

# Μέθοδοι μεταφοράς κεφαλαίων για την αποφυγή των εποπτικών μηχανισμών

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Northeastern University  
Boston

# Definition of ML

- The process of disguising or concealing the illicit source of income in order to make it appear legitimate (usable in the legal economy)
- The process is commonly discussed in terms of three stages

# Stages of ML

- *Placement* of dirty funds into the financial system
- *Layering* or transferring to conceal the source and disguise the origin of the funds
- *Integration* or conversion of the proceeds into apparently legitimate assets

# Predicate offenses

- At first, drug trafficking
- Gradually, just about any crime, such as:
  - Corruption
  - Human traffic
  - Arms traffic
  - Smuggling
  - Counterfeiting
  - Fraud
  - Art theft and theft of cultural property
  - Illegal gambling
  - Illegal logging
  - Capital flight
  - Tax evasion

# Objectives of AML

- Fight serious crime
- Protect the financial system
- Prevent the accumulation of criminal economic power
- Attack criminal groups on their weakest point

- a. Previous crime control strategies did not bear results we hoped for
- b. By taking away the money we intend to remove
  - *motive* to commit new crimes
  - *means* to commit new crimes
  - *capacity to infiltrate* the legal economy

- Make it difficult for criminals to use the financial system to launder their proceeds and finance their activities
- Possible if all jurisdictions have effective AML/CFT regimes in place
- ML and TF are global problems: no single country can handle these problems on its own

# Add terrorism finance

- To the extent methods and channels are same or similar
  - Security threat and risks



# Financial Institution Risks

- Criminal risks
  - fines
  - suspension of charter
  - “death penalty”
- Civil penalties
  - fines
  - forfeitures
- Social fallout
  - loss of clients/partners
  - civil lawsuits
  - lower share values

# Problems of non AML Action

- Reputational, operational, financial and legal risks
- Embarrassment at national level
- Sanctions
- Reduced foreign investment and aid
- Political and socio-economic repercussions

# Where does it occur?

- Everywhere
  - Esp. in places with lax or ineffective controls
- Most importantly, the cycle begins in regions where illicit funds are generated

# Means

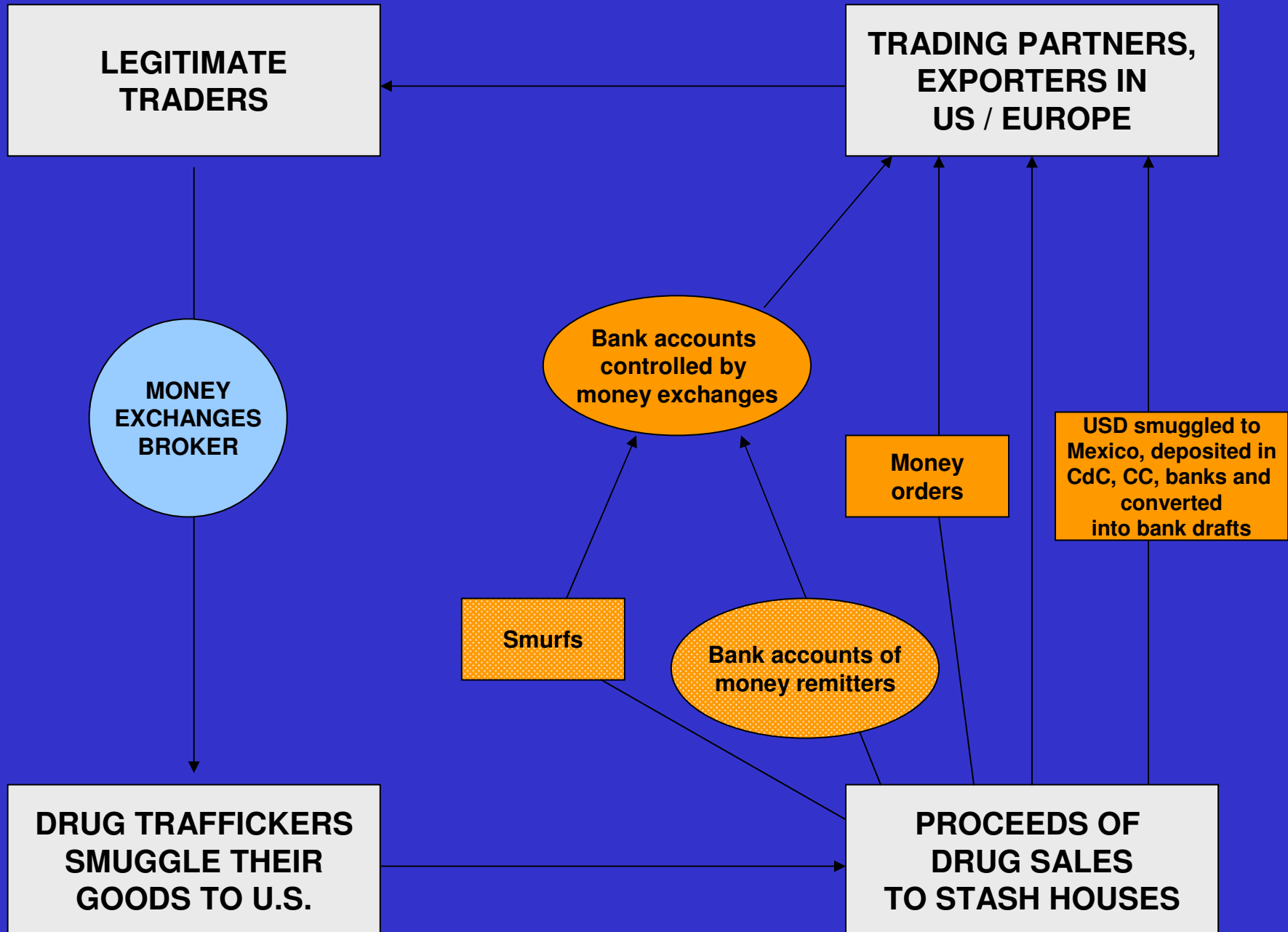
- Low technology: courier
- Banks
- Non-bank financial institutions
- Hawala – other IVTS
- Trade-based money laundering
- Brokerages
- Real estate
- Casinos
- Professionals (lawyers, accountants, etc.)
- Offshore trusts

# Methods

- Mis-invoicing
- Trade diversion
- Diamonds
- Gold
- Hawala/Informal Value Transfer Systems (IVTS)
- Correspondent accounts
- Real estate
- Casinos
- Lawyers and other professionals

# Example of Method

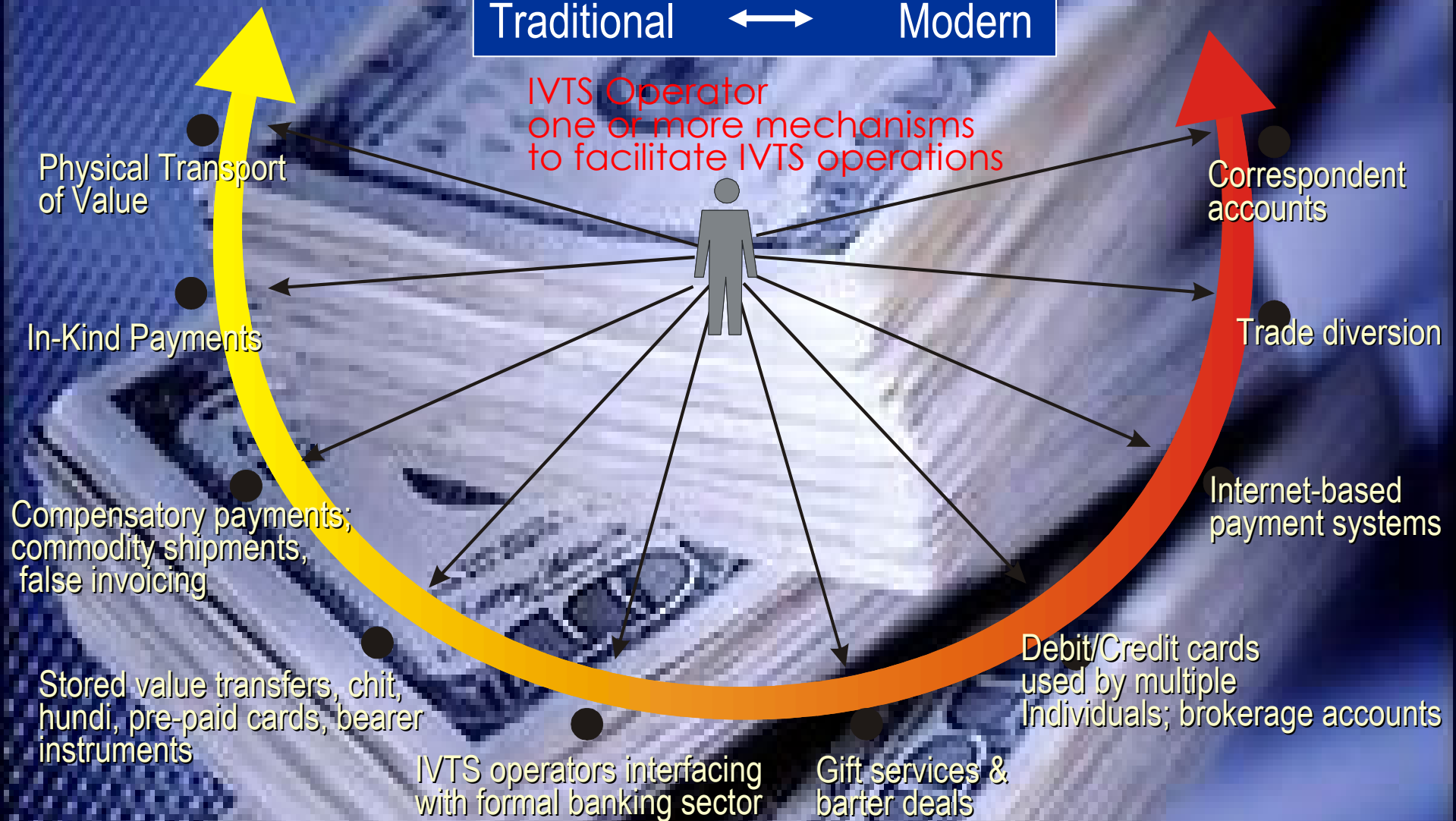
- Traffic drugs and generate cash
- Move the cash to a secrecy or tax haven
- Establish or buy a corporation
- Open corporate bank account and deposit the funds
- Take a loan from corporate account and receive funds in country of residence
- Use funds to invest in profit-making business, real estate, etc.
- Commingle proceeds from illegal enterprise with legal business into same account.
- Pay taxes and keep revenue authorities at bay



# Range of IVTS Mechanisms

Traditional ↔ Modern

IVTS Operator  
one or more mechanisms  
to facilitate IVTS operations





# Types of IVTS

- Hawala, hundi – South Asia
  - Fei ch'ien (flying money) – Chinese
  - Phoe kuan – Thailand
  - Black market exchange – S. America and Africa
  - 'door-to-door' – Philippines
- Physical transfer (courier)
- In-kind payments/transfers
- Gifts services
- Invoice manipulation
- Trade diversion
- Stored value
- Credit/debit cards
- Correspondent accounts
- E-payments

