

Examination Techniques

Part One Money Laundered in Banks

James Wright
Office of Technical Assistance
US Treasury

Banks

- Provide to the money launderer multiple services for placement, layering and integration

The Money Laundering Process

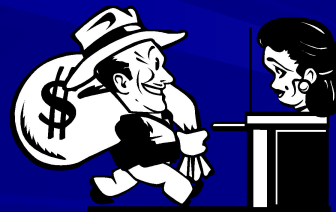
- Placement
- Layering
- Integration

Placement

The initial movement of criminally derived currency or other proceeds of crime, to initially change it's form or location to places beyond the reach of law enforcement.

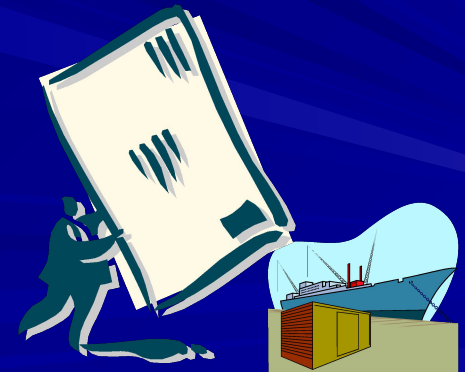
Forms of Placement

- Depositing into accounts via tellers, ATMs, or night deposits
- Changing currency to cashiers checks or other negotiable instruments
- Exchanging small bills for large bills
- smuggling or shipping out side the county



Layering

The process of separating the proceeds of criminal activity from their origin.. Disguising the origin through the movement of funds through accounts and financial institutions. The use of layers of complex financial transactions; loans, letters of credit, investments and insurance

