paper trail.

3.5.3 USE OF FRONT COMPANIES:

Front companies are used to place and layer illicit proceeds. Any cash rich business can be an effective front company. Jewellery stores, restaurants, hotels/motels, bars/pubs, night clubs, casinos, racing tracks, retail outlets, cinema houses, parking lots, travel firms, import/export companies, and insurance firms can be good fronts.\textsuperscript{19} The business of front company is used to commingle illicit money with legitimate cash derived by front business activities, thus layering and integrating illicit proceeds.

Some of the front businesses (e.g. liquor stores, restaurants, race tracks) are inherently large cash volume businesses and may therefore get exemption from currency transaction reporting (CTR) requirements by banks. Consequently criminals use them to launder money.

Import/export firms can make use of the following options to launder funds.

a. Under-valuation and overvaluation of goods

b. double invoicing

c. Financing exports.

The scheme of financing exports works effectively as it is masked under the legitimate business transactions\textsuperscript{20}

\textsuperscript{18} Richards James R, Transnational Criminal organisation, Cybercrime and money laundering- A hand book For Officers, Auditors and Financial Investigator, 1998:50


3.6 BUSINESS AREA PRONE TO MONEY LAUNDERING

- LEGITIMATE BUSINESSES - STANDARD COVER FOR MONEY LAUNDERING:

The use of legitimate appearing business transactions claiming that proceeds are generated by a legal currency exchange business, the profit from bona fide commodity saps, the result of factoring operation, for example -is a standard cover used by launderers to hide the criminal origin of those funds. The only indicator of money laundering in these cases is often the disproportionate size of the transactions (either individually or in aggregate) when compared to the expected economic activity of the business.21

3.6.1 USE OF SHELL AND NOMINEE CORPORATIONS:

Shell/ nominee corporations are corporate structures that provide for anonymous corporate ownership through various combinations of nominee directors and ownership of stock by bearer shares22. They do not have any commercial or manufacturing business. They are generally incorporated in offshore centers to ensure anonymity to conceal the true ownership of accounts and assets owned by the criminal organization.

They are used as a major tool to layer funds. For example during 1980s, as much as 2096 of all real estate in the Miami area (US) were owned by entities incorporated in the Netherlands Antilles. In one case the property was traced through three levels of Netherlands Antilles shell corporations, with the `true' owner being a corporation with bearer shares. These offshore corporations were in turn owned/ controlled by various drug traffickers23.

During mid 1990s, there were over 120,000 and 23,500 such shell corporations registered in British Virgin Islands and Caymans Islands.

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respectively. The creation and use of Shell Corporation is itself a profitable business. In Grenada, the government collects $5000 fee to register an "off the shelf" corporation. The local lawyers and accountants then resell these to foreign clientele - no questions asked - for an average of $30,000\textsuperscript{24}

3.6.2 PRIVATE INVESTMENTS AND COUNTERBALANCING LOAN SCHEMES:

Parking illicit Funds in an offshore account or funneling them through a front or shell company is a temporary measure, until such time the criminal repatriates those funds.

Repatriation can be done through loan back method using value of the account as collateral. Ironically, launderers often gain tax advantage too for their apparently legal operations, using the interest expense from the loans as tax deductions.

Counterbalancing loans were commonly used by the related companies and banks controlled by the Bank of Commerce and Credit International (BCCI) in its 18-year money laundering run\textsuperscript{25}.

3.6.3 BANKS AND OTHER FINANCIAL INSTITUTION:

Financial institutions (banks, finance companies, building societies and credit unions etc.) have following features making them attractive to launderers\textsuperscript{26}:

- A wide range of services and access to wider financial systems
- International connections and facilities
- Frequent large volume cash dealings from a wide variety of sources
- Accessibility through their branch networks; and
- The perception of a duty of confidentiality to the clients.


