

FIU's in action

A compilation of 100 sanitised cases on successes and learning moments in the fight against money laundering

This edition is the product of contributions from Egmont Members:
Financial Intelligence Units

100 cases from the Egmont Group

No rights may be derived from this publication.

All names of natural persons and legal entities are fictitious and any similarities are purely coincidental.

INTRODUCTION

In 1999, the Egmont Training Working Group undertook an initiative to draw together a compilation of sanitised cases about the fight against money laundering undertaken by the Egmont Group member FIUs. The compilation was to reflect in part the Egmont Group's fifth anniversary in 2000. We are pleased that almost every member FIU contributed at least one case. We would, therefore, like to thank all members for their co-operation. Without such efforts we would not have been able to produce the compilation.

Our special thanks go to Gavin Coles (NCIS), Joanna Brown (FinCEN), Liesbeth Nieuwenkamp (MOT) and Gonnie van Dijk (MOT), who comprised the editorial team and drew the cases together into one unified text.

For financial and practical reasons it was not possible to publish this edition as a booklet. Instead we choose a CD-ROM publication. The advantage of this format, however, is that you are free to copy the data for the benefit of your FIU. If you decide to translate the compilation into your own language, please be so kind as to inform the Permanent Administrative Support of the Egmont Group. Your translation could be useful to other FIUs, and - if supplied in an electronic format - would certainly be placed on the Egmont Secure Website.

We hope this CD-ROM will be used by you for training purposes and as a feedback-tool for your partners in the fight against money laundering and we also hope that as a result more and more successes are reported by Egmont-members.

Mr. Andrew Blezzard, Chairman Training & Communication Working Group
[Head of the ECU at NCIS]

Mr. Harald V. Koppe, Vice-chairman Training & Communication Working Group
[Head of the MOT]

FOREWORD

As explained by Mr. Blezzard and Mr. Koppe in the introduction, this report is the result of an initiative by the Egmont Training and Communication Working Group. In the past five years different FIUs around the world have gained substantial experience in detecting and combating money laundering, but the organised exchange of such experience between countries has tended to be minimal. The Egmont Group celebrated its fifth anniversary in 2000, and it seemed to be an appropriate time to gather and publicise examples of the anti-laundering work of all members. To this end, at the end of 1999, the Chairman of the Working Group requested all member FIUs to submit cases that demonstrated successes against money laundering. Almost every member FIU complied with this request, and as a result this report contains one hundred of the most appropriate cases from all over the world.

The cases were received in a variety of formats over an eight month period, with some of them being submitted in the member FIUs own language and with original case notes. Translations were made into English, and the editorial team analysed each case to determine which aspects of the laundering activity and investigation were best highlighted in the final version. The cases have also been rewritten in such a way that a uniform and easy to read style has been reached - the Working Group is aware that a significant number of members do not have English as a first language and so a simple terminology was preferable. The cases have also been altered to minimise the risk that a specific case could be identified by third parties. For the same reason geographical references have been generalised. For example 'America' refers to all locations in the both North-, Central- and South America. Because of the translation, sanitisation, and simplification, it is possible that member FIUs may not recognise their own contributions.

The cases have been subdivided in six categories, containing five general laundering typologies and one chapter focusing on intelligence exchange successes. The categories used were:

- > Concealment within Business Structures;
- > Misuse of Legitimate Businesses;
- > Use of False Identities, Documents, or Straw Men;
- > Exploiting International Jurisdictional Issues;
- > Use of Anonymous Asset Types;

- > Effective Use of Intelligence Exchanges.

At the beginning of each chapter you will find a short explanation of each typology. You will also notice that some cases include more than one typology, but the cases have been identified by the primary typology involved. It should also be noted that this report focuses on the laundering typology, and not the method used to commit the crime itself; some of the fraud cases may, for example, use one typology for the fraud and a separate method for the laundering of the funds.

Throughout all the cases, laundered funds are expressed in US dollars, although in the original casenotes the currencies used varied widely. This change to US dollars was made to firstly sanitise the cases to prevent identification of country of origin, secondly to enable simple comparison between volumes of funds reported in each case, and thirdly because member FIUs will usually be aware of the US dollar value in their own currencies and will therefore understand the scale of the laundering operation more easily.

It should also be noted that although the cases have been rewritten to a unified style, the underlying legal obligation to disclose differs in each country, which will have shaped the activities of each member FIU. In some countries financial institutions are obliged to disclose if transactions meet certain criteria determined by government or regulator. In other countries financial institutions have to make a decision on whether a transaction is suspicious enough to be disclosed to the national FIU. Some disclosure cases may therefore appear to be somewhat illogical in comparison to the normal experiences of individual FIUs.

The results of each case vary strongly. This is dependent to a large extent on the formal position of each national FIU within the national anti money laundering system. Some FIUs - Administrative Units - analyse the disclosure data received to an administrative standard, often using special powers, and forward likely money laundering cases to Law Enforcement agencies for active investigation. Such units tended to report a 'finished' case at the point at which a report was forwarded to mainstream Law Enforcement or Judiciary. Other FIUs - Police/Law Enforcement/Judicial Units - have more investigative powers, a consequence of which they are often involved closely in the final result. Such units tended to report a 'finished' case as a trial was scheduled or concluded.

Furthermore, it should be recognised that, the timeline of a financial investigation from initial disclosure of transactions to prosecution of suspects can be a long one, with cases often taking a number of years to conclude. Consequently, member FIUs were not always able to submit cases in which prosecutions or asset confiscations had taken place.

FOREWORD

Lastly, the length of time taken for money laundering investigations means that few cases involving new technology or techniques - such as laundering using the Internet, Smart-cards or Online-banking - were submitted for this report. The Working Group recognises that such technology has been developing rapidly in the last few years, whilst the majority of the submitted cases began with disclosures in the period 1995–1998. It can be expected that new cases involving such technology will increasingly come to the attention of law enforcement over time.

We hope this compilation meets your expectations, and we wish you an enjoyable read.

The Editorial Team

CONTENTS

Concealment within Business structures / 9
Misuse of Legitimate Businesses / 50
Use of False Identities, Documents, or Straw Men / 70
Exploitation of International Jurisdictional Issues / 100
Use of Anonymous Asset Types / 125
Effective use of Intelligence exchanges / 156
Comments / 168
Appendix A: Most frequently observed indicators / 171

CONCEALMENT WITHIN BUSINESS STRUCTURES

9





The first typology is typified by laundering schemes that seek to conceal criminal funds within the normal activity of existing businesses or companies controlled by the criminal organisation. Attempting to move funds through the financial system by intermingling them with the transactions of a controlled existing business has several advantages for the launderer. Firstly, the criminal has more control over the company being used, either by beneficial ownership or a close relationship with the actual owner, which decreases the risk of information being passed to law enforcement from within the company itself. Secondly, the financial institution through which funds are passed may well view sizeable fluctuations in account activity with less suspicion than similar activity on a personal account, as most financial services staff expect some increases and decreases in business cycles. Thirdly, businesses often have legitimate reasons for fund transfers to or from other jurisdictions, and in different currencies, which further decreases the level of suspicion at financial institutions. Fourthly, a number of businesses - such as nightclubs and restaurants - deal mostly in cash, and financial institutions are less likely to view large cash deposits with suspicion. Fifthly, the links between the criminals and the company can be concealed by means of company ownership structures, whereas with a personal bank account specific identification documents for individuals are often required by financial institutions. Lastly, the cost of company formation in some countries can be only a few hundred dollars, and a number of company formation agents exist worldwide that can facilitate company creation and management even for criminals with minimal professional experience of such matters.

10

Of the one hundred cases, the largest subsection of cases fell into this category, representing the attractiveness of company structures to the launderer. One of the problems for launderers reported across a number of cases seemed to be that the creation of a new company and subsequent rapid increase in business sometimes triggered disclosure to the national FIU by financial institutions. The risk exists that other launderers may seek to use long-existent companies owned by associates, believing that financial institutions may be less likely to view long standing business customers as possible concerns.



Paul was a well-known customer of a European bank. On a number of occasions he purchased gold bullion from the bank in ingots of 1 kilo with the explanation that he was buying the gold to export directly to a foreign company. Paul transported the gold out of the bank by himself after each transaction. In a single year he purchased a total of more than 800 kilos of gold with a value of more than US\$7,000,000. The gold was paid for by funds drawn from his company account. The bank was also able to see that at regular intervals funds were transferred into the account from another company in a neighbouring country, as one would expect. However, Paul's actions in transporting the gold himself seemed unusual to the bank, and the bank officials decided to disclose their concerns to the national FIU. The FIU researched Paul and his company within various law enforcement intelligence databases, but no obvious link to criminality could be found. However, the scale of the gold purchases justified a formal investigation by the FIU, and further enquiries were undertaken.

1

These enquiries revealed that Paul was not in fact selling the gold to a foreign company as claimed. Before buying the gold, Paul always met with a foreign citizen named Daniel. Although they drove to the bank together in Paul's car, Daniel never entered the bank. After Paul purchased the gold, they drove to Daniel's car and hid the gold in the boot. Then Daniel drove back to his own country, crossing the border without declaring the bullion at Customs and therefore avoiding paying import duties. Once in his own country, Daniel handed the gold over to Andrew, who delivered it to another company for sale on the open market. A proportion of the profits from the sale of the gold was transferred back to Daniel's company, from which he drew the next tranche of funds to purchase more gold. The amount of additional profit generated by this simple tax evasion scheme was substantial.

11

At the time of writing, criminal proceedings for money laundering in conjunction with tax evasion were being raised against Paul, Daniel and Andrew. The smuggling operation was estimated to have caused tax losses to the government of some US\$1,500,000. Because the proceeds from selling the smuggled gold were obtained illegally, the judicial authorities in the FIU's country have also begun criminal proceedings against the individuals involved.

Indicators:

- > Unwarranted high security risk - personal transfer of valuable asset



A European FIU received two disclosures from two different banks. Marvin, a foreign national, had presented five bank cheques to be credited into his newly opened company account. He told the banks that the US\$1,600,000 involved originated from land sales in an African country that had been undertaken by his real estate company. The banks disclosed to the national FIU in view of the scale of the transactions and the lack of supporting data given by Marvin.

Investigations by the FIU established an interesting link to Marvin's father. His father was serving a prison term in another country for fraud, espionage, corruption and other criminal activities. Marvin's father had been sentenced to twelve years imprisonment after a foreign bank had collapsed as a result of a large-scale fraud that he had organised.

2

A while after the initial disclosure, Marvin phoned his bankers to request meetings to discuss further investments by his company, and both institutions made rapid disclosures to the FIU to alert them to the impending meetings. FIU contacted the local police who placed Marvin under surveillance as soon as he re-entered the country. Marvin was subsequently arrested on money laundering charges.

12

An exchange of information with the foreign country facilitated the preparation of criminal proceedings against Marvin on charges of criminal conspiracy, money laundering, and fraud. The foreign authorities also informed the FIU that Marvin's father had amassed a sizeable fortune. He had re-invested this money into real-estate companies and financing enterprises registered in his own name, Marvin's name and in the names of other family members. In the course of the investigation, Marvin's house was searched. The police found numerous documents related to financial transactions performed by Marvin's father. At time of writing, preparations for the trial were still ongoing.

Indicators:

- › New customer attempting large transactions with no supporting rationale



Alan, a European resident, helped his brother by exchanging various currencies in differing amounts at a financial institution. His brother managed a company in a neighbouring country, which operated both a photocopying business and a foreign exchange office. Alan confirmed the legitimacy of the business by presenting documentation from the trade register of the European country where the Bureau / copying shop was registered. However, the scale of the currency transactions and the fact that the funds were being brought across the border unnecessarily raised the suspicions of the bank clerk. He reported his concerns to his senior management who decided to disclose to the national FIU.

After the FIU had received the disclosure from the financial institution, inquiries against the national intelligence database seemed to show that, for both Alan and his brother, no negative intelligence was registered. Nevertheless, by exchanging intelligence with foreign FIUs the national FIU determined that the two brothers were the targets of an investigation for illegal drug trafficking in other European countries. The Bureau / copying shop served solely as a cover for laundering the proceeds of the drug trafficking. Moreover, it appeared that the company was not authorised by regulators to operate as an exchange office and that, in fact, it had never even applied for such authorisation. The money presented at the financial institution could not therefore have originated from exchange office business. However, the quantities and type of the currencies also bore no relation to a photocopying business. The FIU forwarded the full analysis of the disclosure and additional intelligence to the judicial authorities.

The judicial investigation determined that Alan was acting as a courier for a criminal organisation. When he was arrested the police confronted him with the reported exchange transactions. Alan acknowledged undertaking the transactions, but declared that the funds had a legal origin. According to him they derived from his brother's photocopying business.

However, at trial, the court rejected Alan's defence. As highlighted by the analysis by the FIU, the type of currencies and the total amount of money exchanged - more than US\$600,000 in two weeks - did not seem to resemble the expected turnover of a photocopying business. Apart from that, there was no logical reason why Alan had performed the exchange transactions a second country instead of the country where the business was established. The judge ruled against Alan and passed a two-year sentence for money laundering.

Indicators:

- › Large-scale cash transactions
- › Unusual underlying business action
(cross-border travel to undertake simple transaction)
- › Unrealistic business turnover



Tom was a member of the Chamber of Deputies in his home country. He was able to support his family on his modest government salary until he began to develop a severe gambling habit. Increasingly in debt, and increasingly desperate for money, he formulated a plan to make him rich enough to carry on gambling indefinitely. As a project planner within the Ministry of Finance, he had the power to propose and approve schemes in a specific sector of the annual public works budget. It occurred to Tom that offering to approve schemes in return for a small monetary gift was an ideal solution to his money problems.

Unsurprisingly, a number of businessmen were willing to pay him well for the guarantee of government business, and Tom became rich very quickly through his corrupt activities.

Tom's friend Gina, who owned an exchange and tourism-company, was willing to help him launder the bribes that he was receiving. She used her employees as 'straw men' to create a number of different bank accounts through which funds could be laundered - more than US\$4,000,000 was laundered in total through such accounts. However, the cash payments and subsequent transfer offshore risked attracting attention, and so Tom developed a more sophisticated laundering method - a fruit-delivery company. This company, which was owned by Gina's husband, laundered US\$2,700,000 in three months, disguising the transactions by creating false invoices which, were settled by the businessmen on Tom's instructions. In this way, there was no direct link between Tom and the corrupt payments, and the businessmen had invoices to justify the payments should any questions be asked. The fruit company could then transfer the funds offshore as 'settlement' for fruit importations, attracting few suspicions.

However the earlier transactions had not remain unnoticed by the financial institutions involved. In view of the unusually large amounts of cash deposits and the rapid offshore transfers - especially in view of the declared low-income employment of the account holders - the institutions decided to disclose to the national FIU on a variety of accounts. Following analysis by the FIU, the police had obtained a clear understanding of Tom and his corrupt activities, and have instigated a full investigation. Inquiries showed that Tom had used assessors of the House of Representatives to assist in the approval of his schemes. One assessor, who did not have any involvement with the criminal operation, had had his signature counterfeited to obtain the necessary authorisation. Another assessor had helped Tom by visiting the exchange and tourism company and receiving cheques in his name. After receiving the cheques, the assessor deposited the money into one of Tom's accounts.



At the time of writing, the police were trying to link the corruption inquiry into another case currently before the Supreme Court. The total amount of money Tom laundered was estimated to be in the region of US\$1,000,000,000. It is worth noting that the disclosures by the institutions took place because of the simple initial laundering scheme, whereas the later scheme involving an established company appeared to have had little risk of disclosure.

Indicators:

- > Large-scale cash transactions
- > Rapid off shore transfer after funds deposited
- > Unrealistic wealth compared to clients profile



A bank noticed that a business account that had been dormant for some years suddenly became active with large-scale fund transfers. The bank account was originally registered to a company registered in an offshore jurisdiction. After US\$150,000 was credited into the account, the firm used the funds to buy shares of a recently privatised Eastern-European company - 'ABC Corp'.

Three months later Brian, the representative who originally opened the account, deposited a total amount of US\$250,000 in cash into the company account. Immediately after depositing the money, he wanted to transfer US\$100,000 into a personal account at another bank. He claimed that the money came from his personal funds. When the bank asked him about the origin of these personal funds, he submitted commercial documentation showing that he had sold shares of ABC Corp - worth US\$150,000 - for US\$250,000 to another Eastern-European company 'DEF Corp'. The difference of US\$100,000 Brian explained as risk compensation, in the event the initial US\$150,000 worth of shares invested in company ABC had been devalued. This would have been fairly high return on capital, when one takes into account that a return of US\$100,000 over just three months would have equalled an annual interest rate of over 200 percent.

The bank disclosed the transactions to the national FIU. By checking the records of its own intelligence and financial databases and liaising with other Egmont members, the FIU developed information that indicated Brian was the real owner of the offshore company. Also, it discovered that Brian was a member of the board of directors of company ABC. This suggested that the shares in company ABC might well have been knowingly sold at a low value to the offshore company before being sold onwards for a higher price to a third party. In effect, Brian siphoned off US\$100,000 profit by using his own offshore company as a 'hidden' stage in the share transfer.

The FIU notified the corresponding law enforcement authorities that Brian was suspected of money laundering and fraud. As a result of the police investigation, Brian was arrested and prosecuted, with the court also confiscating the US\$100,000 involved.

Indicators:

- > Unusually high rates of return for a low risk business activity
- > Unrealistic explanation given by customer for account activity
- > Re-activation of dormant account



The Jamesons, a criminal family that operated in a European country, decided to launder their wealth by purchasing a building in southern Europe worth almost US\$1,500,000. They financed the investment with a bank loan for which two life insurance policies totalling more than US\$200,000 were lodged as security. Cheques drawn on a notary and on a European foreign exchange office, rather than the individuals involved had paid these insurance contracts.

As the insurance company thought that this transaction was unusual, it decided to disclose to the national FIU. On receipt of the report the FIU began a financial investigation and the financial analysts assigned to the case discovered that the monies behind the cheques supporting the policy had been deposited in cash at the same day in two other European countries. Furthermore, the individual who placed the money was known by the police of one of the countries for his links with a criminal serving time in prison for money laundering on behalf of a European criminal organisation heavily involved in drugs trafficking.

During the investigation the analysts also discovered that the Jamesons had conducted a number of similar real estate investments in recent years for a total amount of more than US\$17,000,000, including a castle and some other buildings in the same South European area. A bank had not financed these investments but 'Speedy Inc', a company controlled by the Andersons, a family from the same country as the Jamesons. The Jameson family had also registered plans with the local authorities to establish a casino in the castle. The construction costs for this casino were estimated at over US\$3,500,000. One of the Jamesons was also acting on behalf of a company located in America involved in the repurchasing of debt secured on properties in the South European area.

The Andersons had recently bought in France two speedboats for about US\$17,000,000 from a European shipyard controlled by a member of the Jameson family. This shipyard had recently opened a subsidiary in the south European area for which a local bank had sent a suspicious transaction report to the national FIU in respect of the large cash transactions moving through the company accounts.

A further interesting aspect identified by the analysts was that the Jamesons did not have a way of life that matched with the amount of known investments in Europe. They seemed to have only small incomes and lived in an inexpensive house that was financed almost entirely by a mortgage. Furthermore, according to the local anti-drugs agencies where they lived the family had links with a criminal known to be involved in drugs trafficking.

All of this information, coupled with information received from two other FIUs led the analysts to conclude that they were dealing with the financial transactions of a major



criminal organisation and they therefore decided to forward the case to the public prosecutor, as did also the two other FIUs in their respective countries. The public prosecutor started legal proceedings on charges of money laundering.

During the investigations by law enforcement, it was discovered that the Jamesons were also known for smuggling stolen luxury cars in the early nineties, which could have formed the seed capital for their current wealth and criminal activities.

Indicators:

- > Unusually complex method of purchasing financial products
- > Large-scale cash transactions
- > Atypical wealth compared to client profile



Geoffrey visited several branches of his bank in Europe to deposit significant amounts of cash into his company account. The amounts ranged from US\$15-40,000. He visited all the branches in a single day, and the branches were all within a short distance of each other. Since this financial institution had automated account-monitoring procedures, the different deposits raised an initial alert for further examination by a human operator.

Geoffrey was a citizen of an African country and according to the customer records at the bank ran a business importing second hand electrical goods from Africa. Fund transfers were made in an irregular basis to accounts in Africa - presumably payments for goods. The credit deposits were apparently proceeds from the sale of the goods in Europe, although the financial institution was concerned at the pattern of deposits. If these credits were legitimate, than why wouldn't Geoffrey deposit the whole amount at his own branch? The bank decided to report the credit deposits to the national FIU.

7

19

To allow some time for an investigation to be developed, the FIU granted the bank the authority to continue to operate Geoffrey's account normally. After analysing the transaction reports and bank records, the FIU decided to seek further documentary evidence concerning the shipment of goods from Africa. The FIU directed the bank to ask Geoffrey's accountant to produce them. A short time later, a number of airway bills and invoices which purported to support the alleged shipments were brought produced for the financial institution and passed on to the FIU.

The FIU served production orders on the account in order to obtain formal records of all transactions through the account over the previous few years. The FIU also contacted the Customs service and requested attention to be focused on future shipment of the electrical goods linked to Geoffrey's company as they entered Europe from Africa. Customs identified a shipment that was found to contain a large quantity of Cannabis with a street value of over US\$300,000.

The African principal organiser - who was not Geoffrey - was identified and subsequently convicted to six years imprisonment for the substantive drug trafficking offence. Further financial and other investigations also identified that the African principal had been involved in eight similar drug importations. He was sentenced to a further ten years imprisonment for these importations to run concurrently. The court further upheld that he had benefited from drug trafficking in excess of US\$1,500,000 and made a confiscation order for this amount. Geoffrey fled the country, and a warrant was issued for his arrest for money laundering and other offences.



Indicators:

- > Large-scale cash transactions
- > Deposits at a variety of branches and times for no logical reason (possible evidence of 'smurfing')
- > Questionable rationale of underlying business - importing used consumer goods from Africa to Europe is unusual



A police unit in a Central European country was investigating an individual called Kenneth who was known to have a history of financial fraud. The investigating unit forwarded intelligence on the target to their national FIU for further analysis. The national FIU directed the intelligence via Egmont to an FIU in an Eastern European country, due to intelligence links suggesting that Kenneth had contacts in that jurisdiction.

With the help of a friend named Roy, Kenneth established a company named Financial Services Inc in the Eastern European country. Roy asked the regulatory authority in the country for a license to undertake financial activity. The supervising authority granted Roy's request for a license, although this did not give permission for the company to provide full banking services to customers.

Kenneth chose his victims from different countries in Europe. When he translated the text of his permit into English, he purposely translated it in such a way that the customers were led to believe that his company could also act as a licensed banking institution. The literature also indicated that investments in Financial Services Inc. were guaranteed to generate annual returns of between 100 - 200 percent. The internationally based clients were not familiar with the regulations in the Eastern European country, although they had been led to believe by the literature that the company was properly regulated. Numerous clients invested a total amount of almost US\$3,000,000 into the company.

As with most investment schemes which 'guarantee' substantial returns, the underlying aim of the company was to conceal the true movement of the money from both investors and regulators and allow Roy to disappear with the funds when he wanted. In order to conceal the funds, Roy moved the monies into a 'capital reserve' within the company. Under local law, capital reserve was not taxable income, although by transferring monies within the company accounts in this way, a number of accountancy regulations had been broken. To further confuse the money trail, Roy then transferred the money to a range of personal and company accounts at other financial institutions, as well as investing part of the money in stocks, and exchanging further amounts into other currencies.

The passing of intelligence via Egmont to the FIU in the Eastern European jurisdiction and confirmation of some of the suspicious activity resulted in law enforcement interest in Financial Services Inc in a number of countries. By wire tapping Kenneth's telephone, the police of the Central European country learnt how Kenneth was transferring his victims' money through a range of financial instruments. This information was used by the FIU to initiate an investigation in the Eastern European country, with the result that a significant proportion of the money derived from the fraud was seized and the main protagonists arrested.



FIU action:

- > Identifying re-emergence of known financial criminal in financial services sector
- > Identifying likely jurisdiction to be used for fund destination
- > Liaising with foreign FIU to recover citizens funds



In April 1997, a disclosure report was received by a national FIU indicating that Bernadette was laundering funds derived from criminality. It was initially believed that she was engaged in this process as an integral part of a European drug trafficking business. Bernadette also appeared to be the subject of a financial disclosure sent to the national FIU in another European State. The company account subject to the disclosure had been opened by an individual with the same address as Bernadette. Bernadette was also a signatory on this account.

Inquiries with Interpol established that there had been a previous inquiry from an Examining Magistrate in a central European country about a 'Bernadette' who had had a bank account at one of the major banks in the aforementioned European State.

Shortly after the first disclosure, another report was received at the FIU. Bernadette had sought to open a bank account in her own name at a bank in a large city. The bank reported that a substantial amount of money was scheduled to be transferred by Swift transfer from a bank in a Western European country to one of Bernadette's accounts.

Because the investigators knew of the 'Bernadette' in the central European country, they contacted the Examining Magistrate there. It became apparent that Bernadette was, in fact, the mother of a principal player in an investment corporation who, along with a close associate, was engaged in fraudulent activities in an organised fashion across Europe. The monies that were to be transmitted to Bernadette's account were part of the proceeds of these frauds.

Bernadette appeared to have established a company named 'The Parry' in another European nation for which she was the sole beneficiary. She had also received another substantial sum of money, which was linked to a fraud perpetrated in the same central European country against an hotelier. Bernadette had used this money to establish 'The Parry'.

In 1996 the hotelier had needed US\$20,000,000 to finance the building of a new hotel. The banks in his country at the time were refusing to lend money on such schemes. He had eventually been put in contact with an investment company in the central European country. This company claimed to have been able to arrange the US\$20,000,000 through a financier in a small south European country. To ensure the completion of the loan, the hotelier was required to pay approximately US\$2,000,000 as a deposit, which he did. In the course of the deal the hotelier received a fax purporting to come from a well-established bank in the central European country. This fax, which later turned out to be a forgery, had convinced the hotelier to part with his money. The hotelier never received the US\$20,000,000, and he also lost his own money. Part of the US\$2,000,000 was transferred



through the account of the investment company to an account of Bernadette, who used it for her own benefit.

Armed with this information and knowing that Bernadette was about to receive other amounts of money - probably generated by fraud - the FIU concluded that rapid action had to be taken. It was obvious that Bernadette was involved in money laundering. The FIU requested further information from the financial institution on all of the accounts of Bernadette and decided to monitor her activities.

Bernadette and her accomplice were arrested as they withdrew approximately US\$125,000 in cash from the most recently opened account. They were detained for questioning by the police, and Bernadette admitted that she knew where the money in her accounts had come from - fraud. Both Bernadette and her accomplice were charged with offences of money laundering, and an application was made to the High Court to freeze all Bernadette's monies and properties.

Further enquiries were carried out in seven other European countries, which revealed that the money found in Bernadette's possession at the time of her arrest had been misappropriated from a health researcher in a western European country.

The health researcher required approximately US\$1,000,000 to expand his business. He had had no luck obtaining a loan from the banks in his country and had been put in contact with the same investment company. The health researcher, like the hotelier, had been required to pay 10 percent of the loan he needed as a facilitating deposit. He never received his loan and the US\$100,000 disappeared. The US\$100,000 had in fact been lodged in an account of the investment company in a third European country. Two weeks later it had been transferred to the account of 'The Parry' as controlled by Bernadette. For the FIU, this was the proof that Bernadette had received two large amounts of money from two separate frauds committed by the same investment company operating out of different countries in Europe.

It had been Bernadette's intention to invest this money in the purchase of land and property as well as developing legitimate business projects. It was further established that one of the principals of the investment company had opened two accounts in his name within the jurisdiction, and that he had lodged over US\$65,000 in the two accounts. These funds also had links to the frauds.

The High Court granted a further application to freeze all assets in these accounts for a period of 21 days. At the conclusion of this period, law enforcement had to make an



application to freeze the money of the investment company at another bank. Law enforcement also tried to gather evidence from the other countries in Europe by means of mutual legal assistance treaties.

The case against Bernadette and her accomplice went to court. However, the charges against the accomplice were withdrawn at an early stage due to a lack of evidence.

Requests for trials in the central European countries were also made - these trials could have produced evidence of use in the main trial of Bernadette. However, these trials did not proceed and thus no additional evidence was available.

The trial against Bernadette was concluded after ten weeks. She was sentenced to five years imprisonment. On conclusion of the case the Judge also granted a confiscation order against all of Bernadette's properties and monies.

