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What Is Money Laundering? Why Is It So Important To Stop It?

Some Frequently Asked Questions On the Subject.

Since 9/11 money laundering has become one of the media's favourite themes. Yet money laundering has been one of the largest global socio-economic problems for many years. However there is still a substantial amount of ignorance – and misinformation – on this subject. To try and explain the problem, these are the kinds of questions that are usually asked on the washing of dirty money.

What is money laundering?

The perception that still endures of money laundering is that of a suspicious character turning up at the counter of a bank with a suitcase (probably helpfully labelled Swag) overflowing with used notes. Until recently even more sophisticated analyses of the problem have attempted to reduce the process to a neat three stage technique (placement, layering and integration). It is perhaps only now that it is becoming clear that money laundering is a robust, corrosive, all consuming and dynamic activity that has far reaching consequences and effects. Traditionally money laundering has been viewed (in isolation) as the cleaning of dirty money generated by criminal activity: in the collective mindset these crimes are probably associated with the drugs trade. Of course, money laundering is this, but it is also a whole lot more. To understand and appreciate the all consuming power and influence of money laundering one needs to go back to the purpose of crime. The vast majority of illegal acts are perpetrated to achieve one thing: money. If money is generated by crime, it is useless unless the original tainted source of funds can be disguised, or preferably obliterated. The money laundering dynamic lies at the corrupt heart of many of the social and economic problems experienced across the globe.

Why is this process called "money laundering"?

The phrase probably originated in the United States in the 1920s. Criminal gangs were trying to disguise how they got their money so they took over businesses with high cash turnovers such as laundrettes and car washes. Then they mingled their dirty money with genuine "clean" cash receipts. Thus whilst the term laundering is associated today with washing criminal funds, the original use of the phrase was because of the actual use of the real laundering business.

Where does the dirty money that needs to be laundered come from?

Every kind of criminal activity on a global basis. This includes the drugs (illegal narcotics) trade, illegal arms trading, illegal prostitution, corruption, fraud, forgery, armed robberies, blackmail, extortion, arts and antique fraud, smuggling, VAT fraud and trafficking in human beings.

What amounts of money are involved?

In truth nobody knows how much dirty money is being laundered (or attempted to be laundered) on a global basis. Think of it like this: every criminal act anywhere that involves obtaining money illegally produces funds that need to be laundered. In 1999 the United Nations Development Report estimated that organized criminal syndicates made \$1.5 trillion each year. So this is a good base figure to work from – but remember this is probably just a start point!

Why is money laundering such a global problem?



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Money laundering is an essential follow on from many criminal activities including such hideous acts as human trafficking, the sex trade, extortion, blackmail: but more crucially once the funds have been cleaned they are reinvested in such activities thus perpetuating the most vicious of circles.

Crime can only succeed if the funds generated can be utilized without their true source being known. Moreover, criminal activity continues to expand because the washed funds are then reinvested in the business. Money laundering is the critical tool to enable this. It is a dynamic and robust circular process.

Isn't all this stuff about global organized criminal activity a bit of an exaggeration?

In fact probably exactly the opposite is true: numerous organized crime groups are active in the UK and on a global basis – the successful ones are being run as effectively as normal businesses. Amongst these groups are Colombian drug cartels, Mexican drug cartels, Russian criminal groups, Japanese Yakuza, the Italian "Mafia", Chinese Triads, Turkish and Kurdish Gangs, West African fraudsters and gangs from the Balkans. As David Blunkett, the UK Home Secretary said in November 2002, "Organized criminals are more organized than we are."

Are there any businesses that are particularly susceptible to money laundering?

Yes there are – so much so that clever launderers have in the past created "dummy" businesses just as a front to launder funds. Traditionally these have been in businesses that have a large cash turnover such as bureau de change, bars, night clubs, fair grounds, car parks and petrol garages.

Where is it easiest to identify potential money laundering activity?

