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■ Welcome to the fourth edition of the Proximal Consulting Review. As the summer holiday season approaches we bring you more money laundering and business crime updates from around the globe. In this issue our virtual travels take us to Russia to report on fictitious banking operations and to the East to explore widely used alternative remittance systems. We also ask: can the increasingly popular virtual reality Internet games or “virtual worlds” really be used by criminals to launder the proceeds of crime as some critics fear? Our regular Focus on Fraud feature looks at pyramid selling and we also offer some top tips on avoiding tempting investment scams. We hope you enjoy reading and as always we welcome your feedback – contact us at newsletter@proximalconsulting.com.

ALTERNATIVE REMITTANCE SYSTEMS

■ It is now widely agreed that unregulated alternative remittance systems, such as the hawala or hundi system, fei ch'ien, chit system, poey kuan and the black market peso exchange, create significant money laundering and terrorist financing problems.

Alternative remittance systems such as the widespread Hawala or Hundi system are legally defined as “money transfer without money movement” and such transfers of money take place based on communications between members of a network of Hawaladars, or Hawala dealers. Interpol describes the hawala or hundi system as follows:

Hawala is an alternative or parallel remittance system. It exists and operates outside of, or parallel to, “traditional” banking or financial channels. It was developed in India, before the introduction of Western banking practices, and is currently a major remittance system used around the world. It is but one of several such systems; ...The words hawala and hundi are both used, correctly and interchangeably, to describe the alternative remittance system. Since there is only one system, the usage “the hawala and hundi systems” is incorrect. Either name can be used, or one can say “the hawala or hundi system”.

The key difficulty is that these alternative remittance systems were never meant to deal with “official” documented transactions: they provide confidentiality with no paper trail. Each system is based on trust and has no direct physical transfer of funds that can be tied to a particular transaction. Hawala transactions commonly go across international lines, involve more than one currency and entail the use of intermediaries.

In very simple terms, each alternative remittance system works as follows: a broker in one country (who may do this as a sideline to his normal business) is instructed by his customer to make a payment to a person in another country. The original broker arranges for a colleague broker in the destination country to make a payment to the beneficiary. No paperwork is generated as the entire system is based on trust and connections, such as family relationships or regional affiliations. The funds that are transferred by the brokers are at a later stage rationalized between them – in other words the brokers account for a series of transactions and whichever broker owes money transfers it to the other. However, even this transaction might not be through a traditional banking method – it could be that gold is given from one to the other.

Interpol highlights various advantages to the customer in using such a system:



- Cost-effectiveness – low overheads means a better exchange rate.
- Efficiency – the transfer takes one or two days at most.
- Reliability – it is so simple that very little can go wrong (as opposed to international transfers made through the banking system!)
- Lack of bureaucracy – if you know or are introduced to a broker then it is unlikely (as the entire system is based on trust) that he will go through a KYC check on you.
- Lack of a paper trail – records of individual transactions are thin on the ground.
- Tax evasion – Interpol describe hawala as offering a “scrutiny-free remittance channel”.

To give some idea of the scale of such alternative remittance systems, the US Treasury states that officials in Pakistan estimate that more than \$7 billion flows into the nation through hawala channels each year, \$5 billion of which is thought to be legitimate funds sent to the families of expatriate individuals working abroad. In February 2002 Douglas Farah wrote in the *Washington Post* that Pakistan and US officials estimate that the Taliban and Al-Qaeda have removed the equivalent of \$10 million from Afghanistan. The money was taken across the Afghan-Pakistan border and was transferred from Pakistan to Dubai using the hawala system. Despite being illegal in many Far Eastern countries hawala is thriving and so far unregulated, making it an important factor for consideration in the Western fight against terrorism.

When considering doing business in a new country, it is important to assess any potential business or financial risks that might exist in the subject country, such as the prevalent use of alternative remittance systems for corrupt means. Our country reports can provide you with reliable and credible advice on country risks, an invaluable tool for staying ahead in the fast-moving international business environment of today.