Both the principals involved in the two fraudulent crimes have since been arrested by the Police and Customs Investigation Unit in one of the Western European countries for money laundering offences connected to the earlier frauds. At time of writing, both individuals remained in custody pending completion of the investigations and were expected to be charged in the near future.



Three friends, Brian, Josef and Richard, purchased the Western European non-resident company 'Red Ltd' through an intermediary. They registered the business purpose of Red Ltd to be the importation of carpets from another Western European country. To facilitate trading, they requested that the intermediary - which happened to be a firm of lawyers - set up a bank account for them in Red Ltd's name. This was done without question, and in accordance with further instructions only key staff at the legal firm were named as signatories. That was exactly what the associates had been seeking to achieve, because they did not want to be formally linked to the company.

Within days of the account being opened, Brian rang the bank to negotiate setting up a letter of credit. He claimed to need the facility for the purchase of twenty rolls of carpet that would ultimately be supplied to a large catalogue firm. Brian intimated that this was just a trial purchase to see how business went and, if successful, the next deal would probably be ten times larger. However, Brian seemed to actually know nothing about letters of credit, and the bank had to explain the procedure step by step. The bank officials thought that Brian's lack of knowledge was odd, since he was a businessman who had claimed to operate in this market for several years; the officials recorded their concerns in a file note.

Brian told the bank that the letter of credit was to be for US\$40,000. He asked the bank to contact him once that sum had been transferred to the exporting country, where Josef and Richard were organising the goods. Brian said that Josef and Richard would issue a certificate to the bank when they had inspected the merchandise prior to shipping. The bank would also receive a shipping document. Then the bank would have to release payment within three weeks of the date of shipment as shown on the shipping document. The beneficiary's account - in the name of Black Ltd - was at a bank in the exporting country.

The letter of credit was put in place one week later on receipt of deposit funds from a foreign Bureau de Change. Ten days later, the certificate and shipment documents arrived. It concerned the bank somewhat that Red Ltd's address as stated on the shipment document, was in fact the address of an Industrial Unit in another country. Furthermore, the value of the carpets was shown as only US\$5,500 and not the US\$40,000 promised. Despite these small discrepancies, ten days later the bank authorised the transfer of the money.

Shortly afterwards, Brian contacted the bank to confirm that all went well, and that he was in the early stages of organising a further importation of carpets. This time the letter of credit would be for around US\$625,000. The bank noted the possibility on file and awaited further instructions.



Ten months later, when Customs officials paid a routine visit to the institution, the bank presented the matter formally to Customs as a disclosure, reflecting their continuing suspicions about Red Ltd. The bank's information was very useful indeed - Brian, Josef and Richard had all been arrested eight months earlier on board a small yacht attempting to smuggle one hundred kilos of cannabis resin into the country. Paperwork found during house searches indicated that they were doing a small run to finance a larger heroin importation. It was likely that they had already imported a small amount of heroin concealed in carpets as part of the Red Ltd trading, and if not for their arrest Red Ltd would have been used for both importation and laundering purposes.

Indicators:

- › Lack of knowledge by individual atypical to trade practitioners
- › Attempts to avoid identifying final beneficiaries of accounts



In late 1989, Allen and Todd travelled to Europe to open a registered company to receive the profits from their ownership of around 300 fairground sites around the world. The company formation agent that they used was suspicious of the underlying story of the source of the funds, and made a disclosure to the national FIU. The formation company provided a continuing management service for the company and associated accounts, and so was aware of all fund movements linked to the company accounts. Within six months of the company's formation, the company accounts at a local bank had received more than US\$2,000,000 in fund transfers from overseas. Before the year-end, Allen and Todd contacted the formation company and instructed it to invest US\$2,500,000 of the company funds into Unit Trusts - presumably to attract a higher rate of return.

The account continued to receive large sums of US dollars for another two years. After this period, another US\$2,500,000 was transferred from the company account into a separate personal account at the same bank in the name of Mrs. Antonia Arrow.

Earlier that year, Antonia had travelled to the country where the formation company was located with an introduction from Allen and Todd. She had explained to the representatives of the formation company that the money she would eventually be receiving was payment for a consignment of 3,000 tons of Soya beans, which had been supplied to the Allen and Todd's fairgrounds in their home country. The formation company made a further disclosure detailing the visit and the fact that they had helped Antonia set up a new account, and when US\$2,500,000 transfer was instructed a further disclosure was made.

On the basis of the disclosures, officers of the FIU initiated inquiries with the customs service in the home country of Mrs. Arrow. The inquiries were made in relation to the identities of the Trust Company's clients, Allen, Todd and Mrs. Arrow. The Customs agents responded by informing the FIU that the 'fairground' owners, Allen and Todd, were both convicted drug traffickers and that Antonia was the wife of another convicted drug trafficker.

When a request was received from Antonia to transfer US\$2,100,000 to a personal account she held in her home country, law enforcement agencies in both countries agreed that the transaction should take place in order to gain further intelligence on the suspected laundering operation. However, the moment the money arrived in her account the Customs Service restrained it. The asset confiscation and forfeiture legislation in that country were sufficiently strong to generate a reasonable chance of eventual confiscation, and in 1993 a Court stated that, on the balance of probabilities, the detained money was the proceeds of drug trafficking and/or money laundering. From 1993 until 1997 Mrs. Arrow appealed the judgement in various higher Courts in her home country until the process was finally exhausted, and the original Court decision was upheld.



A few months after the final hearing, Mrs. Arrow issued new instructions to the formation company to liquidate all remaining assets in her account, which still amounted to more than US\$1,000,000 and transfer them to a bank in another European country. The formation company disclosed this information to the national FIU and, on the basis of the findings of the court in her home country, a court granted a restraint on the assets remaining in the account. At time of writing, law enforcement agencies in several jurisdictions were following financial leads to assist in eventual seizure of the drugs-funds.

Indicators:

- › Unusual explanation for business
- › Complex fund structure - why pay for commodity in such a way



A businesswoman called Diana established and registered a company named Oak Ltd, assigning herself as sole owner and controller. The company, which was registered as a firm engaged in the timber trade, hired Donna as a sales agent. Both Donna and Diana were in fact involved in a range of criminal activity, and used Oak Ltd as a laundering vehicle. Funds derived from crime were paid into the company accounts in cash - although as such cash transactions were not unusual in the timber trade, no disclosure was made by the financial institution. As a result of the various illegitimate activities undertaken by both ladies, the company was able to report an inflated profit of US\$100,000 in its first year as criminal funds were channelled through the income stream.

The following February Diana died of natural causes, leaving her passport at the company offices. Using Diana's passport and pretending to be her dead employer, Donna withdrew US\$100,000 from the bank in cash. Shortly after the transaction, the bank decided to disclose to the national FIU due to the rapid growth of the company and large cash withdrawal. After an analysis of the account records and consultation of the Population Register database - which detailed the date of death for Diana - the FIU identified the laundering activities of Donna and forwarded the case to the police for action. At time of writing the police were preparing to arrest her on a range of money laundering charges.

Indicators:

- > Unrealistic business turnover
- > Large-scale cash transactions



The police of an American country asked the national FIU for assistance in a criminal investigation on Giorgio and Benedetto. They were believed to be involved in concealing illicit proceeds resulting from corruption activity in a South European country. Although the FIU had not received any disclosures from financial institutions concerning this case, it initiated a financial investigation.

In 1981 Giorgio began to work for Benedetto as a financial adviser. Following Benedetto's orders, Giorgio opened a current account on his behalf in a central European country using the name of an American offshore corporation. From 1981 to 1987 the account was credited with corruption funds using the assistance of a banking official named Ugo. Some of the money was transferred onwards to a current account opened in a bank in a central European country, again using the name of a corporation in an American offshore centre. Later on, the funds were transferred to another current account in the same central European country, under the name of the same corporation, because Ugo had moved jobs to this institution and wished to continue to provide services to Giorgio. In February 1993, following Benedetto's orders, Giorgio transferred the American corporation rights in favour of Gabriel, an American citizen.

From February 1993, the American corporation's account located in the Central European country was used by Maurizio (a citizen of the same country as Giorgio, Benedetto and Ugo) and Gabriel. They transferred half of the money of the American corporation to a bank in the Central European country and half to a bank in another American country. By March 1993, the account had been emptied of all funds. Gabriel, Maurizio and Adriana, all American citizens and Augusta, a European woman, all knew that the funds involved originated from a range of criminal activities. From July 1993 until May 1994 they transferred over US\$1,200,000 to accounts opened in a bank in another American country.

In March 1993, they created a corporation in the last mentioned American country to transfer the funds of the American offshore corporation. Gabriel and Maurizio transferred together 5000 shares with a total value of US\$50,000.

Once the money was deposited in the bank accounts, between 1993 and 1994, several transfers were made between the accounts in order to further conceal the origins of the funds and increase the difficulties of any subsequent analysis by law enforcement investigators.

Despite this attempt to confuse the picture, the FIU analysed all of the fund movements and the proceeds that had been transferred to the offshore corporation were seized by the police in the country where Gabriel and Maurizio had their accounts. This success



was possible due to a high level of co-operation with the Government of the South European country. There was no co-operation with the FIU in that country, but there was close co-operation between the General Attorney's Offices of the two countries. The American country was also able to extradite two of the suspects responsible for the scheme to the European country.



A police team in a Western-European country initiated an investigation into a family suspected to be involved in drugs trafficking and money laundering. It was suspected that the family was using a Bureau de Change company, 'Family Holding', to facilitate the laundering process. One of the relatives managed the business from abroad. Other members of the family, Marcel and Luc, were the local managers and primarily undertook foreign currency exchange activity, with 'profits' from the business being deposited in cash into the company accounts. Whilst the police were investigating this family using traditional law enforcement techniques, the family's financial transactions were at the same time being monitored by financial institutions who became suspicious of the activities observed on the company accounts.

Within a short time-span - less than two months - large movements of funds occurred within the accounts of 'Family Holding'. By means of cash deposits and transfers, approximately US\$425,000 was credited and nearly US\$213,000 transferred to a personal account at a foreign bank. The financial institution concerned was suspicious of the fund movement and accordingly decided to disclose the transactions to the national FIU.

14

33

In view of the sizeable amounts of funds involved, the FIU undertook searches of both its own intelligence databases and other law enforcement and commercial databases. The register of the Chamber of Commerce showed that Luc was one of the directors of 'Family Holding', as well as being registered in the national police database as involved in organised crime. The latest disclosures also showed that Marcel had performed transactions himself by depositing significant sums into his own personal account, after which he had transferred practically the whole amount to the Family Holding company account. As the FIU was collating the various disclosures and intelligence into a form which could be passed to the investigating police force, yet another bank made separate disclosures reporting new transactions involving another Family Holding account. From the Family Holding account at this institution significant sums were transferred - via an account at a foreign bank - to personal accounts in an Asiatic country. The FIU passed all the intelligence relating to the transactions involving Family Holding, Luc and Marcel on to the police unit.

All together the equivalent of over US\$425,000 was exchanged and channelled abroad during a twelve-month period. The FIU report supported the police investigation, and assisted in determining the scale of the drug dealing and the volume of laundering undertaken. The financial investigation also determined that the profits were being used to purchase real estate abroad. When several key suspects were arrested and interviewed by the police unit, the financial intelligence from the FIU assisted to overcome initial attempts at silence - a number of suspects admitted to their involvement and claimed they acted on orders of the main leaders of the family.



In total some US\$4,300,000 worth of real estate was seized abroad. Luc and Marcel were convicted for fourteen and twelve years of imprisonment respectively in relation to drugs trafficking and money laundering offences. Furthermore, fines totalling some US\$425,000 were imposed on the brothers as a further penalty.

Indicators:

- > Large and/or rapid movement of funds
- > Large-scale cash transactions



Harry was an owner of a local car service station in a small village in Europe and appeared extremely cash rich as result of his business. However, some years before he had embezzled a sizeable amount of money from another company for which he had used to work, and had been able to live off these stolen funds for many years. As time passed, he had managed to spend a sizeable amount but had begun to consider which locations - other than his home - he could use to hide the money, as it was still in cash and vulnerable to theft or detection. He decided that a better method was to hide the money in the banking system itself, using his company as a cover, by claiming that the cash was part of his regular income. To avoid difficult face to face questions from the local bank employees, he deposited approximately US\$14,000 - the majority in old bills - into the bank's night safe, claiming this amount to be the daily sales from his garage.

15

However, Harry did not take into account the inquisitiveness of the bank personnel. As they emptied the night safe the following day, Harry's deposit immediately raised suspicions. How could a car service station get so many old currency bills, and how could any business in such a small location attract so much income in one day? The bank disclosed the deposit transaction to the national FIU.

35

After analysing the disclosure, the FIU decided to disseminate a report to the police. Based on the given information, the police conducted a house search at Harry's place. The search quickly discovered a great deal more money - in his own safe he held more than US\$50,000 and, according to notes the police found, he had also deposited a large amount of money in his mother's safe deposit box at another financial institution. The police obtained legal permission to search the safety deposit box, and found another US\$625,000.

Harry realised that the financial evidence was damning. He told the police about another US\$95,000 that he had hidden at his mother's home, and about the fraud, embezzlement and tax evasion he had been concealing for some time. Thanks to the disclosure of an alert bank, Harry was sentenced to two and a half years imprisonment and nearly US\$700,000 was confiscated.

Indicators:

- > Atypical business behaviour
- > Unrealistic business turnover
- > Large-scale cash transactions
- > Atypical Nature of currency / notes



The JJ Brokers GG Ltd company seemed to be doing extremely well. A clearing bank in a European country noticed a wire transfer of US\$1,400,000 originating from an offshore account to be credited into the company's account. Although the clearing bank was not familiar with the company, the initials in the company's name did ring a bell. JJ could stand for John James who - following a much publicised court case - had spent the last two years in prison for his connections to a monetary instrument fraud scheme. The bank employees also recalled that all of his personal assets had been subject to bankruptcy proceedings to recompense victims.

If the employees suspicious were correct, the transfer indicated that John James was receiving US\$1,400,000 into a business account. Some further checks by the management of the clearing bank on the information that they held seemed to suggest that the connection was real, and reason enough for the clearing bank to notify the national FIU via a disclosure. At the same time the clearing bank also informed John James' bank of their concerns, which subsequently disclosed to the FIU that John James had several more authorised accounts that had escaped the financial investigators in the previous prosecution.

As the FIU initiated an enquiry, it located a transaction report from another bank, which had voluntarily terminated their business relationship with John James. Apparently John James had attempted several transactions the bank deemed suspicious. The FIU also discovered that John James was the director of twenty different companies, all operating from his home address. The names of these entities indicated that they all were related to various types of financial activities attractive to investors. However, none of these companies were licensed to provide financial services. The FIU promptly asked John James's bank to freeze the US\$1,400,000 as soon as the amount was credited.

Additional financial information from the three banks revealed that a series of funds had been credited into several accounts via wire transfers and immediately been used to purchase bank drafts that were sent to various individuals and companies in Europe and America. The FIU had strong grounds to believe that this was prime evidence of a layering phase of a money laundering operation. The FIU passed the information on to the police for further investigation.

At the same time, John James - unaware of the law enforcement attention - was planning a holiday. Unfortunately for him his holiday ended before it had started: the police arrested him at the airport before he could leave the country. Documents seized showed that John James also had management and ownership positions in a number of offshore companies in various jurisdictions around the world. Other documentation discovered by the investigators strongly suggested that John James was claiming to provide financial services to a wide



range of investors and companies. To obtain what were advertised as exclusive and highly profitable investment services, a large number of foreign clients - mainly from Eastern Europe and America - had made initial commission payments in amounts between US\$5,000 - \$500,000.

After John James' arrest, several of his clients contacted the investigation team. They claimed to be the beneficiaries of deposits amounting to nearly US\$3,500,000 - including approximately US\$2,000,000 in the restrained funds. But when the police asked them about the purpose of the transactions and for documentary evidence that would prove the money was theirs, they appeared reluctant to make formal statements. At the time of reporting, none of these clients had made applications in court to overrule the prosecutor's order to freeze the funds.

16

During the ongoing investigation, John James was released from custody, and immediately resumed his financial investment business, attempting to recruit more 'investors' to obtain advance fees from. Recently, a foreign law enforcement authority froze US\$20,000,000 that had been transferred from an offshore financial centre into the account of one of John James 'foreign banks'.

37

The investigation team will be able to use all the financial intelligence analysed and collated by the national FIU to demonstrate the depth of John James' involvement and his continuing attempts at fraud, which should make eventual conviction and asset confiscation a much more efficient undertaking.

Indicators:

- > Possible client relationship to previous crimes
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Large and/or rapid movement of funds



Peter and Fredrick, two life-long friends, started a business supplying 'RAM' (random access memory) for computers. From a standing start they achieved a turnover of some US\$5,500,000 in little more than a year - the RAM selling operation was going well. They had already established three subsidiary companies in Europe, and just started to co-operate with four companies in Asia which manufactured the chips.

However, in order to maximise their income, Peter and Fredrick decided to evade paying company tax. They arranged a scheme with an Asian company, which supplied them with the RAM. The Asian Company drew up two invoices. One genuine invoice, which was sent to Peter and Fredrick, and one false invoice containing only 1/10 of the value of the RAM, for supplying to Customs. Because of this scheme a total sum of US\$1,000,000 in customs duty and VAT was avoided. This criminal avoidance of tax also helped Peter and Fredrick to undercut their legitimate competitors, as they did not have the same costs to factor into their prices. The additional profits generated by the tax evasion were removed from the company account in cash and immediately transferred into several personal accounts, in order that the end of year profits of the company were reduced.

While Peter and Fredrick were saving a great deal of money by tax evasion, their bank started to get suspicious. The daily statements of one of the company's accounts suddenly showed atypical actions, including the cash withdrawals from the company accounts. The financial institution decided to make a disclosure to the national FIU.

After investigating the transactions and examining the money flows of the companies concerned, the FIU suspected that Peter and Fredrick were attempting to avoid paying the correct rate of tax. The FIU passed the information on to Customs, which compared the sums on the invoices that they had been provided with to the sums that had actually been transferred to the Asian company. The significant difference between the two levels of business clearly indicated tax avoidance of some sort.

Following a detailed investigation, Peter and Fredrick had in excess of US\$100,000 confiscated and the courts imposed a further financial penalty of approximately US\$700,000. A custodial sentence of some three and a half years was also imposed on the two businessmen, underlining the seriousness of the tax evasion attempt.

Indicators:

- > Unusual business activity
- > Atypical or uneconomic fund movements within accounts
- > Unrealistic business turnover



A customer named Jack opened a checking account in the name of a foreign company at an American bank. Jack, who claimed to be the manager, and Jane, Jack's daughter who was also a manager at the company, were designated as signatories. Over a couple of years Jack used the account for a number of deposits and transfers, totalling more than US\$100,000. The activity of the account was in line with other business accounts and the bank had no concerns. The American bank then received a official request from the Prosecutor for Drug-related Crimes, in which it was asked to certify whether a number of individuals and legal entities had maintained or were maintaining bank accounts or safety deposit boxes. These individuals were under indictment in another country for involvement in drug trafficking activities as well as money laundering. Included on the list of individuals were Jack and Jane. The bank notified the national FIU immediately. At the time of disclosure, the account had been dormant for some time and was slightly overdrawn.

18

A couple of months later, US\$100,000 was credited to the account. The funds had originated from the liquidation of a fixed-term investment instrument. Earlier instructions prepared by Jack had ordered the creation of ten bank-draft transfers each for US\$10,000, payable to his daughter Jane. The bank complied with the instructions and also reported these additional transactions to the FIU. The account was left with a nil balance once the transfers had completed.

39

The FIU, which had already initiated an investigation following the earlier disclosure, had discovered a significant amount of background information on Jack. Jack was part of a group of thirty-nine individuals and companies, which were strongly suspected of being involved in a global drug trafficking network linked to a South American cartel, which was being investigated by police and judicial authorities in both America and Europe. Apart from that the FIU discovered that the customs authorities in another country had seized some years ago a vessel owned by Jack's company after five tons of cocaine had been discovered on board. The FIU composed an analysis report of the findings and handed it over to the Prosecutor for action. At time of writing, the prosecutor and police were preparing the case prior to a series of arrests.

Indicators:

- > Possible client relationship to previous crimes



Ian and Steve were owners of two successful offshore companies, although they lived in an Eastern European country. Both companies received large amounts of capital injections in the form of cash transfers from companies located in a neighbouring country. At least US\$3,500,000 was credited into their business accounts over a relatively short time-scale.

The national FIU of the Eastern European country had received several reports on these large cash transactions and decided to initiate an investigation into both offshore companies. The FIU discovered that the payments into the companies' accounts were based for the most part on false contracts and invoices. The invoices claimed that marketing research was provided, as well as research concerning other retail opportunities within Europe. However, according to independent intelligence from another law enforcement agency, none of these services had actually been provided to the 'investing' companies.

19

Questions therefore arose as to the actual reason for the movement of US\$3,500,000 offshore. Further inquiries by the national FIU determined that Ian and Steve were, in fact, the owners of a savings bank in the neighbouring country. This bank had a great deal of business granting loans to East-European companies, including the ones that were transferring funds offshore. It transpired that informally representatives of the bank and companies agreed on higher interest rates than stated in the official loan contracts. The difference between the rates was transferred to the offshore companies' accounts. This undocumented money could then be shared amongst the beneficiaries of the scheme, untaxed and unobserved.

40

After determining the true origin of the monies, the FIU investigated its destination to attempt to understand the whole structure of criminal money flows. Some US\$300,000 was transferred to financial institutions in three other European countries, but a much bigger proportion - approximately US\$2,700,000 - was withdrawn in cash and smuggled back to the neighbouring country. Checks with records in both Eastern European countries showed no declarations of cash movements linked to any of the individuals involved.

Steve withdrew the rest of the money and deposited it into a newly opened personal account, and then added a further US\$90,000. At the same time, Ian's company applied for a short-term loan of approximately US\$600,000 at the same bank. The loan application was made using the cover story of enlargement of a coffee business. The balance of Steve's account - approximately US\$700,000 - served as a guarantee. The bank granted the request and provided the loan. Only four days later, Ian paid off the loan by using Steve's money. The settling of debt using criminal funds is a frequently observed layering technique, for if financial investigators had begun an investigation by examining the 'coffee business', the initial documentation would have suggested that the funds came from a respectable bank. However, as the FIU was approaching the laundering from the other end and had prior



knowledge of the offshore fund transfers, the investigation quickly confirmed that Ian's company had never performed any coffee-related business. The offences of tax evasion, illegal fund movement, and creation of false documentation led to substantial prison terms for Ian and Steve, and US\$140,000 has already been seized from these individuals alone.

Indicators:

- > Large-scale cash transactions

FIU action:

- > Identification of related business interests by targets
- > Identification of false documentation
- > Intelligence exchange with other FIU through Egmont



In 1998, a bank informed their national FIU about transactions that were being conducted on an offshore company's non-residential account. In a short period of time a foreign company called 'Suftwire' transferred some US\$400,000 into this account. Neil, the sole owner of the offshore company, withdrew most of the money in cash. When doing so, two foreign men, Isaac and Nick, always accompanied him.

After receiving the disclosure information, the FIU initiated an investigation. From checks with its main disclosure database, it soon became clear that Neil's offshore company wasn't the only company receiving money from Suftwire. In a period of one month, approximately US\$4,500,000 was credited into the account of a company called 'Allan'. It seemed that Neil had authorisation for this account too, and he gradually withdrew most of the money in cash, accompanied once again by his foreign associates, Isaac and Nick. Checks with the financial institution determined that Isaac and Nick, in fact, had their own non-residential accounts, but kept them dormant.

20

42

Because of the foreign links to Neil, the FIU used the Egmont Group to contact three national FIUs in other countries. Neil was notorious in his homeland due to a long criminal career, including convictions for fraud, counterfeited checks, and customs offences. Apart from that, Neil had been linked by intelligence to large-scale criminal operations smuggling butter. It is thought that for each shipment successfully smuggled, Neil received a US\$500,000 commission. This may seem a large amount of commission for butter smuggling, but the estimate of the total amount of revenue lost to the authorities was approximately US\$3,000,000.

In addition to butter, Neil also smuggled alcohol. In order to facilitate this operation, Neil adopted a cover story of managing director of a non-existent merchandise company called 'Foods'. However, due to interceptions by law enforcement agencies, this business brought was an expensive failure: 9,000 bottles of Vodka and 9,000 bottles of Whiskey - all packed in tomato juice bottles - and 11 other cargoes of alcohol were seized in various countries. Among others, a company called 'Naxt' was involved in the alcohol smuggling operations.

The requests for information placed with FIUs in other jurisdictions produced a worthwhile result: the FIU of the country in which the company 'Suftwire' was registered reported that Neil appeared to be the owner of this company as well. Examination of financial records showed that 'Suftwire' bought computers from the earlier mentioned company 'Allan' - the beneficiary of 87 percent of withdrawals from Suftwire's account - and sold them to a company called 'Trade' - responsible for 84 percent of the deposits into Suftwire's account. However, the chain of payments is based on false invoices. No real trade has been performed between any of the companies concerned.



Then the FIU also discovered a payment of US\$1,500,000 transferred from 'Naxt' - involved in the alcohol smuggling - into the 'Allan' account. The fake computer-selling plot seemed to be just a cover for the laundering of money earned by smuggling.

Neil, Isaac and Nick were all charged with money laundering offences, but were found not guilty at an initial trial. The public prosecutor filed a complaint in relation to the trial process, and a court decision was awaited at time of reporting. Neil had to face charges for money laundering in one of the other countries as well, in addition to additional charges relating to smuggling, using false documentation and evading payments of import duties.

Indicators:

- > Suspicious activity of client associates
- > Large-scale cash transactions



Peter was the brain behind a VAT carousel fraud, which operated within a European country. To make the fraud profitable, the goods involved had to be of small size and be worth a high price - mobile phones were ideal. The fraud was in fact very profitable because the VAT rate in his country on such items was more than 20 percent. Peter imported the phones through a shell-company, putting a lower price on the invoice than the true import price of the goods. The invoice included VAT tax added to the lower price, although the shell-company didn't declare the VAT to the tax authorities. Clark, a criminal working hand in hand with Peter, represented the shell-company. He sold the goods to another company: the 'intermediate link' company. The latter sold the goods to the 'final link' company, owned by Peter, but invoiced a higher price and added on VAT. The difference in price was the only profit the 'intermediate company' made. The purpose of this company was to create a smokescreen, making it more difficult to connect the shell-company to the final beneficiaries.

21

Peter's 'final link' company was the last company in the chain. Peter was able to claim large amounts of VAT back from the tax authorities. Once the VAT had been received, he exported the phones back to the same foreign vendor who had sold the goods to the shell-company in the first place. Due to this final export of goods, Peter was not required to pay VAT on the sale of the phones. Over a few months, Peter had passed the same phones around the same companies several times in order to generate more and more profit.

44

Meanwhile, the national FIU started a strategic project aimed at tackling the problem of VAT carousel fraud. Close co-operation between different authorities involved - the FIU, Customs, Enforcement Service and Tax authorities - provided all the necessary information to allow rapid identification and analysis of possible frauds. During the project, the FIU identified a large shipment of mobile phones in storage at the airport that had recently been imported by Clark's shell-company. Because Clark already had a criminal record for various minor financial frauds, the FIU adjudged it worthwhile to examine the companies and shipments involved in more detail.

The supporting documentation showed that Clark had sold the phones to an 'intermediate link' company for a lower price compared to the import price. Because of that uneconomic difference in price, the company already had a deferred tax liability. This made the company's ability to pay the deferred tax almost impossible. The prosecutor decided to initiate a preliminary investigation regarding Clark and to confiscate the shipment of mobile phones as a precautionary measure.

The prosecutor contacted the FIU for further assistance with analysing the financial transactions involved. The FIU discovered that the foreign vendor of the mobile phones had an account at a national bank. Through this account, a large cash flow - several hundred



thousand American dollars - had taken place in a period of three months. Withdrawals and transfers to the foreign country always followed large deposits made in this country. The FIU also noticed that the vendor received a payment of US\$1,000,000 into his bank account on the same day the mobile phones were confiscated. Although Clark claimed to be the buyer of the mobile phones, he wasn't the individual who had deposited these funds. The funds had come from another national bank account, belonging to the 'intermediate link' company. After requesting more information about this particular bank account, the FIU received documents in which Clark's company and Peter's company - the final link - were mentioned. The FIU discovered that the companies had made seven business transactions with mobile phones, all bought from the same foreign vendor and involving the same number of phones. Because of these business transactions, Peter had received a VAT large refund.