# Physical Transport-Courier

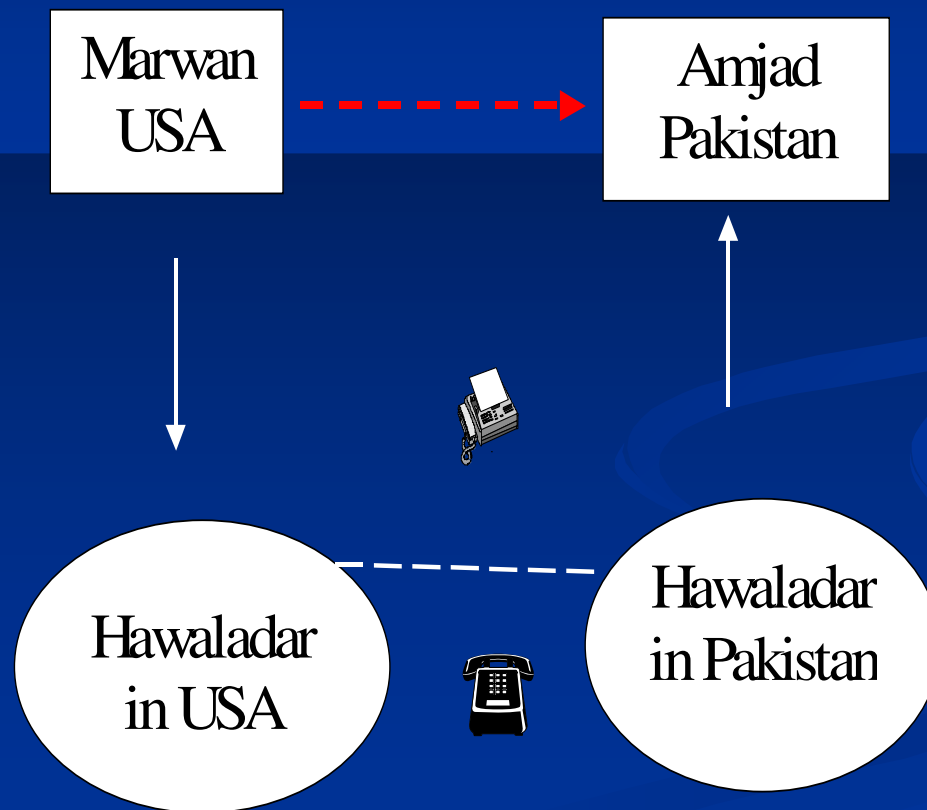


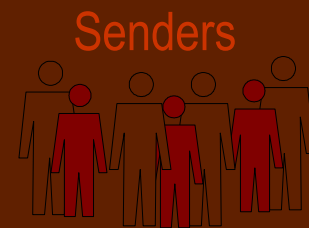
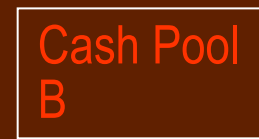
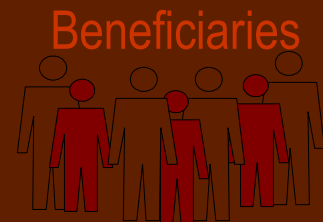
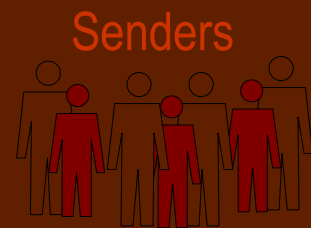
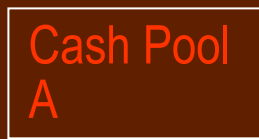
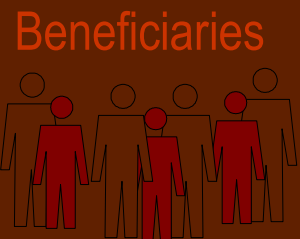
# Physical Transport-Courier 2



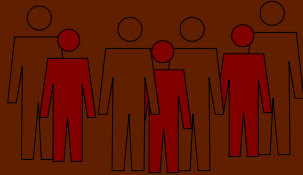


# Basic Hawala



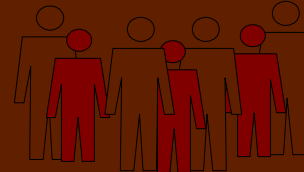


Beneficiaries



U.S.  
Account

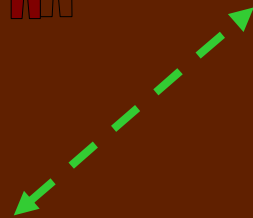
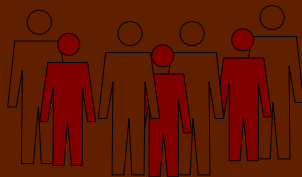
Beneficiaries



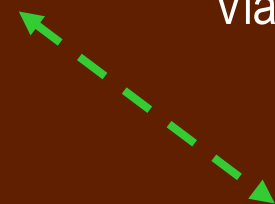
Cash Pool  
A



Senders



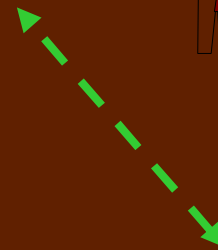
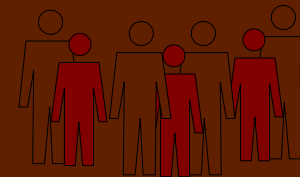
Communication  
Via FAX