\textsuperscript{26} NCA, 1991:39-40
Launderers often as component parts of wider money laundering schemes utilize the facilities provided by these institutions. Money launderers use the facilities in a number of ways like:

- Operating accounts in false names or in the names of associates, friends, trusts or companies on behalf of undisclosed principals;
- Using wire transfers;
- Purchasing bank cheques in order to layer the transactions or to move funds out of the country;
- Taking loans, later repaid with proceeds of crime or using illegal money/ assets as collaterals for the loan.

### 3.6.4 NON-BANK MONEY DEALERS/ INSTITUTIONS:

These institutions (moneychangers, remittance houses, no banking financial institutions, Postal Service etc.) additionally deal in money and are not obliged to abide by normal banking rules. Criminals exploit such loopholes to convert cash into other currencies, money orders, and travelers' cheques. They en cash the bearer cheques too that smurfs had purchased from the banks. Gold, gems and other precious metals are considered highly liquid assets and can also be purchased through dealers and later easily converted into cash\(^\text{27}\).

### 3.6.5 INSURANCE INDUSTRY:

Life and general insurance policies are purchased with crime proceeds and thereafter cashed in early. Redemption is made through a cheque issued by the insurance company. The cheque appears to provide a legitimate source. The penalty payment for early redemption is accepted as a laundering cost.

As an investment, life policy would make a larger maturity payment to the offenders. The funds come from a non-taxable and apparently legitimate source. Launderers can use policies as collateral too for loans\(^\text{28}\).

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\(^{27}\) UNDCP, World Drug Report 1997:139

\(^{28}\) NCA, 1991:44.
3.6.6 DERIVATIVES MARKETS: POTENTIAL FOR MONEY LAUNDERING:

The primary opportunity for laundering is in the complex derivatives market. Derivatives are securities that derive their value from another underlying financial instrument or asset; they have no intrinsic value of their own. There are three primary types of derivative contracts: forward contracts, futures, and options. All of these instruments, in simple terms, are contracts sold as a hedge against the future risk of fluctuations in commodity prices, time differentials, interest rates tax rates, foreign exchange rates, etc. Because of the flexible nature of these products, the derivatives market is particularly attractive to operators willing to risk heavy losses. A high volume of activity on the market is essential to ensure the high degree of liquidity for which these markets are known. The way in which derivatives are traded and the numbers of operators in the market mean that there is the potential obscuring of the connection between each new participant and the original trade. No single link in the series of transactions will likely to know the identity of the person beyond the one with whom he is directly dealing.

Securities and futures markets provide following attractive features to the launderers:

- Easy transfer of title to shares.
- The global operations of the industry. Many dealers have offices /presence in various countries and money can be deposited for quick transfers into and out of any country.
- Concealment of identity through a false name account with a broker/dealer and the use of nominees to operate accounts.

The persons thoroughly familiar with the systems can use the derivatives markets for laundering. For instance, mirror image trading was used by

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30 NCA, 1991:44
subsidiaries of BCCI in the derivatives markets to launder huge money for Manual Noriega and others. Mirror image trading involves buying contracts for one account `A' while selling an equal number from another account 'B'. As the same individual controls both the accounts, any profit or loss is effectively netted\textsuperscript{32}.

3.6.7 RACING INDUSTRY:

Gambling in the racing industry is another method for laundering funds where the following ways are used:

- Buying the winning tickets at a premium and holding them to explain large sums of money or cashing them in return for a cheque:
- Falsifying significant betting wins with registered bookmakers.

The main attractive feature is the anonymity of the punter; no identification is required\textsuperscript{33}.

3.6.8 CASINOS:

Casinos are 'honey-pots for criminals; a means to cheat, gamble and launder money. In casinos it is easy to gamble illicit earnings in relative anonymity. In a casino typically customers deposit small denomination bills and are paid out in $100 bills or cheques. Large cash sums are converted into casino cheques, which are subsequently enchased.

The pattern of casino transactions -small bills in, large bills out-provides an ideal cover for refining large volume of street money.

\textsuperscript{31} NCA, 1991:43
\textsuperscript{33} NCA, 1991:50
3.6.9 TRAVEL AGENCIES:

Launderers purchase expensive round trip airline tickets and return them for a cash refund upon completion of a portion of the journey\textsuperscript{34}. Travel agencies as front are also utilized for their capacity of wire transferring the funds.