The supporting documents enabled the FIU to follow the chain from the shell to the 'final link' company. The last company is always the one organising the whole chain of transactions and earning the most money on the VAT fraud. Unfortunately for Peter, the Tax authority claimed back the full value of the VAT refund that he had received. In vain Peter tried to appeal, but the court of appeal ruled that he had to pay back US\$1,100,000 to the authorities. At time of writing, criminal charges were also being considered.



The Smith family, citizens of an Eastern-European country, owned the local bank for several years. Since they established the bank, Jessica and Kirk Smith were the biggest shareholders. Their son Stan was the president of the board of directors, and their daughter Lisa was another director.

Although their bank was not a large-scale operation and had a low level of capital (and therefore did not have a high credit rating on the national or international markets), business was going well. Huge credit agreements were signed, while the amounts involved increased well above the recorded capital of the bank.

Staff of the national FIU read in the newspaper allegations that some of the bank's customers were connected to drug trafficking. That was reason enough for the FIU to initiate an investigation into the bank's shareholders and directors.

22

During the ongoing investigation, it became clear that the Smith family laundered the proceeds of crime for several criminal operations. By preparing false documents such as letters of credit and prime bank guarantee letters, they provided their clients a way to conceal the revenues of drugs trafficking and other crimes. In return, the Smith family received significant levels of commission for their services.

46

To give the received commission a plausible origin, the family used the loan back method. By showing that the money originated from credit agreements, supposedly given by foreign financial institutions, the commission seems as licit credits obtained from abroad. The FIU also detected that members of the family have no tax liabilities, but do have large amounts of money in the Smith's bank. The money in these accounts was also concealed by the loan back method.

The FIU passed on the file to the public prosecutor's office, in order to charge the Smith family for the offence of money laundering. They were each sentenced to two years imprisonment and required to pay a fine of approximately US\$2,000,000. In addition, a total of US\$5,000,000 was confiscated.

Indicators:

> [Media coverage on account holders activities](#)



A local businessman ran two local massage parlours, with the proceeds being placed into a joint company account at a local bank. The bank manager noticed that the parlours appeared to be receiving a great deal of funds. The vast majority of payments was about US\$100, and close to US\$300,000 had been received between the two parlours in less than twelve months. In light of the high level of business, the bank manager decided to look back over the account history and found two separate fund transfers for US\$16,000 from the company account to an account at a bank in Eastern Europe. It seemed unlikely to him that a normal massage parlour would need to pay for a service in a foreign country. He reported his suspicions to the senior management who decided to make a disclosure to the national FIU.

The FIU received the disclosure and made checks against intelligence databases, which revealed no record on any of the individuals or companies involved. However, the FIU staff was aware that a specialist branch of the police was dealing with the importation of females from Eastern Europe for the purpose of enforced prostitution, and massage parlours had been used before as a cover story for such exploitation. The FIU therefore decided to initiate a joint operation with the specialist police unit.

Surveillance of the premises, including some undercover operations, clearly indicated that brothels were being run from both premises. The police obtained search warrants and raided the premises. The brothels contained four working girls, which all proved to be illegal immigrants. During a related raid at the brothel manager's house, the police found the passports of the four girls. It seemed that the brothel manager had seized them to keep them from running away. The police also found US\$20,000 in cash. It turned out that the girls had paid US\$5,000 each to be smuggled into the country from Eastern Europe. They had been promised employment as waitresses in restaurants, but were forced into prostitution upon arrival. They couldn't turn to outside help because of fear of deportation.

The brothel manager was charged with the offence of knowingly living off immoral earnings. An assessment of his earnings resulted in confiscation orders of over US\$500,000. The four illegal immigrants were deported to their home country.

Importation and enslavement of illegal immigrants is in increasingly common practice within the European sex industry, with exploitation for the financial benefit of the brothel owners being the only consideration. Due to the attentiveness of the bank manager - noticing an unusual pattern of payments, analysing the account's history and disclosing his findings to the FIU - the importation and enslavement of four girls was effectively tackled.

Indicators:

- > Unrealistic business turnover
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction



Carlos and Hector, two brothers who lived near the border in an American country, approached a local bank with a view to open a standard business account. The brothers said that they owned a currency exchange house in the neighbouring country but wanted to develop their financial base in their home country. After the account was opened, the bank saw a significant amount of cash, originating from deposits at other branches of the bank in different cities, being credited into the company account. The money did not stay in the account for long, with the brothers almost immediately requesting bank cheques to be made payable to a bank in the neighbouring country. On one occasion they requested cheques made payable to two individuals, but these individuals also deposited the cheques in an account at the foreign bank. The bank decided to report the transactions to the national FIU. Coincidentally, the FIU had also received a number of other disclosures from other banks, which referred to the brothers undertaking similar activity and using the same cover story of an exchange company as the source of the funds.

The disclosures showed that the brothers were activists in a complex financial-web. They received a lot of money from different individuals, who were themselves acting as laundering intermediaries. Rick, for instance, received a huge sum of money into his domestic account via an international transfer. He ordered his bank to pay the money to Carlos and Hector by issuing a bank cheque. A second money route involved Eugene and Jan - Eugene received a lot of cash deposits into his account. Then he ordered the bank to make bank cheques payable to Jan. Jan in his turn deposited these cheques into the brothers' account.

The brothers also seemed to have a business interest in a restaurant. The restaurant apparently received US\$4,000,000 in income and used this money to order bank cheques payable to two other individuals. These individuals deposited the cheques in the brothers' account. Because the reporting bank had its suspicions about the amount of money being generated from a simple food business, their security personnel visited the restaurant. It was located in a lower income area and in a terrible condition and it was impossible to justify the funds that were being deposited into the restaurant's account.

But Carlos and Hector did not only receive funds. They channelled the money out of their account via cheques and a money order remittance to different individuals and companies in the neighbouring country. In a single month they sent US\$500,000.

One bank had filed a report because the brothers tried to open an account with false identity documentation. Another bank reported that Carlos and Hector were connected to Jaime, via Lucas. The relationship is identified through a company account at the bank. The FIU knew that Jaime was already suspected of money laundering activities derived from narcotics trafficking.



All the information was communicated to the competent police authorities.
At time of writing the police were trying to establish the link between the funds involved and the narcotics trafficking.

Indicators:

- > Unrealistic business turnover
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Large and/or rapid transfer of funds

MISUSE OF LEGITIMATE BUSINESSES

50





This typology is seen wherever the launderer attempts to use an existing business or company for the laundering process without the organisation being aware of the criminal source of the funds. To some extent, this typology is seen wherever a financial institution is unknowingly used during a laundering scheme, but for the purposes of this report this section focuses more on non-financial businesses. The main benefit of using another business unknowingly is that the criminal funds will probably be viewed by the organisations as originating from the firm rather than the actual criminal owner. A number of member FIUs expressed the view that the frequently reported use of professionals such as lawyers and accountants can be understood by a criminal desire for funds to be associated with such well-respected businesses. The risk for the innocent business is that if the laundering scheme is discovered by law enforcement, even if members of the firm avoid prosecution for money laundering offences, the reputation of the firm itself may suffer significantly through media coverage.

The need for criminals to attempt to launder funds using innocent firms may be expected to increase over time as mainstream financial institutions across the world become increasingly unwilling to accept personal funds without question.



Rick, an American citizen who claimed to be a European, was the key organiser of a group of individuals that used to belong to a larger drug cartel. The majority of the original cartel had been arrested and imprisoned by law enforcement several years previously. Since the destruction of the cartel, Rick had continued to control a significant part of the money raised from the cartels drug trafficking activity, and had used the funds to restart his own drugs trafficking operation on a smaller scale. Furthermore, during his involvement with the original group, Rick had learned several laundering techniques, which were to prove extremely helpful to his plans for his own gang.

The drug money entered the American country in cash shipments by boat or plane. Rick's group received the money in sealed cash bundles, and sought to launder the drug money through a series of layering transactions in several different countries. Following initial cash deposits into a range of bank accounts, Rick facilitated the laundering by authorising an agent abroad to transfer funds from the initial accounts to the personal accounts of a number of intermediaries overseas. The intermediary arranged a back-to-back transfer of the funds back into the country to accounts at the National Central Bank, and obtained authorisation for the fund transfers from that institution. Before the money was transferred back, Rick always called the intermediary again to request a cancellation of the transfer. The intermediary was left with the funds in his or her account. The funds were then withdrawn in cash and wired back in country to yet other accounts, with the authorisation documentation from the National Central Bank as a prepared explanation of the origin of the funds. The National Central Bank was being used unwittingly to give additional probity to the drugs funds.

Once the funds had been moved through several layering processes, Rick was able to use the monies to purchase real estate. In order to do so, he utilised lawyers, bank managers, and other professionals, paying commission of between 3 percent to 5 percent of the value of the transferred money in order to minimise questions. The commission rates were slightly above normal market rates, in order to ensure that the firms concerned welcomed the business. Lastly, Rick did not want the real estate to be registered in his own name, and used a number of other individuals and companies as nominal owners in order to further confuse the money trail - whilst some of these individuals were aware of the criminal source of the funds, a number of other firms were used unwittingly. The use of such financial professionals gave additional probity to the fund movements.

To implement his laundering scheme, Rick used more than half a dozen banks and a wide range of accounts at each institution. Unfortunately for Rick, several of the banks identified that account activities were unusual, and chose to disclose to the national FIU.



After financial analysis to identify as many linked accounts as possible, the FIU disseminated a report to the police and an investigation was initiated. At time of writing, the police were analysing the financial data further, but it was estimated that Rick's scheme had involved a turnover of about US\$720,000,000 over a number of years. Rick has already been arrested for a range of drugs trafficking and money laundering offences.

Indicators:

- > Atypical or uneconomic fund movements within accounts
- > Deliberate concealment of fund ownership



Marc, a Western European citizen who was employed as a representative of an American company, deposited two cheques at the company's bank in America. The cheques were each for US\$7,500,000. Subsequently, Marc gave several instructions to the bank to transfer the money to a range of bank accounts in different European countries. Recipients of the funds were individuals with Western or Eastern European nationalities. The reputation of the American firm meant that the financial institution did not question such a large fund transfer. However, after an initial US\$2,200,000 had been transferred, the American bank found out that the initial cheques had in fact been counterfeit and froze the remainder of the requested transactions.

In the meantime an Eastern European FIU received two disclosures from different banks. Bob and Karen had received a great amount of money from Marc's company. Bob ordered his bank to transfer the money onwards to accounts in other countries in Europe and Australia. Karen notified her bank that she would be withdrawing a proportion of the money in cash. The other part she would use for supporting her jewellery business. Both banks decided to postpone the execution of the customer instructions, and stalled the transactions for 24 hours whilst a disclosure was made to the national FIU. Shortly after the disclosures were made the FIU, which had not been aware that the money originated from counterfeited cheques, received a document from the American bank. The bank was informing the FIU that part of the money that Marc had obtained illegally had been sent to the FIU's country. The FIU immediately initiated a financial investigation.

Financial analysis of both accounts led the FIU to the conclusion that Bob and Karen not only possessed illicit funds, but also were clearly trying to conceal the illicit origin of the money. The FIU filed 'suspicion of money laundering' charges against Bob and Karen, and the funds in both their accounts were frozen.

Indicators:

- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Large-scale cash transactions
- > Unrealistic wealth compared to client profile



A Northern European FIU received a suspicious transaction report from a banking institution concerning an amount of almost US\$400,000 (in the national currency). The money was paid from a company in a neighbouring country into a lawyer's clients' account. Shortly afterwards, the money was converted into American dollars and transferred to a bank in America.

An analysis by the national FIU revealed that the money was the proceeds of fraud. The payment from the neighbouring country had been originally related to a construction project. However, the lawyer involved had fraudulently used the money for his private investments, and had sought to use the accounts of the legal firm within which he worked to facilitate the laundering process. He had thought that the financial institution would not question transactions associated with such a well established firm.

It turned out that there were two more incidents of fraud related to loans. The lawyer and his accomplice were both convicted of frauds involving a total of almost US\$950,000. Both individuals were sentenced to three years imprisonment and ordered to pay US\$950,000 in damages. The lawyer was also struck off from the register of lawyers, and permanently barred from acting as a legal representative in the future.

27

55

Indicators:

- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Atypical business behaviour



Roland worked as an undercover agent in a police investigation targeting money laundering through casinos. In the jurisdiction in which the investigation took place there were no licensed casinos, but in a neighbouring country there were a large number of such businesses.

During the investigation, Roland was introduced to Theodore, a man who lived in the same jurisdiction as Roland. Theodore claimed to be employed by a casino in the neighbouring country and offered to launder money for Roland. He explained to Roland that, because he was employed in the casino, it would be very easy to launder money. If Roland was to give him his cash proceeds, Theodore would give him a cheque drawn on the account of the casino. The cheque would be for the amount being laundered minus Theodore's commission fee. Roland could then claim that he had won the money gambling, and the police would be unable to disprove this claim. Furthermore, the casino itself would be unaware of the laundering operation, as it would just appear to be Theodore gambling money normally and winning most of it back.

Roland was interested in gathering additional intelligence on this method of laundering criminal monies and agreed to use Theodore's scheme. On Theodore's instructions Roland deposited US\$25,000 in cash into the bank account of the casino for which Theodore was working. Theodore then gave the undercover agent a cheque from the casino for the same amount, minus a commission fee of nine percent. This nine-percent commission was to be divided between Theodore and Adrian, the individual who had introduced Roland to Theodore. The initial laundering transaction went very well. Theodore laundered the money for Roland as promised. Unfortunately he did not know that the US\$25,000 was not in fact criminal money but money provided by Roland's law enforcement agency.

A short while later, Roland contacted Theodore again with another US\$500,000 for laundering. Theodore was glad to help him again, but during this money laundering operation, the police moved in and arrested him for money laundering.

The police contacted the national FIU and their records revealed that they had received a series of disclosures concerning Theodore and his associates. The reports noted that Theodore and his associates were in the habit of making large cash deposits followed shortly by telegraphic transfer withdrawals. One of the reports had noted that a casino company in the neighbouring country employed Theodore. The additional information provided by the FIU allowed the prosecution of Theodore to progress more efficiently, and enabled an accurate financial case to be constructed.



Mary worked at a European company where she held the post of a clerical officer within the company's accounts department. In her position she was able to misappropriate suppliers cheques. She lodged a total of US\$36,000 to an investment account controlled by her Uncle Jim at a finance company. The two fraudsters thought that the financial institution at which the account was held would not be suspicious of fund transfers into an account associated with a well established finance company. However, the finance company, itself discovered the unusual transfer during a routine audit inspection, and disclosed the transactions to the national FIU.

The FIU made an application to the courts for an order to make material relating to Jim's account at the finance company available to the investigation team. The finance company had kept accurate records and the investigation team was therefore able to rapidly analyse the various transactions. Jim had tried to conceal the funds through his account by obtaining a number of loans, all for similar sums of approximately US\$8,000. These loans were repaid quickly using the misappropriated cheques to offset the outstanding balances and produce a 'clean' source of the funds.

When Jim was arrested he was questioned as to his part in handling the missing monies. He admitted to receiving the cheques from Mary and lodging them at the finance company. Employees from the finance company identified Jim as the account holder in a formal identification parade. Mary made a statement under caution admitting that she had stolen money from her employer. She further admitted misappropriating cheques from her employer and handing them over to her uncle. Jim was interviewed again and made a statement under caution outlining his participation in the fraud. He confessed that he has been fully aware that his niece had stolen from her employer.

Various charges of larceny were arranged against Mary. Charges of money laundering were made against Jim in respect of each occasion he lodged a stolen cheque into his account at the finance company.

Indicators:

- > Change of account behaviour without explanation
- > Multiple amounts paid into personal account without explanation



A business associate introduced Joe to two Western European businessmen who were in country on a business trip. The business associate explained that Joe was looking to obtain financing for what he described as an interesting property scheme. The scheme involved the purchase of under-valued properties and the refurbishment and subsequent mortgaging of them at full market value (to free up the investment capital). These properties would then be leased, mainly to local housing associations on leases of ten years or more.

Joe recounted that he had more than twenty years financial experience at a senior level with more than five years in-depth experience of property markets. Basically, he indicated that he had all the necessary contacts in the property trade and the various housing associations, particularly in one special part of the country - and such contacts guaranteed the success of the scheme. He was seeking in the region of US\$1,500,000 for the initial funding of the property purchases and refurbishment prior to mortgaging. The scheme sounded feasible and the businessmen agreed to help Joe raise the necessary finance in return for a percentage of the eventual profits.

They returned to their home country and spoke to various individuals who might have been interested, but did not succeed in raising the money. Another meeting was arranged with Joe and the three of them decided that they should seek financial backing from a financial institution. They also decided that as they would, hopefully, be in a position to make significant profits when the scheme were successful, then the business would be better off registered in another country with a lower tax environment.

Some months later the businessmen went to meet a corporate service provider in a tax haven. They presented their plans to a senior banker and asked if the bank would be interested lending funds to support the project. The bank was interested but required a capital commitment from them of some 10 to 15 percent. This required them to deposit US\$150,000-US\$225,000. The businessmen reported the outcome of the meeting to Joe who seemed agreeable to the proposal, and promised to build up the required deposit.

Thereafter, they had little contact with Joe, although they were aware that from that stage of the plan Joe changed tack from developing property of low value to mid-range properties. Joe bought and sold these properties, making a profit on each deal. The businessmen understood that the purpose of these deals was to build up enough of a capital fund to meet the equity capital requirements of the bank.

Some months later Joe called to say he has accumulated about US\$250,000. The businessmen immediately acted on the good news to approach a corporate service provider in order to create a company. The three men chose a company, ABC Ltd,



from a list provided to them by the corporate service provider. Joe agreed to be a shareholder for fifty per cent, and the two businessmen each received 25 percent. With the deposit in place and a suitable company structure arranged, the offshore financial institution was able to advance monies to ABC Ltd for the scheme. Joe went ahead with arranging the property purchases that were to be funded by the bank lending to ABC Ltd, and dealt directly with the corporate service provider.

A few weeks later the bank agreed to the terms, and confirmed the details in writing to the corporate service provider. Then Joe's solicitor's bank received US\$1,315,000 assigned for crediting into the solicitor's client account. Prior to this the solicitor had faxed the bank with details of Joe's account for the bank to pay the monies into. An officer of the bank undertaking his normal due diligence checks phoned Joe's solicitor to confirm that the reassignment of the funds was acceptable. The bank officer discovered that the solicitor knew nothing about the transaction that was going to take place. The solicitor had had a telephone call from Joe about this money, but had told him he would not accept this cash into his account without more details. It became clear to the bank official that the solicitor had not sent the fax to the bank. When provided with a copy of the fax, the solicitor did not recognise either the request or the signature upon it as being his. Joe had obviously sent the fax and if the monies had been paid into the client account Joe would probably not have had much difficulty withdrawing or moving the funds. The solicitor immediately contacted the police and made a full statement of the events surrounding the fund movement.

The businessmen received a disturbing phone call from their corporate service provider to the effect that there was a problem with the bank funds. They tried to contact Joe on various numbers, but were unable to locate him. Full statements were obtained from the two businessmen and it became obvious that Joe was at the very least guilty of attempting to obtain US\$1,315,000 by deception and several other offences of forgery.

To the credit of the solicitor, he refused to accept the money being paid into his account without full details. To the credit of the bank they contacted the solicitor prior to transferring the monies to double-check the circumstances surrounding the transaction. Standard anti-fraud and anti-laundering procedures worked in this case and Joe failed to obtain any financial benefit. He in fact remains in danger prosecution for his crimes should he resurface.

Indicators:

- > [Last minute alteration to fund movement instructions](#)



Late in 1998, Tom, a citizen of an Eastern-European country, saw an opportunity to make a profit on a property investment. Mariah, one of the directors of Lotos Ltd, told him that her company was selling one of its buildings at a low price. The price - a mere US\$275,000 - looked like an opportunity Tom couldn't resist, and so he followed up Mariah's offer and told her that he wanted to purchase the property as soon as possible.

Several days later, Tom went to his notary to sign the deed of purchase. Mariah had already informed Tom that a co-directors name, Pete, would be on the contract as the seller of the building. Because of Pete's senior position at Lotos and the reputation of the company itself, Tom didn't suspect anything and signed the deed as required.

What Tom didn't know was that the day before the sale Mariah had already sold the building, this time to her boyfriend and co-director of Lotos - Pete. That sale was for US\$42,500, which meant that on the resale to Tom the following day, over US\$220,000 went directly to Pete and Mariah's personal accounts. Although Tom didn't suspect that anything was amiss, his notary noticed that the land records showed the recent sale. In his experience a company would never have sold such a building for the unrealistically low price of US\$42,500, and to have that followed by a second sale the following day was unusual in the extreme. He decided to disclose to the national FIU.

The FIU decided to initiate an investigation. Mariah was summoned for questioning and asked to explain the circumstances surrounding both transactions. She stated that the shareholders of Lotos had instructed her to sell the building for US\$42,500, and thus no crime had been committed. However, after questioning the shareholders, it became clear that they knew nothing about the first sale.

If it weren't for the notary's disclosure and the FIU's investigation, the shareholders would probably never have known that Mariah had swindled the company out of some US\$220,000. Apart from that, the state had not received the appropriate taxes, which the company would have paid as income from the full sale price. At time of writing, a criminal case had been opened and both suspects face prosecution and asset confiscation.

Indicators:

- > Large and/or rapid movement of funds
- > Transfer of assets at well below (or above) market rates



A drug trafficking cartel operated throughout the 1980's and early 1990's transporting a range of illegal narcotics to different countries in Central and North America. A single individual named Juan controlled the whole organisation. To conceal and disguise the profits of the illegal activity, Juan organised the creation of several corporations with the help of financial professionals. One of his main advisers in the financial world was Ricardo, to whom he gave some US\$28,000,000 to launder.

In a financial institution (A) in a big city of an American country, Ricardo designed, with the assistance of bank officers Antonio and Maria Lourdes, a financial scheme to conceal the origin of the funds. Initially, the laundering scheme relied upon investment portfolio into which the drugs-funds could be moved and withdrawn without attracting significant attention - especially since Mr. & Mrs. Lourdes were the employees responsible for monitoring such accounts. The ability to place the funds inside the institution was extremely valuable, as other institutions that the funds were subsequently moved to assumed that institution A had undertaken appropriate checks of the source of the funds.

In 1990, the bank officers moved jobs to a subsidiary financial institution in city B. They began to transfer the funds from the first institution to the institution in city B, to facilitate a continued tight level of control. In order for Mr. & Mrs. Lourdes to be able to conceal their link to the funds, they used the services of another financial subsidiary located in an offshore banking centre that specialised in providing assistance for the management of investment portfolios where the names of the beneficiaries were concealed.

To move the funds, they created a shell-company in the offshore centre. On paper the company controlled several investment portfolios, into which they invested the funds from the first institution (US\$28,000,000). In order to make it appear that the shell-company was investing profits from legitimate businesses they used the names of a bureau de change office in a Central American country, a corporation in the first country, and another in the offshore centre.

However, the national FIUs in two of the countries received disclosures on some of the fund transfers, and by exchanging intelligence were able to determine the financial trail. At the time of writing, a financial investigation was proceeding to determine the true extent of laundering that had taken place, with a view to eventual arrest and prosecution.

Indicators:

- > Over-complex fund movements
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction



A businessman called Dirk applied for a credit facility in the amount of US\$100,000,000 at a reputable financial institution, producing certificates of deposit with a total value of US\$425,000,000 as a guarantee. The certificates were owned by a foreign foundation, of which Dirk was a board member. Dirk indicated that if the bank were to grant the credit facility, part of the loan - amounting to some US\$17,000,000 - was to be transferred to a separate private account in the name of his girlfriend.

Although a credit facility of such size is profitable and desirable business for any financial institution, the account manager nevertheless had some concerns relating to the tranche. Due to his experience with banking matters and normal client behaviour, the bank manager was concerned that the request for both the tranche and the transfer to a private account did not appear to be wholly bona fide. Rather than performing the transaction, the bank reported the matter to the national FIU.

33

The national FIU identified a number of previous law enforcement records relating to Dirk. He was registered in both national and international police databases for various fraudulent activities. The FIU forwarded the disclosure and supporting information immediately to the police. A team was put together to initiate a preliminary investigation. The investigation found that Dirk had recently been involved in a bankruptcy fraud case with proceeds totalling several million US dollars, in a second case involving sizeable false credit applications which utilised document forgery, and in a third fraud involving foreign government bonds with a total value of approximately US\$210,000.

62

The investigating team were by now highly suspicious that the certificates of deposit used to obtain the tranche were forgeries. Inquiries in the country where the certificates had been issued revealed that the issuing bank had been liquidated some years ago - in effect the certificates were worthless. Through law enforcement investigations in this second country, further certificates of deposit with a total value of US\$30,000,000 were seized from an individual who had previously been involved in the management of the defunct financial institution. In addition counterfeit government bonds with names of other banks on them were also discovered. The total value was well over US\$850,000,000.

It became clear to the investigating unit that an entire organisation was creating a range of fake bonds and certificates, supplying them to a number of fraudsters such as Dirk for use in large-scale international frauds against financial institutions. If a swindler was successful in obtaining credit using the false documentation, the bank guarantee obtained was used in turn for credit applications with other banks so as to create a network of interdependent guarantees between legitimate financial institutions, thereby increasing the total amount defrauded. The objective after a number of deceptions was for the fraudster



to transfer significant amounts of funds into private accounts and disappear, leaving the legitimate organisations to sort out the complex interweave of debts.

Ongoing investigations are seeking to determine whether initial funds used to start some of the guarantee funds in motion were originally obtained from criminal activity, in order to obtain grounds for a primary prosecution for money laundering. Dirk has been charged on a number of offences in a range of countries.

Indicators:

- > Unusual business activity - transfer into relatives account
- > Atypical or uneconomical fund movement of funds
- > Documentation issued by an unfamiliar financial institution

FIU action:

- > Cross referencing with national and international law enforcement databases



A national FIU in a Western-European country received several interesting transaction reports from a financial institution. In a short period of time, over US\$127,000 originating from a range of different personal accounts in America was credited to the bank account of a client named Jessica. The account had previously been largely dormant with only a small turnover of funds. Following the large influx into the account, other unusual credits and debits were also noted. Jessica transferred the aggregate sum to another account, which her husband Johan was authorised to use. Johan withdrew half of the sum in cash and transferred the remaining part to a bank account in the name of Mr. Lennert.

The FIU analysed all the accounts disclosed upon, and quickly identified a number of other disclosures relating to Mr. Lennert. It seemed that some time before the latest disclosures, Johan had already credited Lennert's bank account with a sum of US\$32,000 in cash, which bank documentation recorded had been explained as a 'private loan'. Lennert deposited an additional US\$6,000, after which he transferred the aggregate amount - over US\$100,000 - to a solicitor, apparently for use in the purchase of a property known as 'The Cafe'. The use of the legal firm was designed to add legitimacy to the transaction.

Checks against police databases also identified Jessica and Johan as well known to law enforcement for suspected involvement in drugs trafficking. The FIU consulted the register of Commerce and found that Lennert became the owner of The Cafe, one day after the transfer to the solicitors client account. The Cafe also turned out to be the focus of police interest as a likely location for the sale of illegal drugs. The FIU forwarded all financial and other information to the police investigation team undertaking the inquiry into Jessica and Johan.

Evidence was gathered which confirmed Jessica and Johan's involvement in cocaine dealing. The suspicious transactions were used as a starting point for a more detailed financial investigation to map out the money flows involved in the business. It appeared that the couple was involved in the importation of drugs from America. Some selling of drugs had also taken place in America itself, which resulted in the transfers from America into the European accounts. Furthermore, thanks to the FIU report, the police team established a clear relation between The Cafe and Jessica and Johan, since they had invested a total of over US\$90,000 into Lennert's accounts shortly before he purchased the business.

The suspects were arrested on a number of charges, and Jessica was sentenced to six years imprisonment as the main organiser. Her husband was sentenced to four years. Due to the financial information gathered by the investigation team, the prosecution was able to successfully demand a total of over US\$140,000 to be confiscated.



Indicators:

- > Atypical account behaviour (size and nature of business)
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Re-activation of dormant account
- > Large-scale cash transactions



Advertisements from a company called Gold Ltd appeared in the national newspapers in a European country, promoting investments with a 'guaranteed' tax-free return of 13.5 percent per annum with the possibility of up to an additional 9.1 percent depending on the profitability of the underlying business. Investors could participate by contributing at least US\$14,900. Gold Ltd was identified in the advert as involved in the buying and selling of uncut diamonds. Based on the figures provided, at the end of three years the minimum investment would have sharply increased in value. As a security for the investment, a deed of ownership worth US\$12,800 was to be created for each investor against a specific diamond, with the diamonds having been certified by institutions such as the Diamond High Council of Europe. These diamonds were to be stored in the safe of the Diamond Management Foundation. Leo, Gold Ltd's Managing Director, suggested to investors that in fact each 'guarantee' diamond would be worth US\$14,900 in a very short space of time - thereby equalling the minimum investment and offering a safe guarantee for the investor.