INVESTMENT SCAMS AND HOW TO AVOID THEM

Unfortunately, it is not as easy to spot a scam as we might think – con artists are often friendly people, who look professional and appear successful and they are not always strangers. Some make contact through church groups or ethnic associations, and some are people already known as friends or neighbours. If you fall for an investment scam you could potentially lose a lot of money, however there are a few common sense principles you can follow to avoid this happening:

1. **BUY ONLY FROM LICENSED OR ACCREDITED FINANCIAL PROFESSIONALS.** Stock-brokers and investment advisers must be licensed to sell you products such as stocks, bonds and mutual funds.
2. **REVIEW YOUR ACCOUNT STATEMENTS.** Check all statements when you get them and notice the details, including all changes to your investments. Make sure your correspondence is sent to the investment firm's official address. Ask questions straight away about anything that seems incorrect, unauthorized or unclear. If your investment company's broker or advisor refuses to comply promptly when you ask to withdraw money from your account, does not provide proper statements or does not give satisfactory answers to your questions, complain in writing to the authorities.
3. **BUY INVESTMENT PRODUCTS THAT YOU HAVE CHOSEN AND CHECKED CAREFULLY.**
Always buy investment products that you have sought out yourself and investigated carefully. Buy products you can understand, after you have reviewed written details.
4. **MAKE SURE YOU ARE BUYING REGISTERED INVESTMENT PRODUCTS.**
Most legitimate products have to be registered with the relevant regulatory body – for example in the case of American investment products, with the Securities and Exchange Commission (SEC) and also in the state of sale.
5. **IGNORE SPAM E-MAIL AND "HOT TIPS".**
These types of messages are sometimes meant to trap unwary investors. Hot tips can come from people you know, or be left as "accidental" messages on your answering machine. Fake websites and blogs are sometimes set up to provide false information about investments.
6. **BE CAREFUL IF YOU ARE INVITED TO INVEST BY PHONE, AT A MEETING OR AT A SOCIAL EVENT.**
Get details about any investment in writing, and be sure to check them out. Never make a snap decision when you are first approached with an investment idea. If someone pressures you to buy quickly, offers to send a messenger to pick up your money or claims that the offer is only good "right now" – just say no.
7. **IF THE PROMOTER SAYS IT'S PRACTICALLY A "SURE THING" – DON'T BUY IT.**
All investments carry some level of risk. Don't buy into any product if the salesperson says there is no risk to it, even if you like and trust that person. A salesperson can be the victim of a scam too.
8. **NEVER MAKE AN INVESTMENT PAYABLE TO THE SALESPERSON.**
Always make your payment to the investment company.

FICTITIOUS RUSSIAN DEALS



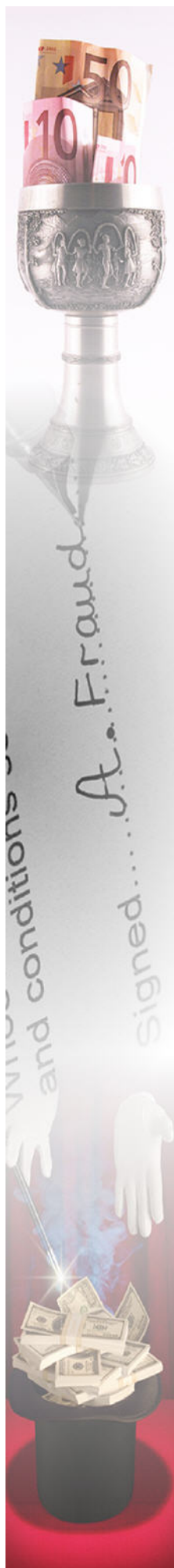
Russia loses \$19-30 billion a year from fictitious deals - CBR

In February this year, the chairman of the Russian Central Bank (CBR), Sergei Ignatyev, estimated that Russia's consolidated budget loses 500-800 billion roubles (\$19-30 billion) a year from fictitious banking operations. Fictitious operations involve transactions that are carried out for purposes other than those stated. According to Ignatyev, money transfers to the accounts of offshore foreign companies allegedly for the purpose of paying for goods or services without customs border crossing constitute a widespread type of fictitious deal. In reality, the cash is used to pay "grey" wages, smuggle drugs and offer bribes, Ignatyev said, adding that such operations are carried out with the involvement of "shell" companies. Since early 2005, the CBR has revoked the licences of 70 banks, or 6% of the total number of Russia's banks, for violations on money laundering. The CBR is also seeking to empower banks to deny dubious clients the right to open accounts, Ignatyev said, adding "this requirement corresponds to the recommendations of the FATF [Financial Action Task Force]".