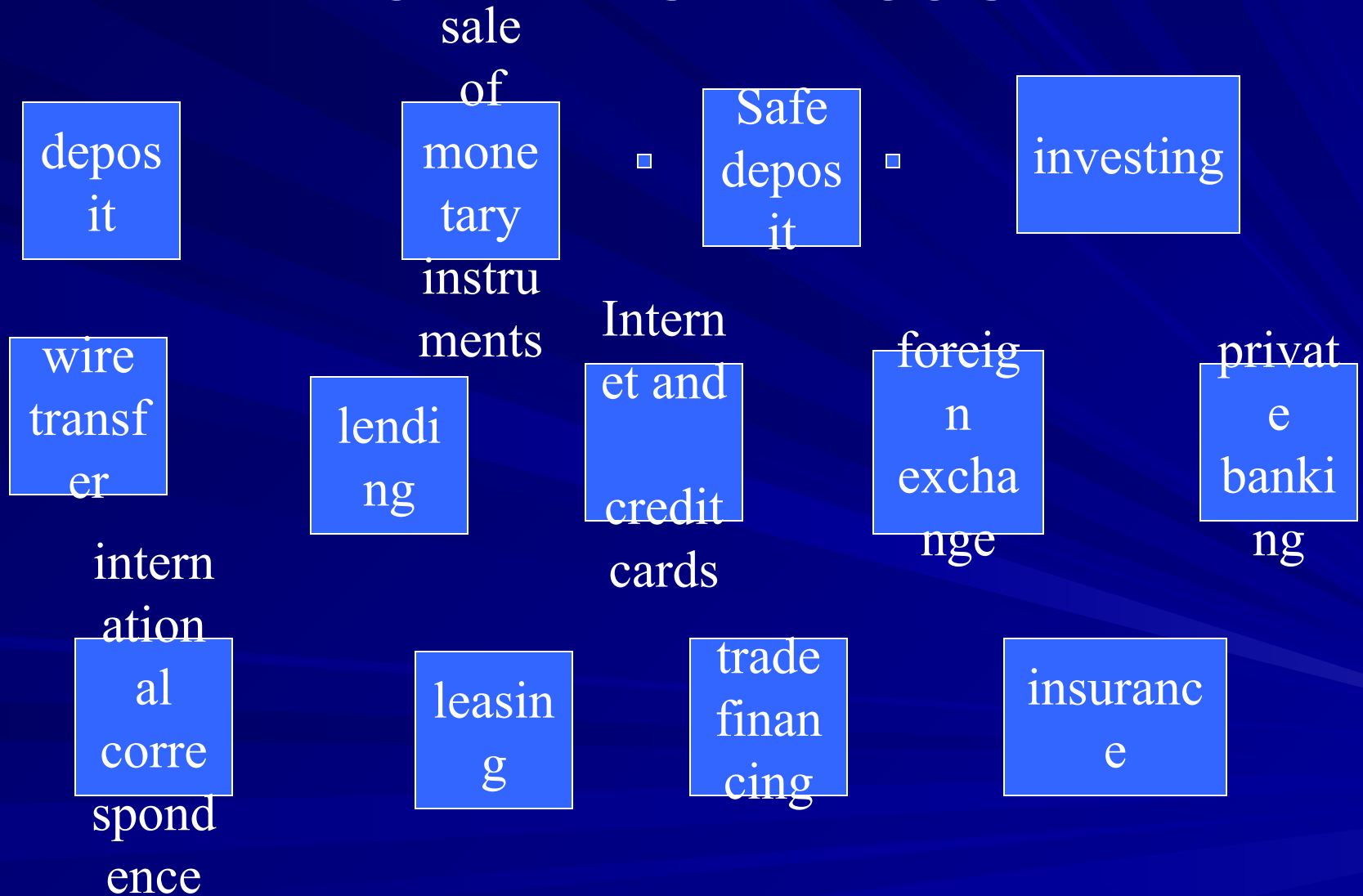


Integration

- The process of using an apparent legitimate transaction to disguise the illicit proceeds allowing the laundering of funds to be disbursed back to the criminal. Funds often are used for payment for operations, spending on luxury goods or investments in businesses.



Bank Risk Areas



High Risk Countries

- Countries in which the production or transportation of illegal drugs may be taking place
- Bank Secrecy Havens
- Countries identified in FinCEN advisories
- Money laundering countries and jurisdictions identified in the US Department of State's annual International Narcotics Control Strategy

Depositing Laundered Funds

- Use of third parties (SMURFS)
- Deposits under reporting requirements
- Deposits from front businesses



Suspicious Signs in Banks

- Increase in cash shipments without increase in number of accounts
- Cash on hand usually exceeds bond limits
- Large turnover in large bills in excess of small bills



Suspicious Signs in Bank

- Cash shipments which appear large in comparison to dollar volume of currency transaction reports
- Large volume of cash deposits from business that are not normally cash intensive
- Branches that have far more cash (volume and or value) than usual compared with other branches

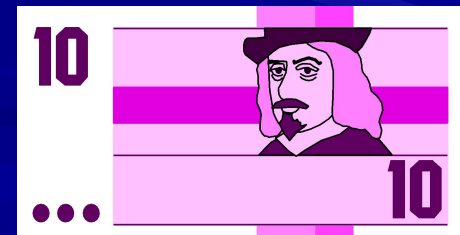
Suspicious Sale of Monetary Instruments

- When large volume of cashiers checks, money orders or travelers checks are sold for cash.
- When purchases of instruments are unusual for the customer's type of business.



Suspicious Currency Exchange

- Large volume of currency exchange for cash
- When the need for foreign currency is not in keeping with business needs