35

Leo maintained a number of accounts at different banks. The accounts were either in his own name or the in name of Gold Ltd. Interestingly, one of his accounts at one of the banks - Bank B - became active again for the first time in several years. Large wire transfers were made to the account in rapid succession for a total amount of US\$320,000. The funds all came from Leo's commercial account at another bank - Bank A - emptying that account, which was closed shortly afterwards. Following the fund transfers, Leo withdrew large amounts of cash - in total around US\$171,000 was taken out across the counter. The fact that the account had suddenly become active and that Leo was withdrawing the funds in cash lead Bank B to report the transactions to the national FIU.

66

In the meantime, articles critical about Gold Ltd appeared in the national newspapers. Gold Ltd had promised incredible returns for investors, promises which observers increasingly believed that it would be unable to keep. Several people made inquiries about Gold Ltd at Bank A to which they had sent investment funds. Apparently, when speaking to potential investors, Leo had been mentioning his high-level contacts at the institution. By being referred to by Leo as the 'Gold Ltd company bank', the bank had unwittingly become involved in the developing problems. Not only were investors more likely to trust the scheme if they believed that it was associated with an established financial institution, but fund movements from the bank to other financial institutions were less likely to raise suspicion. The bank had by now accumulated a number of doubts about Gold Ltd activities: the advertisements which Gold Ltd used to attract investors, the negative stories about Gold Ltd in the press, and the unauthorised use of the bank's name to encourage people to invest. Bank A decided to terminate the relationship with Gold Ltd in addition to reporting the company to the FIU.



However, Leo still had a number of private accounts at other banks to fall back on. In little more than two months, US\$1,700,000 was transferred to one of these private accounts at Bank C from the Diamond Management Foundation. Leo withdrew most of this in cash. Leo then gave instructions to terminate this account and to transfer the remaining balance, some US\$596,000, to yet another private account at Bank D. Not long after the US\$596,000 had been transferred to this account, Leo showed up at Bank D and withdrew the balance of the account in cash, terminating the account. Both Bank C and Bank D, aware of the activities of Leo and Gold Ltd as reported in the media, separately reported the transactions to the national FIU.

The FIU began an investigation into the numerous transactions. During the investigation, it became clear that Leo was registered as of significant interest in a criminal intelligence database and had been implicated in the past in a number of frauds. It turned out that the Diamond High Council had not certified the diamonds on which the deeds of ownership had been 'created', and had even publicly distanced itself from Gold Ltd. The diamonds involved were certainly not worth US\$12,800 as promised, but only about US\$2,300. Furthermore, whatever increases in value the business had achieved would not have been tax free - no special tax breaks applied to this business sector. It also quickly became clear what the source of the amounts transferred from the Diamond Management Foundation to Gold Ltd was. The Diamond Management Foundation account was credited numerous times with amounts ranging from US\$4,200 to US\$42,600, all originating from investors. As soon as the credit balance in the Diamond Management Foundation's account reached a prearranged trigger point, the funds were automatically transferred to a Gold Ltd account. The FIU forwarded the financial analysis to the police for further action.

Newspaper articles continued to document the activity of Gold Ltd, becoming more critical over time and claiming that the company was unable to meet payment obligations. Around ninety investors demand their money back, but unsurprisingly no funds were forthcoming. Meanwhile, the police had already started an investigation. The financial analysis from the FIU added significant value to the police investigation, and allowed the charting of the flow of money between the various companies and banks involved, including the Diamond Management Foundation. A local district court also ruled in favour of the ninety investors in a preliminary relief hearing, which resulted in Gold Ltd being declared a bankrupt company.

Because only a small proportion of investors filed complaints, the police were unable to determine the total level of funds invested. The reports from the FIU, however, provided an indication of the scale of the fraud. Of the funds invested - at least US\$8,500,000 - there was not much left in the main bank accounts due Leo's tactic of withdrawing monies in cash. Gold's bankruptcy trustee, however, seized all assets available, including an account



in another European country. The district court sentenced Leo to four years in prison and the - admittedly limited - assets seized have been divided between the creditors. Presumably, Leo still has significant amounts of money hidden awaiting his release.

Indicators:

- > Large-scale cash transactions
- > Unreasonable promises of returns on investment
- > Media coverage of accountholders activities



A newly appointed credit manager at a car loan company was concerned about one of his customers, Ray. Ray had recently bought a luxury sports car worth about US\$55,000. He obtained a five-year loan for US\$40,000 through the credit company, and had paid the balance in cash.

The credit manager undertook some checks against historical records and discovered that Ray had had several loans over the previous six years; all for the same amount of money and all with a large proportion of cash as a deposit. More significantly, in a number of the cases the loans had been repaid early in cash. The credit manager decided to report his concern to the senior management of the loan company. After assessing the facts, the management decided to disclose the case to the national FIU.

36

The FIU searched the disclosure against their databases, and very quickly linked Ray to a long established criminal organisation. The FIU forwarded the disclosure to an operational team in the police force, which was already targeting the organisation. The team obtained a court order to examine all relevant records at the loan company. It became clear that Ray was selling the newly bought cars on to private buyers and small garages, and obtaining cheques from these new owners. Further investigation revealed a single bank account into which all cheques gained from the sale of the car were paid.

69

It appeared that Ray was working at the criminal organisation's laundering division. Ray was entering cash from the sale of drugs into the banking system by means of the initial cash deposit to the car loan firm, as well as clearing the loan with a second cash sum. The cheques from customers and small businesses, to who Ray sold the cars, would appear to any bank employee examining the account to be legitimate sources of income. The loss made on both the loan and the drop in resale value the criminal organisations simply saw as a cost to be borne in exchange for cleaned funds that would attract no law enforcement attention.

Because of the identification of the bank account, an accurate assessment of the criminally laundered funds could be made. The financial information collected allowed the financial investigators on the operational team to produce a more accurate benefit of crime statement. An additional US\$300,000 was confiscated as a result of the information generated by the initial disclosure.

Indicators:

- > Early repayment of loans
- > Unusual client activity (multiple loans in short period)
- > Large-scale cash transactions





The ability of in a number of countries for the state to detect and remove illicit assets from individuals involved in crime has meant that it is beneficial for launderers if assets can be owned and handled by individuals with no associations with criminality. Such 'straw men' can be used to make deposits or withdrawals in the hope that even if the transactions are brought to law enforcement attention, the lack of any links to the criminal organisation will reduce the value of the intelligence.

Likewise, the use of false identity documents to open accounts or undertake transactions is beneficial in breaking the link between the asset and the known criminal. Even if the criminal is arrested and imprisoned, the assets may remain ready for enjoyment upon release from prison.

False documentation, as well as playing a vital part in fraud attempts, can also be used to support cover stories for laundering attempts. False invoicing, receipts, and travel documentation have all been reported as being used as part of the fund justifications given to financial institutions.



An American bank noticed that at several of its branches cheques were being cashed in by a group of persons. Within a period of less than two weeks, the group of persons cashed over twenty cheques. The bank connected these transactions because the amounts - that were all below the mandatory reporting limit - were about the same, which indicated that the original amounts were, most likely, in a different currency - exchange rate fluctuations caused the small changes. The cheques originated from a money transmitter. But not only the amounts seemed odd to the bank. The group also behaved questionably. Some of the people involved arrived at the same time, but went to different tellers of a branch rather than queuing together. The bank detected that different individuals were also using the same car to actually get to the bank. The bank decided to inform the national FIU about the cheque cashing and gave the brand and registration number of the car as well as the financial details of the cheque cashing.

37

The FIU initiated an investigation into what appeared to be a large smurfing operation. Some of the individuals in the group were relatives. Their name corresponded with the last name of Jack and Martin - two persons that had been reported to the FIU before by two other banks. The FIU had forwarded the transactions of Jack to the police. After questioning Martin's bank, the FIU received more information about him. Martin seemed to be dealing as a one-man company, but according to the records of the Chamber of Commerce the company had ceased to exist. It was appearing increasingly likely that the 'company' was being used for some illegal purpose. The FIU received further information from the public prosecutor, and it now appeared that another person, who had been disclosed upon separately before, could be brought in connection with this case. The FIU composed a report with all its findings and informed the police.

72

The whole group was accused of drugs trafficking and money laundering. Arrests by the police rapidly followed, and the investigation team uncovered damning evidence. Whilst in jail, the prisoners approached a guard to help them contact their accomplices who were still free. But the guard was himself caught and was now sentenced to twelve months in prison because he supplied letters and a cellular phone to the prisoners. Furthermore, as a result of tapping phone conversations through the cellular phone ten more people were arrested for their involvement.

Six months before the group was arrested, there had also been an investigation in a Western European country into a drug trafficking ring. Two members of the group were subjects of that investigation because they had been involved in drugs trafficking to both Europe and America. At time of writing, these individuals were also facing extradition and prosecution for a number of offences.



USE OF FALSE IDENTITIES, DOCUMENTS, OR STRAW MEN

Indicators:

- > Multiple transactions below threshold
- > Defensive stance to questioning
- > Illogical business activity - why send multiple cheques for cashing at a higher charge
- > Multiple use of money transmission services



A FIU in a Pacific-rim nation identified an unusual network of financial transactions. Analysis showed that over US\$8,500,000 had been remitted through the banking system by purchasing international fund transfers with cash. On a frequent basis, amounts of US\$24,000 had been transferred in multiple daily transactions. Individuals using false or stolen identification sent the funds through six different banks, presumably in an attempt to conceal the transactions from the authorities. Eventually the funds were transferred to more than twenty different accounts held overseas under a host of different controlling identities.

The police, informed by the national FIU, initiated an investigation. They made a request to the relevant overseas police force for assistance in gaining information on the account holders. It became clear that these account holders were allowing others to use their bank accounts in exchange for commissions. As the investigation continued, the police undertook surveillance operations to establish the identity of the contacts and the source of the funds. As a result of the surveillance, the police were able to positively identify a woman who was making international funds transfers using a number of false identities. Identifying the woman facilitated the tracing of another individual involved in the laundering syndicate. The overseas police assisted the investigators by highlighting this individual's history in trafficking heroin in Asia, as well as his connections to a freight forwarding company in the overseas country.

As the investigation continued, the national police located a house frequented by known drug dealers where activity was detected that suggested the occupants were in the middle of a significant drugs-deal. The police executed search warrants on the premises and located approximately eight kilograms of heroin. One room in the house was clearly being used to reprocess block heroin in wholesale quantities. Another room was used as an office and contained extensive records of drug shipments and movements of the proceeds. The investigators seized US\$385,000 and a significant quantity of jewellery.

During executions of other search warrants the police discovered seven imported water heaters at the residence of an individual believed to be involved in the drug importations. In two of the heaters, approximately 11 kilograms of high purity heroin were stashed, concealed behind an aluminium plate. This search also resulted in two arrests and the seizure of more than US\$13,000.

The overseas police also made a number of arrests and restrained assets of approximately US\$3,500,000. Asset restraints in the Pacific rim country totalled US\$1,000,000, including US\$385,000 in cash, US\$300,000 in jewellery, US\$47,000 in casino chips, as well as residential property.



USE OF FALSE IDENTITIES, DOCUMENTS, OR STRAW MEN

In total, seven people were arrested in both countries. A further ten members of the syndicate absconded. It is believed that over 70 kilograms of heroin were smuggled into the Pacific rim country within a twelve-month period by the crime syndicate. Four persons charged received lengthy prison sentences. The jail terms came to more than a hundred and twenty years combined.

Indicators:

- > Multiple transactions in a short time period
with no underlying business rationale
- > Use of false / stolen identities



A national FIU detected an international fund transfer scheme involving countries in both Pacific and South American regions. The individuals involved used false names and addresses, which made it difficult to link them to law enforcement intelligence on known offenders. The persons travelled extensively but maintained bases in specific countries from which the funds originated. They made several international funds transfer instructions through a range of financial institutions, all of which were structured to avoid mandatory reporting requirements. However, the nature of this activity aroused the suspicion of the bank and, after the bank disclosed the transactions, the suspicion of the national FIU. Following further analysis, the case was passed to the police who initiated an investigation.

The financial activity continued throughout the following year. The police monitored the international movements of the individuals and the financial transactions. International exchanges of information revealed that Asian / Australian police also suspected that the individuals involved were probably involved in drug trafficking activities. During the investigation, the Asian / Australian police searched a courier arriving from the country where the FIU was located. The suspect carried US\$90,000 in bank drafts.

Through criminal intelligence analysis, the suspected co-ordinator of the heroin importations was identified. The ongoing investigation led the police to search an airfreight package arriving in country. The package contained glass sculptures that held almost sixty kilograms of high-grade heroin. By using a controlled delivery, the police discovered the address where criminals removed the heroin from the surrounding glass and prepared it for distribution. Six individuals were arrested for heroin importation offences. As the investigation continued, the police were able to monitor the actions of other people known to be involved in the drug syndicate. Other members of the syndicate, involved in sending a second shipment of heroin to an American country were also arrested whilst authorities intercepted the shipment.

Indicators:

- > Use of false identification documents
- > International fund transfers at level just below threshold



Several individuals from an Eastern European country opened bank accounts at various financial institutions in Western Europe. They registered the accounts in their own names, or in the name of companies that they owned. Once the accounts were opened, the customers used them to circulate (layer) large sums of money. Roughly US\$6,000,000 shuttled to and from foreign countries through the various accounts, in an attempt to conceal the origin of the funds from external observers.

Despite the layering attempt, the financial institutions involved found the transactions suspicious and decided to disclose to their national FIUs. Several other institutions refused to enter into business relationships with these individuals due to initial concerns when account openings were attempted. These institutions also disclosed to the FIUs.

However, the criminal actions of some of these individuals had already attracted the attention of various police departments. A police investigation revealed the existence of an international criminal operation for trafficking in stolen cars. The authorities opened a judicial file for fencing stolen goods, money laundering and conspiracy.

Meanwhile, the FIU in the country where the majority of the account openings had taken place analysed the reported financial information. The analysis indicated that the same person had acted as introducer for all the holders of the accounts across a range of banking institutions. This person appeared to be a key facilitator within the laundering structure. The account holders were suspected to be just 'straw men', acting on behalf of others. The FIU also identified a variety of money laundering mechanisms to which the various transactions, sent by the financial institutions, could be connected. The link between these transactions, and the police information, made it possible to pass a report on to the judicial authorities. The intelligence highlighted organised crime and money laundering deriving from illicit trafficking in goods and merchandise.

From the financial analysis by the FIU, the police investigators had a coherent overview of the money laundering system. They questioned ten suspects, and subsequently placed two of them under arrest and seized large sums of money found in safety deposit boxes at a bank. Shortly after the arrests, international rogatory letters secured material evidence about the criminal origin of the funds and the membership of several of the front men in the criminal organisation.

The individuals involved were sentenced to prison terms ranging from one month to four years. A total amount of US\$300,000 was confiscated.

Indicators:

- > Lack of underlying business rationale
- > Multiple repeat movements of funds between accounts



An American FIU received a request from the Ministry of Finance. It appeared that some public officials had been involved in fraudulent activities. The fraud involved approximately US\$2,000,000, which had originally been intended for state pension payments.

The FIU, in co-ordination with the judicial police, immediately initiated a financial investigation, which eventually encompassed more than 40 individuals and companies. The FIU analysed relevant financial records to identify the location and movements of the funds involved. Visits to a range of banks (who provided information in record time) revealed that the US\$2,000,000 had been siphoned off into a number of private accounts. The individuals had used fraudulent documentation to legalise the fund transfers, as well as using false identity documents to open a number of accounts to move the funds through. The money was all laundered through large financial institutions and legitimised through the use of both real and shell companies. The swift exchange and co-ordination between the FIU and the police and the willingness of the banks to co-operate and submit information enabled a quick conclusion of the investigation.

The FIU's case report enabled the prosecutor's office to issue arrest warrants for the individuals involved - including several high level public officials. At time of writing, prosecutions against a number of individuals were being prepared.



A group of several Eastern European companies owned accounts at several different banks within the country. The business sectors in which the companies operated varied widely, but the one thing these companies had in common was the movement of their funds. The companies' representatives deposited large amounts of cash, averaging sums of US\$40,000 to US\$60,000 on a frequent basis. Immediately after depositing the money, the representatives always ordered transfer of the funds abroad to a number of different accounts belonging to other companies overseas. The explanations given for the transfers by all companies were that the deposits were for advance payment for commodity imports, and banking staff had been shown invoices and foreign trade documents to support this explanation.

Some bank officials had their suspicions about the authenticity and validity of the submitted documents. They wondered whether the deposited money really originated from commercial activities. The companies almost never submitted bills of entry or original invoices that could certify real commodity imports. Within a short time of each other, several banks decided to make suspicious transaction reports to the national FIU.

By analysing the companies and individuals involved in the cash deposits the FIU identified that the disclosures were linked. The FIU was able to check tax and customs registers to ascertain that the companies were fictitious, insofar as they did not have any identifiable level of business activity, customs' registration or commodity import transactions. The foreign trade documents submitted at the different banks as supporting documentation proved to be false. The FIU then submitted an intelligence request to FIUs in other countries, trying to get some information on the beneficiaries of the money sent abroad. Most of the beneficiaries - both companies and individuals - turned out to be either untraceable or wholly non-existent. A few were companies with connections to individuals known to be involved in crime, whilst others were registered in offshore jurisdictions, making identification of owners highly difficult. The FIU collated and analysed the intelligence received before providing an intelligence package to the corresponding law enforcement authorities for active investigation.

Investigations quickly revealed that the American dollars originated from an organised network of companies, which were smuggling high value goods into the country. Transferring funds offshore through cash deposits into the various banking institutions enabled the controllers to avoid significant amounts of taxes. As a result of the investigation, six individuals were arrested and the courts seized more than US\$500,000.



Indicators:

- > Large-scale cash transactions
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Missing documentation normally to be expected from a legitimate business
- > Missing account activity - the accounts were not used to pay any of the normal running costs of a business that may be expected.
- > Rounded sums transferred to pay for commodities - market multiples usually result in 'untidy' amount



During a routine regulatory inspection the financial police of an Eastern European country discovered business irregularities at a commercial company. Inspectors identified a range of unusual fund transactions to foreign countries. The amounts involved were significant and the underlying business transactions seemed illogical and economically unjustifiable. The commercial company had recently bought real estate in America through a financial professional named 'Charles', who worked at a European intermediary's office. The finance police decided to request more information from the national FIU.

The FIU initiated its own financial investigation. Due to intensive national and international co-operation, the FIU was able to draw some rapid conclusions about the fund movements. The intermediary office used the same name as a sales company in America, although it did not in fact have any connection to the 'parent' company. The name and address of 'Charles' were false as well. 'Charles' was in fact Henry, who was already suspected of involvement in drug trafficking activities. The FIU reported its findings to the financial police and the Public Prosecutor.

In the meantime, the commercial company went bankrupt. The director denied any transactions involving real estate acquisition in foreign countries. But the FIU's analysis showed the contrary. The police charged the director with violating the money-laundering act for the offences of fraud, counterfeit documents and contracts, and abuse of office and authority.

Indicators:

- > Use of company name designed to resemble an established companies
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction



Peter was a sales manager at Baking & Freezing Inc, a company that sold kitchen equipment to restaurants. To earn some extra money in addition to his regular salary, he decided to sell some of the company's equipment for his own purposes. As a sales manager, it was easy for him to arrange orders in such a way that goods were removed from the warehouse without invoices having to be raised. As the theft of this equipment included cookers and other large consumer items, it was a labour intensive task and Peter received assistance from his brother Johan.

Peter sold the stolen goods to different restaurant owners he knows that have no problems with buying cheap goods of unclear origin. Peter's sister Harriet was more than willing to open a new company account for these selected 'customers' to use to deposit their payments. In order to give additional legitimacy to the account, Harriet formed a company with a similar name to Baking & Freezing and was able to use the company documentation at the bank.

44

82

The boss of Baking & Freezing reported the thefts to the police when the missing stock was brought to his attention. Peter had stolen equipment totalling approximately US\$196,000 from the company. In order for the police to gain more insight into Peter's financial transactions, the help of the national FIU was requested. The FIU subsequently learnt that Peter purchased a house with the money he earned from selling the stolen goods.

Thanks to the co-operation and investigations of both the police and the FIU, the money in Peter's and his family's accounts were frozen. Subsequently, Peter was prosecuted for both 'stealing by an agent' and money laundering. In 1999, Peter was convicted for 18 months imprisonment for 'stealing by an agent' and an additional 18 months for money laundering offences. The house that he bought with the proceeds of the sale of the stolen goods was confiscated and sold, and as a result, the owner of Baking & Freezing was compensated for the theft.

FIU action:

- > Identify assets of suspect
- > Obtain restrain order against assets
- > Identify assets of relatives and customers



Gloria was a young and ambitious woman. For a couple of years she worked at a notary office as a secretary, but whilst there she developed an aspiration to quit her job and began academic studies at the local university, in order to become a notary herself. One day she met a new romantic interest called Grand. Gloria was very attracted to Grand, especially as he seemed to get on well with her young son. Grand and Gloria fell in love, and after a few weeks he moved in with her - they even had plans to get married. But whilst living with Grand, Gloria found out that her boyfriend was not the person that she had thought he was. Gloria knew that her partner did not earn his money with a normal office job. Some time later, he started to pressurise her to open several accounts in her name and to accept money deposited into the account by a number of individuals unknown to her. When she asked where the money was coming from, Grand threatened her and her son with violence.

45

In fear of her life, Gloria did as instructed and received over US\$300,000 from an individual living in a European financial centre as her first transaction. Not long after that she received another US\$60,000 from a lawyer living in the country where Grand had originally come from. After receipt of this money Gloria was forced by Grand to buy a house in a Southern European tourist centre. Grand identified the house to buy, and Gloria used a local notary to undertake the transaction.

83

The unusual fund movements through Gloria's accounts did not go unnoticed by the financial institutions concerned. The national FIU received a disclosure on the first transaction and after further investigation the analysts identified the second and subsequent transactions. In addition to these transactions, the FIU discovered that Gloria had another account over which a man named Nathan had joint control. Interestingly, the analysts discovered that 'Nathan' was the same person as 'Grand'. The FIU sent a copy of his identity documents to the FIU in Nathan's country of origin. This FIU did not find any records linked to either 'Nathan' or 'Grand', but by comparing different photos on different records they found out that Nathan/Grand had also undertaken financial transactions using the alias 'Fitzgerald'.

This last name was well known at to foreign FIU. Fitzgerald was involved in a large cannabis smuggling operation. His son Ferdinand headed up an important cannabis resin smuggling network. Ferdinand had recently been arrested for the illegal importation of 400 kg of cannabis resin. His legal representative turned out to be the lawyer who had sent the US\$60,000 to Gloria's account.

At this point the FIU forwarded the case to the public prosecutor. The police force immediately tried to arrest Grand and Gloria, but Grand managed to escape during the police raids. During the interview with the police officers, Gloria told everything



about her abusive relationship with Grand. The police released her without charge due to the violent coercion that had been used against her, but put a wiretap on her telephone line. When Grand tried to get in contact with Gloria, the police were able to trace and arrest him. Under interrogation, Grand alleged that the money in the European financial centre came from a tax evasion scheme related to a previous job - an attempt to escape the severe sentences possible for drug trafficking offences. At time of writing, Grand was still in custody awaiting trial on charges of laundering of drug smuggling proceeds.

Indicators:

- > Account activity atypical for account holder
- > Multiple account openings within narrow timescale
- > Unconnected parties channelling funds to a single account



Steven, a citizen of an Asian country, made a living by smuggling heroin from his home country to his clients in a Pacific nation. His customers paid for the heroin by transferring money to the accounts of Steven's accomplices, who include his wife Suzy, his sister Annabella and several other acquaintances. Steven used this money to fund new shipments of the heroin as well as to support a luxurious lifestyle. The profits of the deals were shared amongst Steven and his co-conspirators.

In order to conceal the stream of money from the Pacific country to the Asian country, the customers split US\$6,000,000 into two different currencies spread between personal accounts of Steven and his nine accomplices. Initially the Pacific customers remitted the money frequently, and for amounts just under the mandatory reporting threshold in place in the Pacific nation of approximately US\$6,000.

46

To any experienced financial analyst, the 'smurfing' activity would have been obvious in the first twenty remittances to Steven's accounts. On receipt of a remittance, Steven usually withdrew all of the funds in cash or transferred them to another account with the same institution. After transferring the funds to another account, the account holder, usually Steven himself dispersed the funds immediately by cash, cheque or cashier order. Following each transaction there was usually a period of inactivity on the account. Other than the remittances from the Pacific country, there was no other activity on the accounts concerned.

85

In order to receive the remittances, Steven and his accomplices had opened a wide range of accounts. Individuals who were not residents of the Asian country opened a number of the accounts. The individuals who opened such accounts tended to use false identity documents to further confuse the laundering activity. Other individuals were given control of the accounts opened in this way. The amounts of money received on these accounts were far greater than seen in other accounts held by these individuals. Steven, for instance, claimed to be a mechanic and Suzy said that she was a housewife. The other accomplices claimed to have jobs such as drivers, casual workers, interior decorators and account clerks. The amount of money moving through the accounts was clearly not commensurate with their declared employments.

Finally, because the bank officials thought that the amount of money going through the accounts of Steven, Suzy and Annabella were extraordinarily high in comparison to their known employment, they reported three disclosures to the national FIU. Based upon the reports, law enforcement units undertook investigations and managed to gather a great deal of evidence against the three family members. Steven was convicted of conspiracy to traffic in dangerous drugs and money laundering. Steven's wife, Suzy, and his sister, Annabella, were both convicted of assisting Steven to launder the proceeds



of the drug trafficking. Furthermore, in the pacific country, the police arrested the receivers of the heroin shipments following intelligence generated by the arrests in the Asian nation. At time of writing the receivers had pleaded guilty to charges of drug trafficking and were awaiting sentence.

Indicators:

- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Change of account behaviour without explanation
- > Unrealistic wealth compared to client profile



Martin, Manuela and Duncan were three young people who found an easy but - as they later realised - dangerous way to earn money by smuggling heroin. The three were in their twenties, but had already decided to set up a criminal business to generate wealth. The only difficulty that they foresaw was that their bank accounts would show significant changes in levels of activity in comparison to earlier -legitimate - employment. Additionally, there were problems with the reporting obligations of the financial institutions. Martin, Manuela and Duncan were very well informed of the risks of disclosure, as were their foreign contacts. After a few days of studying the disclosure regulations in their respective countries, the three drug traffickers decided to ask their customers to send payments for the drugs in small amounts using a number of subordinates to further dispel suspicion. A classic case of laundering by 'smurfing'. New accounts would also have to be opened to prevent comparisons with previous financial behaviour.

47

As part of the laundering plan, Martin opened a new account at the local bank. He told the bank employee that he worked as a taxi driver, and that he lived on a public housing estate. The cashier did not view the account-opening request as unusual, as Martin fitted the typical customer profile of that branch. Over the following year, activity through the new account remained low. However, as time went on the trafficking business started to increase in scale, and so too did the proceeds that needed laundering. At the same time, unemployed Manuela, and factory worker Duncan, also opened accounts at the same bank.

87

One and a half years after the foundation of their smuggling business the first significant drugs-shipment succeeded. The three young entrepreneurs finally began to see the fruits of their labours as the foreign customers started to send them the payments for the heroin.

Within three months of the successful shipment, Martin received, by a large number of small transfers, almost US\$190,000 into his account from overseas. In the same period, Duncan received, through a dozen remittances, almost US\$200,000 and Manuela received almost US\$120,000. The criminals used 12 smurfs in total to facilitate the transfers. In order to further layer the funds, the three friends withdrew the money in cash on the same day that they had received it.

Fortunately, the bank employees were aware of the 'know your customer' rules of the jurisdiction and they noticed the unusual activity in all three accounts. The employees also saw that the three accounts sometimes received money from the same individuals, demonstrating a link between three apparently unconnected customers. They also noticed that the money received was always withdrawn within a day and that the remitted money always came from the same country. The bank had sufficient suspicion to report the case to the national FIU.



Following a financial investigation, law enforcement was able to arrest and charge six individuals including Martin and Duncan, for conspiracy to traffic in dangerous drugs and the seizure of 7.4 kg of heroin. At time of writing, two of the defendants had already pleaded guilty and were awaiting sentence. Martin, Duncan, and the other two defendants were awaiting trial.

