

# Money Laundering: Case Studies and Countermeasures

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## *Abstract*

*Money laundering is the procedure by which a significant amount of unlawfully gained money, resulted from illegal activities such as drug smuggling and drug trafficking, arms dealing, human trafficking, corruption or other crimes, are transformed into lawful assets resulted from legal activities. If done successfully, money laundering gives its authors the possibility to use the money resulted from illegal activities and give the impression to be derived from legal activities. Money laundering plays a crucial part, as it drives away the diligence of the law-enforcement institutions from the significant volume of income resulted in a short amount of time, from criminal activities. This paper aims to outline different money laundering techniques and issue suitable countermeasures resulting in a more powerful and competent fight against this phenomenon. The methodology used for this paper is made of case studies, relevant to the current topic, retrieved from the web as sources of information. The value of this paper is outlining different money laundering techniques used by the criminal groups, and in the end, issuing recommendations towards actions to be taken in the fight against money laundering by law enforcement and financial institutions.*

*Keywords: money laundering, illegal transactions, crime, fraud*

*JEL Classification: K40, K42, O17*

## **Introduction**

Money laundering is the procedure by which a great amount of unlawfully gained money, resulted from illegal activities such as drug smuggling and drug trafficking, arms dealing, human trafficking, corruption or other crimes, are transformed into lawful assets resulted from legal activities. If done successfully, money laundering gives its authors the possibility to use the money resulted from illegal activities and give the impression to be derived from legal activities. Money laundering plays a crucial part, as it drives away the diligence of the law-enforcement institutions from the high volume of income resulted in a short amount of time, from criminal activities. Due to its complexity, the schemes of money laundering are numerous.

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## 1. Money laundering by cash smuggling

*Case 1:* In 2015, Victor Flores, Jose Juan Saavedra both from Houston and Ricardo Cavazos-Garza from Brownsville were sentenced to 30, 28 and 24 months, respectively, in federal prison and three additional years of supervised release after attempting to smuggle a large amount of USD. The money was found in a house in Edinburg, hidden in the house (578.420\$) and in a car parked in the garage (260.040\$). They all agreed to forfeit their amount of 838.460USD, money derived from narcotics trafficking and meant to be taken to Mexico [1].

*Case 2:* In 2009, during an inspection of 2 containers at Manzanillo port, Mexico, customs officers discovered 20 x 1000Kg bag full of ammonium sulfate. At a closer look, it was discovered that in the containers, were hidden in total 11.054.695 USD, in block shape packages. The shipment was intended for export to Colombia. It is highly possible that the cash was an exchange for cocaine trafficking since Colombia is well-known as a cocaine source [2].

Cash smuggling is a money laundering method that refers to the movement of the funds across the border and reinvested in capital markets or real estate. FATF and Middle East & North Africa Financial Action Task Force (MENA FATF) reports that cash is still the most used method of payment around the world, with estimated 4 trillion USD in circulation, in various currencies, although newer and more innovative non-cash methods of payment are available [2]. Criminals prefer this method in order to cover the tracks of the funds, transport it into another country, and reintroduce the funds into the financial system, because of the blur it generates when tracing back the funds or connecting the funds to the source.

FATF (Financial Action Task Force) Recommendation 32. Cash couriers cites that “Countries should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including through a declaration system and/or disclosure system” [3]. Competent authorities should be given the “power to block and seize any funds related to terrorism financing, money laundering or any other predicate offenses”, dishonestly declared or uncovered.

Governments should ensure that the *sanctions for persons who make false declarations are efficient and comparable*. In cases where the funds discovered are related to terrorism financing, money laundering or predicate offenses, *seizure of the funds should be enabled*.

## 2. Money laundering through banking institutions

*Case 1:* On 4 September 2018, ING settled an agreement with the Dutch Public Prosecution Service, regarding the AML shortcomings, agreeing to pay 675 million

Euros as fine and 100 million Euros for disgorgement. The fine is linked to shortcomings to “prevent money laundering and financial, economic crime” and settled after the investigations at ING Netherlands from 2010 to 2016 [4].

*Case 2:* Versobank from Estonia, founded in 1999, with a balance sheet of 294 million Euros by the end of 2007 and UKRSELHOSPROM PCF LLC (from Ukraine), as the main shareholder (85.26%) was withdrawn the authorization on 26 March 2018, due to “serious and long-lasting breaches of legal requirements, particularly concerning the prevention of money laundering and combating the financing of terrorism” according to Finantsinspeksioon’s. The breached were identified during an inspection performed between 2015 and 2017, on-site, and were reported as “systemic and long-lasting, and the bank did not fully eliminate them even after the intervention of Finantsinspeksioon” [4].