PROXIMAL CONSULTING'S TOP 10 SONGS FOR MONEY LAUNDERERS

Whilst not suggesting in any way that the writers or performers of these songs condoned money laundering - and with our tongues firmly in our cheeks - here are our top 10 songs for money launderers:-

1. Dirty Cash – Stevie V
2. Money for Nothing – Dire Straits
3. Money (That's What I Want) – The Beatles
4. Gold Digger – Kanye West
5. Opportunities (Let's Make Lots of Money) – Pet Shop Boys
6. Make Money by any Means – 50 Cent
7. Take the Money and Run – Steve Miller Band
8. Got Your Money – Ol' Dirty Bastard
9. I Want My Money Back – Saffire
10. Is it a Crime? – Sade



ARE VIRTUAL WORLDS REALLY BEING USED TO LAUNDER MONEY?



■ The recent increase in the popularity of virtual reality Internet games has fuelled speculation that these “virtual worlds” may be used by criminals to launder the proceeds of crime.

Virtual reality games, such as SecondLife and Entropia Universe, are increasingly used by millions of Internet users worldwide. Players of these role-playing games are able to convert real currency into virtual currency in order to buy and sell virtual goods, property and services. Money can then be converted back to real cash. Given the degree of anonymity and the apparent confusion over regulation of financial activities in virtual worlds, it would seem that money launderers could well use these games to their advantage.

In fact, a recent report estimated the value of commerce in SecondLife at \$250,000 a day, with average turnover increasing by up to 15 percent per month, and a growing number of people are claiming to earn a comfortable living within these virtual economies. US legislators are already reportedly concerned about the impact virtual worlds are having on tax evasion.

So just how big is the threat of money laundering via virtual worlds? According to a report by consultancy firm Deloitte, the growth of virtual economies has provided criminals with the opportunity to launder money by trading virtual assets and converting virtual profits to real cash. In April, an Interpol report echoed this sentiment stating that law enforcement agencies must determine how to investigate virtual financial crimes “as a matter of urgency”.

Defenders of virtual reality games claim that the risk of such games being used for money laundering is minimal. While exchange rates for small transactions remain relatively fixed, as soon as anything more than a few hundred dollars is exchanged, exchange rates fluctuate to the detriment of the player. Therefore, to launder vast sums using virtual economies, it would be necessary to make numerous small transactions – a time-consuming and impractical method to wash dirty cash. In addition, SecondLife have reportedly introduced a system to “flag” suspicious transactions involving the virtual currency, the Linden Dollar.

Perhaps it is still too early to say to just what extent virtual reality Internet games are being used or could potentially be used to launder money. Legislators and law enforcement authorities have yet to establish guidelines for financial institutions on transactions involving virtual worlds, while the “virtual” nature of these fictitious realities raises various complications; which courts have jurisdiction over virtual worlds? Does financial crime involving virtual assets really constitute a crime?

Nevertheless, given the concerns voiced by various organisations, it would seem wise for financial institutions to conduct necessary due diligence in order to identify and monitor any transactions or accounts believed to be linked to virtual worlds and to look for patterns revealing suspicious activity.

FOCUS ON FRAUD: PYRAMID SELLING

■ Scams are all essentially designed to con you out of your cash; however, they can take on many forms and may not be instantly recognisable as fraud. In this issue of the Proximal Consulting Review we focus on pyramid selling.

Pyramid selling schemes may at first appear to be legitimate business propositions, yet they are illegal in many countries. While the exact details of a scheme may vary, the basic principles of all pyramid selling remain the same: you are invited to join the scheme (often described as a ‘club’) in return for a joining fee. Membership of this ‘club’ promises high financial returns – all you have to do is recruit new members, who in turn recruit new members, who recruit new members ... thus creating a ‘pyramid’. Some schemes may be described as network marketing, or multi-level-marketing (MLM) schemes. MLM schemes can be a legitimate form of business activity, offering the opportunity to earn money by selling goods or services from home and earning commission on new recruits. Nevertheless, these schemes become illegal when their real purpose is to generate money just by recruiting new members.

You may hear about a pyramid selling scheme via newspapers, the Internet, friends or relatives, or via invitations to ‘investment’ meetings. According to the Office of Fair Trading, a typical letter may look like this:

You have just received information that can give you financial freedom for the rest of your life. With NO RISK and JUST A LITTLE EFFORT, you can make more money in the next few months than you ever imagined!

I should point out that I will not see a penny of your money, or that of anyone else who participates in this programme. I have already made over £150,000! I have retired from the programme after sending out over 20,000 letters of invitation to participate in this phenomenon.