Indicators:

- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Large-scale cash transactions
- > Unrealistic wealth compared to client profile



An Eastern European FIU initiated an investigation after having received a disclosure from a bank. A government backed company, Slava Ltd, received a donation from a sponsor amounting to US\$400,000. Slava Ltd subsequently transferred the donation to a building company, Edifice Ltd, in order to construct a new public building for a local community. Steve, who was the president of companies Edifice, Pole, Brick, Spade, and Hoist, drew up a sub-contract between Edifice, Brick, and Spade to undertake the construction work. Edifice promised to pay US\$170,000 to each of the other two companies. Each of the aforementioned companies held an account with the same local bank.

In January, Steve made an application to the bank with a request to change the name of the accounts previously called 'Pole' and 'Hoist' to 'Brick' and 'Spade'. In February the accounts were credited with US\$340,000. In March, Steve cancelled his application for the account name change. This meant that Brick and Spade become Pole and Hoist again. In April, following Steve's instructions, US\$340,000 were disbursed in cash from the accounts of Pole and Hoist to a friend of Steve's relatives - an unemployed man called Michael who was later found dead in suspicious circumstances.

By confusing the account names, Steve had managed to withdraw the money of Slava Ltd without attracting undue attention from either the bank or the government. Virtually no construction work was done during the period of January - April. Steve has since disappeared, and the authorities have been unable to trace him. The US\$340,000 has not been found, because Michael forwarded the amount to an unknown beneficiary and did not leave any trace. Given the fact that Michael is dead, it has been impossible for the FIU to trace the final destination of the money. Because the FIU sensed Steve's construction to be a money laundering operation, it disseminated their findings to the police. Currently the case is under police investigation.

Indicators:

- > Rapid and contradictory changes to account names and/or beneficiaries



Patrick, a citizen of a South American country, was part of a network of individuals involved in the possession and distribution of cocaine and heroin. He deposited the earnings from these activities into his accounts in a financial institution in a European country, after having the cash converted into bank checks. Until 1989, everything went well with Patrick's business, but later that year he was arrested in another European country in relation to drug trafficking offences.

As a good businessman, Patrick had always considered the risks involved in his line of work. Looking ahead to the possibility of arrest, in 1987 he had transferred a sizeable amount of his money to another bank in the country where he was subsequently arrested. In 1988, the money was transferred to a third account that had been created using false identity documents at another bank in the same country. He gave his wife, Anna, the power of attorney for this account. In the month following his arrest, Anna withdrew the entire amount that had been deposited into the account in 1988. With the aid of an accomplice and her husband's attorney, Anna tried to hide the illicit origin of the funds by depositing the funds as assets of companies owned by the accomplice. The subterfuge was successful and the confiscation activity that followed the arrest did not discover the hidden monies.

However, in 1995 Patrick was arrested again for drugs trafficking, this time in his home country in South America, and was convicted and sentenced to a term in prison. Meanwhile, in Europe, the funds hidden in 1989 had been discovered by further law enforcement financial investigations. Anna, the accomplice, and the attorney were convicted in absentia for having knowingly attempted to facilitate an explanation of the origin of drug trafficking money. Anna and the accomplice were also convicted for depositing and causing to be deposited the suspicious money in bank accounts belonging to companies that had been specifically acquired for such purpose. These 'shell' companies had had no legitimate function and had not undertaken any discernible trading activity.

The attorney was convicted of having actively assisted them by selling all the shares of the company that was designed to have served as the front to the laundering operation, and by opening a bank account and leasing a safe deposit box in the name of the shell-company. The attorney was also found guilty of knowingly assisting an operation in which the proceeds of criminal acts were deposited and concealed. The three defendants lodged an appeal against the various sentences, which was turned down in 1999, and at time of writing a further appeal was under consideration.



Any individual who wishes to buy a house in another country can encounter a range of problems. Searching for a suitable property usually takes a great deal of time, the language - especially the legal terminology used in a property purchase - of the other country may be an obstacle and knowledge concerning the value of real estate in another country is hard to come by. Henry, a European citizen, saw these problems as an opportunity to earn a second income. He posed as a broker for purchasing real estate for immigrants. The potential buyers indicated the amount that he or she could afford to pay each month in mortgage payments, and provided a pay slip and a copy of his passport to Henry. This was to enable Henry to 'take care of everything' with the lending institutions.

Henry did indeed take care of everything. He searched for a suitable property and had a valuation assessment report drawn up. Using the assessment report he arranged an appropriate mortgage for his client. However, the valuation report in fact valued the property significantly above the market value - but always just enough for a mortgage that the client could afford to pay. Once the mortgage was authorised, Henry bought the house himself for the true market value, and on the same day sold the property on to his client for the value stated in the assessment report. This meant that on each property Henry made a significant profit with no risk.

Henry also used associates to keep his name out of the transactions. John, one of the associates, made his bank account available to Henry. John remained the account holder, but as the authorised agent, Henry was able to manage the account. The funds from the frauds accumulated to the point where Henry withdrew more than US\$850,000 in cash from John's account. Some time later, a civil-law notary office transferred more than US\$127,000 to John's account from another house purchase and resale. According to the notaries' records, the money was for Henry. Henry said that a mistake had been made - wanting his name kept out of all the transactions. According to him, someone named Grover was the true beneficiary of the funds. The bank holding John's account decided to transfer the funds back to the account of the civil-law notary office. Both transactions were reported to the national FIU because of the bank's suspicions.

At the FIU, it turned out that Henry was already on record in law enforcement databases as a fraudster. The FIU passed the report on to the police, which had already filed a number of complaints concerning Henry and his services to immigrants. A preliminary inquiry had been going on for some time and a formal criminal financial investigation had just begun. During a search of Henry's home, the police team discovered that Henry had a number of false identity documents in his possession. The ID cards had been used to open a number of bank accounts. It was also found that Henry had not bought the houses himself, but used a range of associates of which John was a single example. Henry's wife, who was authorised to access



USE OF FALSE IDENTITIES, DOCUMENTS, OR STRAW MEN

the associates' bank accounts, had withdrawn the funds. At the end of the criminal financial investigation, it turned out that over a two year period, Henry made over US\$850,000. After deduction of costs (like paying his associates) his illegally obtained profit still added up to more than US\$640,000. In total, he had cheated around one hundred and fifty people.

Indicators:

- > Deliberate concealment of fund ownership



Leo, a non-resident of a European country, wasn't very satisfied with his legitimate annual income as an employee of a postal service. Along with Joey, a close companion, he decided to concentrate on finding a quick and painless way to obtain wealth. After some time, the duo believed that they had identified a good - if illegal - way of making money.

Leo used his local bank to open a foreign currency account into which he deposited a check for approximately US\$225,000, issued by a company registered in Delaware. At the local bank, Joey shadowed Leo's actions, ready to step in as a character reference if needed, as he was already a longstanding customer of the bank. The front desk employee noticed Joey at the time the account was opened by Leo, but didn't question his presence at that time.

After Leo received the money into his newly opened account, he immediately withdrew most of it. He withdrew approximately US\$105,000 in the local currency and US\$50,000 in American currency. He then ordered the bank to transfer US\$60,000 to Joey's account at the same institution. Joey, for his part, withdrew the money as soon as it was credited into his account.

While Leo and Joey enjoyed their ill-gotten gains, the local bank received the alarming news that Leo, in fact, was not the individual authorised to cash the check. The bank immediately informed the national FIU about the apparent fraud by Leo. The disclosure included the obvious link between Leo and Joey (documented by the fund transfer).

After receiving the bank's report, the FIU initiated a preliminary investigation. By exchanging information with the FIU in Leo's homeland, it became clear that the aforementioned cheque was stolen during a postal transfer. However, the foreign FIU also reported that the identity of Leo - used to open the bank account - was based upon a passport reported stolen four years ago.

During the investigation by the FIU, another account of Leo's was identified. Leo deposited US\$80,000 in the local currency into this account, and tried to transfer the money to Africa. He failed to transfer the money, however, because of a miscompleted payment order. Eventually Leo withdrew part of the money in cash, transferred the rest to another country and closed the account. This activity raised the suspicions of the second financial institution, and a separate financial disclosure was made to the national FIU on this account. The FIU was able to link the two accounts due to the timing and type of the currency deposits.

While the FIU was gathering more and more information, Leo contacted the first bank to close the foreign currency account. He planned to withdraw the balance, approximately US\$10,000 in cash. The financial institution made another urgent disclosure to alert



the authorities. The following morning, an unsuspecting Leo entered the bank. Instead of receiving his money, Leo left in handcuffs. Joey was arrested a few days later, whilst trying to leave the country. Both individuals are currently facing charges of fraud, forgery of public documents and money laundering.

Indicators:

- > Possible client relationship to previous crimes
- > Unrealistic wealth compared to client profile
- > Large-scale cash transactions



A Western-European FIU developed an important financial investigation during 1997 and 1998. The FIU had received disclosures about a group of people exchanging the national currency into various other currencies. The exchange transactions were at a number of different branches of the same financial institution, but the transactions always remained below US\$3,000 - classic 'smurfing' activity designed to avoid mandatory reporting requirements. The financial institution had been able to identify these exchange transactions by using a computer program designed to detect transactions that were actually linked despite being structured in such a way as to appear unlinked.

When the FIU examined the customers' backgrounds, it found out that they were in fact intermediaries who had exchanged over US\$1,800,000 in 1997. In 1998 the amount of currency exchanged had increased to over US\$2,700,000. In addition to the exchange transactions, the intermediaries had also performed numerous money transmissions to overseas locations. Examination of the records relating to the money transmission revealed that the beneficiaries in the other countries were all related to each other. The family concerned owned a restaurant in a Western-European country but had originally been from Eastern Europe. The FIU decided to inform the police about the financial transactions, and as a result the police initiated an investigation.

As the investigation continued, the police learnt that the intermediaries and the family were all part of a laundering service for an organised criminal group. The criminal group carried out a range of different illegal activities, although the primary activities were burglary and robbery. The group used well-organised communication and command techniques, controlling operations from rented cars and properties. The burglars worked during the night. They entered houses by breaking doors and windows, or industrial buildings and stores by descending with ropes from the roof. Once inside the house or building, the burglars sought out safe-deposit boxes or safes, hoping to find money and jewellery.

Another significant activity of the group was heroin trafficking. The group obtained the heroin in Europe and distributed it to other European countries. Last but not least, the group laundered the profits of their crimes. The criminals used the intermediaries, who had no police records, to place the money in the financial system by currency exchanges followed by wire transfers into accounts across Europe. From thereon the group laundered the money itself, using false identity documents to utilise a range of investment products.

Although the false identities made it hard to determine the criminals' real identities, the FIU's financial analysis had exposed the whole group. By June 1998 around 130 members of the groups had been arrested by police forces in various countries.

Indicators:

- > Multiple transactions below threshold
- > Multiple unlinked transactions benefiting the same individual(s)



Ann and Louise - two sisters, who lived in a Western European country - daydreamed about big money, fast cars and long holidays. They discussed the possibilities of accomplishing their dreams, but always came up against two problems: they were not the most talented of individuals and, more importantly, they were allergic to hard work. Therefore, Louise, the eldest sister, began to consider the possibility of illegal activities. It didn't take long before they had decided - Ann and Louise would try to become rich by selling drugs.

Soon they had made all the necessary contacts and business was going well. The sisters were making a lot of money. They both opened accounts at two different offices of a national bank - thinking that that way they could avoid being noticed by the authorities. However, their assessment of their own intelligence was surprisingly accurate - they had failed to understand the anti-money laundering regulations designed to detect such activities.

53

The bank detected large cash deposits into both accounts amounting to more than US\$1,000,000. Each and every time the sisters made a deposit, they immediately transferred the money or asked the bank to issue bank cheques. The beneficiaries included a number of individuals and companies in New World countries. Due to regulations the sisters had to fill in forms stating the purpose of sending their money out of the country. At first Ann and Louise declared that they imported textile products and were sending funds to cover purchase costs in the originating nations. In later transfers the cover story had changed to importation of fish and other foodstuffs. Documentation passed to the bank to support the cover stories was unconvincing and appeared possibly counterfeit. The bank was not really convinced about the probity of the sisters' business and disclosed their transactions to the national FIU.

96

The FIU started to investigate the sisters' conduct. Although Ann and Louise had claimed that they traded in textile and fish products, their names did not exist in the chamber of commerce database or any other commercial databases linked to these business sectors. It seemed highly likely to the FIU that no such importations were in fact done. Then the FIU received information from a police unit that Louise had been seen in the company of individuals known to be involved in drugs trafficking. The final nail in the coffin for the sisters laundering attempt is the fact that the sisters were arrested at the border of an American country carrying 25 kilograms of cocaine. Able to make a rapid decision in the face of such overwhelming evidence, the FIU sent the transaction details and its final analysis to the judicial anti drug authorities, which in turn passed the case to court.

Ann and Louise were sentenced to seven and ten years imprisonment respectively. A recent appeal was dismissed, with the Supreme Court confirming the sentence as justified due to indications of repetitive money laundering activity and interrelated drugs trafficking offences.

Indicators:

- > Large-scale cash transactions
- > Large and/or rapid movements of funds
- > Questionable rationale of underlying business



In a relatively quiet mid-European town, the local bank was pleased to attract a new customer - Bill. The bank clerk noticed immediately the expensive apparel and cultured manners of the new client, and foresaw few problems when Bill wanted to open a personal account. Bill explained that he was an agent acting for a foreign property firm dealing in real estate properties in Europe and America. He further explained that his commission payments would be credited into the new account. The bank-employee opened the account for the new customer, and subsequently huge sums of money flowed into the account from overseas.

Some time afterwards, Bill called his bank and said he wanted to close his account immediately. When asked why, Bill said that he had had a disagreement with one of his clients. Furthermore he claimed to be very upset, because a third party had informed him that the property firm he had been working for was, in fact, a front company for money laundering activity.

54

97

Not surprisingly, Bill's story aroused suspicion. The bank-employee decided to investigate the commission payments Bill had received. Bill was asked to submit the contracts on which the commissions were based. They turned out to be drafted amateurishly and could not possibly have been the genuine documentation. When Bill was confronted, his explanation was not plausible, and was to some extent even contradictory. Bill's attitude changed rapidly and he became increasingly reluctant to discuss the matter. On top of that, the existence of the company Bill claims to be working for could not be verified. The property firm wasn't registered in the Chamber of Commerce at the European country in which it was supposed to be incorporated.

At this point a disclosure was made to the national FIU. The bank disclosed the transaction report in respect of the fund movements and all additional information gathered in their own investigation to the FIU. The FIU detected that several of the individuals involved had already been implicated in property fraud cases elsewhere in the jurisdiction. Following further analysis to ensure that all possible intelligence had been collated, the intelligence package was forwarded to an investigating police unit.

At the time of writing, a full criminal investigation was underway to determine the extent and scope of the property fraud activity.

Indicators:

- > Illogical business activity: Why would a wealthy and successful businessman need to approach a small bank and without any supporting financial documentation.
- > Questionable rationale of underlying business
- > Defensive stance to questioning



During an examination of a company's export reports, a bank employee detected some questionable transactions in four connected bank accounts. Fifteen different companies deposited their export profits into one of these accounts. The bank employee believed that these bank accounts could be connected to money laundering, and filed a report with the national FIU.

The national FIU initiated an investigation into the fund movements. During the investigation, an analysis of the records indicated that nineteen more bank accounts were related to the four disclosed accounts. The account owners did not appear to have any legitimate relationship with the companies that were performing transactions through these accounts. In fact, these twenty-three bank accounts, located in seven different banks, were managed and used by a single individual - Gilbert. Varying identities had been used to open the accounts, but Gilbert used all twenty-three accounts to perform transactions for several companies. The real account holders were serving as figureheads. They signed blank sheets of paper that Gilbert used to carry out bank transactions.

55

98

Using these accounts, Gilbert was transferring large amounts of money to companies in a number of different countries. Inquiries at these companies revealed that the transferred money served as payment for goods sold. Yet no official records about the supposed trades were discovered. The national companies were importing the goods without paying tax. By using Gilbert's services, the money paid for the goods was not clearly linked to the companies, facilitating the tax avoidance scheme.

However, that was not the only service that Gilbert was providing. He also seemed to be involved in gold smuggling. Some of the companies for which Gilbert was handling the finances supplied gold to the national market. The records showed that the gold was sold to the national market. Even transactions in the accounts, managed by Gilbert, seemed as if they related to the national gold trade. But the gold was actually sent to a neighbouring country. The suspicion arose that the gold was being smuggled via the neighbouring country to another country in the Asia/Pacific Region and used as payment for heroin shipments.

Last but not least, Gilbert used the accounts to deposit cash or cheques. He claimed these to be exportation equivalents, which belonged to several export companies. However, investigation showed that there wasn't any exportation performed by these companies. The considerable number of cheques came from unknown sources. It was estimated that these cheques originated from drug trafficking activities. By depositing them as exportation profits, the cheques were injected into the legal economy as if they were legitimate proceeds.



Because of the information the FIU gathered, the public prosecutor charged Gilbert and four accomplices with money laundering offences. At time of writing, the trials were still ongoing. The FIU is also undertaking a larger investigation into those financial institutions which made no disclosures in relation to the sizeable funds flowing through their accounts despite what appear to be suspicious circumstances.

Indicators:

- > Unconnected companies channelling funds to a single account
- > Use of accounts by apparently unconnected third parties



The existence of differing jurisdictions worldwide offer possibilities for exploitation by launderers due to differences in bank secrecy laws, identification requirements, disclosure requirements, taxation laws, company formation requirements, and currency restrictions. The more difficult the launderer can make the task of the investigator seeking to prove a link between the criminal and the assets, the more likely it is that law enforcement investigation will be unsuccessful. Unfamiliarity with other jurisdictions, difficulties with language, restrictions on information availability, and the sheer cost of overseas investigations can all hinder the investigator. Even where jurisdictions are well placed to assist investigators from other jurisdictions on financial investigations, the generally slow nature of international inquiries gives an advantage to the launderer, who can use such delays to further confuse the audit trail.

Increasingly globalisation of financial services means that criminals can easily move funds between jurisdictions multiple times at low cost, greatly increasing the cost and time of any future investigation. It seems likely that globalisation of financial services will continue to increase, making the ability for national FIUs to exchange intelligence of increasing importance.



A foreign FIU sent an intelligence request to a European FIU via the Egmont group. The individuals and companies included in the request - one of which was an individual named Harvey - were suspected of being engaged in money laundering. Upon checking available intelligence databases the European FIU noted that it had recently received a disclosure from a financial institution about Harvey.

Harvey had opened two accounts at the institution several months before. Immediately afterwards, one of the accounts was credited with funds sent from an offshore tax haven. Harvey, who also appeared to be the principal of this transfer, withdrew the money in cash immediately. Then the account remained inactive. This transaction hadn't seemed unusual to the bank at first, and so no disclosure had taken place at that time.

However, recently Harvey's account had been credited on multiple occasions with new and sizeable amounts of funds coming from the offshore tax haven. The principal of these transfers could not be identified. Harvey then divided the money and transferred a proportion to several companies located in his country of origin. Before executing this latter transfer, the bank disclosed to the national FIU to obtain clarification on whether the FIU might object to the movement of the funds.

Since both Harvey and a number of relevant companies were cited in the foreign FIUs intelligence request, the European FIU requested additional information in return. In the meantime, the European FIU also questioned the national police department. It turned out that Harvey, and the companies concerned, formed the object of several investigations for serious fiscal fraud employing dummy corporations.

By virtue of a memorandum of understanding, the foreign FIU authorised the European FIU to use its intelligence. It also asked the European FIU not to halt the transaction disclosed by the financial institution so as not to hinder the ongoing investigations.

The accounts Harvey opened served solely as transit accounts. The performed transactions seemed to be connected with ongoing national and international investigations. In order to formally link these transactions to the investigations, the European FIU passed the case file on to the judicial authorities. The FIU pointed out the serious indications of money laundering derived from serious and organised fiscal fraud, employing complex mechanisms and procedures on an international scale.

At time of writing the case is still under investigation by judicial authorities.

Indicators:

- > Re-activation of dormant accounts
- > Concealment of beneficial owner of funds
- > Over complex movement of funds between accounts / companies



An American national FIU received a transaction report about Jerry and Jonah. Jerry and Jonah were both clients at a bank that was located in a region known for organised drug trafficking activity. They both deposited large amounts of cash into a number of different accounts, and then transferred the funds to other accounts in an Asian country via inter-bank transfers.

The FIU investigated Jerry and Jonah. It appeared that they had several accounts at different banks, all located in the same area. Further analysis revealed that Jerry and Jonah used the same address and explained their banking activities to their financial institutions with the same cover stories. Investigation by FIU staff also revealed a local newspaper article that had named Jerry as being part of a drug trafficking ring.

At time of writing, the case is still under investigation by national law enforcement agencies and will be remitted to the prosecutor for action when completed.

Indicators:

- > Large-scale cash transactions
- > Media coverage of account holders activities
- > Rapid inter-bank transfer with little explanation



Sandra and Lars, both foreigners in an Eastern European country, spent most of the year in a small cottage near the coast. They had chosen an isolated home to help keep a low profile, because Lars was connected to a bank robbery in their home country. They planned to have no contact with their home country and to avoid drawing any attention to themselves in the new country until law enforcement attention had moved on.

Because they had yet to receive the proceeds of the robbery from the other members of the gang, Sandra opened a non-residential account at the local bank. Immediately after activating the account, large amounts of funds were transferred in from a range of different countries - the Lars' share of the proceeds as sent by the other robbers. Sandra and Lars took the opportunity to live in luxury. They withdrew part of the money in cash and ordered bank transfers to send another part of the money to a range of bank accounts in offshore banking centres.

58

Then Sandra instructed the bank to transfer the remaining US\$800,000 to another offshore account. By this time the bank had had increasing suspicion about the activities taking place in the non-residential account. Instead of performing the transfer, the bank disclosed to the national FIU.

During the financial investigation undertaken by the FIU, it was discovered that Lars and Sandy were both well known to police and FIUs in a number of countries around the world. The investigation also found that one of the American companies which had remitted funds to Lars and Sandy's bank account had numerous regulatory violations recorded against it and was the subject of investigation by law enforcement in America. This evidence of links to criminality was reason enough for the FIU to submit a report to the Public Prosecutor. The US\$800,000 was immediately frozen. According to police data, Sandy was an unemployed housewife. She and Lars had founded a company, which was not in fact trading actively, and therefore the couple had no legitimate business at all - undermining the only possible explanation for a legitimate source of the funds.

At time of writing, the criminal investigations in Europe and America were still ongoing.

Indicators:

- > Unrealistic wealth compared to client profile
- > Unconnected parties channelling funds to a single account
- > Unrealistic business turnover
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction

104



A national FIU in Western Europe received a suspicious transaction report from a bank concerning a wire transfer of US\$2,500,000 into the account of a Swiss trust company. A bank in a major European financial centre had issued the wire transfer, and the sender was a man with an Asian name. At the same time the bank account was debited by a cash withdrawal of almost US\$100,000, as well as by a number of wire transfers to various individuals via bank accounts in different Western European and American countries. No explanation was given for the movement of this large amount of money or the subsequent 'splitting' of the funds to the various individual accounts.

Beginning with this information the FIU started to make inquiries and learnt that the individuals acting on behalf of the trust company which had received the funds were Debbie and Harold, two citizens of a Western European country. Debbie was already known to law enforcement for involvement with illegal prostitution, fraud, and falsification of documents, and Harold had been involved in a money laundering inquiry conducted by the police in his home country in 1995. Through the Egmont group, the FIU contacted other national FIUs in Europe and America with a view to exchanging intelligence on the case. These FIUs were able to provide extensive intelligence concerning Debbie and Harold.

A European FIU also provided the requesting FIU with information about two possibly related wire transfers of US\$40,000 to Derrick, which had been disclosed to them by an institution at around the same time. Derrick was a citizen of the same country as Debbie and Harold, but he lived on a Mediterranean island. The FIU learnt that the bank account on the island had been opened by a wire transfer of US\$50,000 from a city in Eastern Europe. The FIU also learnt that Derrick was known by the local police for involvement in minor fraud schemes and falsification of documents.

At the same time, the inquiring FIU received information from another European FIU concerning the sender of the initial US\$2,500,000 - a Mr. Chang. Mr. Chang was originally from Asia but had established himself in a large European financial centre. The money had been transferred from one of his bank accounts after being credited by a wire transfer from America via Asia. Harry, a citizen of the same European country with a long history of criminal activity, had been the individual who had actually sent the funds. An American FIU informed the requesting FIU that the US\$2,500,000 had originally come from Chang's bank account in an Asian city. The Asian police informed the inquiring FIU that Chang's bank account currently contained just US\$80,000.



At this stage, the FIU referred the case to the public prosecutor, requesting that he restrained the remaining monies in the account on which the inquiry first started, which he agreed to do. At the time of writing, the police in the country where the inquiry was being conducted had taken Debbie and Harold into custody. Debbie and Harold are awaiting trial on charges of laundering the proceeds of fraud.

Indicators:

- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Large and/or rapid movements of funds
- > Unexplained dispersal of funds to multiple beneficiaries



Andreas had a bank account at a bank in Southern Europe. Twice in rapid succession he received a large amount of funds into the account by transfers from bank accounts in both a central European and an overseas jurisdiction. The large sums of money Andreas received were disproportionate to his general economic activities. Andreas had a small restaurant in a tourist centre at the coast, but no other known sources of income. Once the money had arrived, Andreas transferred the money immediately to another account at the same bank in the name of a hotel company called 'Sunny Shore'. Because the bank officials viewed this activity as unusual they decided to report the transactions to the national FIU.

Investigations by the FIU revealed that, in addition to Andreas, six other individuals had received large amounts of money at around the same time, which they had also transferred immediately to the 'Sunny Shore' account. Interestingly, sometimes they had done this via another transfer through third party accounts. All transfers initially came from accounts in the central European or overseas jurisdiction.

60

107

To discover the identity of the sender of the money, the FIU sent a request for information to the bank in central Europe. Unfortunately, because of legislative problems in that country, it was not possible for the national FIU to gain access to that information. In the overseas jurisdiction, investigators were more fortunate. They found out that the money transferred to the individuals in Southern Europe was first transferred from an account in the central European country to an account in the overseas country. It seemed increasingly likely to the investigators that someone was trying to hide the origin of the money destined for the 'Sunny Shore' account. In the course of the investigation the FIU also discovered that the major shareholder and manager of 'Sunny Shore', Terrence, was a citizen of an Eastern European country who had used at least four false names in his banking activities. Terrence appeared to be a prominent member of a large criminal organisation. He was a professional killer, against whom criminal proceedings had already been initiated in his home country for homicides, thefts and weapons dealing.

As a result of the investigation of the FIU, the money found in the account of the reporting institution was connected with the criminal activity of Terrence. Consequently the bank accounts of Andreas and the six other individuals, as well as Terrence's account were frozen and property and assets were confiscated. In total hundreds of thousands of dollars worth of criminal funds were recovered.

Indicators:

- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Account activity atypical for account holder
- > Atypical or uneconomical fund movements within accounts



Brandon, Leon and Ferdinand planned and carried out a successful bank robbery. The attack targeted a small financial institution in a town far from their usual area of operation. As a result of the raid, the three men stole approximately US\$270,000 in mixed denomination currency. They divided the proceeds in equal shares, and each of them went home with almost US\$90,000. However, the problem remained of how to enjoy the monies without coming to the attention of the authorities. Brandon realised that this was a serious issue to overcome but fortunately his cousin Lawrence, who lived overseas in another country was willing to help him with the concealment of the money.

Brandon decided to transfer his share of the loot to Lawrence. In order to get the cash in a form that facilitated the transfer, he opened a bank account, deposited the cash, and requested a transfer to Lawrence's account overseas. The cousins agreed that Lawrence would send it back to Brandon's account two months later as a repayment for a 'loan', thereby creating a cover story that could be used in the future to explain the funds. However, the bank involved was suspicious concerning these two transactions and reported the case to the national FIU.

Investigations by both the FIU and the police in Brandon's country identified that Brandon had a history of armed robbery, and they also identified the link between him, Leon, and Ferdinand. Furthermore, they discovered that the initial transaction undertaken by Brandon was done just a few days after the robbery - and the cash deposit used notes and currencies identical to those taken in the raid. The authorities concluded that the transferred money was Brandon's share of the loot and that he, by means of the double transfer, had tried to legitimise the source of the funds.

Unfortunately for Brandon, his plan did not work out very well. The authorities initiated judicial proceeding against the three robbers, and their bank accounts were frozen.