The reasons why money launderers use banking institutions as a method are numerous: banks provide a wide range of services (loans, deposits, foreign exchange), and dispose of multiple financial instruments for the transition of the funds, and this situation makes banking institutions vulnerable.

In 2000, 11 banking institutions, amongst which were Societe Generale Bank of France, Union Bank of Switzerland, Hong Kong and Shanghai Bank, decided to cooperate in order to limit the money laundering actions. Usually, banks are part of the money laundering crime out of negligence: depositing/drawing money repeatedly, companies transferring money between their own accounts, yet sometimes the banks are part of the conspiracy by providing the funds, helping transfer the funds.

On the 3<sup>rd</sup> of May 2018, The Chair of Single Supervisory Mechanism (SSM) suggested as necessary an “*enhanced coordination and exchange of information*”, regarding the limits of the exchange of information, and called for “the establishment of a new Authority as a way to improve and strengthen the cooperation framework” [4]. The Commission advocates that the European Banking Authority (EBA) be the supervising authority of the Anti Money-Laundering (AML). “It should work as a ‘hub’ to collect and disseminate information across authorities. Besides, authorities should not only have the ability to share information but shall be required to cooperate and exchange information” [4]

*New powers* should be assigned to the European Banking Authority (EBA) in terms of demanding national authorities to investigate supposed law soft spots of Anti Money-Laundering regulations (AML). EBA does not substitute the national authorities, but once the demand is voiced, in term of 10 days, the national authorities should report to EBA the steps they are prepared to take in order to comply to the request

*Strengthening existing powers* of EBA, by explicitly enumerating the existing tasks, such as independent review, convergence powers, and reinforce the convergence mechanisms paired with the coordination enhancement of EBA role towards the national authorities. EBA should become a “data-hub” on AML supervision, by being able to gather information (already regulated by the European Supervising Authority – ESA), but also all national authorities should provide information regarding the “weaknesses identified in the process and procedures, governance arrangements, fit and proper, business models and activities of financial sector operators” [4]. This power is especially efficient in cross-border cases.

### 3. Money laundering through real estate

*Case 1:* An account was opened in a Belgian bank by an under-cover director of a European company, and money was transferred into the account, from abroad. The money was used to buy a property from a person, with a cheque, through a notary. After the transaction, the company opted for voluntary liquidation, but not after the property was repurchased from the selling person, at a much higher price, than the original one. This way, money was inserted into the financial system. The selling person used a business account, purchased the real estate, wire transferred money that came from criminal activities. The company was only used as a front/shell company in order for the transactions to take place [5].

*Case 2:* A law firm opened two trust funds in an offshore center. The trustees accepted payments in order to buy real estate. The law firm was in charge of the communication between the trusts and the trustees, thus concealing the identity of the real beneficiaries, who were revealed to be the managers of two companies from Belgium, that were subject to an investigation regarding tax fraud.

While the Anti Money Laundering (AML) is regulating the banking institutions, criminals have to look to other ways in order to accomplish their goals. Real estate is one of them since this market is not yet asked to take responsibility for anti-money laundering measures. Some actions are to be considered in order to discourage the "appetite" for this segment:

- More attention should be paid to the non-financial segments of the market.
- Certain non-financial institutions should be asked to comply to the same anti-money-laundering responsibilities, as the financial institutions, such as identify the client's identity, keep records of the transactions, report suspect transactions [6].

Anti Money Laundering legislation has identified some red-flag indicators for potential money laundering in the real estate sector:

- Transactions carried out on behalf of minors, incapacitated person.

- Transactions involving persons who are tried or have been sentenced for crimes.
- Transactions involving persons residing in tax heavens
- Transactions involving foundations, or non-profit-making entities when the nature of the transaction does not meet the purposes of the entity.
- Transactions involving companies owned by foreign nationals, which are nonresidents for tax purposes.
- Transactions involving companies whose addresses are unknown or merely corresponding addressed.
- Transactions performed through intermediaries.
- Transactions in which the price is to be divided into smaller payments, with a small time interval between them.
- Transactions in which payment is made in cash, bank cheques [5].

#### 4. Trade-based money laundering

*Case 1:* Terrorism financing through a telecommunications enterprise – Company A received more than 600.000 Euros in its bank account, over a few months time, from different French legitimate companies, acting in different economic sectors. The managers of the French companies, were all originally from the same country X, suspected of having links to various terrorist organizations. Over 500.000 Euros were sent by Company A to a parent Company B, in country X [7].