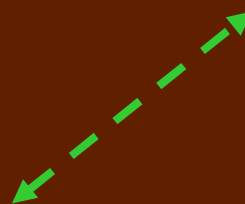
Cash Pool  
B



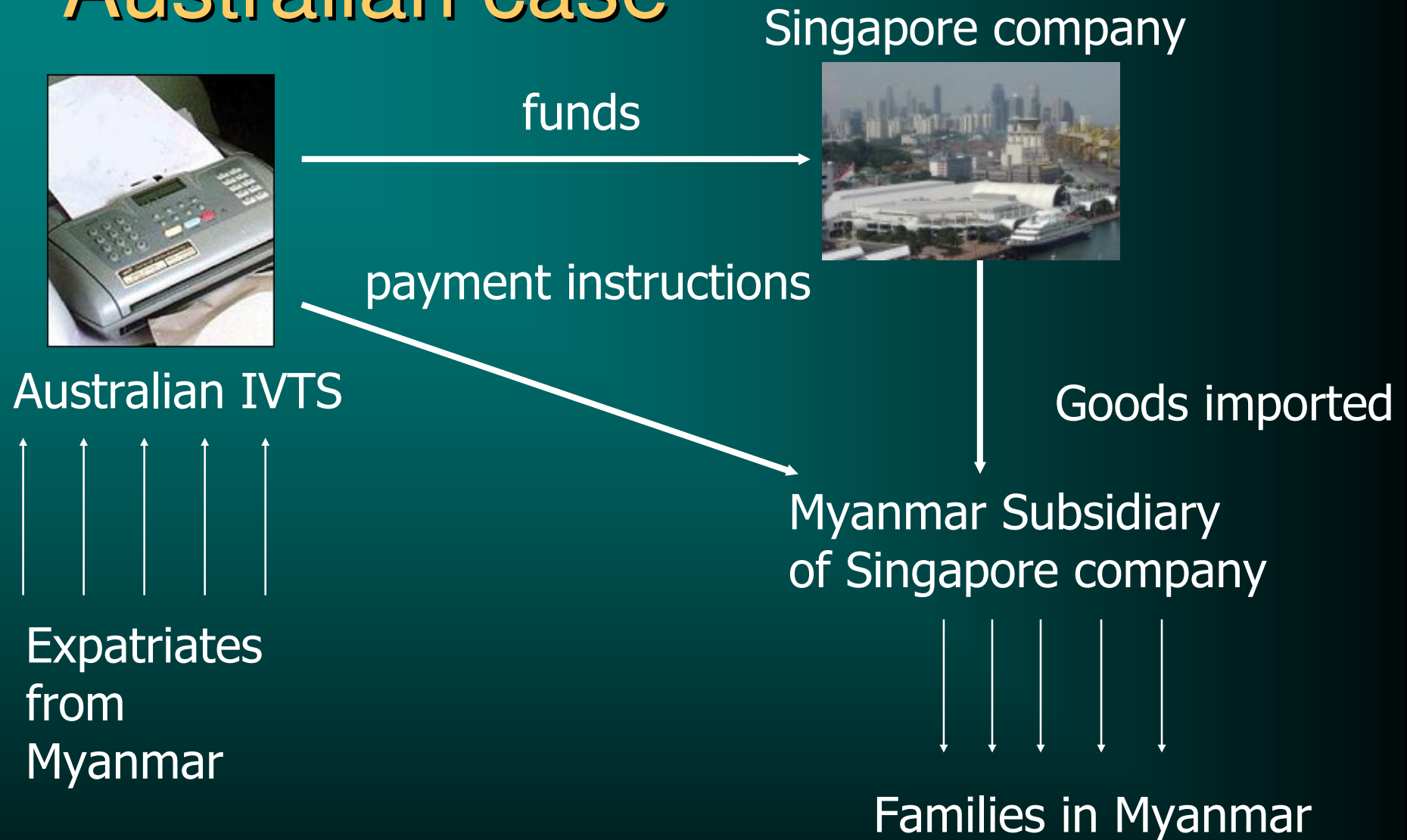
Senders



Arabian Gulf  
Account



# Australian case



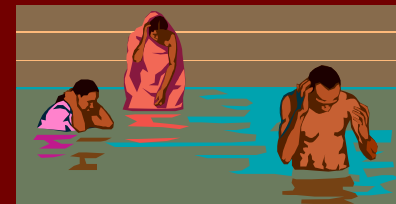


# Hawala and over-invoiced exports

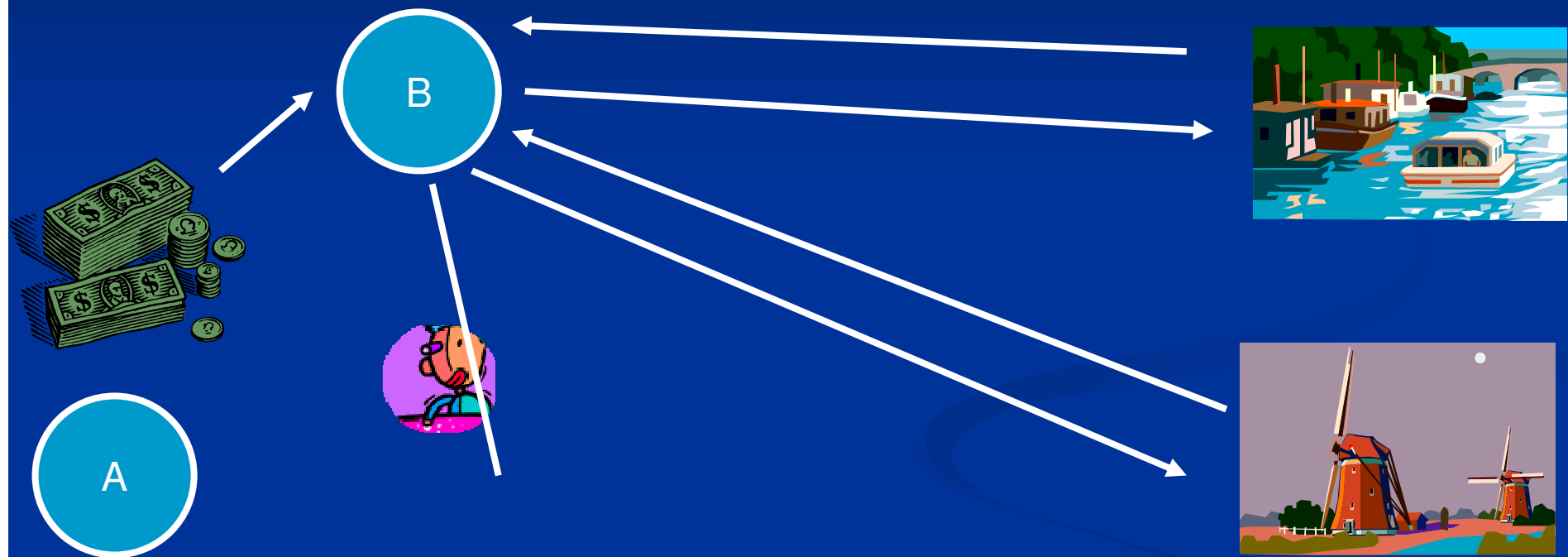




Export subsidies



# Diamond exports



Invoices showing extra 20-30% profit

# Is hawala

- ‘alternative’?
- ‘underground’?























# Money Exchange Association in Kabul







## Settlement

- Daily, Weekly, Monthly
- Cash movements
- Peshawar, Islamabad, Dubai bank accounts
- Satellite phones and e-mail facilities





# Indicators of Criminal Use

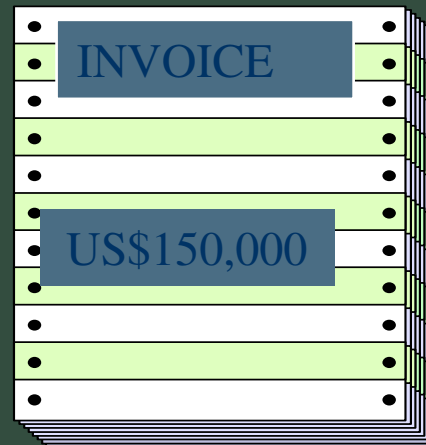
- Different commission charged to ordinary clients
- Different recording methods for some clients
- No recording of certain (large) transactions
- Large sums (from single customer)
- Different collection methods
- Transactions divergent from usual pattern (e.g., very large amounts once in a while)
- Transfers to companies in very different business
- Transfers to accounts of individuals or companies involved in illegal activities

# Under Invoicing



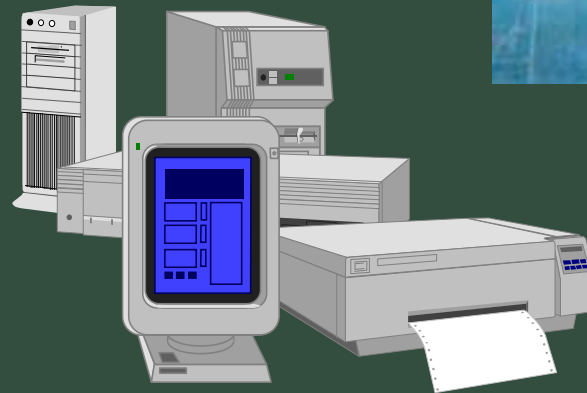
Value goes from London to South Asia

# Under Invoicing



SA sends B \$150,000 and receives invoice

# Under Invoicing



for \$250,000 worth of computer hardware,  
which balances B's \$100,000 debt to SA



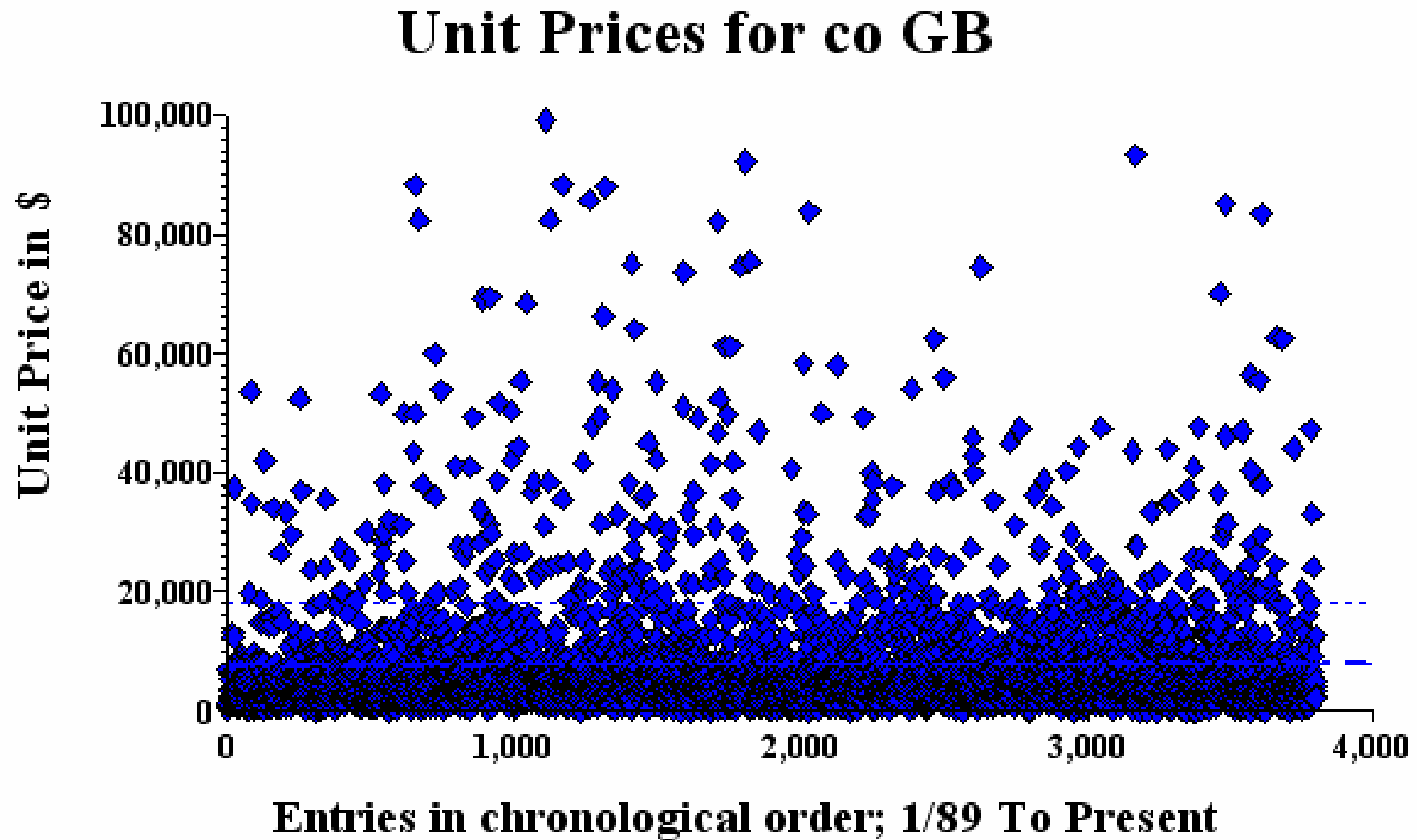
# Undervalued timber export

- Russian trucker takes high-quality timber to Japanese or Chinese wholesaler to sell
- Trader officially rejects the lumber because it is of “poor quality”
- Trucker is forced to sell it as “pulp wood”
- The difference is settled between the trucker and trader in cash, and off the record
- The trucker makes black market profit for his firm and keeps a little for himself
- The lumber is re-classified as high value upon reaching its destination

