

AML IN THE REAL WORLD: PROGRESS & PROBLEMS

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PAL



WHAT MONEY LAUNDERING IS

The process by which the identity of “dirty money” that is the proceeds of crime and the true ownership of those proceeds, is changed so that the proceeds appear to originate from a legitimate source

- The Law Society (UK)



Money laundering involves disguising assets so they can be used without the detection of the illegal activity that produced them

- The United States Department of the Treasury Financial Crimes Enforcement Network



Money is laundered to conceal criminal activity associated with it, including the crimes that generate it, such as drug trafficking or illegal tax avoidance. Money Laundering is driven by criminal activities. It conceals the true source of funds so that they can be used freely

- The United States Office of the Comptroller of the Currency



THE TRUE SCALE OF GLOBAL MONEY LAUNDERING

\$1.5 Trillion



WHERE DOES THE MONEY COME FROM ?

- Illegal drugs trade
- Illegal arms trade
- Sex trade
- Corruption
- Fraud
- Forgery
- Theft
- Blackmail
- Extortion
- Smuggling
- Trafficking in Human Beings
- Customs/ VAT Fraud
- Art & Antique theft & fraud



THE TRADITIONAL MONEY LAUNDERING MODEL

Placement - Layering - Integration



CLEANING DIRTY MONEY

ORGANISED CRIME GATHERS CASH

CASH ENTERS BANK SYSTEM

**CASH PASSES INTO MANY AREAS INCLUDING:
OTHER ACCOUNTS, FRONT COMPANIES,
FOREIGN CURRENCIES**

**CASH FROM THESE SOURCES ENTERS
LEGITIMATE COMPANIES AND BANK ACCOUNTS**

**CRIMINALS REMOVE THE
CASH AS NORMAL PROFIT**

Money Laundering is a robust,
corrosive, all consuming and dynamic
activity that has a series of processes
which have far reaching financial,
economic / social consequences and
effects



THE CONVERGENCE THEORY or WHY THE TRADITIONAL ML MODEL JUST WON'T DO

- Globalization of Markets & Financial Flows
- The dizzying rise of the Internet - a single unregulated market
- Competition, Consolidation & Collaboration
- Corporates / Staff have to deliver
- Technological Advances
- Criminalization of Politics
- Offshore Financial Centres (OFC's) - economic salvation



THE 9 / 11 EFFECT

- Funding of Terrorism
- Financing Terrorists
- Politically Exposed Persons (PEP's)
- Rogue Nations
- Nations that support terrorism
- Sharing of fiscal information?



LAUNDERING PRONE BUSINESSES

- Casinos
- Bureau de Change
- International Money Transmitters
- Retail Outlets
- Fine Art, Antiques
- Restaurants
- Hotels / Bars
- Night Clubs
- Fair Ground operators
- Parking lots



BEYOND TRADITIONAL LAUNDERING METHODS

- Correspondent Banking
- Securities
- Credit Cards
- Stock Exchanges
- Professional Advisors
- "Illegal" Businesses
- Real Estate
- Car Dealerships
- White goods retailers
- Hotels
- Supermarket chains
- Clinics
- Construction companies
- Football teams



ML METHODS OFF THE RADAR SCREEN

- Alternative remittance systems (Hawala, Hundi)
- Gold
- Diamonds
- Internet based transactions



FUNDING TERRORISM

Source of funds

Clean

- Donations
- Legitimate Businesses
- Via Charities
- State sponsorship



FUNDING TERRORISM

Source of funds

Dirty

- Drugs trade
- Organized crime links
- Fraud & other criminal activities



FUNDING TERRORISM

Laundrying & distributing the funds with diversity and a multiplicity of methods

- Suitcases full of cash
- Front companies
- Individuals as front directors/ account holders
- Gold
- Diamonds
- Stock trading



FINANCING TERRORISM

Overall costs

- 9/11 operational costs: \$200,000
- Bali bombing operational cost: £19,000

9/11 operatives - a cause for suspicion ?