*Case 2:* A relatively small quantity of scrap metal is exported by company A, falsely reported as a much larger quantity. False documents such as Invoices, Bill of landings, Insurance documents were supporting the transaction. After the cargo was loaded on the ship, the customs officer observes that the hull of the ship is still well above the water line, contradicting the reported weight of the freight. After the investigation, it is discovered that the actual quantity of the shipment is well under the reported quantity of the shipment [7].

Trade-based money laundering is particularly attractive to money launderers due to the rapid growth of the global economy, thus making possible the movement of illicit funds through contracts linked to the international trade of goods/services.

FATF – Financial Action Task Force, identified in 2006 at least five methods for the Trade-Based Money Laundering (TBML) to be accomplished, and by which money launderers move money with the intent of covering it's origin and integrating them back into the financial system (Figure 1).



**Figure 1. Methods of trade-based money laundering**

Over-Invoicing enables the importer to transfer funds to the exporter

Under-Invoicing enables the exporter to transfer funds to the importer

False description of the goods refers to the misinterpretation of the quality or type of goods.

Among the countermeasures to be taken in order to minimize the Trade-based money laundering actions we can speak of:

- Enhanced attention from authorities and improvement of the capacity to identify this phenomenon.
- Involvement of the intelligent financial units in the fight against trade-based money laundering.
- placing the importance of business secrets protection below the importance of tracking down the crimes.
- International cooperation in cross-border matters, both administrative and judicial cooperation. Administrative cooperation is referring to the mechanisms of information sharing between different countries as issued by the Egmont Group of Financial Intelligence Units [8], and judicial cooperation aims simplified procedures of investigation and evidence gathering assistance.

Several red-flags were identified in international trading, which asks for a closer look and even investigations in some cases:

- payment to the vendor through unrelated third parties
- repeated shipments of the same high-valued goods
- trading goods that do not match the business of the company
- unusual routes or transshipments
- packaging not consistent with the shipping method
- no-web presence of the parties

- commodities with values can be changed (used cars) or challenging to establish (precious gems)
- inconsistent or incomplete documents accepted by the importer
- advance payments without warranty
- multiple accounts payment [9]

## 5. Money laundering through professionals

*Case 1:* An attorney opened different bank accounts under fake names of persons or companies. The bank accounts were opened in countries where the legislation anti-money-laundering is lax. Due to the professional reputation of the attorney, the domestic banks never questioned the good intentions and legitimacy of the attorney transactions. One client of the attorney deposited 80 million USD in cash, or cheques in banks, then wired them to different bank accounts mentioned above. Money was originally from an insurance fraud crime. Until discovered, the attorney performed such services, for a number of "clients"[10].

*Case 2:* A lawyer used to deposit money into his trust account, and make routine payments to mortgages for properties owned by a drug trafficker. His gain was a percentage of the sales of the properties. Under investigation he admitted to having received the money from the trafficker, deposited the money into his accounts, having made payments for the trafficker's mortgages, but he denied having known the origin of the money [11]. The investigation reported that the drug trafficker used the illicit fund to buy properties, by depositing cash into his lawyer's account, and the lawyer made payments for the mortgages, thus helping the trafficker infuse illegal money into the legal financial system, and laundering the money.

Though traditional money laundering methods such as cash smuggling, bank deposits, and real estate investments still exist, criminals have to find new paths to act, since the financial or non-financial institutions are likely to report suspicious transactions, and cross-border customs are more and more cautious when examining persons at borders. Such a relatively new path is through professionals, whose diverse and high-qualified professions make them appealing to money launderers. In order to launder great amounts of money, a variety of schemes should be used by criminals, and this is the reason why financial experts, lawyers, notaries, accountants are in such high demand. Their expertise is vital for minimizing suspicion around the criminal activities. Even if the professionals are not aware of the origin of the funds, there are many cases in which they help the criminal without their knowledge. The respectable social status and high regulation

regarding ethics, make the professionals unlikely to be suspected of such a crime. Moreover, last, but not least, the professional secrecy is acting as an umbrella for the action between the professional and his clients, and professionals take advantage of this situation when choosing to take part in such crimes. The methods used are:

- purchase of real estate
- misuse of clients accounts
- establish/management of trusts and companies
- establish/manage charities



A countermeasure for the money laundering by professionals cases would be the obligation of the professionals to have the responsibility of anti-money laundering, as stipulated by the UN Convention against Traditional Organized Crime, FATF 40 Recommendations, and also the EU Anti Money Laundering Directive [12].