# Diamond “imports”



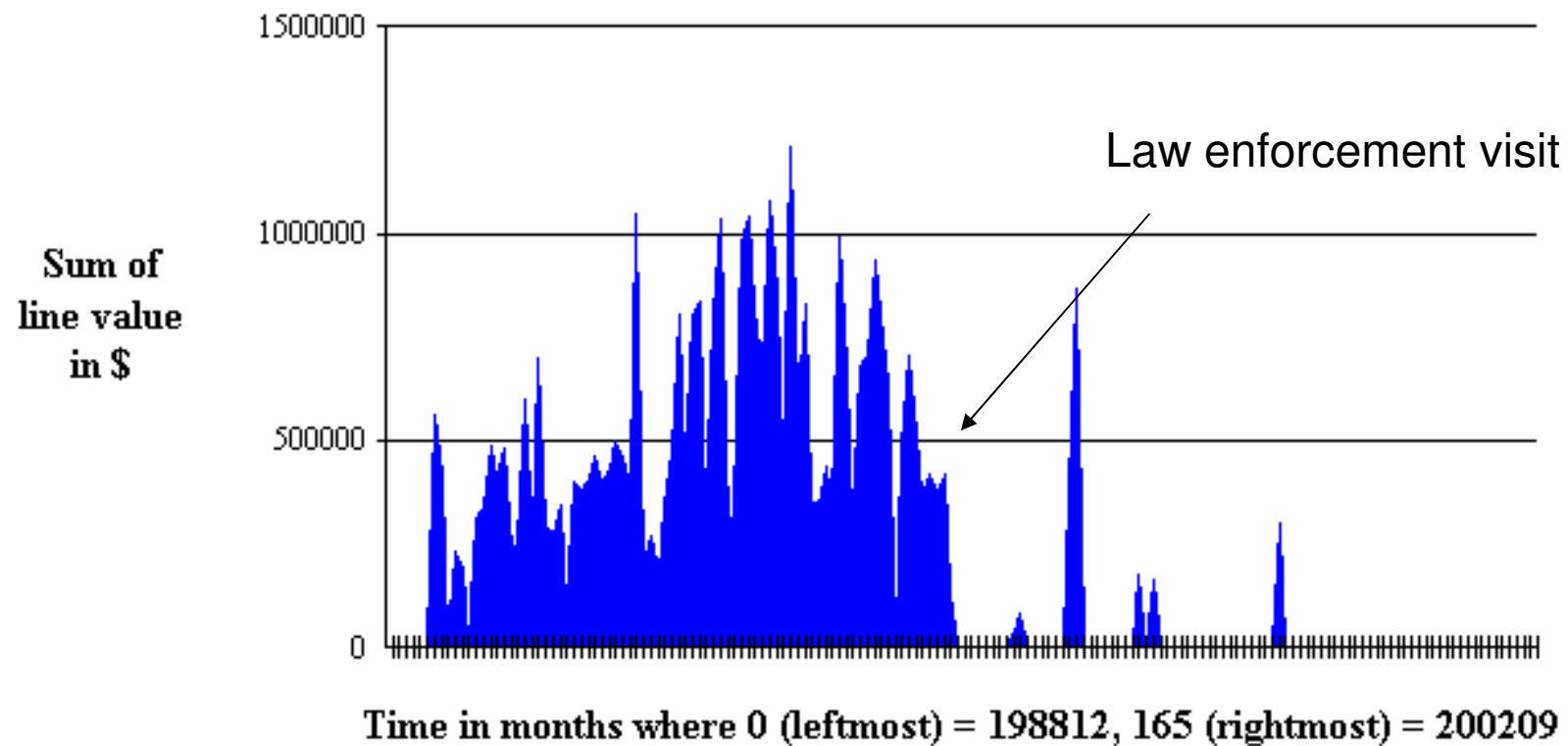
# Polished diamonds



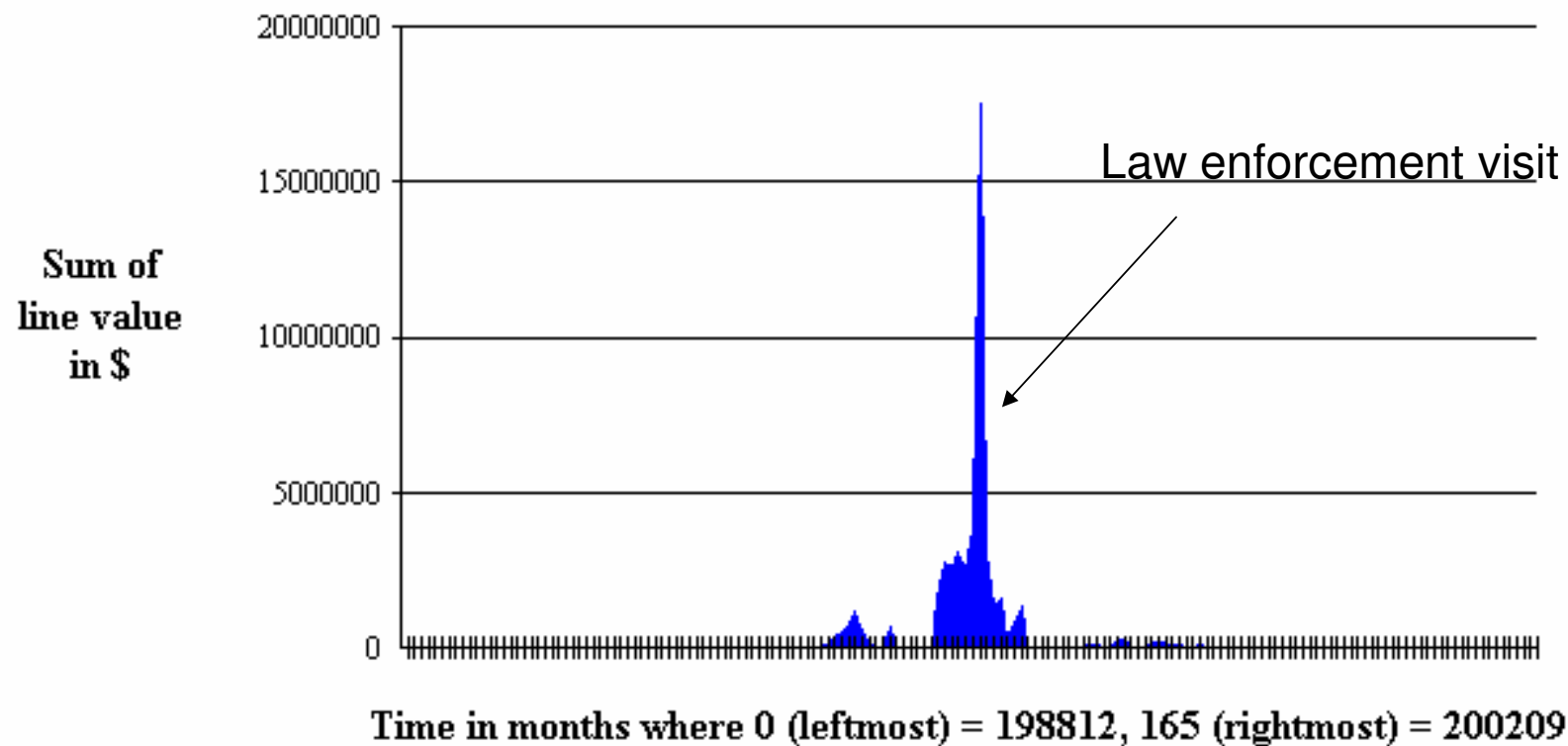
# La Mina and Gold

- Drug proceeds sent to California
- Buy scrap gold from jewelers with cash
- Order “gold” from fake mines, smelters in Uruguay
- Import gold-plated lead bars, get Customs form
- Sell real gold to brokers, jewelers using Customs form
- Buyers wire payment to Uruguay
- From Uruguay money goes on to Colombia

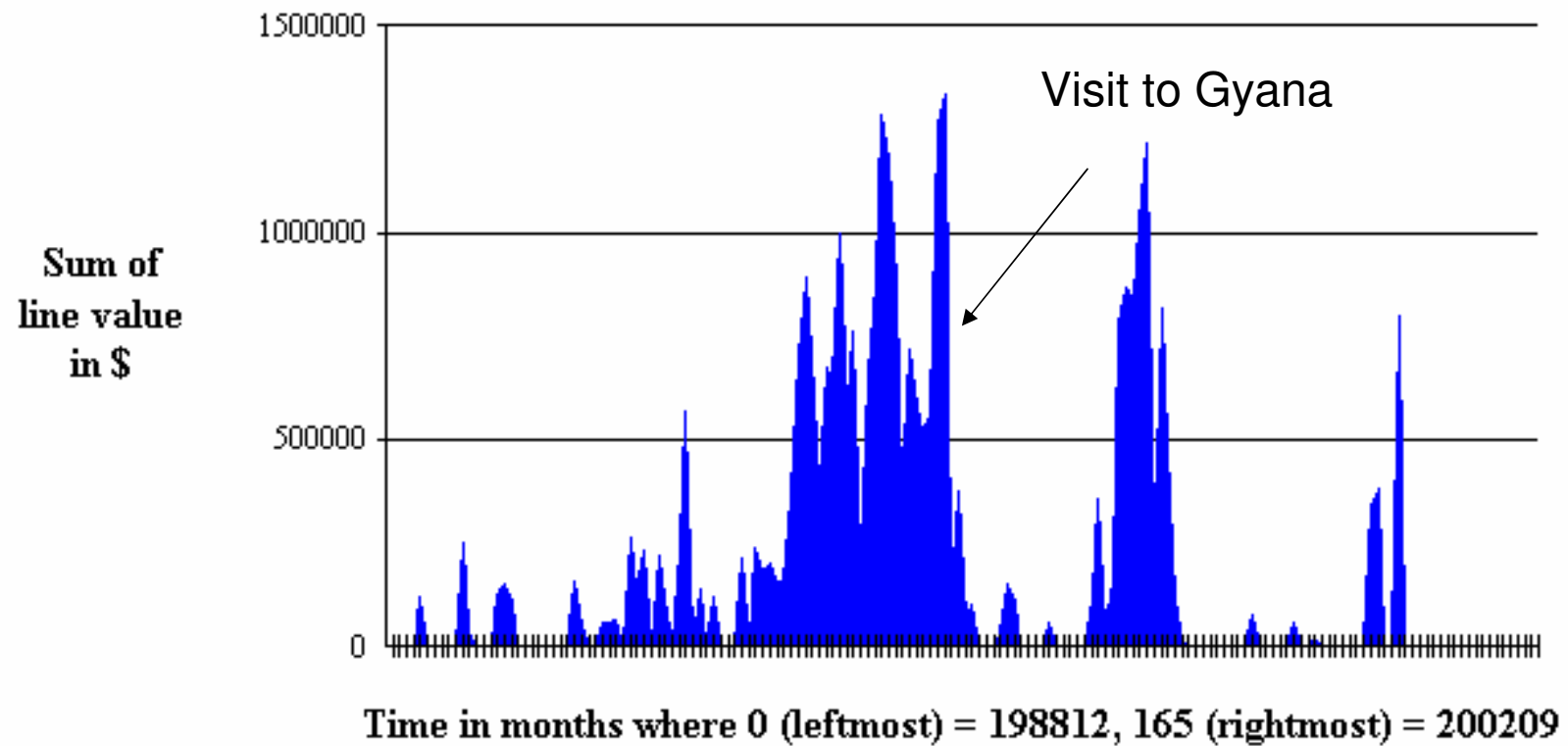
## Sum of Line Value by Month for CO: TT



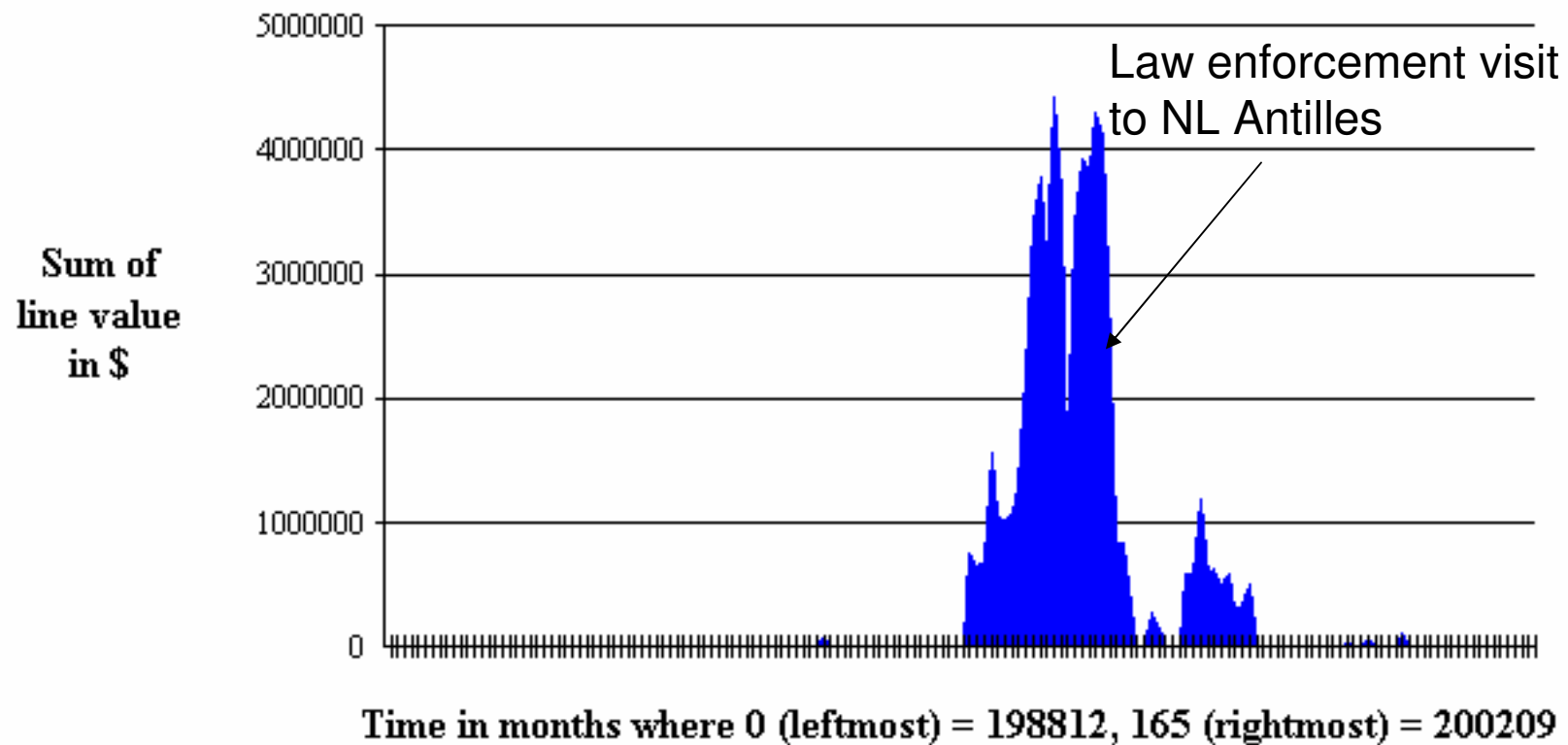
## Sum of Line Value by Month for CO: SR