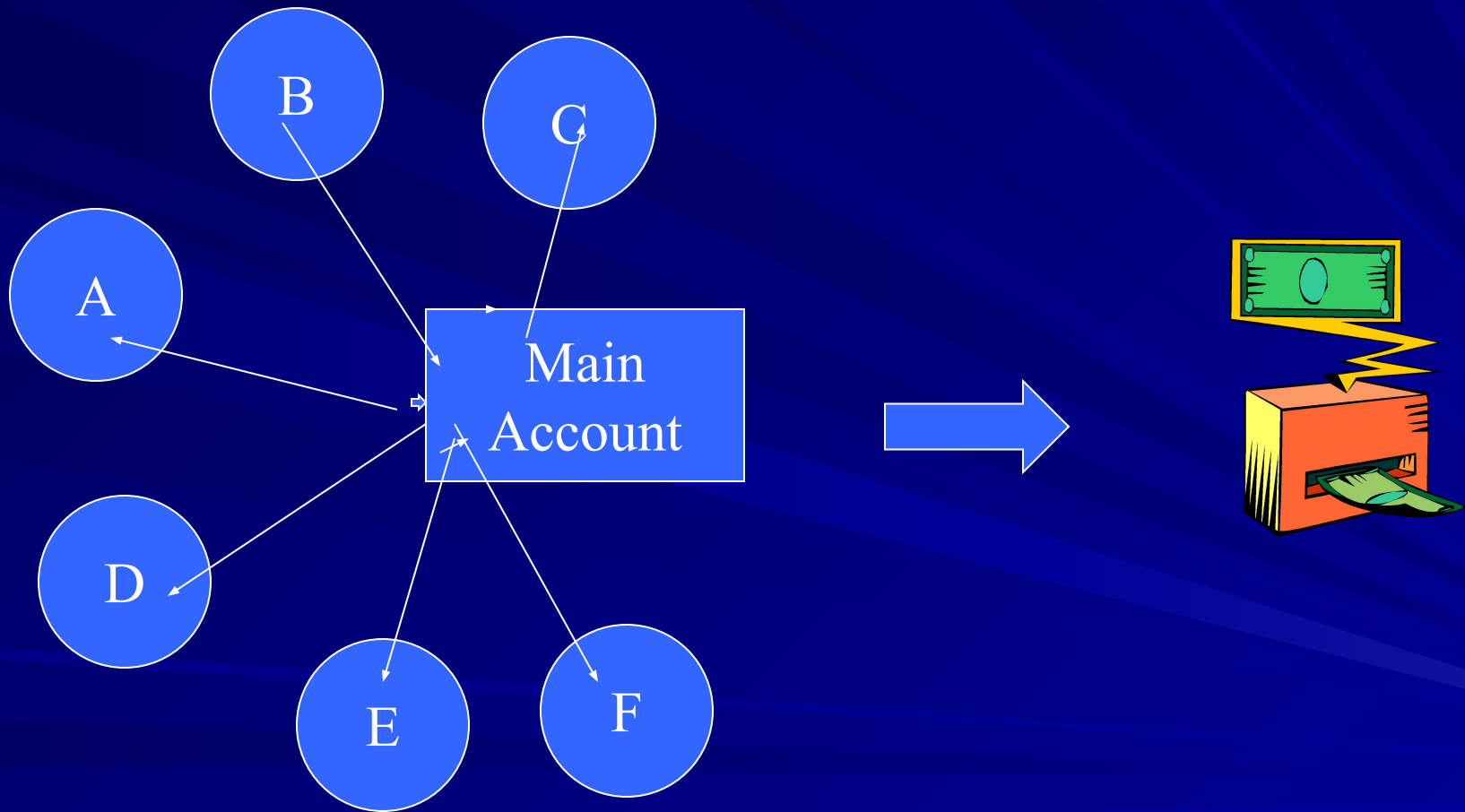


Safe Deposit

- Frequent trips to safe deposit prior to movement of funds out of the bank
- Customer refuse insurance
- Customer provides little information
- Third party pick ups and delivery
- Use of parcels, envelopes etc.



Money Laundering Account Activity



Offshore

- Funds are wired to:
 - Europe, US and to bank secrecy countries
- shell corporations
- Back to criminals



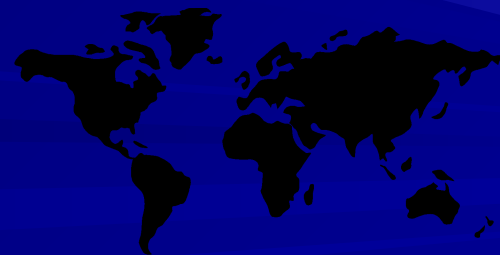
Wire Transfer

- Launderers wire funds:
- from bank to bank
- from bank to shell companies overseas
- from shell companies to banks
- from banks back to criminals