3.6.10 OPPORTUNISTIC LENDING AND ACQUISITION OF COMPANIES ON THE VERGE OF BANKRUPTCY:

If there are tight restrictions on lending, companies in difficulties may have to turn to loan sharks for sources for credit. The money launderers may then work as moneylenders at higher than bank interest rates or may buy partial or total management control of the ailing business. When control is total, launderer will draw continuous benefit from the cover of a clean front company\textsuperscript{35}.

3.6.11 BANKING INDUSTRY AND MONEY LAUNDERING:

One of the biggest difficulties banks face is deciding which money they can legitimately handle, and which represents `dirty money' indicted by law\textsuperscript{36}. There are certain facilities of the banking industry that are increasingly used by criminals during various phases of money laundering.

These are:

a. **Use of Wire Transfers** -

Today, a wire transfer is simply the electronic transfer of money from one bank or institution to another. These are electronic fund transfers most commonly used to move large amounts of capital around the world. Money

\textsuperscript{34} UNDCP, World Drug Report 1997:139-140
\textsuperscript{35} UNDCP, World Drug Report 1997:140
\textsuperscript{36} Bosworth Davies & Salt marsh, A practical Guide to Money laundering 1994:54
Launderer uses wire transfers to 'layer' and to hide origin of illicit funds\(^\text{37}\). The President's Commission on Organized Crime (US) in its 1984 report called these as "life blood of the international drug trade"\(^\text{38}\).

In the wire transfers, a customer instructs his/her bank to wire a certain amount, (from his account) to a specified beneficiary account at another bank through internet based transfer systems- CHIPS (Clearing House Interbank Payment Systems in US) or CHIPS' European counterpart SWIFT (Society for Worldwide Inter bank Financial Telecommunications).

b. Use of Conduit Accounts-

Many launderers establish accounts in various banks all over the world using front companies, shell corporations, agents, and third party nominees with the sole purpose of acting as intermediaries or conduits in wire-transferring money from the originator to the ultimate beneficiary.

Certain individuals/agents are given the task to operate and run. These accounts in their normal transactions like writing checks, using credit/debit cards - create a history of normal banking activity, thus providing an air of legitimacy. These accounts are used for wire transferring the illicit money thus "layering" the proceeds. The funds received in these accounts are not easily identifiable with the criminal beneficiaries.

c. Use of Correspondent Accounts-

Banks with no branches in a foreign country establish a correspondent account with a foreign bank or a domestic bank with a branch in that country in order to wire money and conduct business for its clients with greater ease. The correspondent banking has been identified as a serious money laundering problem mainly because it effectively negates a domestic bank's 'Know Your Customer' policy.


A most notorious money laundering case where entire bank, its network and facilities were used for money laundering is the "BCCI Affair". BCCI has been described as an impenetrable series of holding companies, affiliates, subsidiaries, banks with in banks, insider dealings and nominee relationships operating in 73 countries and free of any regulatory control. It supported terrorism, arms trafficking, sale of nuclear technology; managed prostitution and was engaged in the schemes to defraud its depositors\textsuperscript{39}

3.6.12 UNDERGROUND BANKING (HAWALA) AND MONEY LAUNDERING:

These are alternative remittance systems to carry out international transfers of money parallel to but outside the normal banking sector. They are preferred by launderers and operate informally based on trust, confidentially and ethnic ties. They are cash based and leave no paper trail. The well-known examples of such systems are lei ch’ien in the Far East and hawala or hundi in India, Pakistan and other parts of Asia. Hawala bankers in London were found to be connected to terrorists in the Punjab and Kashmir regions of India; lei chien bankers in Hong Kong and San Francisco are linked to heroin traffickers\textsuperscript{40}.