## Sum of Line Value by Month for CO: GY



## Sum of Line Value by Month for CO: AN





# African IVTS

**Vouchers** [Click on links: **Uchumi Vouchers, Nakumatt Vouchers, Cash Gifts!, Deacons Vouchers**

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■ Introducing Uncle Sam 48 hour service!  
Send: *Cash Gifts, Roses, Safaricom Scratch Cards* and more in only 48 hours!

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in Kenya

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to Mama  
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friends at home with helpful & thoughtful items.

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customer reviews

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loved ones!

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view your progress here

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delivered to  
the recipient

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Reviews



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Vouchers for  
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- chocolates
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- for him
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- kids toys
- luggage and travel
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**It really means a lot** that sending a natural crystal bangle or crystal necklace with your greeting message to your loved one who lives in Mainland China.

Your gift can be sent to any location in Mainland China by our express processing service. **Prices include shipping and handling.**

And what's more, we guarantee our service and no charge until your order has been delivered, see [F.A.Q.s](#) for detail.



**Item #Bangle01**  
Natural crystal bangle. Crystal vein can be seen inside. 2" diameter, one size fits all.  
Price:\$26.00/each, delivered with greeting card.

[Buy now](#)

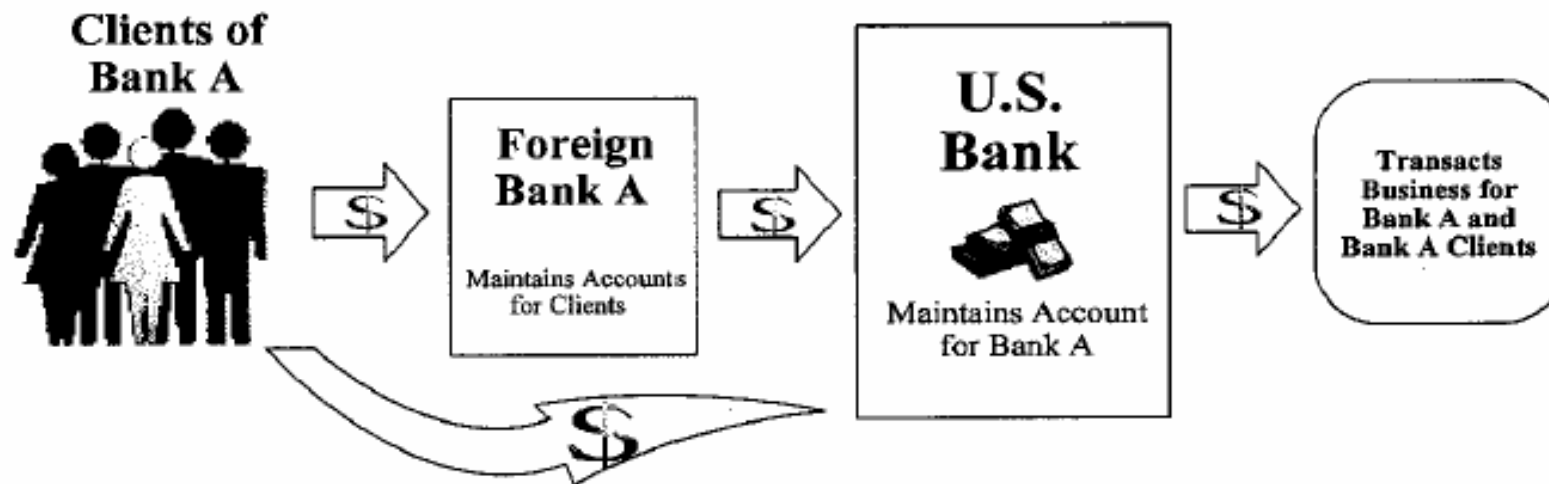


**Item #N004**  
14" Clear crystal necklace with blue crystal rose center.  
Price:\$28.00/each, delivered with greeting card.

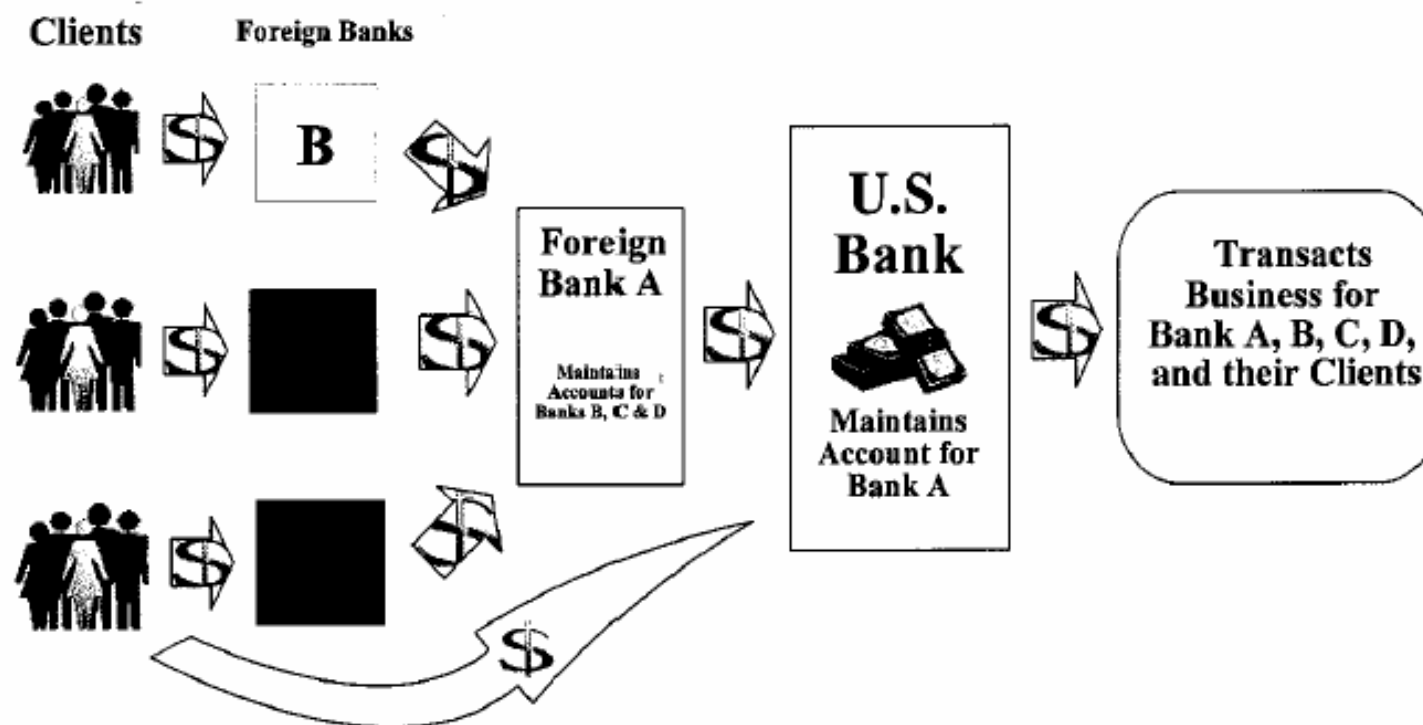
[Buy now](#)