- US Bank accounts opened
- ID used was legitimately issued US Visas
- Wire transfers made into accounts - all under \$10,000 reporting threshold
- Plastic cards used to make payments and withdraw cash



WHAT ARE WE DOING ?

- Know Your Customer KYC
- Reporting Suspicious Transactions
- Internal Policies
- AML Training
- AML Compliance Officer
- Fines for non-compliance



HOW ARE WE DOING ?

- “Since 9/11 over 175 countries have frozen terrorist assets of US\$ 112 million” - UK government report (October 2002)
- “If you compare the number of millions blocked all over the world and the estimate of Bin Laden’s worth and that of his group, you come to the conclusion there is a lot of money yet to be found” Swiss Attorney General (October 2002)



HOW ARE WE DOING ?

- July 2001: US Trust Corp. fined \$10 million by US authorities
- November 2002: Broadway National Bank fined \$4 million by US District Authorities
- December 2002: Royal Bank of Scotland fined £750,00 by FSA
- January 2003: Banco Popular fined \$21.6 million by US authorities



KNOW YOUR CUSTOMER

“The legal counsel for Bankers Trust private bank asked the Sub-committee not to make public any information about an account of a certain Latin American client because the private banker was concerned that the banker’s life would be in danger if the information were revealed. The Bankers Trust counsel, when describing one of it’s clients, told our staff words to the effect that ‘These are bad people’. If the bank thinks they’re ‘bad people’ why are they seeking them as customers of the private bank ? In the Bankers Trust case it appears the bank does know its client; but what it knows is the client is bad”

Senator Carl Levin



KYC WARNING LISTS

- FATF Non co-operative territories
- OFAC Warnings
- Bank of England Financial Sanctions
- EU Financial Sanctions
- UN Financial Sanctions
- Warnings/ Blacklists from other countries - terrorism
- Warnings issued by Regulators of numerous countries
- “Most Wanted” lists - Interpol & hundreds of other LEAs
- Media stories - individuals/ companies suspected of, or charged with ML/ financial crime offences
- Your own blacklist/ industry blacklists



UK SUSPICIOUS ACTIVITY REPORTING - DROWNING IN THE FLOOD OF DIRTY MONEY?

- 2000 SARs - 15,000
- 2002 SARs - 63,000
- 2003 SARs - 100,000 + ?
- Approximately 11% of reports are relevant
- Fewer disclosures of higher quality required



WHERE WE ARE NOW: ISSUES RAISED

- Have we lost sight of the real fight (Can we see the wood for the trees ?)
- Rather than engaging the “general public” in the fight do we risk alienating them ?
- Does serious money laundering ever take place through consumer accounts on the high street ?
- Are we doing enough to target high risk areas - or are we adopting a “one size fits all” approach ?
- Can we keep up with the various regulations and warning lists ?



THE VIEW OF THE DEVIL'S ADVOCATE

- Governments have already lost the war against financial economic crime & they've left it up to financial institutions to solve the problem
- The amount of money that is laundered is vastly overstated
- It is a fallacy that impounding criminal assets will make criminals choose other careers
- UK AML policy is being formulated to align us with the US



WHY TECHNOLOGY IS IMPORTANT.....

- Because criminals and terrorists have long been utilising technology to its full potential
- Technology can be employed to keep up with changing regulations and legislation
- KYC blacklists for mainstream banking operations which have volume account openings
- Programs to identify suspicious account/transaction patterns



....BUT IN THE END IT ALL COMES DOWN TO HUMINT

- Sensible application of laws and regulations
- Due diligence on new (& existing) clients
- Use of technology applications
- Analysis & investigation of suspicious clients/transaction patterns
- Co-operation between organizations & countries
- Training & education
- Establishing an effective AML culture
- That gut feeling that something is wrong .. which should never be underestimated





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