International Correspondent Accounts

- Banks enter into agreement with larger international banks to process and complete transactions
- Launderers set up correspondent accounts in order to transfer money from bank to bank and country to country



International Correspondent Accounts

- Problems
 - Banks don't conduct sufficient due diligence review of their foreign bank clients, management finance and reputation
 - clients are allowing other foreign banks to use their U.S. accounts

Private Banking

- Offers money launderers full line of bank services
- More privacy and more confidentiality
- Less bank scrutiny
- A high risk because a large amount of money is managed



Trusts



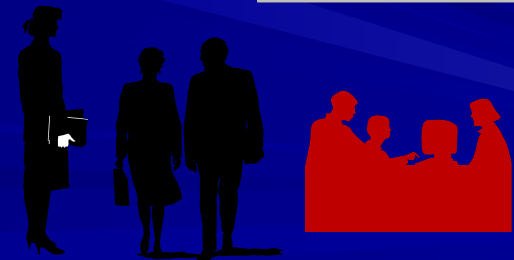
- Trust departments create fiduciary relationship in which bank maintains little control
- Trustee must follow customers directions
- Through trusts, launderers can create Private Investment Companies(PIC)s ideal for laundering money

Payable Through Account

- Payable through accounts also known as pass through or pass by accounts are marketed to foreign banks wanting to offer their customers access to another countries banking system.

Payable Through Accounts

- Foreign banks provide checks to sub account holders to draw on foreign banks accounts at US or other country banks.
- Thereby providing anonymity.



Lending



- Launderers often:
 - use cash or certificates of deposits as collateral for loans
 - Payoff loans early
 - Default and leave collateral
 - Donot use proceeds for loan purpose
 - (This often involves bank collusion)

Lending

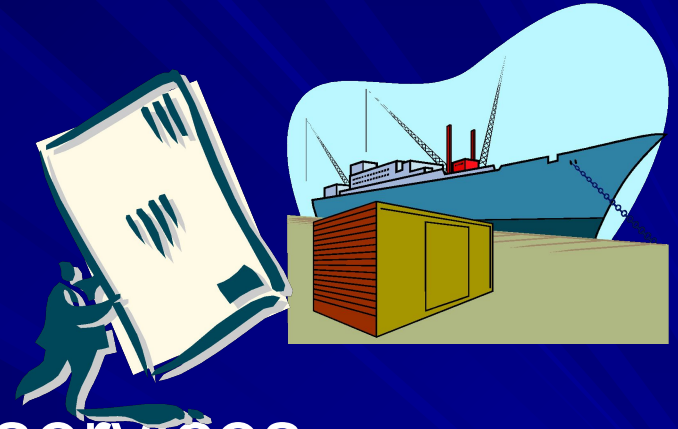
- Possible money laundered loans are:
- Request to borrower against assets held by the bank or a third party, where the origin of the assets is known or the assets are inconsistent with the customer's standing.
- Loans made on the strength of a borrower's financial statement which reflects major investment in and income from businesses incorporated in bank secrecy haven countries

Suspicious Lending

- Request for loans to offshore commercial companies, or loans secured by obligations of offshore banks
- Loan proceeds are unexpectedly channeled offshore
- Third parties, unknown to the bank, who provide collateral without any discernable, plausible reason and have no close relationship with the customer

Letters of Credit

- Launderers use:
 - bogus letters of credit
 - Letters of credit for bogus services
 - Letters of credit for over invoicing
 - Letters of credit for under invoicing

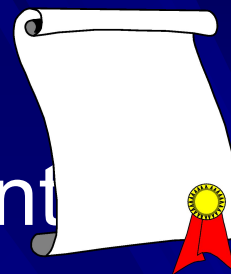


Discount brokerage, Securities and Investment

- Larger or unusual settlements of security with no discernable purpose or in circumstances which appear unusual
- Purchasing of securities to be held by the bank in safe custody, where this does not appear appropriate given the customers apparent standing.