# Gifts to Pakistan

## CORRESPONDENT BANKING

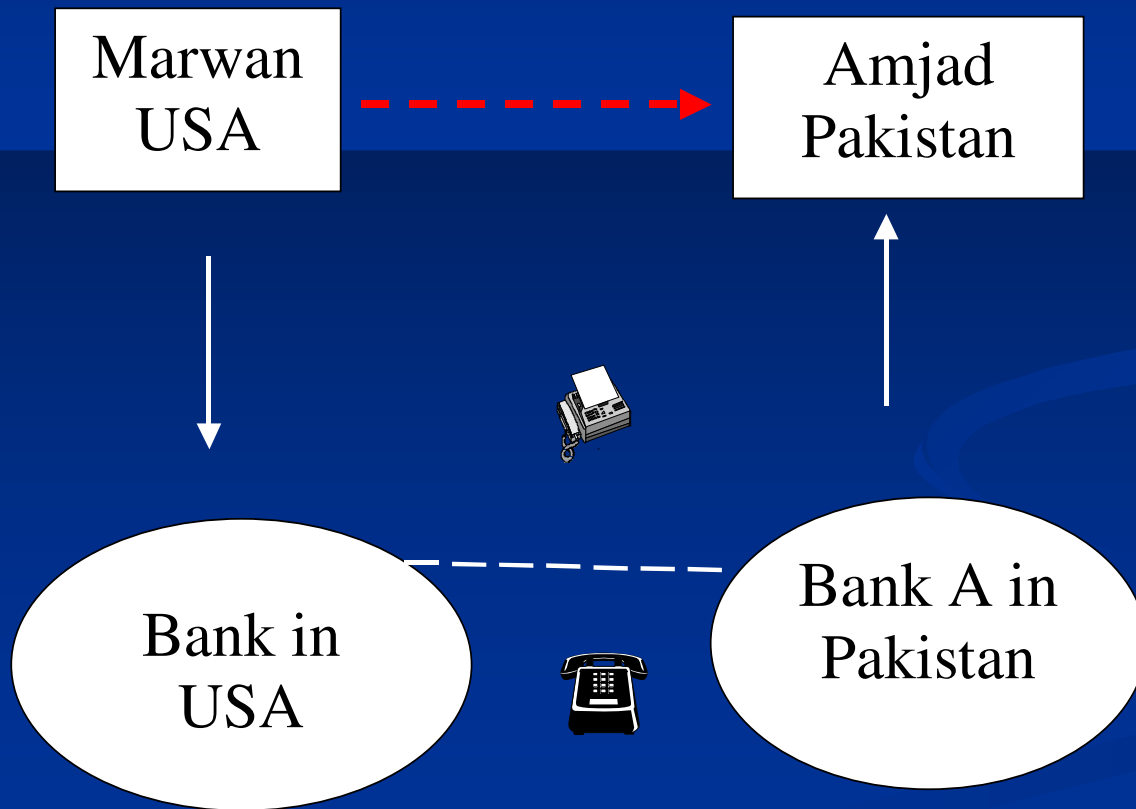


## NESTED CORRESPONDENT BANKING





# Sophisticated Hawala



U.S.  
Manufacturer

Order

Pro-forma invoice

up to 50%  
discount



Russian Company

rubles



U.S. Bank

Letter  
of  
credit



Swiss Bank

authorization



Government  
Bank of  
Moscow

U.S.  
Manufacturer

Order

Pro-forma invoice

Notice of L/C



up to 50%  
discount

Agent



Russian Company

rubles



U.S. Bank

Letter  
of  
credit

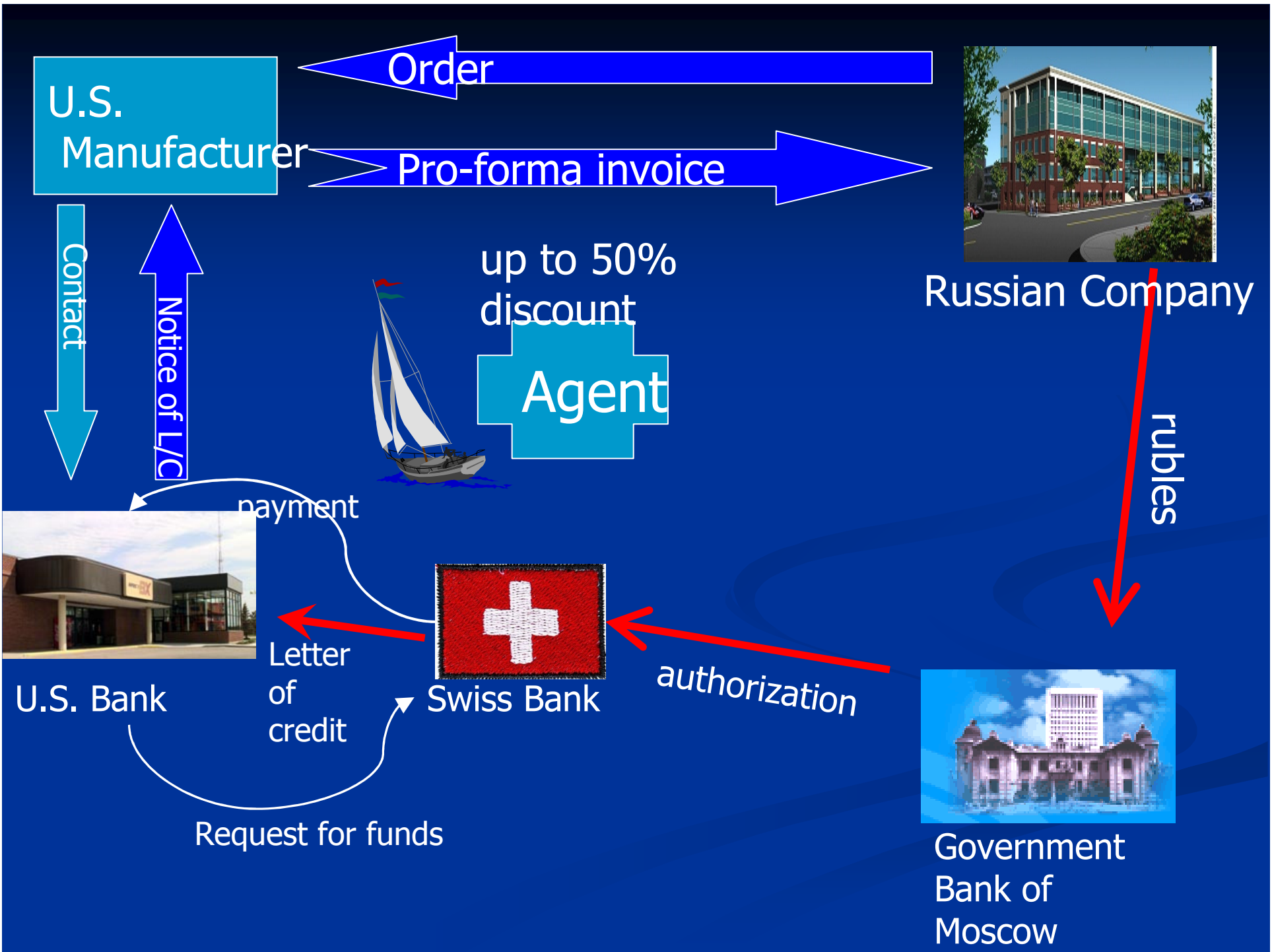


Swiss Bank

authorization



Government  
Bank of  
Moscow



Agent



goods

payment

Diversion  
Fence

goods

Wholesaler

payment



Agent



Russian Company

Co-conspirator



Money

Money



Swiss  
Bank #2

goods

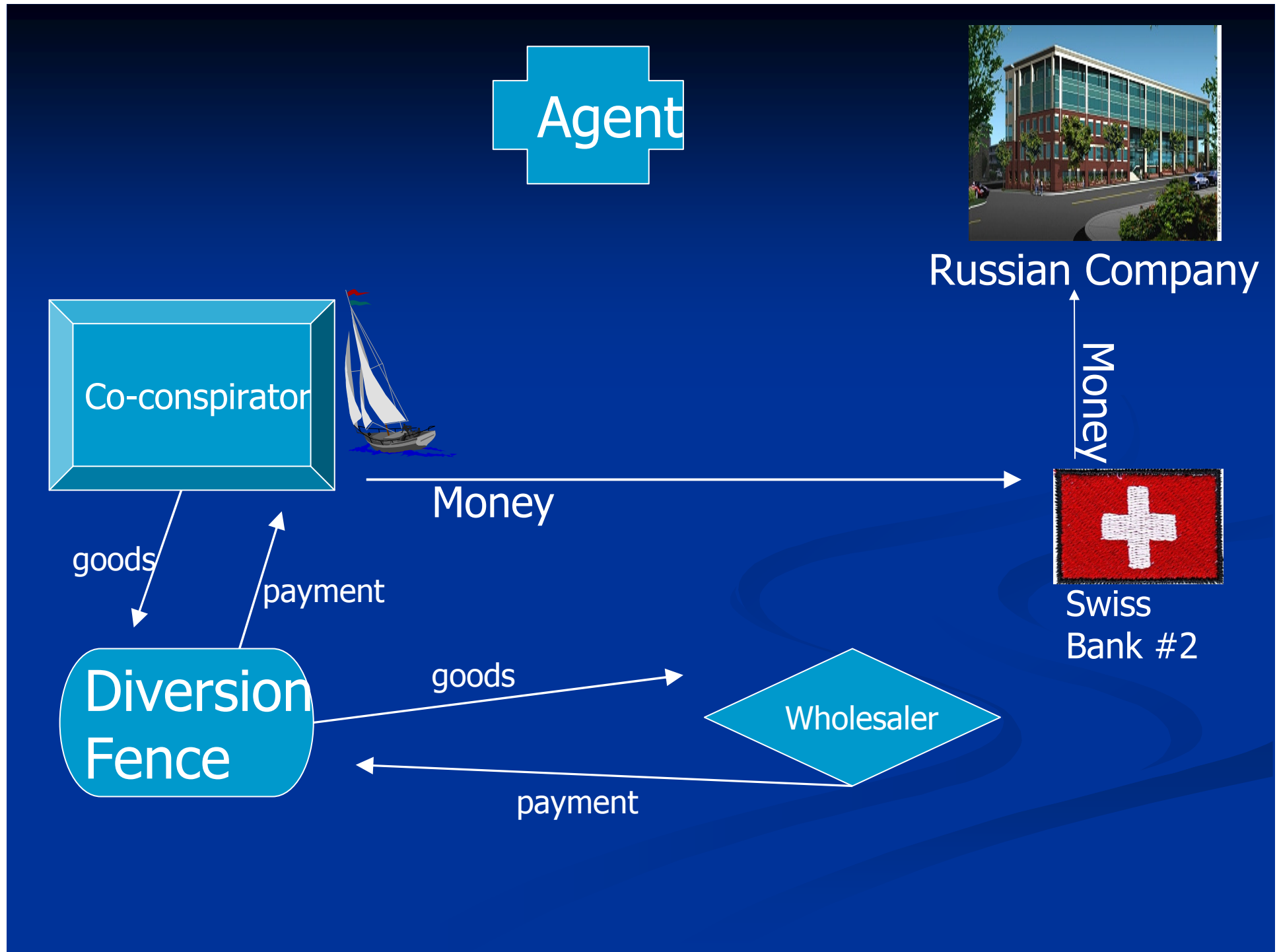
payment

Diversion  
Fence

goods

Wholesaler

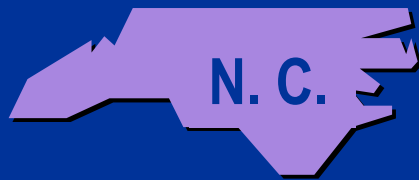
payment



# Cigarettes Diversion

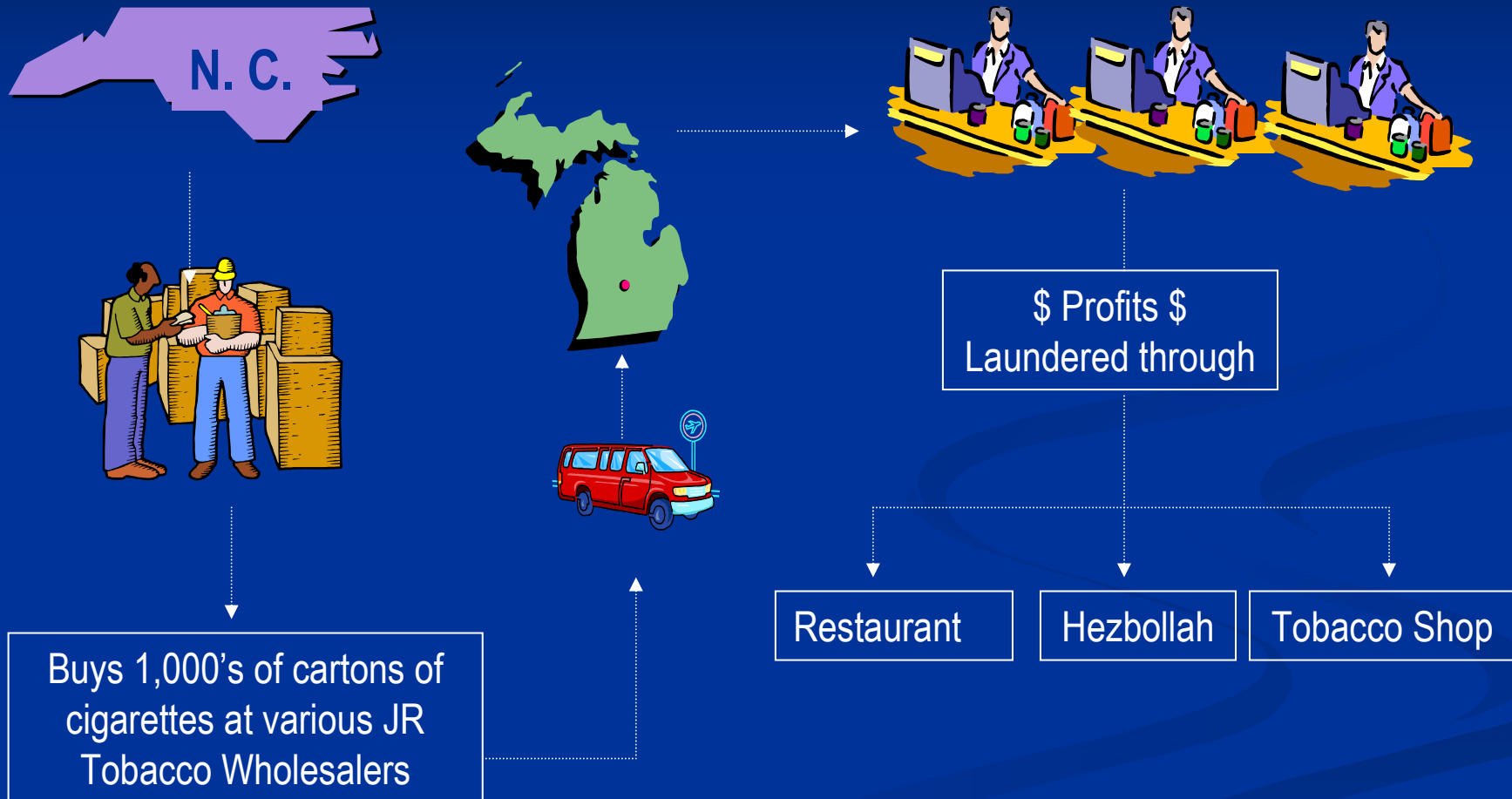


Tax \$2.50 → \$7.50 per carton



Tax = \$0.50 per carton

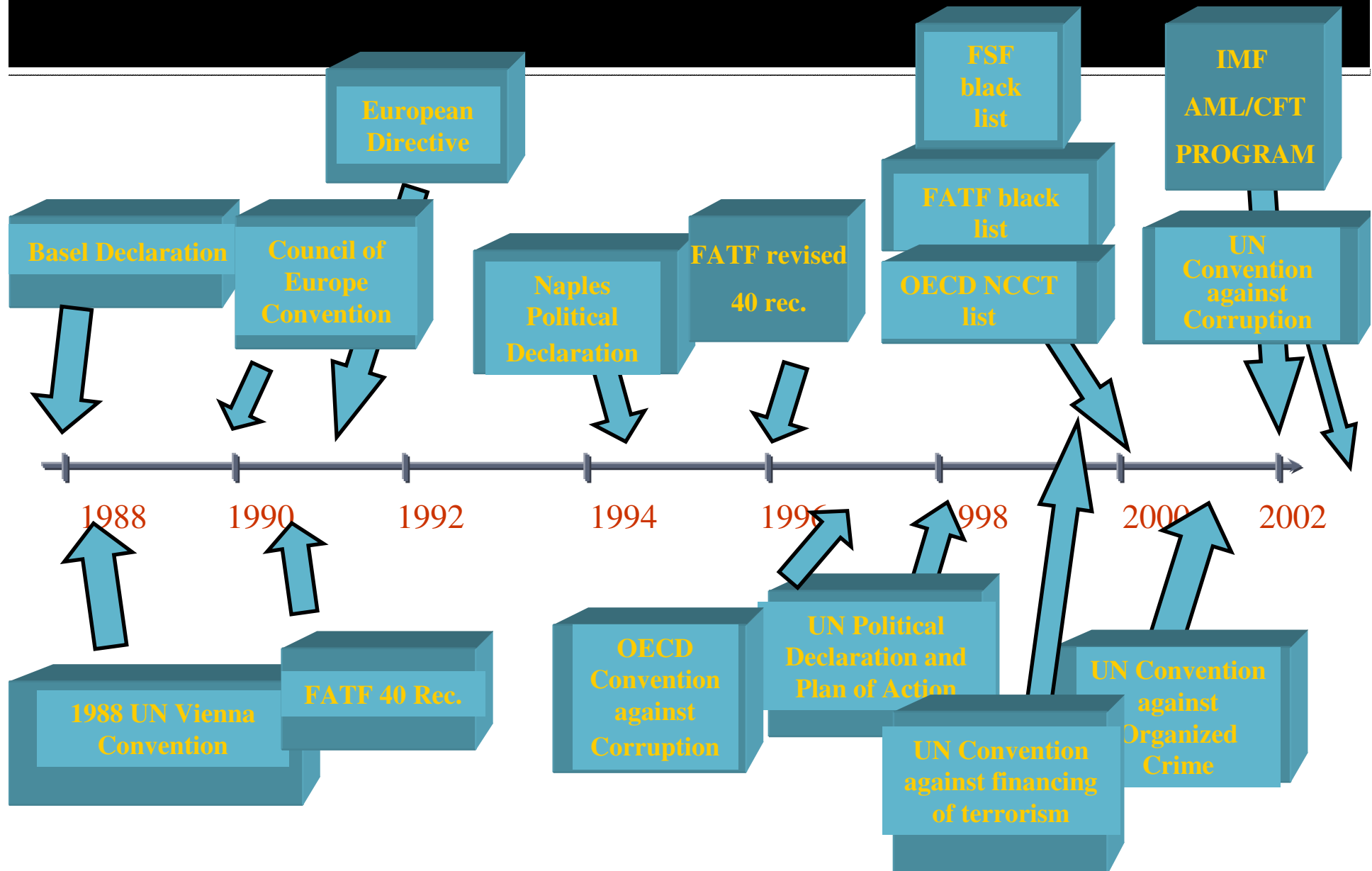
# Cigarette Diversion



# Main International Standards

- The United Nations Convention Against Illicit Traffic In Narcotic Drugs And Psychotropic Substances (Vienna Convention) 1988
- UNTOC Convention 2000
- UNCAC 2002
- Financing of Terrorism Convention 1999