Indicators:

- > Large-scale cash transactions
- > Large and/or rapid movement of funds



In April 1999 the national FIU in a Southern European country forwarded a suspicious transaction report to the special police service of the Financial Police. The report concerned a series of financial transactions undertaken by a real estate agent called 'Home Sweet Home' through a financial intermediary. The transactions were all done in 1998 in the name of Laurens who came from the south of the country. The investigators found out that the total amount of money involved in all the linked transactions amounted to over US\$4,600,000. However, investigators also determined that Laurens did not have any explanation for the significant assets that he was amassing - tax declarations and records of paid employment showed only minimal levels of income.

It was discovered that by a series of bookkeeping strategies (such as 'repayments' of fictitious loans to associates) supplemented by false invoices, Laurens had been able to provide an apparent explanation for the funds to the casual observer - and in that way render impossible any connection with any other activity.

Through a series of complex financial transactions Laurens, always with the help of Home Sweet Home, gave the money to Cosimo, a friend and associate who offered to 'clean' the money through financial advisers who were willing to identify investment opportunities for the transfer and the reinvestment of the funds. The financial intermediary that had disclosed was just one such operative.

Further financial investigation discovered that on the advice of the financial middlemen Laurens had bought investment funds with a value of US\$2,000,000 and had opened current accounts in a Central European country. Funds were then moved between multiple accounts in a number of different countries, confusing the picture further. In case Laurens needed the funds to be returned to his home country without any obvious linkages to his activities, he had had the accounts opened in another name using false identity papers.

Due to the lack of a legitimate identifiable source for the large amounts of funds uncovered by the investigation, Laurens and Home Sweet Home increasingly came under suspicion as being involved in some form of criminality. The investigation changed approach to focus on discovering the source of the funds.

Regional police squads carried out further investigations all over the country, and inquiries were also made abroad. The investigations produced a significant amount of evidence linking the laundering operations with organised tax evasion and fraud in several locations. As a result, three individuals were arrested, eleven individuals were identified as involved to a lesser degree, and investment funds worth more than US\$2,000,000 were seized.

Indicators:

- > Atypical or uneconomical fund movement within accounts
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction



A national FIU encountered an interesting fraud attempt using an old deception technique alongside new technology. An individual named John established and registered a company, Maze Ltd, in country A for the provision of gambling services on the Internet. John did not apply for a regulatory license to operate such a business in that jurisdiction. The fraud revolved around the fact that there was already an internet gaming company called Maize Ltd in country B that was in no way connected with John. A month later, John arrived in country C to open an account for his company - Maze Ltd - with a local bank. This was an internet-account accessible from any jurisdiction and provided the financial flexibility necessary to facilitate the fraud.

The next stage of the fraud saw John travel to country D, where he advertised his 'business' on the Internet, specifically targeting individuals in country E. He provided gaming information to people using the web, and offered gambling on the Internet as if the service was linked to Maize Ltd. He identified a bank account, held in the bank in country D, where joining and gaming fees could be paid in. Internet gaming was very popular in country E. A large number of victims invested a total of approximately US\$3,500,000 into the account in country D. The gamblers were convinced that they were playing through an authorised and regulated service provided by Maize Ltd.

Finally, John departed for his home country G and using a portable PC attempted to transfer US\$1,000,000 from the Internet account to another bank account in jurisdiction G. The bank froze the account and reported the circumstances to the national FIU. The FIU collated all the available data before forwarding a report to the police. Although it was difficult to identify in which country the underlying offences of fraud and deception were committed, country E opened a criminal case and launched a criminal investigation to protect its own nationals who appeared to be the majority of victims.

At time of writing, the question regarding which country was the jurisdiction in which the crimes were committed has still not been resolved. John, however, has not benefited, as the assets remain frozen.

Indicators:

- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Use of company name designed to resemble the name of an established company



A European FIU received an anonymous disclosure about Josie, which claimed that Josie was committing large-scale tax evasion. The FIU decided to undertake a preliminary investigation into Josie's finances to determine whether the allegation was true.

The FIU established that Josie had opened a bank account several years ago. She had told the bank at the time that she was a representative of an offshore company and that she was acting on its behalf. The FIU discovered that in addition to Josie's claimed connection to this offshore company, at that time she had also controlled a company that had been trading but had not been registered with the authorities. It appeared that the cover story of the links with the offshore company had allowed Josie to obtain a company account without alerting suspicion.

64

According to the FIU's investigation, Josie had arranged contracts with various Eastern European companies. These contracts stated that Josie's company was to undertake construction work and supply equipment. When using Josie's services, the foreign companies transferred their payments to the offshore company's bank account, thus avoiding any record of taxable activity taking place within the jurisdiction.

111

A significant number of Eastern European companies had credited Josie's bank account over the years, as by not paying tax she had been able to reduce her costs and thus offer a cheaper service than legitimate suppliers. The FIU calculated that Josie had received over US\$250,000, although Josie had already taken the majority of this money out of the account. Armed with the knowledge that Josie had operated a non-registered company, the FIU surmised that it would be interesting to look at her tax declarations. It came as no surprise that Josie had failed to declare any income and had never paid taxes on her earnings.

At time of writing an in-depth investigation into the extent of the criminality was ongoing although a prosecution on tax evasion and money laundering charges seemed likely.



Twenty-year-old Geoffrey was originally from a South American country, but had become a naturalised citizen of a Northern European nation. In Europe, he earned his money from drug trafficking, mainly through the sale of cocaine. In order to conceal the money from the authorities in the country where he now lived and worked, he opened a bank account in another European country. In a period of a little over three months, by travelling across the border he made large cash deposits using various European currencies until he had over US\$500,000 in his account.

However, shortly after the money in his account reached the level of US\$500,000, he was arrested in his home country in South America in the middle of organising another drugs-shipment. He was sentenced to eight years in prison for trafficking large quantities of cocaine. The period, during which Geoffrey had been making the cash deposits to the bank in Europe, corresponded to the period in which law enforcement had strong evidence that he had been organising various drugs-shipments.

65

112

The bank in which his profits were held became aware of their clients incarceration for drugs trafficking, and the bank froze his account and asked him to explain the origin of the cash deposits before they would consider granting him access.

Three years later a foreign attorney showed up at the bank. He claimed to be Geoffrey's representative, and demanded the funds still held in the account - including interest - be released. Furthermore, he stated that he wanted to make a withdrawal in cash, so that there would be no possibility of anybody else tracing where the money was going. If that proved to be impossible, he was willing to accept a transfer of the money to an account he would open in a bank in a Central European country. He stated that he was fully aware of the fact that his client, Geoffrey, had been arrested and sentenced for drug trafficking offences, but he stated that the money in the frozen bank account was from business deals in the motorcar and clothing industries.

The bank decided to disclose the highly suspicious attempts of the lawyer to the national FIU, telling the lawyer only that the money would be available for collection at a later date. Just after the attorney arrived at the bank to collect the money, he was arrested and indicted for having knowingly attempted to facilitate a false explanation of the origin of the drug trafficking money.

In order to legally prove the predicate offence, the authorities in the European country sent rogatory letters to the country where Geoffrey was in jail. At time of writing, discrepancies remained between the claims of the attorney and Geoffrey's regarding the attempt to recover the funds in the account frozen by the bank.



Indicators:

- > Deliberate concealment of fund ownership
- > Possible client relationship to previous crimes
- > Large and/or rapid movements of funds



A European FIU received a number of disclosures from an exchange office called Money Services. The main reason for the disclosure was a press article concerning a company called Riyil & Co, which had made an illegal public appeal for investor deposits. In addition to the main company, the disclosures also mentioned Marjan, who lived in a neighbouring country and was a representative of Riyil & Co. The exchange office had also found the transactions suspicious because Riyil & Co had transferred different amounts of foreign currencies to an account in the name of Money Services at a bank in a European financial centre in the neighbouring country. As soon as Money Services informed Marjan that the money had arrived, she went to the bank to withdraw the money in cash.

The national FIU requested police intelligence on the entities involved. The police reported that Riyil & Co was not known in the police databases, nor in any official company registers. Marjan did not have a criminal record in their country, but was known in the neighbouring country for fraud. There was not much information included in the disclosures, therefore, in order for the FIU to be able to conclude that there were indications that the case involved money laundering in their country, the FIU had to request additional financial information from financial institutions concerned.

The FIU initially asked for additional information from the disclosing institution itself, focusing on the origin of the foreign currency. The disclosing institution provided information on the flow of funds into the aforementioned account. This made it possible for the FIU to send an information request to the bank at which the account was held, in order to gain information about the SWIFT transactions being passed through the account. Analysing this data, the FIU discovered that there were three additional subjects who acted as senders for the different transactions. These subjects were an offshore subsidiary of an American bank, Riyil & Co with an address in an American country and Riyil & Co with an address in the neighbouring country. The address of Riyil & Co in the neighbouring country was the same as the address of Marjan.

Under national law the FIU was able to send out a request to ten other financial institutions to see if Riyil & Co and/or Marjan were clients. The FIU received four positive answers. Using the information provided, the FIU was able to determine the full identity of Riyil & Co, its legal representatives and the individuals with direct control of each account. The four financial institutions also made a number of disclosures about activities on the accounts in the light of the initial circular. These latter reports made it possible for the FIU to formally determine that the case was connected with money laundering.

Riyil & Co had 4 offices: a headquarters in an American country, and three subsidiary offices in three other countries. The company had five management representatives and three individuals with power of attorney - Marjan, Luis and Julio, all living in different countries.



With all this new information it was possible to interrogate intelligence data in the databases of different law enforcement services across the country, as well as placing requests with counterpart FIUs through the Egmont group. It was also determined that the legal representatives of Riyil & Co acted as front men for the founding of several companies and that the company was known for irregular activities on the stock-exchange of an American country. Several other countries were investigating the irregular (maybe fraudulent) offers of shares quoted on the stock-exchange of the aforementioned American country by Riyil & Co. Finally, Luis had a long criminal record for various activities.

The financial information obtained from the disclosures confirmed that Riyil & Co had a number of accounts in different foreign currencies. One of the four disclosing banks declared that it had refused to open accounts in the name of Riyil & Co. As part of the account opening procedures, Marjan had told one of the banks that Riyil & Co acted as consultant for an important group of private financial investors. She had also insinuated that the company was linked to a political family.

Following this information, the FIU was particularly interested in the origin and destination of the funds. The money came from a number of individuals overseas, who transferred the funds by SWIFT to the bank accounts, where Marjan withdrew a proportion of the funds in cheque form. Finally, the major part of the funds was transferred by SWIFT to Riyil & Co accounts in another country. Concerning the destination of the funds, the FIU detected that the funds were transferred to three different beneficiaries - accounts of Riyil & Co in two other countries and the Money Services account.

After some time, two of the three banks informed the FIU that they had closed the accounts of Riyil & Co because they had had increasing concerns about the scale of the financial flows. Moreover, one of the banks informed the FIU that it had received a request from the Banking regulator in respect of an illegal public appeal for savings by Riyil & Co.

Armed with this information, the FIU had enough evidence that the case was connected to money laundering. The company had made an illegal public appeal for savings, it used companies founded by front men in offshore jurisdictions, it used anonymous accounts opened at banks in offshore jurisdictions and individuals involved had criminal records.

The FIU forwarded the case to the Public Prosecutor highlighting the indications of money laundering. Following a complex trial, the court sentenced Marjan, Luis and Julio to sentences of between four and ten years.

Indicators:

- > Large-scale cash transactions
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Use of company name designed to resemble the name of an established family



The Renolds family was successful in the real estate business, earning a significant level of income each year. Several members of the Renolds family, all foreign nationals, opened a number of bank accounts in a local bank. Following the opening of these accounts, different deposits in the form of cheques and cash were made into the accounts in amounts totalling more than US\$1,700,000. The funds were collated into a single account and transferred onwards to an account in another country. In response to bank inquiries, the family said that these transfers abroad were to facilitate the purchase of real estate in that country.

However, within two months of the transfer, the funds came back into the central account in a different currency and were immediately transferred, in yet another currency, to the account of a third person overseas who had no apparent link to either the family or real estate business.

67

As a result of all the various fund movements, the bank was unsure about the true origin of the money and reported the case to the national FIU. After examining the account records, the FIU concluded that the transactions were suspicious enough to forward to the judicial authorities. At time of writing, the judicial authorities had frozen the accounts and had commenced further investigations.

Indicators:

- > Unusual explanation for business/account activity
- > Atypical or uneconomical fund movement within account
- > Fund movements to unknown third parties



During a standard border control operation at a seaport in a Western-European country, the Customs service seized a container holding thousands of kilos of drugs. The container was kept in storage at the port, in anticipation of the destruction of the drugs once the usual investigations into the origin and handlers were concluded. The container was subsequently stolen from storage, and the contents removed, presumably for resale. Following this theft, the Fiscal Investigation Department initiated an investigation and arrested twenty people. It became clear that a specialist criminal organisation was involved in organising the drug importation for another and completely separate organisation. Jim and Julian were the key individuals in charge of the importation operation. They used, amongst other things, a dockworker tasked with removing bags of drugs out of the newly arrived containers. The information as to where the drugs were hidden was passed on beforehand by the suppliers.

68

During investigations, the FIU received two disclosures concerning Jim and Julian. Nearly US\$43,000 - originating from another European country - was credited into a recently opened bank account of Haven Ltd, of which Jim and Julian were principal controllers. When contacted by the financial institution, Jim and Julian had announced that before long another large fund transfer was to arrive from abroad, destined for another account at a firm of lawyers which Jim and Julian also controlled. A few days later, US\$213,000 was credited into the account of the law firm. The financial institution viewed such unexplained international deposits as suspicious and accordingly made disclosures. The FIU quickly confirmed that Jim and Julian were involved with Haven Ltd as partners, and were authorised to use the bank account. Bank records further recorded that the US\$43,000 was intended for the expansion of the company, and the US\$213,000 credited to the account of the law firm was intended for the purchase of real estate. The real estate concerned was located at the address where the law firm used to be located. Furthermore, the FIU discovered that Jim was registered as a subject of interest in the national police database. The FIU incorporated all information into an intelligence report, which was handed over to the police for active investigation.

117

The FIU's report confirmed separate information held by the police in respect of the US\$213,000, relating to a 'loan' credited into the law firm's account from an unidentified entity in another European country. However, the police suspected that the loan structure was in fact a fictitious method being used to launder money. To verify this, investigations abroad had to take place - the financial intelligence package provided by the FIU assisted greatly in composing the necessary international letters of request. Information was received back from law enforcement in other countries confirming the links to organised criminal operations and supporting the laundering theory.



Boats and automobiles were seized from the importation organisation, but the Fiscal Investigation Department was unable to trace other profits that were suspected to have been amassed over time. It was suspected that Jim and Julian's organisation arranged approximately fifteen importations, and an estimate of the likely level of profitability on each import was possible.

At the time of the submission of this case study, Jim and Julian were still in prison, serving eight years for drug trafficking offences. In addition, Jim and Julian also had some ongoing business to resolve with the Fiscal Investigation Department. Julian has been sent a tax assessment for US\$1,700,000. Jim also owed the fiscal authorities US\$134,000. The boats, automobiles and other assets, which had been restrained, were also forfeited.

Indicators:

> Atypical or uneconomical fund transfer to or from foreign jurisdiction



An East-European financial institution observed some unusual activity on a foreign company's non-residential account. The foreign company had just received US\$500,000 from a sport-shoe selling company situated in a neighbouring country. Jerry, the foreign company's authorised representative in the Eastern European country, withdrew US\$50,000 in cash and immediately deposited the currency in his private account at the same institution. The following day, Jerry collected the remaining US\$450,000 and handed it over to Fritz, the owner of the sport-shoe selling company in the neighbouring country. Fritz deposited his share at his private account, also at the same financial institution. The financial institution decided to disclose their suspicions to the national FIU.

Inquiries with law enforcement contacts overseas determined that Jerry, who opened the non-residential account some years ago, was the sole owner of the foreign company. The establishing capital for the company had been only US\$1,000, in accordance with the company formation requirements of that jurisdiction. When the FIU examined the fund movements of the account over the past several years, it became apparent that the sport-shoe selling company had transferred significant amounts of money several times before. The modus operandi was the same every time: Jerry removed his 10 percent of the total amount, and Fritz got the rest. Although the latest transaction was by far the largest, in total some US\$1,000,000 had been transferred over the years.

The financial investigation also determined that the account at the disclosing financial institution was not the only account Jerry had authorisation over. Jerry also opened an account in his company's name with another bank some years previously. The sport-shoe selling company made a single deposit of nearly US\$60,000 into this account, as a 'payment of agency commission'. Then Jerry transferred most of it to a company named 'Sport Florida'. The FIU checked the name and address in a number of professional company databases but no data was recorded on such a company.

The FIU made inquiries in Fritz' home country by contacting the national FIU of that jurisdiction through the Egmont Group. Jerry seemed to be a well known 'tax-expert', notorious with the police in that jurisdiction for tax-fraud. The police had already searched the premises of the sport-shoe selling company and apartments of Jerry and Fritz, because they were suspected of money laundering and tax-fraud. Seized documents showed that the sport-shoe selling company also transferred money to one of Jerry's accounts in another European country.

Because of all this information the FIU hypothesised that there was, in fact, no actual business whatsoever between Fritz' and Jerry's companies, and especially nothing like the sort of levels of business which would require the large-scale transfers of funds



observed by the banks. For that matter, according to company databases, Jerry's foreign company wasn't even in business anymore. This suggested that at the very least Jerry wasn't paying taxes to his homeland authorities.

Jerry and Fritz ended up facing money-laundering charges in one country, and tax-evasion / false business documentation charges in the other. Approximately US\$1,000,000 had been seized at time of writing.

Indicators:

- > Large-scale cash transactions
- > Large and/or rapid movement of funds
- > Atypical or uneconomical fund movements within accounts



Max was involved in a number of money transfers to West Africa. Although he worked in a bank as a clerk, rather than using his own institution he used one of the major money-transmitters to wire transfer the funds. Because Max always visited the same branch of the money transmission organisation, the employees got to know him. It was this familiarity that caused the employees to note when Max appeared at the counter with a couple of other men. Immediately after Max transmitted his latest tranche, one of the companions named Philippe, also remitted monies to the same beneficiary in West Africa.

The employees thought that the situation was a bit odd, and the next time Max visited the branch asked about the purpose of all these transactions. Max became very defensive and hostile towards the questioning, which raised suspicions even further. On top of that, Max' companions used their own names to transfer the money, whilst it was obvious that Max was the real owner as he gave them the funds to use. The money transmitter representative decided to file a transaction report to the national FIU.

While investigating this disclosure, the FIU could not find any incriminating evidence on Max. On the contrary, Max seemed to be the victim of the well known '419-fraud'. '419' frauds generally work by promising a large benefit to the victim, whilst demanding an up-front payment - small in comparison to the promised reward - to facilitate the whole scheme. The up-front payments continue to increase as long as the victim remains convinced that the end reward would be coming their way. The end reward never appears. Groups operating out of West African nations (although such activities can be organised from anywhere in the world) frequently attempt such frauds. The FIU did discover that Max's companions were more interesting. They appeared to have some connections to the red-light industry. However, due to lack of evidence, the FIU decided to delay initiating an investigation.

A few months later, a foreign FIU sent a request for information concerning several persons sending money transfers, one of which was the aforementioned Philippe. It seemed that Philippe had been using a money-transmitter in the foreign country to send huge sums - via money transfers - to his home country.

In the meantime, the national FIU discovered that Philippe was being investigated by a local police-unit for participation in a '419' fraud. The FIU informed the foreign FIU accordingly, and requested permission to pass the intelligence on to the investigating unit. The foreign unit decided to grant permission to pass Philippe's transaction report on to the police. The foreign report became police information, ready to be used in the '419'-fraud investigation.



At time of reporting, the investigation was nearing completion, with several key suspects likely to be arrested for fraud and other offences.

Indicators:

- › Illogical activity: Why was a bank clerk not willing to use the simpler method of his own financial institution for financial affairs?
- › Defensive stance to questioning
- › Deliberate concealment of fund ownership



One morning, the inhabitants of a small town in Europe were woken by the noise of a violent robbery of their local bank. The operation was successful and the robbers escaped with a sizeable amount of cash.

A special law-enforcement squad was set up to investigate the robbery. After intensive investigations, the squad succeeded in arresting the ringleaders of the attack. Some of the arrested criminals even confessed where they had hidden their shares of the haul. Marco, a law-enforcement professional for more than 20 years and a member of the squad, was one of the agents who were given the responsibility for locating, freezing and returning the stolen money.

Due to the strong intelligence gained from interrogations, some of the money was quickly located, but after a while the process slowed down. Some members of the squad-team noticed irregularities in the investigation. There seemed to be a mismatch between the suspects' confessions about the quantity and whereabouts of the funds and the effective amounts seized. Mounting concern led to a request for an internal investigation to determine whether there had been any untoward activity.

Internal affairs initiated an investigation. They soon suspected that one of the agents might have embezzled part of the haul for personal benefit. Marco became the focus of their attention. Internal affairs searched Marco's home and workplace. Some evidence of paperwork advertising financial institutions offering investment accounts in other countries was found, but there was no indication that Marco actually had any accounts there.

The magistrate in charge of the investigation immediately sent a mutual legal assistance request to the country in which the financial institutions named in the paperwork were based. He demanded that the banks - associated with investment fund business - freeze any assets relating to Marco. Unfortunately, the courts in the neighbouring country had to turn down his request because there was no indication as to which financial institution had a business relationship with Marco. 'Fishing' expeditions based on minimal evidence are not permissible in a number of countries.

A few months later, the neighbouring country's national FIU received a transaction report on Marco. While investigating the transaction, the FIU came across the mutual legal assistance request. Through the Egmont network, the FIU immediately contacted the national FIU in the originating country and learnt that Marco, who performed the disclosed transaction, was the same Marco who was suspected of embezzling the money. The account statements furthermore confirmed that Marco had placed assets into his accounts at the same time he was suspected of having done so.



The FIU passed on the disclosure to the magistrate who had first had to turn down the mutual legal assistance request. He was now able to grant the request and at the time of reporting, the funds were frozen pending prosecution and recovery action.

Indicators:

- > Possible client relationship to previous crimes





The final laundering typology is in some respects the simplest. Criminals are aware that the less audit trail available to the investigator, the less likely that a financial investigation will either detect or prove to a criminal standard the link between the criminal and the asset. Some asset forms are completely anonymous in nature, so that actual ownership or sourcing is virtually impossible to prove unless the criminal is caught whilst interacting with the asset by law enforcement.

The best example of such an anonymous asset type is cash, but other examples can include consumer goods, jewellery, precious metals, some electronic payment systems, and some financial products (such as anonymous numbered personal accounts). The desire for anonymous asset forms is demonstrated by the importance of cash within the drugs trafficking networks reported in a number of cases around the world - users typically wish to pay in cash to remain unlinked to the suppliers, and suppliers then have a need to enter.



A currency exchange service at a bank in a pacific nation attracted a new customer, Kevin, who exchanged US\$2,000 worth of European currency into the national currency. Kevin then opened an account at the same branch and immediately deposited the funds within. Whilst completing the documentation for the account opening, no explanation was given for the funds. A few days later, a proportion of the money was withdrawn, again in cash. As the beginning and the end of the financial activity was in cash, the financial institution could draw no conclusions about the origin of the funds. The bank decided to disclose the transaction to the national FIU.

On the same day as Kevin's actions, his cousin Erin went to another bank in the same jurisdiction and attempted to deposit US\$72,000 worth of European currency directly into a new bank account. However, in this instance due to a lack of explanation for the fund origin, the bank was unwilling to proceed with the account opening procedure. In her frustration, Erin proposed to split the funds into smaller amounts - believing that the size of the funds was the source of the banks concern - and also produced a copy of an invoice for goods sold as explanation for the funds. She also claimed that an employee of the Central Bank had already explained to her by telephone that this bank would accept the money into a new account. Not intimidated by her behaviour the bank continued to refuse to process the account opening. Later that day, Kevin and Jerry - Erin's cousins - exchange two European currency notes, worth US\$500 each, at the same bank. Having identified some of the connections between the various transactions, the bank also disclosed the matter to the national FIU.

In the afternoon Jerry opened an account at yet another bank. Undertaking several smaller transactions, he exchanged US\$13,000 worth of European currency into the local currency, with part of the funds immediately deposited into the new account and the remainder kept as cash. Furthermore, after a few days all of the deposited money was withdrawn, again in cash. This third bank also decided to disclose to the national FIU.

By analysing the various banking transactions and account opening documentation, as well as consulting other law enforcement databases, the FIU rapidly discovered the relationship between Kevin, Erin and Jerry. Erin's defensive and aggressive attitude at the bank increased suspicion that the money didn't have a legal origin. The invoice presented as evidence of a legitimate source of funds by Erin - which the bank had kept for its records - did not have a seller's signature or further indication of the buyer. In fact, the invoice did not look to be genuine at all. Furthermore, Erin's claim to have gained prior agreement from the Central Bank by telephone sounded like a typical subversion attempt to convince the bank staff of the legitimacy of the transaction. The fact that the family members visited three separate banks on the same day to exchange foreign currency at levels under



mandatory reporting limits, as well as depositing money that had been withdrawn shortly afterwards, indicated that they may have been trying to prevent detection and reporting to the national FIU. Once the analysis and intelligence gathering was completely, the FIU forwarded the case to the police for further action.

Furthermore, at around the same period the FIU received several transactions from other banking institutions involving the exchange of the same European currency. There was no obvious legitimate explanation for the circulation of this currency in the country, especially in large denominations. However, it fitted in with a hypothesis of drugs being transported from South America, through the Pacific country, to Europe. The European currencies raised during the selling process in destination countries were then being laundered through the Pacific country's banking system, and changed into other currencies to hide the source of the original funds. The circulation of the European currency could have also been the result of laundering money that originated from other criminal activities - such as fraud or tax evasion - in the European Union or elsewhere. At time of writing, the laundering operation was under investigation by the authorities.

Indicators:

- > Transactions structured to fall below mandatory reporting requirements ('smurfing')
- > Use of same branch or similar branches on multiple instances when a single transaction would be more efficient
- > Rapid creation and withdrawal of funds from accounts
- > Unusual currency form
- > Defensive stance to questioning
- > Attempts to encourage bank staff to facilitate transaction by reference to higher authorities in the regulatory or supervisory system



Brad approached a high street bank and exchanged US\$10,000 in large denomination bills into the local currency. The following day he again approached the bank and exchanged a further US\$1,700. In response to questions from the bank teller, Brad stated that he had received the money as payment for shrimps his business had harvested. Although Brad claimed to be a native resident, according to his driver's licence (given as identity for the transaction) Brad lived in another American country. Some time later, Brad walked into the same bank branch and exchanged a further US\$1,000. This time, Brad claimed that the money was a present from his brother. The bank decided to disclose Brad's transactions to the national FIU.

At around about the same time as the disclosure took place from the first institution, Brad tried to exchange foreign currency at another bank. He had an unknown amount of American dollars and large amounts of the national currency in his possession. However, in this transaction Brad had walked away when the bank had asked him to complete a form documenting the source of the funds. This bank immediately disclosed to the national FIU.

A couple of months later Brad tried his luck at a third bank. He exchanged small denominations of the national currency into larger denominations, worth around US\$2,000 in total. The teller noticed that Brad also had another bundle of small denominations in the national currency in his possession, which he did not attempt to change. Some time after this first visit Brad entered the bank again to change an amount into larger notes - stating that the funds came from the sale of his motorcycle. In between the two transactions, the teller had recognised Brad in media reports about a shooting accident - the press had also reported that the police had found a large amount of money at the shooting site. The teller reported her concerns to her supervisor, and the bank disclosed Brad's transactions to the FIU, mentioning that Brad had always been reluctant to complete the required source of funds declaration form.

The FIU undertook further analysis on Brad's transactions, seeking to determine the validity of his source of funds declarations as well as seeing if the fund movement tied in with any known criminal activity in the country. Brad had told the first bank that he had raised funds from selling shrimps, but his business card did not give any address or telephone number to confirm or deny the claim - although it seemed unusual that such a business would not make it easy for potential clients to make contact. Brad had been seriously injured in the shooting incident that the teller had noticed in the papers. His address as mentioned in the local newspapers differed from the addresses Brad had given the banks. Finally, checks with the police register show that Brad had been of interest to the police for some time. The FIU decided to forward the analysis to the police.



USE OF ANONYMOUS ASSET TYPES

Following a police investigation utilising the additional financial material available from the banking records, several people were arrested in connection with the shooting incident. At time of writing, investigations continued into the underlying criminality.