Pyramid selling schemes are basically doomed to fail. An endless supply of new recruits is needed in order for the pyramid to grow and for everyone to receive their money. As this is just not possible, together with the fact that sooner or later the illegal scheme will be reported, pyramid selling schemes will always collapse in the end, leaving the majority of members out of pocket.

Remember, a pyramid selling scheme will probably be marketed as a legitimate business opportunity – below are some tips to avoid falling victim to this kind of fraud:

- Avoid schemes offering commissions purely on recruiting new participants, with no emphasis on selling a product – this is the classic ‘pyramid’.
- Be sceptical; promises of quick and easy money which sound too good to be true almost certainly are.
- Don’t be fooled by fake testimonials guaranteeing unlimited success – ask to see hard evidence.
- Don’t hand over any money or sign any contracts at high-pressure meetings – seek independent professional advice.

If you become aware of a pyramid selling scheme, report it to the relevant authorities.

SERVICE DIRECTORY



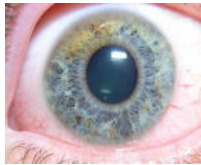
NEWSLETTER INFORMATION

Can you afford to be without this critical intelligence? You can subscribe to this newsletter and download all previous issues from our website. *Issue 4 of the Proximal Consulting Review is brought to you by Peter Lilley, Jane Smith, Alison Keyzor, James Lilley & Jo Mason.*



DUE DILIGENCE BACKGROUND REPORTS

One of our core business areas is providing global due diligence background reports on individuals and/or companies that are structured to provide focused intelligence in a cost efficient manner and in accordance with your needs. More importantly, our many years of experience in this field ensure that the legal and regulatory obligations of our clients in regard to due diligence are met. We ensure that you, as our client, are not exposed to reputational, operational, legal or concentration risks. Additionally, we have a wealth of experience in providing **MERCHANT BACKGROUND CHECKS**.



KYC DUE DILIGENCE WARNING BULLETIN

We publish a monthly KYC Due Diligence Warning Bulletin which details critical intelligence on a worldwide basis concerning individuals and companies that are known to be involved in fraudulent and/or money laundering activity. The annual subscription is £250 and includes a monthly updated fully searchable database that incorporates all entries from the first bulletin, published in February 2003. This database now contains over 5,000 warning entries.



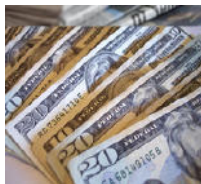
COUNTRY REPORTS

Our country reports provide you with reliable and credible advice on country risks, a further invaluable tool for staying ahead in the fast-moving international business environment of today. We analyse national and local risks in each country and provide a detailed examination of political, general business, money laundering and corruption factors.



AML TRAINING

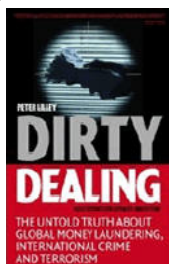
We provide a full range of high quality Anti Money Laundering training and prevention services. These include: creating and devising KYC and AML procedures, designing and delivering customised AML training packages, producing definitive AML training material (including client-specific training films), evaluating your AML "defences" to ensure regulatory compliance together with providing ongoing AML advice and guidance either on a general level or relating to specific events.



ASSET TRACING & OTHER INVESTIGATIONS

We are able to provide our clients with proven methodologies and the latest tools for investigation, evidence gathering and asset location to freeze and seize funds. Our in-house abilities together with our global network of contacts ensure that we are able to provide a worldwide coverage. Additionally, we have substantial experience in developing overall winning strategies in asset tracing projects and other types of complex and high profile investigations.

FURTHER READING...



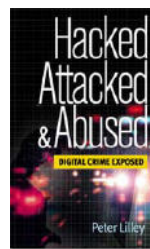
DIRTY DEALING

The third completely revised edition of Peter Lilley's acclaimed book on money laundering was published during 2006.

One of "Director" magazine's business books of the year.

"Entertaining, well written & well presented"
The Irish Times

www.dirtydealing.net



HACKED ATTACKED & ABUSED

"Hacked, Attacked & Abused" exposes the full extent of digital crime and how to avoid falling victim to it.

"This book is an excellent exposé of digital crime stemming from Peter Lilley's own expertise in the field of prevention, detection and investigation of global business crime and money laundering"

-*Asian Voice*

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