3.6.13 OFFSHORE BANKING/ CENTERS AND MONEY LAUNDERING:

The term 'offshore banking' refers to both the countries where corporate, banking, securities, and other financial transactions are conducted under strict bank-secrecy laws with no or minimal governmental regulations and to the products that are offered in those countries\textsuperscript{41}. Principal facilities offered by offshore centers under the concept of offshore banking are\textsuperscript{42}:


\textsuperscript{40}Richards James R, Transnational Criminal organisation, Cybercrime and money laundering: A hand book For Officers, Auditors and Financial Investigator, 1998:80

\textsuperscript{41}Richards James R, Transnational Criminal organisation, Cybercrime and money laundering: A hand book For Officers, Auditors and Financial Investigator, 1998:78

\textsuperscript{42}UNDCP, World Drug Report 1997:140141
i. Providing a place of domicile to international companies for incorporation in most advantageous fiscal and exchange control climate

ii. Access to international capital and money markets with greater freedom of action

iii. Act as secure havens for international earnings, savings and other investments in a tax neutral environment

iv. High degree of secrecy of all financial transactions

v. A point of transit for money

vi. Their status as tax havens for non-residents - serving the double function of keeping the owner of the money physically separated from the money and safe from any taxes.

Major characteristics of an ideal financial haven are given in Appendix A. Australia's Currency Transaction Reporting (CTR) Agency includes the following amongst others as offshore tax havens "known to facilitate money laundering and tax evasion": Bahamas, Bermuda, British Channel Islands, British Virgin Islands, Cayman Islands, Grenada, Hong Kong, Liechtenstein, Luxembourg, Nauru, Panama, Switzerland

In value terms, sums deposited in offshore centres are extremely high. It is estimated that over half of the world's stock of money transits through offshore centres. About $2 trillion of private wealth (2096 of total private wealth) is invested in these centres.

3.7 NEW TRENDS IN MONEY LAUNDERING:

3.7.1 PROFESSIONALISATION AND INTERNATIONALIZATION:

Today, black economy and its markets are not only spread worldwide, they are extremely sophisticated. For instance, cocaine trafficking groups keep control

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43 Chaiken, Investigating Criminal and Corporate money Trial 1992:278.
44 UNDCP, World Drug Report 1997:141
over their costs by purchasing raw material forward on, the Bolivian (informal) coca-futures market; and they protect their shipments of end product against the laws of both nature and man by running in Columbia a *de facto* mutual insurance company.

To launder the profits of the black economy crime groups are increasingly using the services of professional money launderers for a price. These professionals (lawyers, accountants, bankers) charge certain percentage of money to be laundered as their fee which can go up to 20\%45. The professionals need not be directly involved in the underlying criminal activity except to conceal and transfer the proceeds that results from it\(^46\). Professionals even manage the subsequent investments of these proceeds into legitimate businesses and other assets.

### 3.7.2 A NEW BREED: OFFERING PROFESSIONAL MONEY LAUNDERING SERVICES:

The experts noted the apparent increasing trend for professional services provider’s accountants, solicitors, company formation agents, and other similar professions to be associated with more complex laundering operations. These professionals set up and often run the legal entities that lend the high degree of sophistication and additional layers of respectability to such money laundering schemes. Operating not only in certain offshore locations where they are protected behind a wall of strict confidentiality, these professionals sometimes also provide similar services within FATF member countries themselves. Currently, only a few FATF members impose an obligation on professional services providers to report suspicious transactions. Those members that do have this requirement are not always satisfied with the amount of reporting that takes place from this

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\(^{45}\) FATF, 1990 as cited in UNDCP, 1997:141

\(^{46}\) US Senate Committee on Government affairs, 1985 as cited in UNDCP, 1997:145
sector, although the quality of individual report in some cases appears to justify the need for such reporting\textsuperscript{47}.

Following the trends of black economy, money laundering activity too has truly become international. When all kinds of markets are becoming more internationalized, money launderer is not lagging behind. The launderer is moving illicit funds from one jurisdiction to another taking advantage of gaps in legislation and discrepancies in regulatory control \textsuperscript{48}

Above sections provided the details of numerous methods of money laundering. Virtually, all possible business enterprises could be used as a front for such activity.


\textsuperscript{48}UNDCP, World Drug Report 1997:142