Indicators:

- > Changing explanation for fund origin
- > Evidence of untruthfulness on part of client
- > Questions over identification documents
- > Media coverage on accountholders activities
- > Large-scale cash transactions



Richard was an American citizen, who approached a bank in a European country and told the bank clerk that he would like to open a clearing account as a new customer. He explained that he had just closed some bank accounts at other institutions due to poor service, and he would like to deposit the cash withdrawn from these accounts - US\$3,500,000 - into the new account. He also expressed a hope that the service at his new institution would be better than that at those that he had just withdrawn his savings from. Richard then handed over a gym bag with the money and some documentation relating to the recently closed accounts. Although the bank clerk opened the account as requested, he had some suspicions about Richard's activities. The anonymous nature of the cash meant that no evidence of a legitimate origin of the funds was available. After completing the transaction and accepting the money, the bank clerk reported the transaction to his senior management, who after consideration decided to disclose to the national FIU.

74

Two weeks later, Richard returned to the bank. This time he wanted to transfer the funds held in the recently opened account to another account in an overseas jurisdiction. Whilst Richard was waiting for the transaction to be processed, the bank contacted the FIU to inform them of Richards requests. The FIU, which had already provided the public prosecutor's office with the first disclosed report, consulted with the judicial authorities. Following discussions with the authorities the FIU decided that it was appropriate to question Richard about the source of the funds. The bank helpfully stalled Richard until the officers from the FIU arrived.

131

During the discussions with the FIU officers, Richard stated that the large amount of cash he had deposited originated from the sale of orange plantations in a South American country. He claimed he was transferring the funds back to his homeland on behalf of his stepfather. This story, obviously, did not match the initial story given to the bank at the time of the account opening. Furthermore, during the course of the interview, Richard's explanations became contradictory and confused. Armed with increasing evidence of likely criminal activity underlying the funds, the FIU officers placed another telephone call to the judicial authorities, which authorised a search of Richard's hotel room.

Whilst searching Richard's room, the police team found several safety deposit box keys and hand-written missives. These documents contained instructions to Richard stating that he should move from hotel to hotel, never stay at low-quality hotels, and that he should destroy all documents once he had completed each financial transaction. The investigation team followed a trail to various banking institutions where the safety deposit boxes were held. In the safety deposit boxes, the police found a number of passports - with different nationalities and names, but always the same photograph - and information on a range of bank accounts. Checks against law enforcement databases revealed that Richard was



apparently acting on behalf of James, another American citizen. James had been sought internationally on suspicion of serious fraud involving losses of US\$108,000,000, and had been put in prison several years ago following international law enforcement action. Richard had apparently appeared on the scene following James' incarceration. Richard had been getting his instructions from James through James' lawyer - who was able to visit him in prison as well as claiming specific client confidentiality privileges over exchanges of information. The lawyer had relayed a series of instructions directing Richard to launder those fraud funds still under James' control.

Richard was charged with money laundering and sentenced to two years imprisonment. In the course of the investigations the FIU identified and confiscated assets amounting to roughly US\$7,000,000. The money was returned to the insurance company that had originally lost funds from the original fraud.

Indicators:

- > Large amount of cash used to open new account
- > Lack of rational business explanation for financial activity



Some time ago a European FIU received a disclosure relating to an exchange transaction undertaken by a customer named Andrea involving more than US\$200,000 in currency. Andrea had told the exchange office that she was a financial intermediary living in a Southern European country, who had travelled on business to the country in which the exchange was situated. Following this disclosure, Andrea conducted several other large currency exchanges, all of which were reported to the FIU. Over a period of a few weeks, Andrea exchanged foreign currencies totalling some US\$600,000. Then suddenly the flow of disclosures stopped as Andrea disappeared.

Six months later, Andrea was back to her old habits. She appeared with large amounts of foreign currency at the same exchange office. The total amount of Andrea's financial transactions rose to approximately US\$1,300,000. In the meantime the FIU had initiated an inquiry against Andrea. It seemed that she had no criminal record. However, given the extremely high amounts that Andrea was exchanging for which there was no apparent legitimate source, the FIU decided to undertake an in depth analysis. The anonymity of the currency meant that the FIU would have to undertake extensive research into the individual concerned - Andrea - before returning to the question of the source of the funds.

The European FIU raised intelligence requests with several foreign FIUs through the Egmont group. One of the FIUs was able to provide useful information: Andrea was known as a member of a group of drug traffickers. The group had performed the same type of laundering activity in the country of the foreign FIU. Investigations against the members of this group had already been in progress for some time, and so the intelligence available for exchange was considerable. Additionally, the European FIU also found out that Andrea's address, given by Andrea to the exchange office for identification purposes, was false. The FIU now had enough reason to present the case to the judicial authorities.

The judicial investigation showed that Andrea was not acting alone. She had been playing a dominant role in the money laundering operations of the criminal group for a number of years. The total amount estimated to have been laundered by her scheme was US\$11,500,000.

When the police arrested Andrea with one of her accomplices, she was in the possession of a large sum of US dollars in cash. She admitted undertaking the exchange transactions, as well as the illicit origin of the funds. However, she claimed the origin to be illegal diamond trafficking rather than drugs trafficking. Andrea was sentenced to four years imprisonment and a fine amounting to several hundred thousand American dollars. The funds seized at time of arrest were also confiscated. Her accomplices were each sentenced to two years imprisonment.

Indicators:

- > Large-scale cash transactions
- > Lack of explanation for funds



A European FIU received a disclosure report concerning four individuals. Three of the individuals lived in another European country. The fourth person was officially registered as a resident in a tax haven in another continent. Between them they represented two foreign and two national companies.

Three of the four companies had multiple-currencies accounts in the country where the FIU was located. The fourth company held a foreign bank account. Funds were transferred from the foreign bank account to the accounts of the three other companies. Prior to these transfers, there had been no activity on the latter bank accounts. Once the funds arrived, it was either transferred to a tax haven or withdrawn rapidly in cash. The four individuals offered little co-operation to bank attempts to allay suspicions, refusing to respond to requests for explanations for the transactions. The method of fund movement coupled with a refusal to answer questions from the financial institution frustrated attempts by the bank to identify the real beneficiaries and, consequently, the origin and final destination of the funds. The bank had decided to disclose to the national FIU after being unable to gain any answers from the customers.

None of the individuals or companies involved were known to the FIU. After making inquiries at the police department the FIU discovered that one of the individuals and two of the companies were already involved in a judicial investigations for procuring, exploitation of prostitution and the laundering of money deriving from these activities. To conceal these criminal activities, a network of dummy companies had been set up. The FIU performed an in-depth analysis of the financial transactions, and retraced the financial flows by analysing account records as far back as possible. The clear link with the criminal activities justified submission to the judicial authorities.

At the time of writing a judicial enquiry was still in progress.

Indicators:

- > Defensive stance to questioning
- > Multiple repeat movements of funds
- > Large-scale cash transactions



Carlos, an American national with a European passport, opened a savings account at a local bank in America. He received large sums of money via wire transfers from Europe - effectively anonymous transactions due to the minimal information contained in the wire transfer records. When the bank asked Carlos to provide documentation supporting the origin of the funds, he presented a series of papers and receipts. However, these documents did not indicate clearly the origin of the money. The bank became increasingly suspicious about Carlos' activities and the cash movements in the account. The amounts involved were always slightly under the mandatory reporting threshold. In light of their continuing suspicions, the institution decided to disclose to the national FIU.

The FIU analysed Carlos' financial records including his credit card account. The analysis revealed several purchases made in another country. Information on Carlos's immigration record, provided by the national police, show that Carlos had entered the country twice, but had never officially left it. As there were no records of him leaving the country, and yet two pieces of intelligence suggested that he had travelled abroad, the FIU was suspicious that Carlos had access to different passports - and all but one would be false.

A visit to the financial institution to inspect deposit and withdrawal records revealed that Carlos conducted all of his transactions in cash. From his banking file and other intelligence no valid explanation seemed to exist as to the origin of the funds. The FIU transmitted the report to the judicial authorities.

At time of writing the police were conducting an investigation regarding the origin of the funds and Carlos' activities.

Indicators:

- > Large-scale cash transactions
- > Insufficient explanation for source of funds



Within a South American country Orlando was the leader of a well-established criminal organisation, which had been involved in trafficking cocaine products from neighbouring countries to Europe for a number of years. The operation was closely managed and co-ordinated by Orlando from start to finish. Orlando and the other key individual within the organisation were all known criminals with criminal records in both Orlando's home country and abroad, dating back to at least 1969.

In order to carry out his activities, Orlando recruited a number of his closest relatives, along with other criminals, to create a self contained criminal organisation under his sole command. The close family ties and interdependence made infiltration by undercover law enforcement operatives difficult in the extreme. His eldest son, Tristam, was responsible for organising drug shipments within the neighbouring country. Tristam sent the drugs from the country overland to a third American country, where they were stored pending the decision of the representative of the organisation in that country regarding their shipment.

78

136

Once Tristam had informed his father in his home country that the drugs had arrived, the person in charge of operations helped to plan the shipment of the drugs to Europe. In the country from where the shipment was due to take place, Tristam used another criminal organisation for the hiring of the crew and obtaining of the necessary shipping vessels. It is worth noting that all drug shipments to Europe were ordered directly by Orlando in his home country and that all payments for the smuggling operation were made with money that he supplied.

Orlando used different individuals to transport the money needed to make these payments and the payments required for shipping the drugs from the main harbour to three other American harbours. Some of these couriers already had prison and police records, for both ordinary crimes and for drug trafficking-related crimes in Orlando's home country and abroad.

Once the drugs reached Europe, there was a group of criminals whose role it was to hire individual workers to off-load the drugs; such workers tended to be personnel from the two European ports where the drugs arrived. These people were under supervision of a specific criminal who was wholly responsible for this part of the operation. After the drugs were off-loaded, another group of traffickers, who also received orders directly from Orlando, took part in the receipt and sale of the cocaine shipments to the European organisations that in turn took charge of distributing them.

The proceeds from the sale of the drugs, which were sold for approximately US\$30,000, were transferred in part in cash shipments to Orlando's home country and the rest deposited in cash in anonymous numbered bank accounts belonging to himself, his wife, Angelica, and Tristam.



The facts

This case started on 29 December 1996, when Orlando's criminal organisation dispatched from a port in an American country a shipment of 52 kg of cocaine chlorohydrate on a vessel bound for a port in Europe. The drugs were dispatched under the responsibility of two men who travelled from Orlando's home country to the port from where the drugs were shipped. There, another member of the organisation made the necessary contacts at the port for hiring a ship and a crew for transporting the drugs to Europe. Later, two other criminals travelled to Europe to take delivery of the shipment and to pay for the transport of the drugs and for the team in charge of off-loading the drugs from the vessel. Law enforcement co-ordination was such that the authorities in the European country were able to report the seizure of the drugs and the arrest of two citizens of Orlando's home country.

Money Laundering

With regards to the laundering of the profits generated by the drug trafficking activities, significant sums of cash were transported back into the country and deposited into bank accounts belonging to Orlando and his close relatives. Orlando had already tried to explain the funds by claiming links to the sale of property that he supposedly owned in another America country, but false paperwork for the scale of funds that he was now seeking to move was unfeasible. A new laundering process was started in 1988 with Orlando's organisation sending back at least US\$4,600,000 through wire transfers. The anonymous nature of the transactions - which were kept at individually low amounts - protected the laundering operation from law enforcement interest. This money was intended for the purchase of personal property and real estate, including vehicles, apartments, a shopping mall, thoroughbred horses, and money placed in long-term investments and in safe deposit boxes.

In addition, as the FIU had discovered, the profits from drug trafficking were deposited in various accounts that the organisation maintained in a bank in Europe. Indeed, with a view to concealing their investments, they had opened anonymous numbered investment accounts in the European country, with Orlando and Tristam as signatories. Tristam in turn administered, through his children and wife, other parallel accounts, which he controlled independently. Furthermore, with the participation of Angelica they made use of a Foundation, legally registered in a small Central European country, which was in turn represented by another legal entity in order to conceal the illegal profits in secret investment accounts also held in a European bank.

At time of writing, a total of approximately US\$14,600,000 had been seized as a result of the international co-operation furnished by the law enforcement and judicial authorities in the European country, including details of all the 'anonymous' bank accounts, which made it possible to freeze the bank accounts by use of rogatory letters.



USE OF ANONYMOUS ASSET TYPES

All the identified members of Orlando's criminal organisation, many of whom have already been in custody for more than three years, are now being tried for conspiracy to commit drug trafficking. The only exceptions are Angelica, who is being tried for the crime of money laundering and Tristam, who is on trial for both laundering and drugs trafficking offences. In addition, Orlando himself died in prison following his conviction for both drug trafficking and money laundering.

Indicators:

- > Large-scale cash transactions



David was the owner of an exchange office in an Eastern European country, and a frequent customer of the local bank. Every time he deposited cash into the company account, he told the bank employee that the money originated from customers repaying short-term loans back to the business. Because of the high level of cash deposits - over US\$65,000 - made in a short period, the bank employee became suspicious. After examining the account activities of similar types of business in the locality to determine whether the amounts were typical for a currency exchange firm, the bank informed the national FIU.

By checking the company details against law enforcement databases, the FIU discovered that the exchange office was not registered for taxes, which were estimated to be some US\$400,000 per annum on the information available. The exchange office had also fictitiously ordered services from foreign companies situated in a neighbouring country providing consultation, marketing and engineering services. The invoices were properly drawn up but the services were never actually delivered. Based on these fictitious contracts, the exchange office had transferred funds to the neighbouring country. The FIU forwarded the disclosure and associated financial analysis to the public prosecutor's office, highlighting a suspicion of tax evasion and fraudulent activities.

The financial police ascertained the amount of taxes the exchange office should have paid, and applied to have all funds frozen prior to confiscation. But David had already transferred almost all company funds to the neighbouring country and filed a request for bankruptcy in the first country. The financial police asked the FIU to trace the money. The FIU sent an intelligence request to the FIU in the neighbouring country. It not only became clear where the money was, but also that David owned all the foreign companies that had been submitting the fictitious invoices. One of these companies had received the bulk of the money transferred into the country. David had taken out half of the amount in cash, and transferred the other half back to accounts in the first country. He had believed that by using cash, the chances of the authorities tracing the funds back to the source activity were minimised.

At the time of reporting prosecutors in both countries were arranging for David's prosecution for a range of offences including fraud, tax evasion, counterfeit documents, abuse of office and authority, and breach of bankruptcy regulations.

Indicators:

- > Unrealistic business turnover
- > Large-scale cash transactions
- > Use of 'unofficial loan repayments' as a cover story for funds
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction



Three individuals, originally from Asian countries, held foreign currency accounts at a bank in an Eastern European country. High level of funds were frequently transferred from the accounts to other accounts in offshore jurisdictions - in less than two years the sums involved amounted to US\$2,500,000. The monies entered the accounts by large cash deposits across bank counters. The three customers explained to the bank that the funds were being repatriated for the benefit of families back in their native countries. The origin of the money was, however, unclear despite polite enquiries by the bank. The bank had increasing concerns about the origin of the funds, and decided to disclose to the national FIU.

The FIU asked the police for information about the individuals and companies involved in the transactions. Inquiries revealed that no information was registered in police databases concerning any of the subjects. Inquiries with the tax-authorities produced more information - the three individuals each controlled a number of businesses, none of which appeared to be profitable. The FIU suspected that the transfers by the Asian men could have been linked to the underreporting of the profitability of these business activities. If they were sending money abroad rather than moving it through the company accounts, the end of year profits - and thus end of year tax due - would be greatly decreased. Even if this was not in fact the case, the collection of high amounts of money in cash and subsequent transfer abroad was a recognised method of laundering money from drugs trafficking and other criminal activities.

The FIU forwarded their analysis to the police. At time of writing, the case remained with the investigating police unit whilst further information was awaited from law enforcement agencies in the Asian countries

Indicators:

- > Large-scale cash transactions
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Defensive stance to questioning



The national FIU in a Northern European country received two suspicious transaction reports, which triggered a financial investigation:

Dennis, Muriel and Patrick worked for a drugs trafficking organisation, although they had no criminal records and had not been identified by the police as being in any way involved in drugs trafficking activities. Other members of the trafficking organisation transferred large amounts of money into accounts that the three had opened in a bank in the Northern European country. Shortly after the transfers, the money was withdrawn in cash. At this stage the bank became concerned and decided to disclose to the national FIU. Daniel, Muriel, and Patrick transported the money in cash form to other European jurisdictions where it was still possible to obtain anonymous numbered accounts. Once within the jurisdictions, they opened more than 40 different accounts between them to make the fund movements as complex as possible for any investigation by the authorities in that country. The cash that they had smuggled into the country was split up into the various accounts. The three individuals used the receipts from the banks where they had withdrawn the money to 'prove' the legal origin of the funds - and because they spread the anonymous accounts across a range of banks they were able to use the same documentation in support of multiple account openings. Once the accounts had been successfully opened, the three returned to their initial country with the account documentation.

However, following an investigation by FIU and police, the three were arrested upon their return and convicted to a total of ten years imprisonment for drug trafficking offences and drug money laundering. Approximately US\$6,000,000 was confiscated in total.

Indicators:

- > Multiple transfers into a personal account
- > Large-scale cash transactions
- > Unrealistic wealth compared to client profile



A Northern European FIU received from a number of different banks' suspicious transaction reports concerning Andre. Andre was exchanging currency of a neighbouring country into both the national currency and the currency of another European country. The banks suspected that Andre was laundering money since he exchanged currencies on the same day in different cities. The total amount of money involved in the three suspicious transaction reports was approximately US\$255,000. As an explanation, Andre had said that the money was coming from dealing in heavy machinery engines for farmers and contractors and that the engines were bought in Eastern Europe and sold to immigrants in the neighbouring country who often wanted to pay in cash. Due to the sheer size of the funds involved, and the fact that Andre appeared to be undertaking a difficult and complex way of exchanging funds, the banks did not believe his explanation and reported the transactions. The FIU began an investigation, and following analysis of the transactions and other relevant data forwarded the information to the FIU in the neighbouring country on an intelligence-only basis. This FIU also began an investigation into Andre.

Andre was placed under surveillance, and the police learnt that he made several trips to the neighbouring country in a short space of time. The police in the neighbouring country arrested him at the point where he handed his car over to a small local garage. The police found 9kg of hashish hidden in the car. Both Andre and another individual named Sander were taken into custody and charged with drug trafficking offences.

The investigation showed that Andre had worked for several months as a courier, taking drugs to the neighbouring country and returning with money from the sale of earlier shipments. The cash had been turned over to Andre at a series of pre-arranged meeting points in the neighbouring country. Andre's task was to return to his country, exchange the money into various other national currencies, and pass it on to Sander in the neighbouring country. Andre had made at least four cash transports and exchanges during the time that he was under law enforcement attention. The total amount involved was approximately US\$250,000, for which he was paid a commission of 20 percent.

Andre and Sander were both sentenced to eight years imprisonment, with the conviction reflecting both the drug trafficking crimes as well as the laundering of proceeds. More than US\$160,000 in proceeds was confiscated.

Indicators:

- > Large-scale cash transactions
- > Multiple cash transactions below threshold
- > Unrealistic wealth compared to client profile



A bank in a southern European country submitted a disclosure to the national FIU. In one of their branches in a small town, Karel Gregorius made frequent large deposits of a northern European currency into his bank account. Into this account money was also being transferred from abroad, in the same currency. The bank officials thought that such financial activities through the account were very strange for Karel, especially since Karel had never left the country and had no overseas links as far as they were aware. Furthermore, Karel's professional employment as a restaurant owner could not explain the size and frequency of the deposits, nor the use of a foreign currency.

The FIU initiated a financial investigation into Karel. He owned and managed a luxurious restaurant in a tourist area in the country, but the restaurant was only busy in the tourist period from May until October. His income from the restaurant could not reasonably justify the large sums in his annual income statements to the tax authorities which, according to him, were entirely earned from his restaurant business. Moreover, his acquisition of luxury cars and boats could not be explained either. In spite of these facts, the investigation was not taken further since Karel had a clean criminal record and he did not appear to be connected with any criminal activity.

One and a half years later the police in the northern European country submitted a mutual legal assistance request for any relevant information concerning Dario Gregorius and Bernard Lodovicus, both citizens of the southern European country and members of an international gang specialising in drugs importation and distribution. Dario and Bernard had been arrested in the northern country and charged with a range of drug trafficking offences.

The FIU received the information regarding the arrests along with the request to search the FIU's databases. Neither Dario nor Bernard were known, but Dario had the same surname as Karel. Subsequent investigations showed that Dario and Karel were brothers, and that in the northern European country Dario had been the sender of the large amounts of money to Karel's bank account in southern Europe.

This information was enough to start judicial proceedings against Karel on charges of money laundering. His bank accounts were frozen and property - including houses, cars, and boats - was confiscated. In total, Karel forfeited over US\$1,400,000.

Indicators:

- > Unrealistic wealth compared to client profile
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Large-scale cash transactions



In April 1998 the national FIU in a Southern European country sent a report to the special police service for further investigation into a series of bank transactions undertaken through a company registered in the capital. Local banks had made several disclosures about another financial institution operating in the region. This company specialised in collecting and transferring funds abroad for American and Asian citizens.

The investigators found that many individuals with criminal records (fraud, criminal association, drug trafficking, theft, exploitation of prostitution, unlawful carrying and possession of weapons) and without any apparent legal income had been transferring methodically and continuously considerable amounts abroad to America and Asia through the company. Examination of documents seized in branches across the country suggested that at least US\$17,500,000 had been transferred in this way. Funds were received in cash in a variety of denominations, and the collation company had been depositing the funds into its own company accounts at local banks.

84

144

The criminal organisation was assisted by a range of registered financial intermediaries and many other individuals acting as agents of the company which had been centralising the laundering operations. Despite in-depth analysis, it was difficult to reconstruct the full range of transactions, as whilst the company was legally obliged to record financial transactions over US\$10,000, such records were in fact not made for the majority of transactions. Only by examination of the bank accounts of the firm could an estimate be made as to the actual scale of the fund transfers.

The police thought that the individuals involved were guilty of being members of a criminal organisation, falsification of balance sheets, tax fraud and illegal financial activity. Several linked investigations were carried out by the special service of the financial police in three main cities. At time of writing, the financial investigations had resulted in the arrest of eleven suspects.

Indicators:

- > Large-scale cash transactions
- > Presence of low-denomination bills



In the early 1990's, John, a full time gambler, and Georgina, a part-time filing clerk, took up residence in a country in Western Europe. Some two years after their arrival, John's financial activities were the subject of a disclosure from a financial institution. The disclosure was made because a large number of cash transactions into the account concerned the financial institution, as well as significant payments being made to an account in another European country. In response to inquiries from the account manager, John told the financial institution that the funds were financing a joint business venture - although he did not specify the type of business.

Shortly afterwards, a second disclosure from a separate financial institution was received reflecting concern about the level of financial activity taking place on Georgina's account. The volume of transactions did not seem to be in line with expected income for a part-time filing clerk.

85

Both disclosures to the national FIU were analysed and it was soon established that John and Georgina both had records for drug trafficking. Interest in the couple was further heightened when colleagues from another European country contacted the FIU via Egmont. In the second country the police were making enquiries into the murder of an individual whose intelligence records suggested was John's former business partner.

Following close international co-operation between the FIUs of both countries, as well as law enforcement in a country in the Asia Pacific region, a covert operation was organised to monitor the couples' travel movements. This proved to be very successful and resulted in John and Georgina, who were travelling under false names, being arrested in possession of 1.5 kilos of high-grade heroin. Simultaneously, the police in the country where the couple lived executed search warrants. The police recovered extensive financial documents from the home address, and 8.5 kilos of cannabis resin concealed in a car located in a lock up garage which had been rented in Georgina's name. During the post arrest interviews conducted by law enforcement in the country through which they were travelling, admissions were made in relation to the aforementioned murder. John and Georgina's were extradited to the country where the investigation of the murder of the former business partner was being conducted. Charged on a number of related offences, they subsequently received substantial prison sentences.

An interesting observation in this case is that John and Georgina were less concerned at being deported to face the murder charge than about remaining in the country in the Asia Pacific region, and facing a second drug trafficking charge. They knew they were under risk of being deported to a country where the sentence for drug trafficking is very severe.

145



USE OF ANONYMOUS ASSET TYPES

Indicators:

- › Large-scale cash transactions
- › Unrealistic wealth compared to client profile
- › Defensive stance to questioning



In October 1991, a preliminary investigation was initiated in a European country against a fifty-two year old bank employee named Theodore. The authorities suspected him of helping an organised crime ring to launder money derived from drug trafficking.

On around 20 occasions, Theodore received packets of American bank cheques (20-30 cheques per packet) for amounts between US\$4 - 8,000 per cheques. These cheques were the profits from cocaine sales by an American drug cartel in another American country. They were purchased by a number of individuals hired by the criminal organisation to circumvent the banking regulations. By ensuring that the amounts on each individual check were less than US\$10,000, the organisation believed that it would avoid the mandatory reporting requirements in place in many countries.

86

The checks were sent to Theodore and deposited by him in anonymous numbered accounts at the bank where he worked. Theodore, who managed both the accounts and the subsequent transfers of funds, sent the certified checks (drawn on American banks) for payment. Between March and September 1991, the funds were returned by bank transfer to the American country where the drugs-cartel was situated and used for the acquisition of real estate.

147

The investigation later revealed that other senior officials in the bank hierarchy had actually designed and implemented the laundering scheme. The recruitment of customers in different American countries was part of the marketing strategy of the bank's private banking section, which sent a representative of the bank to one of the American countries. Contractual relations were established through an intermediary in that country who was paid commission for each customer he brought to the bank. No additional identification information on the proposed customers was recorded, and no questions were asked about the origin of the funds used to develop the accounts.

Despite the information available to the bank concerning the suspicious transactions, the problem accounts were not closed. The bank continued to cash the large numbers of checks, when a simple analysis of account movements would have detected the 'smurfing' that was going on. When the authorities undertake a financial investigation due to information from other sources highlighting the importance of the accounts, neither they nor internal bank examinations were able to find any trace of any documents used to open the accounts being used for laundering.



Gerald opened several bank accounts at his local bank in a Southern European country and immediately made sizeable cash deposits into the new accounts using American dollars and another (European) currency. Shortly afterwards, the funds were transferred to a personal bank account in another country.

The bank was concerned about the financial activity within the accounts and reported the case to the national FIU. During their financial investigation, the FIU discovered that the holder of the numbered accounts to which the funds were being sent was suspected of having ties with an international drug trafficking organisation. This was enough for the FIU to forward the case to the judicial authorities. The authorities arrested Gerald when he returned from a foreign trip. At the time of writing, the investigation against him was continuing to determine the extent of laundering that he had undertaken.

87

Indicators:

- > Large-scale cash transactions
- > Use of multiple accounts without explanation
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction



Jane, a Western-European citizen, was the head of an organisation that had laundered money originating from a number of cocaine trafficking operations. The organisation consisted of her two brothers and five financial professionals. Because of Jane's international reputation amongst the criminal community, an American criminal organisation, linked to cocaine trafficking, approached her to launder its drug profits.

The American organisation sent the profits in cash amounts of between US\$50,000 and US\$450,000 to Jane by couriers. Jane received further instructions via the accountant of the American organisation, requesting that the money had to be transported to a specific destination country. Once Jane was informed of the required destination, the rest of the laundering route was up to her. One of her associates carried the funds to the Custom's office on the border between Jane's country and a neighbouring country. An employee of a bank office near the border - a minor member of the laundering gang - helped him to fill in the form that was required for declaring money being brought into the country. This declaration form was obligatory; and non-compliance would have given the authorities the right to confiscate any undeclared funds discovered. All completed forms were registered at the neighbouring county's national FIU. Because the bank office employee was a well-known financial professional, the declaration raised no suspicious at either Customs or the national FIU. The completion of the form also gave the associate official documentation proving legal ownership of the funds.

Once within the neighbouring country the associate deposited the funds into a non-residential account at the employee's bank, using the border declaration form as supporting documentation. Immediately after depositing the money, the figurehead ordered the bank to transfer it to accounts in a South American country, following the initial orders given by the American criminal organisation. The associate then returned home, bringing back a copy of the transactions to Jane, who faxed the information together with the applicable exchange rate, bank charges, and the laundering commission of 10 percent, to the American organisation's accountant. Five separate associates undertook the same laundering route, in attempt to avoid suspicious by lessening the amount of cash involved in any single transaction.

However, the bank in the neighbouring country became suspicious of the number of cash deposits in non-residential accounts with linked rapid fund transfers, and disclosed the transactions to the national FIU. From examination of the supporting documentation (the declaration forms) the bank also discovered that one of its employees was involved in every transaction.