- FATF 40 Recommendations (rev. in 2003)
- FATF 9 Special Recommendations on Terrorist Financing (2001)
- UN Security Council Resolutions 1267, 1333, 1373
- Basel Principles

# INTERNATIONAL INSTRUMENTS and PRACTICES





# Counter Financing of Terrorism

## International Standards

- UN Security Council Resolutions, esp.1373
- UN Security Council Resolutions on Taliban and Al-Qaida (1267, 1333, 1390, 1455, 1526)
- FATF 9 Special Recommendations on Terrorist Financing (2001) – also the 40 Rs
- UN International Convention for the Suppression of the Financing of Terrorism (in force 10 April 2002)

# Risks of non compliance

- Legal
  - Operational
  - Reputational
  - Financial
- 
- deficient due diligence program
  - Regarding high risk accounts or clients

# Recent illustrations

- Union Bank of California to pay \$31.6m for AML failures
- FINRA fines Florida firm \$145,000 for AML shortcomings
- Riggs Bank
- Arab Bank
- Israel Discount Bank
- Bank of New York
- Citibank

# Usefulness of AML

- Compliance with domestic and international requirements
- Avoid reputation and other risks
- Avoid penal/legal risks
- Prevent fraud
- Assist investigations
- Prevent other crimes

- Basic KYC and due diligence
- Who, what, where, when, why
- If different from usual pattern or if it does not make commercial or economic sense, file an STR