Securities



- Request by Customer for investment management services (either foreign currency or securities) where the source of the funds is unclear or not consistent with the customer's apparent standing
- Larger or usual settlements of securities in cash form
- Buying and selling of a security with no discernable purpose or in circumstances which appear unusual

Securities

- Derivatives trading using two accounts which take from one account and pass the proceeds to second account

Insurance

- Launderers purchase for quick turnaround
- Arrange payment to a third party
- Cancel policies early
- Make fraudulent Insurance claims
- Take out policies unrelated to business
- Assign policies to apparent unrelated parties



Bank Involvement

- Examiners and bank management must be aware of this extremely sensitive area.
- Nevertheless, there have been numerous successful cases against staff, and a review of money laundering cases brought by the authorities in a number of countries suggest strongly, that staff are involved either passively or actively

Leasing

- Examples

Credit card

- Loading up card

Internet

- Funds transfers

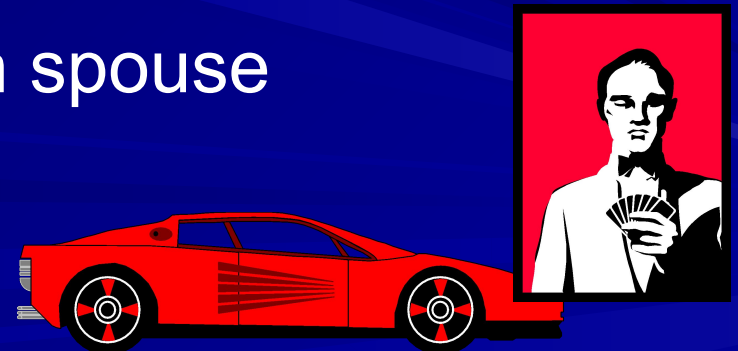
Bank Employees and Agents

- Lavish lifestyle which cannot be supported by an employees salary
- Absence of conformity with recognized systems and controls, particularly in private banking
- Reluctance to take a vacation



Lavish Lifestyle

- Appearance that doesn't fit the norm
- designer clothes, expensive watches, expensive automobiles
- But
- Could be innocent because employee may benefit from second job,
 - Inheritance, lottery or rich spouse



Systems and Controls

- Particular staff having a history of failing to obtain necessary approvals, or over-riding controls and authority levels
- For example is there evidence of staff exaggerating the credentials of a prospective customer, inflating a customer's financial ability or resources?

New Money Laundering Schemes

- Each Year the Financial Action Task Force

- Shares information on new money Laundering schemes.



- New schemes include:

- internet banking, trust
- growth in the use of professional service providers such as accountants, solicitors, company formation agents associated with more complex money laundering.



Securities

dealers, managers and other
markets

Multiple entities

- brokers dealers, funds managers, markets
- For example introducing broker and clearing broker
- Markets vs. regulators

Approach is same as banking

- Regulations and inspections
- Compliance program for entities

Layering and Integration phase

- Most entities don't deal in cash
 - Use bank transfers
- Cash sometimes used
 - Loosely regulated countries
 - in margin accounts

Securities Commission Inspections

- Money laundering inspections conducted in concert with inspections for violations of regulations or fraud
- Usually small inspection force
- Focus on high risk often based on complains

Risk Areas

- Account opening
- Cash handling
- Wire transfer operations
- Margin accounts

Advantages for money launderers

- Launder money
- Make a profit
- Commit other securities fraud

Money laundering examples

- Purchase of securities for short period of time with no discernable purpose. Selling out
- Wash trades match buys and sells in particular securities
- Transactions involving penny stocks, Regulation S stocks and bearer bonds

Insurance

products, agents and
companies

Product Distribution makes for difficult regulation and compliance

- Direct marketing
- Intermediaries
 - Independents
 - Associated with companies

Risk Areas

- Customer identification and sales
- Pay out on policies

Same approach

- Regulation
- Compliance program

Examples

- Purchase of insurance
 - Life insurance and annuities
 - Some business casualty insurance
- Purchase of Insurance Companies and Reinsurance Companies