



Dirty Money! International AML Fundamentals

Three Stages of Money Laundering

Now, when a criminal makes a large sum of money, it's not so easy to just spend the money without being noticed. Throwing money around or randomly spending it will attract attention to the criminal and expose what he or she did to get it. So, money launderers use a three-stage process: Placement, Layering, and Integration.

Placement

Placement is the process of moving illegal money away from direct association with the crime and integrating it into the financial system. For this first step, the criminal needs to somehow get the illegal cash into a bank or financial institution. This can be more difficult than it sounds. Just walking up to a bank and depositing a huge pile of cash would arouse suspicion, so criminals must find other ways.

- They can intermingle the illegal cash with legitimate deposits to obscure the audit trail or they can add the cash gained from the crime to legitimate businesses such as car parks, strip clubs, car washes, and casinos – or any business where cash is king.
- They can also turn the cash into debt by making loans in cash to businesses which seem to be legitimate or are connected with legitimate businesses.
- They can purchase high value goods for personal use or buy expensive gifts to reward existing or potential colleagues and friends with cash. They can also purchase the services of high value individuals using cash or bribes.
- Money launderers use “Smurfing,” which is the process of making many small transactions below AML reporting thresholds into bank accounts or credit cards, and then using these banks and cards to spend the money.
- Like “smurfing,” money launderers use foreign bank accounts by physically taking smaller amounts of cash across borders (below the customs declaration threshold), depositing it in the foreign bank account, and then sending the money back to the country of origin.

Other kinds of placement include:

- False invoicing by submitting dummy invoices.
- Using trusts and offshore companies for hiding the identity of the real owners.
- Or using third parties like attorneys or accountants to hold on to the funds as part of a proposed transaction.

The bottom line here is to make the cash disappear without leaving a paper trail that can be audited or identified by law-enforcement authorities.



Layering

Layering is the second stage of the money laundering process where illegal funds or assets are moved, dispersed, and disguised to conceal their origin. Funds can be hidden in the financial system through a web of complicated transactions crossing international borders. The more layers there are, the harder it is to track the funds. Let's look at a few examples:

Trusts

Trusts are a classic example of how money launderers try to falsify the origin and the trail of illegal money. They often set up offshore trust accounts, appoint someone they know to head the trust, and make that person the trustee of the funds. Then, the trustee kindly gives the money launderer instant access to the funds.

Shell Companies

A shell company is an inactive company registered offshore. It is called a "shell" company because it looks like a real company on the outside, but in reality, it is just an empty shell. With shell companies, funds are usually deposited under the guise of the shell-company in a lower tax jurisdiction area to evade taxes.

Walking Accounts

Walking accounts are where funds are continually on the move. A deposit is placed into an initial offshore account with instructions to immediately transfer the funds to another offshore account elsewhere so the money keeps "walking" from one account to another. This makes it difficult to track.

"Instant Banks"

Some offshore havens offer the service of an "instant bank", which simply means the bank doesn't exist physically and can be closed or opened at short notice. Often "instant banks" are managed by outside firms or will actually just hold accounts in other banks.

Intermediaries

Sometimes money launderers use intermediaries such as lawyers, accountants, brokers, bankers, and other professionals to get distance between them and the illegal funds. The intermediaries engage in transactions on behalf of a criminal client who remains anonymous. Of course, these transactions may include the use of shell corporations, fictitious records, and complex paper trails. These intermediaries are legitimate enterprises and can provide credibility and decrease suspicion. In addition, many intermediaries (such as lawyers) have confidentiality obligations to their clients.

By using different kinds of layering over and over again, money launderers make tracing transactions as difficult as possible for authorities.



Integration

The final stage in the money laundering process is integration. This makes money finally available to the criminal appearing as normal income. With the money hidden in layers, it can come back to the criminal through the sale or transfer of high-dollar items such as expensive cars and jewelry, the sale or transfer of real estate, legitimate purchases of securities or other financial instruments, loans, or other “legitimate” transactions with legal entities controlled by the launderer. The bottom line is that without the paper trail, the black money can be fully integrated, spent, and put back in to the pocket of the criminal.