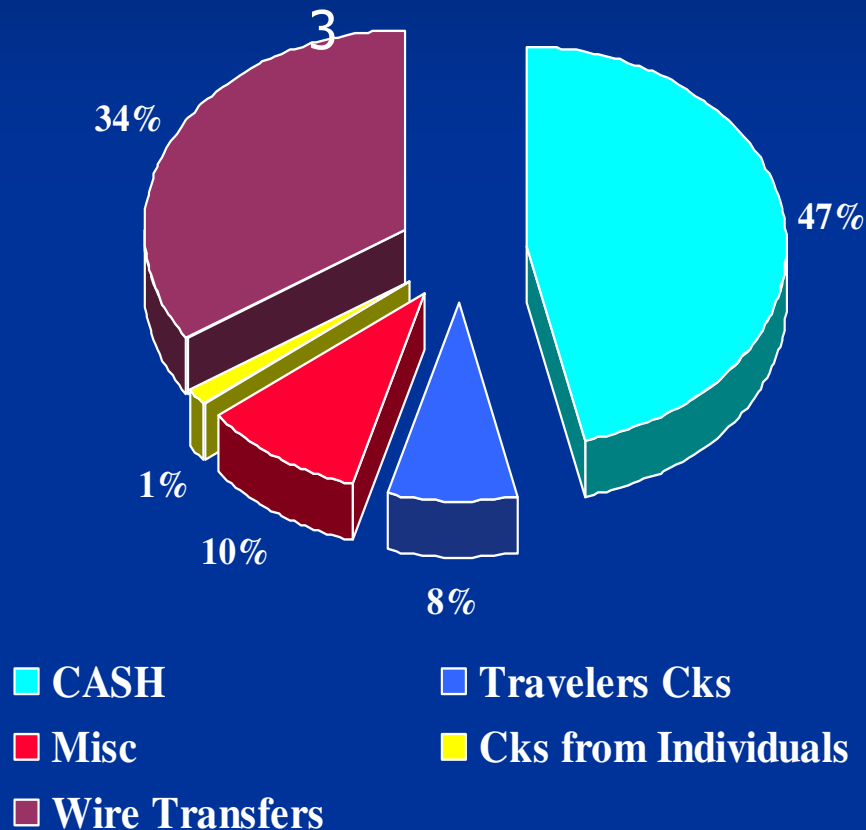


# Milonas case

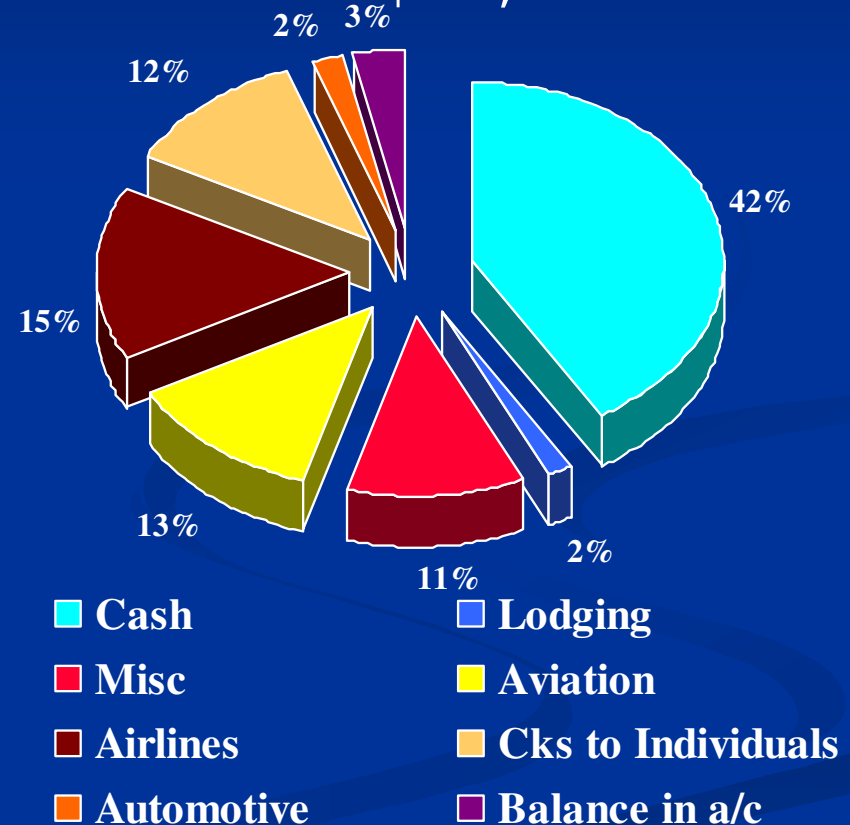
- Kidnappers started spending the ransom beyond their means
- Marked notes circulated in Chania
- Cash purchase of 82k euro jeep by waiter

# TOTALS for 19 HIJACKERS

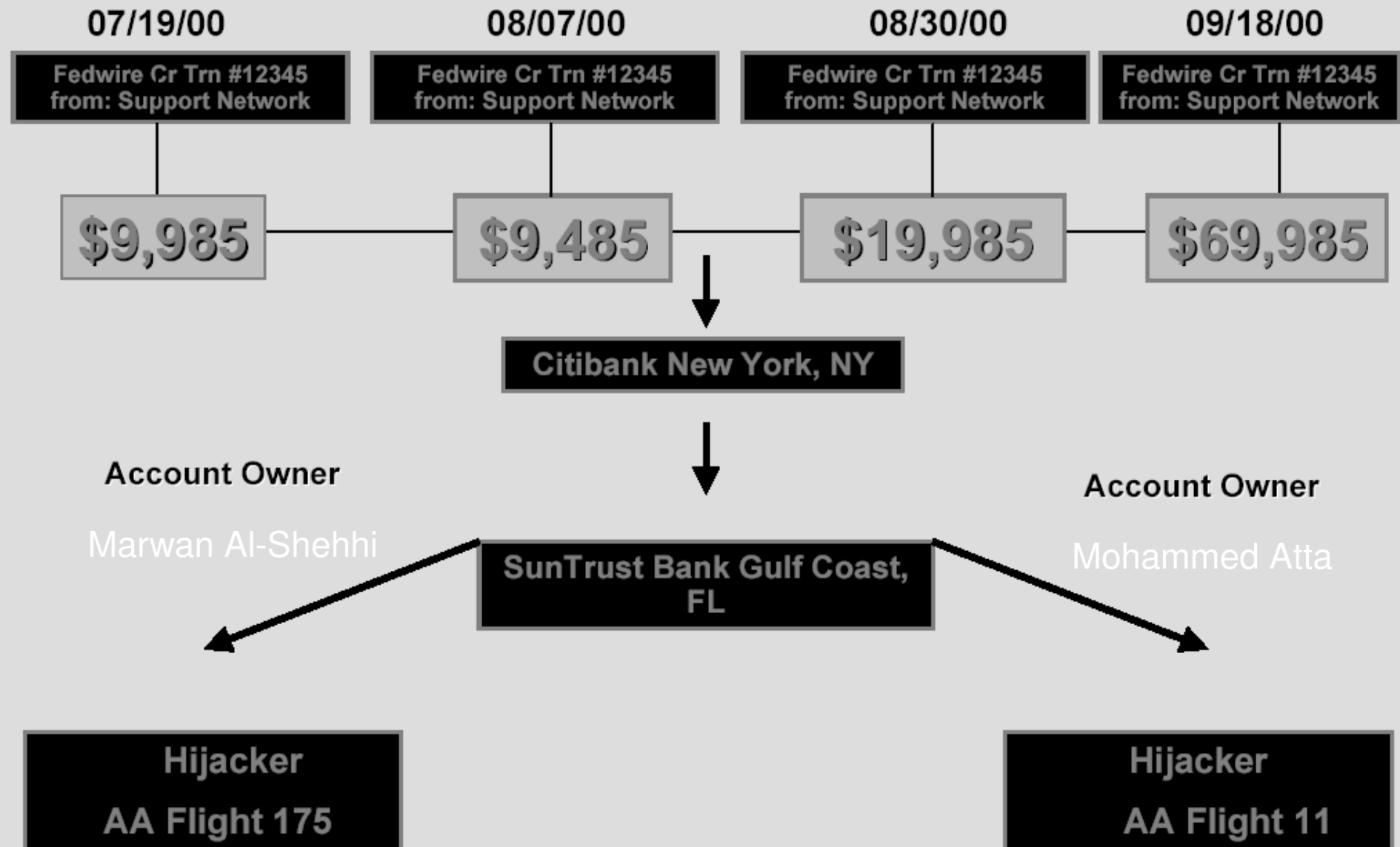
DEPOSITS  
\$303,481.6



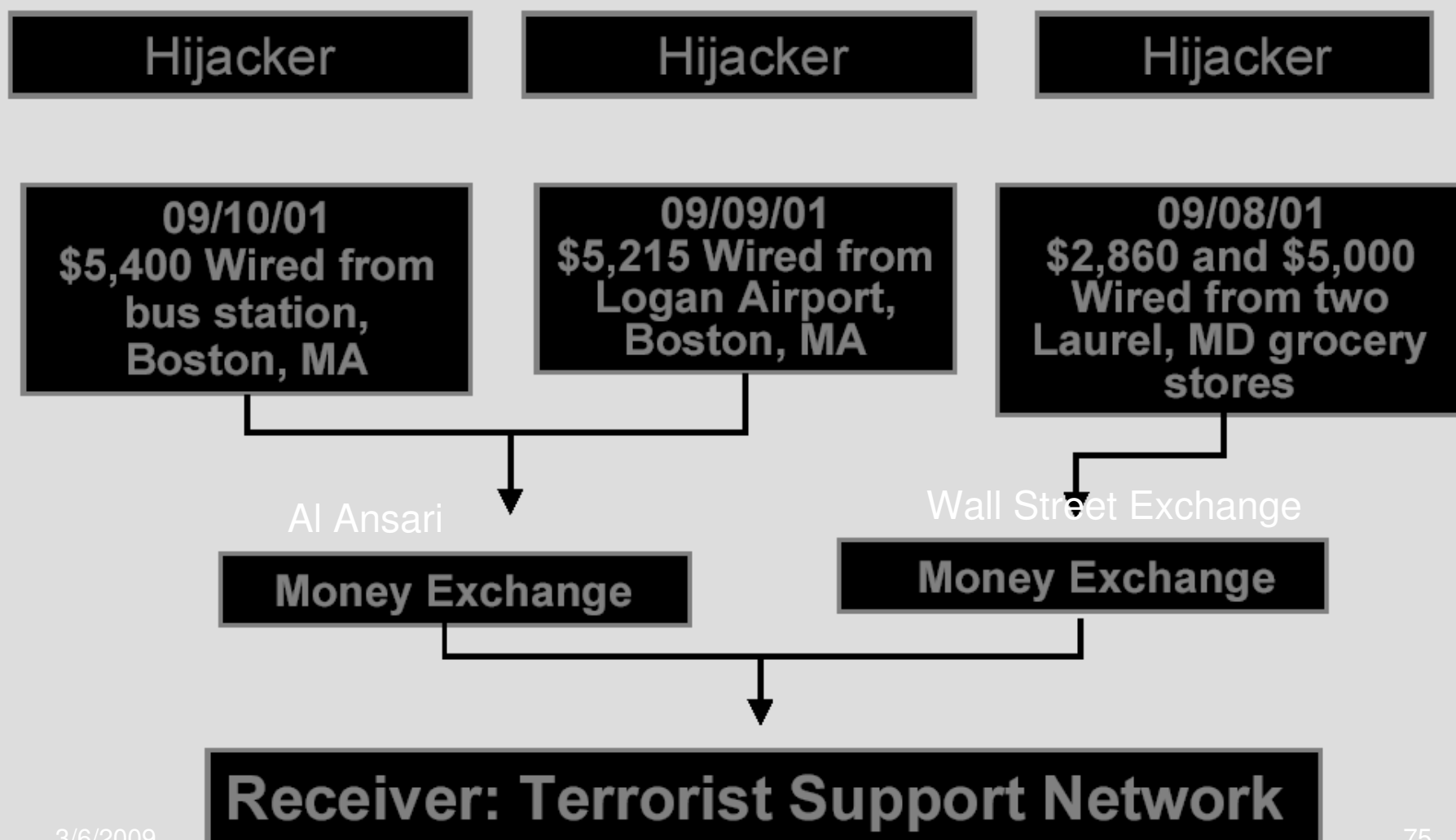
DISBURSEMENTS  
\$303,671.62



## **“Formal” Type Remitters Used for Money Transfers to 19 Hijackers**



# **“Formal” Type Remitters Used for Money Transfers from 19 Hijackers**



# Recommendations

- Establish facts on ML/TF infrastructures and comparative risks
- Look carefully into trade issues
- Enforce laws in context of wider social objectives
- Smart use of technologies and human capital
- Outreach and two-way communication with stakeholders and participants in markets
- Role of private sector – proactive and innovative on what to report and how to regulate
- Through multi-agency and international efforts



## Tasks for countries

- Political will: sustainable and irreversible
- Identify ML/FT vulnerabilities and design counter-measures
- Enact and implement AML/CFT laws and regulations that meet the international standards and best practices
- Provide law enforcement and the FIU necessary and sufficient resources
- Conduct cost-benefit analyses and effectiveness assessments

# Tasks for regulators

- Outreach to stakeholders
- Appropriate rule making
- Guidance
- Feedback
- Updates
- Training

# Tasks for private sector

- Compliance
- Due diligence
- Monitoring
- Reporting
- Training
- Manuals
- Awareness
- Updating



Ευχαριστω πολυ

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