It is actually getting more and more difficult because criminals are becoming increasingly clever in how they wash dirty money. However there are some basic steps that can be taken to deter money laundering through mainstream locations and facilities. Two essential anti-money laundering procedures are that companies (such as banks and other financial institutions) and professional advisors (such as lawyers and accountants) must firstly know their customer – by taking identification and carrying out checks on the customer. Yes, if you are a genuine customer this can be extremely tedious but there is a good reason for doing it. Secondly banks (and professional advisors) should actively look for "red flags" that signify money laundering, such as unusual transactions, large cash payments and movements of funds that have no real logic. There is a but though...whilst such "red flags" may identify money laundering there is no guarantee that they will spot terrorist funding, as 9/11 and other terrorist outrages have shown us that the frontline terrorists achieve their aims with very small amounts of money.

What about professional advisors – such as lawyers and accountants – shouldn't they be able to spot money laundering by their clients?

Yes – but all historical data tell us that these professions have not previously done a very good job. They have generated a very low level of reports of suspected money laundering to the police. This is particularly strange as their core businesses centre on money and detailed knowledge of complex financial systems, products and structures.

Why are offshore financial centers always mentioned in relation to money laundering?

Offshore financial centers (OFC), offshore jurisdictions, tax havens – call them what you will, have always played a vital part in money laundering. However we shouldn't forget that if you are not a UK citizen, London (and the UK as a whole) is an important offshore financial centre. OFCs have in the



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past (and still do, to a reduced extent) provided products and services in which the actual account holder is anonymous thus making money laundering and the hiding of assets easier.

Is the financing of terrorism the same as money laundering?

No – but since 9/11 this topic has become strongly linked to money laundering. Traditional ideas of money laundering do not necessarily apply to terrorist financing. The basic premise of criminal money laundering is to wash large amounts of dirty money: however terrorist funding can, and does, operate on a shoestring. That being said terrorist funding can involve large amounts of money. The funding of terrorism – generating the funds as opposed to supplying them to front line terrorists – involves donations, fake charities, front companies, criminal activities and other supply mechanisms. All of this money has to be washed and "hidden" in the world's financial systems. However, as with "traditional" money laundering there is mounting evidence that this is being increasingly achieved outside the banking system – through such methods as informal exchange systems (such as hawala and hundi), diamond trading and online share trading (to name but three). A further key problem is that because the amounts involved in mounting a terrorist operation are, as we have seen, very small it is not necessarily feasible or possible for banks (or other relevant institutions) to identify terrorist "customers" by analysing their financial transactions. Or to put it in simple terms, a frontline terrorist bank account is more likely to have very small sums of money it, rather than large transfers and transactions.

Why is it vitally important to stop money laundering and the financing of terrorism?

Money laundering supports and facilitates global criminal and terrorist activity. If we could ever close down the financial flows which underpin these activities we would be able to halt the problem. Criminals and terrorists have no respect whatsoever for laws, regulations, decency – or ultimately – human life. They will do whatever they need to do to wash the proceeds of their crimes or in the case of terrorists, ensure that funds are available when and where they need them to mount their latest outrage. The history of money laundering by organized criminals is that such groups always surmount any obstacles that are erected in their path, using cutting edge technologies and any new product or facility that can be exploited. Terrorists – with strong unwavering ideologies powering them – must be expected to do the same.

If the money laundering problem is so serious what more can be done to control it, and ultimately stop it?

Clever criminals who are generating substantial sums through their activities realized a long time ago that if you transfer these funds through numerous countries you create a very difficult trail for law enforcement agencies to follow. Money laundering is a worldwide activity – but in my opinion criminals have embraced this global economy rather more effectively and quicker than governments and law makers. Countries still think of this problem in national, rather than international terms. Money laundering can only effectively be fought through continuous and effective co-operation – through such topics as common laws, sharing of information and co-operation between police forces of relevant countries.

Peter Lilley has been described as "a leading expert on money laundering" and is the head of Proximal Consulting, a firm that specializes in global money laundering / fraud prevention and investigation (for further details see www.proximalconsulting.com). He has also written widely on the subject, including his book:



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"Dirty Dealing: The Untold Truth about Global Money Laundering, International Crime and Terrorism"
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