The information disclosed by the bank showed the FIU the overseas beneficiaries. Analysis of the account details overseas revealed to the FIU that some of them had appeared as



beneficiaries in two previous police investigations into cocaine trafficking. Further investigation revealed that the overseas beneficiaries were a group of at least fifty-five different individuals and companies. The FIU composed a briefing report on the suspected laundering operation, and passed all information on to the police for action.

Due to the high quality analysis by the FIU, which demonstrated the strong likelihood of the laundering of drugs-proceeds, the police initiated an investigation. They rapidly amassed a complete picture of the cocaine trafficking organisation. The beneficiaries of the overseas accounts were suspected of being specifically recruited by this organisation to continue the layering process, in an attempt to make it more difficult to trace the real origin of the funds.

In spring 1999, several members of the cocaine organisation were arrested. At that moment the cash deliveries from that organisation to Jane ceased, but she had already found a new source of income - because of her existing contacts with criminals involved in cocaine trafficking, she had moved to new activities of direct involvement with drugs trafficking and currency forging operations. The trails from the America group back to Jane seemed to have gone cold for investigators, and Jane felt secure.

A criminal group had presented her with a method to forge high value US\$ bills. The group delivered the negatives and chemical products to Jane in a high-class hotel. However, the police located Jane before she could develop from her new toy. All the people gathered in the hotel-room were arrested. Because of this police intervention, greedy Jane didn't get swindled, which was the real intention of the group. The bank notes production method resulted to be a complete fraud scheme. The photographic paper was a simple black paper, and the developing substance was a mixture of alcohol, ammonia and acids.

However, the local police had been investigating a criminal group that had used Jane for an earlier laundering operation, and in a series of raids were able to arrest nine people and confiscated two handguns and US\$28,000. More importantly, searches of Jane's property revealed a range of documents that proved to be very important in determining the amount of money the organisation had laundered over the years: US\$14,700,000.

Indicators:

- > [Large-scale cash transactions](#)



Paula and Eric were a married couple living in a European city, both immigrants from a foreign jurisdiction. Each day after his return from 'work' Eric gave Paula US\$1,000-\$2000 in small bills. Paula was aware that Eric was illegally living in the country and was also involved in drug trafficking, but the relationship and wealth that he provided her overcame any feelings of guilt. He made a lot of money, but was aware of the risks of identification involved when undertaking any financial transaction with a legitimate institution. He decided to use Paula - who is a legal resident - as a figurehead. She exchanged the dollars into larger denominations at various financial institutions and handed over the notes to Eric.

Eric was arrested for a minor drug trafficking offence and placed in detention awaiting trial. At home, Paula had US\$42,000 in cash, which helped her overcome her sadness at his arrest. Paula immediately went to her bank and transferred US\$16,500 to her mother's account in another country, and transferred a further US\$24,000 into her own account at another institution in the same foreign country.

Three days later, when Paula visited her mother in the second country, Paula and her mother withdrew the US\$16,500. They spent the money on a new car as a gift for Paula's brother. Then Paula withdrew the US\$24,000 out of her own account, and gave the money to her father, in order for him to exchange it into another currency. However, Paula's father suggested that it may be more sensible to invest the money rather than spend it straight away, and gave the money to Paula's brother.

Shortly afterwards, Eric's criminal contacts traced Paula to the foreign country and began to demand the return of the money that Eric 'owed' them. They told her that if she didn't return the money, her family would be killed. But Paula - now being a rich woman by local standards - was not afraid. She didn't pay any attention to them until they raided her brother's house and threatened his wife. Seeing no other way out, Paula turned to the local police and explained everything.

The police informed the national FIU of the monetary aspects of the case. The FIU initiated an investigation and asked the national public prosecutor to take precautionary measures. A few days later Paula and her relatives were charged for the offence of violating the law of preventing money laundering. The car and Paula's bank account were restrained. Unfortunately, there was not much left in the account because Paula had withdrawn the funds in cash shortly before informing the police of her problem. Her brother claimed to have lost the whole amount gambling. The police contacted the casino at which he claimed to have lost the funds and quickly determined that this statement was not true. This notwithstanding, the funds could not be located.



USE OF ANONYMOUS ASSET TYPES

However, Paula and her family did not escape scot-free. In the original country, Eric was not convicted for his illegal activities but deported in view of his illegal status. Although the failure to have any identifiable offence meant that under local legislation there were no grounds for prosecution of Paula and her family, as a free man, Eric will certainly return for his money.

Indicators:

- > Large-scale cash transactions
- > Large number of low denomination bills



While driving his truck across the border of an Eastern European country, Victor, who worked for an international transport company, was caught with a huge amount of cash in different currencies stashed in his truck. Under local legislation, Victor should have declared this money to customs before attempting to cross the border. Furthermore, the money was concealed in a package, which had names of a number of persons and companies on it.

As the police were questioning him, they remembered an intelligence report that they had received from a neighbouring country a few days before. Kevin, who also worked for an international transport company, was caught bringing money into the neighbouring country without declaring it to customs. The police thought that there could be a connection between the two cases and decided to co-operate more closely with the neighbouring country. A further possible link was that one of the names on Victor's package was Rob. Rob was a citizen of the neighbouring country, and he owned an exchange office in that jurisdiction. According to police information, Rob was linked to a terrorist organisation and his exchange office was heavily involved in laundering the organisations' dirty money.

The police notified the national FIU of the cash detection and the possible link to the neighbouring country. The FIU decided to analyse the names and company details on Victor's package to determine whether they had any known or suspected links to criminality. The FIU determined that Pete, one of the names on the package, was Rob's brother and also had his own exchange office in the neighbouring country. Apart from that, Pete had authorisation in two non-residential accounts in the main jurisdiction. Inquiries with the bank employees revealed that the identity of the actual account holders was unknown. Financial analysis identified that Pete was using the non-residential accounts to transfer money to several countries. According to the documentation supplied by Pete to the financial institution, the transferred money was income from an export business. That way Pete concealed the real origin of the monies.

At time of writing, the trials are still in progress.

Indicators:

- > Large-scale cash transactions
- > Atypical or uneconomical fund transfer to or from foreign jurisdiction
- > Multiple currency cash format
- > Unrealistic business turnover



An account manager at a bank noticed some irregularities on David's bank account. For several months, large cash deposits and withdrawals were transacted through his bank account - usually for sums between US\$8,000 and US\$16,000. Furthermore, David deposited two cheques - issued by a local casino - into his account for US\$31,000 apiece, for which he requested special clearance. When opening the account, David had stated that he worked for an import company, which imported major household appliances such as washing machines and dryers. However, in the experience of the bank staff these transactions did not seem like standard revenues for an employee of an import company for household appliances. The bank disclosed a report on David's transactions to the national FIU.

David's name had previously been linked with some of the leading individuals in a heroin importation ring. Consequently, the FIU immediately forwarded the disclosure to the relevant police squad for further investigation. The police saw a possible link between David and the importation of heroin. Was David simply laundering the money from the sales of drugs? The amount of cash involved certainly suggested that this was occurring. The other possibility was that David was directly involved in the smuggling of the drugs, and the cash was payment for his services. The investigating team turned its focus on the household appliance dealing import company and, in due course, discovered that a number of containers were disappearing between arrival at port and transportation to the company warehouses.

However, further investigations revealed that the containers did not contain any drugs. Although David indeed had past contact with the members of an organised criminal group, his latest illegal activity was simply for his own benefit. David was involved in stealing the goods and selling them on the black market to support his very expensive gambling habit. The disappearances of the goods were explained as damages or losses en-route, and written off by the importation company against insurance.

The investigating unit gathered enough evidence to allow an arrest and prosecution. David was ultimately sentenced to two years imprisonment. Unfortunately, he had spent all of the proceeds of his criminality on his gambling habit. Inasmuch as David had no other assets, no confiscation action was possible.

Indicators:

- > Large-scale cash transactions
- > Unrealistic wealth compared to client profile



Elena, a citizen of an American country, was a woman of humble origin. She claimed to be involved in a number of different business sectors including an exchange house. Elena Distribution, her own distribution company, was the result of her dedication and hard work, and Elena's business was going well. Individuals frequently deposited cash into her accounts at four different banks. Elena was a well-recognised customer at each bank, utilising a range of small business facilities, including some international services.

However, in spite of Elena's business qualities the banks did not really trust Elena's financial profile. The various individuals depositing cash for Elena never provided any information about the real origin or destination of the funds. Furthermore, whenever the banks asked Elena about the origin of the funds, she not only answered evasively but also became belligerent. Every bank involved in Elena's schemes decided to disclose to the national FIU.

92

The FIU decided to initiate an investigation. It became clear that the exchange house was already being investigated for alleged money laundering by other law enforcement agencies. The export company was suspected of being connected to drug trafficking and money laundering activities. Whilst gathering more information, the FIU concluded that Elena is associated with companies in a neighbouring country that are strongly suspected to be involved in drug trafficking.

155

The FIU, in co-ordination with the reporting banks, analysed all financial movements in Elena's accounts. Consequently, the FIU was able to determine the flow of funds out of the country. Information was also obtained concerning twenty individual related to these accounts to differing degrees. The FIU forwarded all information gathered to the authorities. At time of writing, a police investigation was underway to establish the link between Elena's operations and narcotics trafficking.

Indicators:

- > Unconnected parties channelling funds to single account
- > Defensive stance to questioning
- > High level of cash deposits atypical of expected business profile





A number of cases submitted by member FIUs did not fall into one of the five laundering categories, or did not have a disclosure from a financial institution involved in the investigation. However, the cases were still judged to be of interest for member FIUs as demonstrations of how good intelligence liaison between different organisations - whether within a single country or internationally - can produce significant successes against criminal organisations.



Paul, an Eastern European citizen, approached his local bank for a new financial service. As an existing business customer known to the bank, he wanted the institution to issue a bank guarantee. As he filed the application form, Paul pointed out that he needed the guarantee to receive a loan from a foreign financial institution. As collateral for the bank guarantee, Paul submitted certificates of deposit with a total value of US\$2,000,000, issued by another European bank.

Although Paul was an existing customer, the local bank was not entirely convinced of his good intentions. There seemed to be a discrepancy between the uncommonly high value of the certificates and the known financial status and business operations of Paul. Furthermore, the local bank also had suspicions about the origin and authenticity of the certificates of deposit. The local bank decided to inform the national FIU accordingly.

93

As Paul's actions involved several foreign countries - a loan from a foreign bank, certificates issued by another foreign bank - the national FIU communicated through the Egmont group with other national FIUs in those countries. The information exchanged was in the form of intelligence to determine whether further formal action was needed. It soon became clear that the European bank had not issued the certificates of deposit - they were high quality forgeries.

158

The FIU notified the corresponding law enforcement authorities. Paul was arrested on a charge of attempting bank fraud by using counterfeit deposit certificates.

Indicators:

- > High value transactions atypical of customer business history
- > Use of unusual banking material - banking certificates of deposit have a history of attempted use within frauds

FIU action:

- > Exchange of intelligence with foreign FIU
- > Identifying possible fraud techniques and seeking to confirm / deny suspicion



In 1998, Zoe decided to sell her flat in a northern country in Europe and move into a new house in southern Europe. The sale went very smoothly and she received the profit from the sale in US dollars. As she could not use the dollars in her new home country, she wanted to exchange the money she had brought with her into the national currency. Hendrick, an acquaintance of Zoe's, offered to help with the exchange. Zoe trusted her friend and gave him almost US\$83,000 in cash.

Once the money was in his possession, Hendrick vanished. After waiting a short while Zoe made increasingly desperate attempts to contact him, through his home, his wife Britney, and his workplace, but no contact could be made. One week after his disappearance, Zoe went to the police to report her suspicions.

94

With the information the police received from Zoe, they informed the national FIU, which started an investigation. The FIU found out that Hendrick had made a deposit of nearly US\$44,000 to an account in the name of his wife, and that he had left the country two days after receiving the funds from Zoe. His financial records also indicated that he had been withdrawing funds from his accounts from locations in another European country. This information was enough for the FIU to obtain a court order to freeze the assets on Britney's account. The police requested assistance of the authorities in other European countries, alerting Interpol of the need for an arrest. Knowing Hendrick's travel route out of the country and possible location was a distinct aid in targeting law enforcement attention.

159

With the help of the other European law enforcement authorities, Hendrick was located and arrested in a nearby country. Hendrick returned home in detainment. In his home country he has been prosecuted for 'obtaining money under false pretences' (i.e. fraud) and for money laundering offences. Britney, who received the stolen money from her husband, has also been prosecuted for money laundering.

FIU action:

- > Examining financial records for evidence of fund movement
- > Examining financial records for signs of travel expenses
- > Examining financial records for clues to location of suspect



Marco, a well-established businessman, learned that various individuals in his country needed loans for a wide range of business ventures and investments. Since these individuals were all likely to seek loans from the same foreign bank in a Western European country, he planned to pretend to be a representative of this financial institution.

Marco opened his own office and a number of clients came to arrange a loan, believing him to be the local representative of the foreign bank. As is usual business practice for some financial investment activities, Marco asked them to pay an advance reservation fee for the arranged loans and in all fees amounting to US\$820,000 were paid into his local bank accounts.

After receiving the fees, Marco closed his office and the clients, of course, did not receive any loans from the foreign bank. Some of the victims reported the theft to the police, who informed the national FIU. Investigations were carried out by the FIU in co-operation with police and authorities in the country where the legitimate financial institution was based.

The FIU uncovered information about Marco demonstrating his business history, receipt of the advance fees from defrauded clients, and documenting the abrupt closure of the office, and were therefore able to obtain a court order freezing some US\$41,000 in Marco's account. Marco was arrested shortly thereafter and was charged with theft and laundering offences.

FIU action:

- > Document business history
- > Document timeline showing opening and closing of 'representative' office
- > Identify client funds in accounts and obtain restraint order



An Eastern European bank was acting as an intermediary for two foreign companies. These companies were in the business of trading grain and iron plates, and were interconnected through citizens from a neighbouring country, including an individual called Matthew. Matthew's company needed the intermediary bank to issue a letter of credit for the purpose of purchasing goods from the supplier company. He presented a letter of guarantee, drawn up by another European bank, in which dealings in a range of merchandise between both companies were mentioned. Two large national companies stood surety for the letter of guarantee. As the documentation seemed in order, the intermediary bank issued a non-operational letter of credit, which was drawn up to become operative when the intermediary bank obtained 25 percent of the total amount of the letter of credit.

As expected, Matthew deposited the 25 percent into his account. The intermediary bank assured the letter of credit and in order to prevent the 25 percent deposit being removed from their control placed a stop on Matthew's account to block any further fund movements. The letter of credit ought to have been cleared by the direct transfer of funds by the European bank to the account of the supplier company. But the intermediary bank discovered that the paying company was not situated at the address stipulated in the documents. Furthermore, evidence began to amount that neither the goods nor the principal actually existed. The bank decided not to execute the fund transfer, but disclosed the transaction to the national FIU.

From public information sources, the FIU obtained information that Matthew's company had a close relationship with the European bank that drew up the original letter of guarantee. Matthew's company even owned seven-percent of the banks' shares. Furthermore, this bank had suffered losses of almost US\$3,800,000 over the last three years. The FIU of the country concerned informed the national FIU that the bank had been known before to have granted credits without guarantee to businessmen - some of which had been used in frauds and attempted frauds. Moreover, the bank had tried to conceal these dubious transactions from the regulatory authorities.

After collecting all the available information, the FIU passed a report on to the law enforcement authorities for further investigation. It appeared that Matthew had exploited the fact that the intermediary bank was willing to draw up a contract in which it was to fill the whole pledge upon a 25 percent deposit. In effect, he was willing to deposit - and lose - 25 percent at the bank in order to gain the total sum. Had the scheme worked, the intermediary bank would have lost about US\$200,000.



In a final twist, the European bank, which had issued the original letters of guarantee for Matthew's company, declared that the documentation was fraudulent and refused to honour the guarantee. Matthew, in the meantime, had sold the guarantees to three other banks. The courts eventually decided that the European bank had to pay these banks damages amounting to US\$2,000,000s each.

At time of writing, law enforcement in several jurisdictions were seeking Matthew in connection with a number of fraud and laundering charges.



In order to be able to undertake a large-scale mail order pornography business without attracting the interest of law enforcement, Mr. and Mrs. Calts, residents of a Western-European country, decided to use a suitable intermediary.

Presenting themselves as a 'respectable' business couple, Mr. and Mrs. Calts involved Dougman Corporate Services as the innocent intermediary in their business plans. They told the intermediary they planned to sell electronic components by mail order. Although the catalogue was to be mailed from their premises to potential customers, the Calts' did not want to receive the orders directly to their home address. The orders were to be sent to a mailing address, and then forwarded in fortnightly bulk packages. The cover story seemed rational, in that Mr. & Mrs. Calts wanted to ensure an orderly delivery process separate from private mail.

97

Mass-remailing operations of this type are not unknown for small business, so Dougman Corporate Services accepted the contract. The Calts' paid Dougman Corporate Services by credit card and produced their passports for certification of identity. Unaware of the real content of the catalogue, Dougman Corporate Services set up their company with a bank account and mailing address facilities.

163

During the next couple of months a steady stream of thin pre-printed 'orders' envelopes arrived to be forwarded to the Calts'. Charges were paid on time to Dougman Corporate Services. However, after some time two other types of mail attracted the attention of Dougman Corporate Services' employees. A number of thicker brown A5 envelopes with 'address unknown' stickers attached to them and a number of letters addressed to 'the official in charge of the Calts' mailing address' arrived. The brown A5 envelopes were all identical, although originally sent to different addresses, and had a senders' address stamp on the back saying Calts' Company and giving the Dougman Corporate Services' mailing address. Not knowing any details about Calts' Company other than its mail should be forwarded to the Calts', the employees put these with the rest of the 'orders' envelopes to be sent on. The letters addressed to 'the official in charge' were referred to an office supervisor. The mailroom supervisor, who also had no knowledge of what the Calts' company actually did, opened one of the letters. The letter appeared to be a complaint from an individual demanding to be removed from the mailing list, as he had 'no intention of purchasing such offensive material'. This complaint was adjudged to be a matter for the client company, as Dougman Corporate Services did not hold the mailing list of the Calts' clients. The boss copied the letter, resealed the envelope, and added all the letters for despatch to the Calts' main address.



About a fortnight later, while processing another mixed batch, an employee noticed that one of the larger brown A5 envelopes was torn and the cover of the contents was partially visible. The cover appeared to have images of a very explicit sexual nature on it. The matter was brought to the attention of the supervisor, who referred the issue upward to a director. The director checked the Calts' business file and subsequently disclosed the company's suspicions to the national FIU, including the bank account, credit card, and identity details.

Without disclosing the source of information the national FIU alerted local law enforcement. After an investigation lasting several months, enough evidence was gathered to facilitate a raid on a small lock up warehouse owned by the Calts'. The team found a bank of video copying machines and supplies of blank videos, as well as final products awaiting dispatch. The master copies of the illegal pornography had been smuggled in from America. Copies were made and distributed via the postal system, thereby circumventing normal law enforcement controls. The team made a number of arrests, including Mr. and Mrs. Calts. At time of writing, the proceeds of the business were the subject of ongoing confiscation activity by law enforcement, as these were banked in another Western-European country. Their local bank account, set up by Dougman Corporate Services, appeared to be virtually dormant.

Whilst the court proceedings were in the public domain, Dougman's disclosure was never made public. No Dougman employee appeared in court. Such protection of disclosing sources is important to build confidence amongst potential disclosing institutions.

Indicators:

- > Possible client relationship to previous crimes



Dean decided to defraud the government. Tax incentives were given to exporters who exported goods that had been bought from a government-run factory. In order to operate the fraud he involved two companies - Inc and Ltd.

Inc bought four thousand tons of sugar from a government factory. Because Inc declared to the factory that it was planning to export the sugar, the price charged per ton was reduced. In order to ensure that the sugar was actually exported, the sugar factory required Inc to provide a letter of guarantee. If Inc fulfilled its obligations and exported the sugar, the letter was to be returned. If Inc failed to fulfil its obligations, the letter was to be cashed. Inc handed a letter of guarantee to the factory, bought the sugar and then filed documentation detailing the export at Customs.

Customs detected, however, that Inc did not export any sugar, and notified the sugar factory. In turn, the sugar factory informed the national public prosecutor about the potential tax fraud, who contacted the national FIU for assistance.

98

165

By the time that the FIU started its investigation, Inc had already constructed a defence. Apparently some two thousand tons had been sold to Ltd on the understanding that this company would export the sugar. The rest of the sugar, a further two thousand tons, was sold to Dean, again on the understanding that it would be exported. But the FIU's financial investigation proved that Ltd didn't export the sugar and that Dean. Ltd and Inc all had financial links. Examination of the various company records proved that all customs declarations and sales invoices were false - in order to get the special price from the sugar factory Inc. Had created false documentation suggesting that the exports had taken place. On top of that, when the sugar factory finally decided to cash the letter of guarantee, this document turned out to be false.

Inc had criminally gained by selling export-restricted goods on the internal market and had provided the sugar factory with a false letter of guarantee. Furthermore, Inc had declared that it had received income from the 'export', and had received a VAT refund. Dean and several other individuals at Inc and Ltd were prosecuted for fraud and money laundering offences. At time of writing, all defendants remained in custody.



Tim was an infrequent customer of an exchange office. On several occasions he exchanged fairly large amounts of the nation's currency into various other currencies. By itself this may not have been viewed as suspicious - the amounts were in line with tourist spending monies for extended vacation - but Tim also purchased airline tickets to fly to a number of countries.

The executive at the institution responsible for anti-laundering activity examined Tim's transaction records. It interested him that the records showed that Tim did not use the return portion of the airline tickets on a number of occasions. Evidently, Tim made his way back into the country by different means. However, why would anybody fail to use both halves of a travel ticket on numerous occasions? This information, when combined with the repeated exchanges of currencies, generated enough suspicion to warrant a disclosure to the national FIU.

99

The FIU searched available indices and discovered a wealth of information on Tim. Both customs and police intelligence records identified him as a known drug importer, with an outstanding warrant for his arrest on additional theft charges. The assumption that the exchanged money has illicit origins was almost beyond dispute, and warranted an investigation. Following further co-operation between the exchange office and the local police force, Tim was taken by surprise as he returned from a trip to a European city.

166

Tim was arrested as he re-entered the country and found to have both drugs and large amounts of currency in his possessions. At time of writing he was facing charges for a number of offences, and the investigations into money laundering activities continues.

Indicators:

- > Unusual background information
- > Repeated exchange of currencies with no underlying business explanation



Pedro, an American national, was a habitual and cunning criminal. He smuggled narcotics, exploited women through prostitution and had set up a money-laundering network between Europe and America using wire transfers to minimise risk of detection. He thought he was untouchable, but a European police force had been monitoring his activities for some time. Their investigation suggested that Pedro could have had a criminal record in America. The European police force contacted the American FIU and asked if Pedro could be checked against the American financial and criminal databases. Although the FIU did not find any financial intelligence, it did discover that an individual using Pedro's name and identity details was wanted for murder in America.

Since an absolutely positive match was necessary before extradition could be considered, the European police force also electronically forwarded to the FIU a photograph of Pedro obtained from his residency permit. Within minutes, the FIU forwarded the received photograph to the American law enforcement agency. There was a positive identification match.

With permission from both sides, the FIU was then able to put the European police force in direct contact with American law enforcement officials. An international arrest warrant was co-ordinated through both Interpol and the Ministry of Justice in the Americas. When the arrest warrant was received, Pedro was located and arrested by the European police force. Pedro is currently awaiting extradition to America. The entire process from the original request to the FIU to Pedro's arrest took only eight days. The FIU had expedited the identification and arrest of an international criminal.

It has been a rewarding experience for us to edit the one hundred cases included in this report. Whilst working through the translations and casenotes we came across a number of interesting issues which we would like to draw to your attention. It is our belief that member FIUs may benefit from understanding some of the best practices - or weaknesses - observed in the disclosure analysis and financial investigations.

Firstly, we wish to highlight the importance of disclosures continuing to be made by financial institutions to an FIU even while a financial investigation is being undertaken by an investigating body. The relationships that can be established by the FIU between financial transactions and previous disclosures, which may have appeared to be unrelated, make it possible to furnish the investigating team with additional information facilitating the progress and outcome of the investigations. Financial institutions should therefore be encouraged to continue to submit disclosures to the FIU even if they have been in contact with the investigating team.

Secondly, additional information obtained by a financial institutions' own inquiries have been shown in a number of cases to be very useful for later investigations by the authorities. However, it is possible that such inquiries may delay disclosure and coupled with the difficulty of questioning of the client by the financial institution, it may, under some circumstances, give launderers enough notice to disappear. Financial institutions should therefore be educated by regulators and FIUs of the risks of such an approach and to weigh up the value of further internal inquiries against prompt disclosure. In one of the cases it was found that only a prompt disclosure had saved a victim from significant further losses.

Thirdly, it is important for investigators and intelligence analysts to remember that the proceeds of crime do not have to be spent upon purchasing assets - there may not be a traditional laundering method used at all as the funds are simply being spent on lifestyle. Time spent trying to identify assets such as property or financial instruments may therefore be a waste of time. In order to reduce such a possibility, member FIUs may benefit from seeking to estimate the amount of money generated by the underlying criminal activity against the amount visibly spent on lifestyle.

Fourthly, it is important to stress the frequent use of multiple laundering routes by criminal organisations - multiple backup routes are created in the laundering process to minimise the impact of state action against any single route. This laundering behaviour demonstrates the need for national FIUs not to assume that once a laundering route has been identified that there are not other routes being used by the same group. If investigators fail to identify multiple routes, the effectiveness of any law enforcement action is likely to be reduced. However, it is also obvious that in a number of cases at each stage in a criminal operation

a specific individual had full responsibility for money movements. The identification and removal of such individuals can have a disproportionately large effect on the whole criminal operation.

Some but by no means all cases show examples of asset confiscation. Restraint and confiscation of assets should be one of the key goals of financial investigations. By tracing the illicit funds and effecting removal, it is possible to damage the criminal organisation by reducing the amount of investment available for future criminality, reducing the organisations financial power in communities, and reducing the possibility of criminals acting as wealthy role models for other citizens. In contrast, failing to remove criminal funds means that the organisations can often continue to flourish even if key individuals are imprisoned. In some countries the financial investigation and asset confiscation action have to be performed at the same time or even prior to the criminal prosecution. In other countries it can be conducted separately - even after imprisonment. The differing limitations on asset confiscation could be one of the reasons that in many cases no information on seizure or confiscation of assets was provided.

Finally, this report is the result of an initiative by the Egmont Group, which has as a main purpose the stimulation of international co-operation and exchange of information between national FIUs. It has therefore been a pleasure to read that many FIUs used intelligence obtained through the Egmont group to further their own investigations and analysis. Money laundering often crosses national borders - as demonstrated by many of the cases in this report. Co-operation between FIUs is, therefore, highly important and necessary if member FIUs are to get an accurate view of criminal money flows.

1. LARGE-SCALE CASH TRANSACTIONS.

Criminals often accumulate large amounts of low-denomination notes as trades for illicit substances or goods and are generally made in untraceable cash transactions. The criminal must enter these notes into the banking system to realise the true value.

2. ATYPICAL OR UNECONOMICAL FUND TRANSFER TO OR FROM FOREIGN JURISDICTION.

As explained in chapter four, transfer of criminal funds brings several benefits to laundering operations. A number of cases included disclosures where financial institutions had identified fund transfers overseas with no supporting (business) explanation.

3. UNUSUAL BUSINESS ACTIVITY OR TRANSACTION.

Movements of funds that involve a loss, or lower rate of return, without any visible compensating benefit for the client may indicate that the business is more concerned with moving funds through the financial system, than with profitability.

4. LARGE AND / OR RAPID MOVEMENTS OF FUNDS.

Money launderers often try to 'layer' funds by switching between several accounts in different institutions / jurisdictions in an attempt to confuse the audit trail. A legitimate businessman, however, would seek to minimise bureaucracy and bank charges.

5. UNREALISTIC WEALTH COMPARED TO CLIENT PROFILE.

A number of cases include disclosures where individuals with little or no wealth / no employment pay large sums of money into accounts. Often these funds are directly derived from crime, or are being 'looked after' whilst the real criminal is being investigated by police.

6. DEFENSIVE STANCE TO QUESTIONING.

Inexperienced launderers may not have prepared a reasonable cover story concerning the origins of illicit funds. Generally, an 'honest' customer will be willing to answer questions concerning his finances as it allows the financial institution to tailor their service accordingly.