## 6. Money laundering through underground banks

*Case 1:* Between 1996 and 1998 Lai Changxing crime organization's financial officer, Zhuang Jiangqun, arranged the transfer of 12 billion RMB coming from smuggling to an underground bank, Dong Shi Li, which ordered the partner bank in Hong Kong the payment of the equivalent amount of HK USD to the Hong Kong branch of Yuanhua Company [6]. This is the famous Xiamen Yuanhua smuggling scandal, which allowed the proceeds of the crimes of Lai Changxing to be transferred overseas. The underground banking was only a part of the crime chain. Other parts of the chain were made of shell companies, depositing/drawing cash from financial institutions.

*Case 2:* Colombian drugs are smuggled to the US by a drug cartel and sold on US territory for 300.000 USD. The problem is how to transfer the money back to Columbia to pay for the drugs. By using the alternative remittance systems, small and repetitive payments are made between natural persons from the USA to Columbia, until the amount of 300.000 USD is reached. The money in Columbia is used to pay for the drugs (Table 1).

Table 1. Alternative remittance system used for drugs trafficking

STEP	US territory	Columbia territory
1		Columbian drugs smuggled to the US
2	Columbian drugs sold in the US for 300.000 \$	
3	Small and repetitive money transfers are made from the US to Columbia, between natural persons, until the sum of 300.000 \$ is reached.	
4		Money transferred is used to pay for the drugs.

Another well-known case is that of the terrorist attacks on September 11, 2001, attracted the attention upon the fund's transfer possibilities by criminals, through the underground banking system. Most of the funds necessary for the 9/11 attacks were transferred through the formal banking system, through wire transfers or credit cards but the 9/11 Commission's Report in 2004 stated that Osama Bin Laden also used the *hawala* networks in Pakistan, Dubai and all over the Middle East. On the other hand, the US Treasury blocked in 2003 the assets of the al-Barakaat network, money remitting company that helped Bin Laden sustain al Qaeda's actions.

Underground banking is a legitimate method by which legal funds obtained by workers overseas are transferred through informal banking sectors, rather than the formal banking system [13].

The term underground banking includes any informal banking transactions, coextensive to the formal banking system and have been named using different terms such as alternative remittance systems [14], informal value transfer systems [15] or informal funds transfer systems [16]. Over the world, there are used several specific terms to describe the above systems: *hawala* in India, *hundi* in Pakistan, *fei ch'ien* in China [17]. The geographic variety and the assortment of typologies by which it is used make the underground banking system particularly attractive to the money launderers and criminals, and at the same time challenging for the authorities to handle and regulate. The role of the regulating authorities is particularly important because they should generate a balance between the regulation of the alternative remittance system and reduce the amounts of illegal transfers, and support of these systems as alternative legal solutions for money transfer.

Ironically, intensive surveillance of the formal banking system may generate the disposition for the criminal organizations to money launder the funds through the less controlled underground banking system.

Decreasing the extent to which the underground banking system is used, becomes more and more critical. On the other hand, it is equally important to raise the level of transparency the underground banking sector and to include this sector in the anti-money laundering regulation applying to the formal banking sector, hoping to reduce the camouflage around the illicit remittances.

## 7. Findings and Conclusions

From the cases above we can deduct that money laundering is the central action of crimes such as drug trafficking, smuggling, and corruption. This central action can be accomplished both by simple ways such as cash smuggling and also by complicated ways involving financial institutions and real estate. Money laundering can be committed through legal activities such as international trade, and also through illicit activities such as underground banks. Moreover, professionals such as financial experts, lawyers, and accountants are sometimes involved in money laundering.

With its endless ways of action, money laundering is ever present. Under the umbrella of legal activities and businesses, money laundering is a secret and innocuous crime. It can involve the financial system, but also the legal system, thus becoming professional and international.

The real challenge is for the financial institutions to identify the actions that are appropriate against money laundering crimes, and avoid the unnecessary infringement of the banking activities of legal customers.

Only an integrated action against money laundering can somehow be successful. The Governments alone cannot carry such burden alone. The intelligence units should orchestrate the fight and supported by members of the society at all levels of existence.

## Abbreviations

EBA – European Banking Authority  
ESA – European Supervising Authority  
SSM – Single Supervisory Mechanism  
TBML – Trade-Based Money Laundering

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