

Catching the Modern Day Money Launderer

Presentation by:

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Presentation agenda



Session Agenda

- ☐ Profile of a Modern Day Money Launderer
- ☐ How Money Laundering Works.
- ☐ Detecting Money Laundering

Profile of a Money Launderer



1. Works a typical job in a reputable organisation
2. Lives in an affluent area of Nairobi
3. Provides laundering and secure communications services
4. Advises clients on how to store documents and it
5. He's not overly concerned that law enforcement will catch up with him.
6. His role takes in estate planning, consulting and financial services.

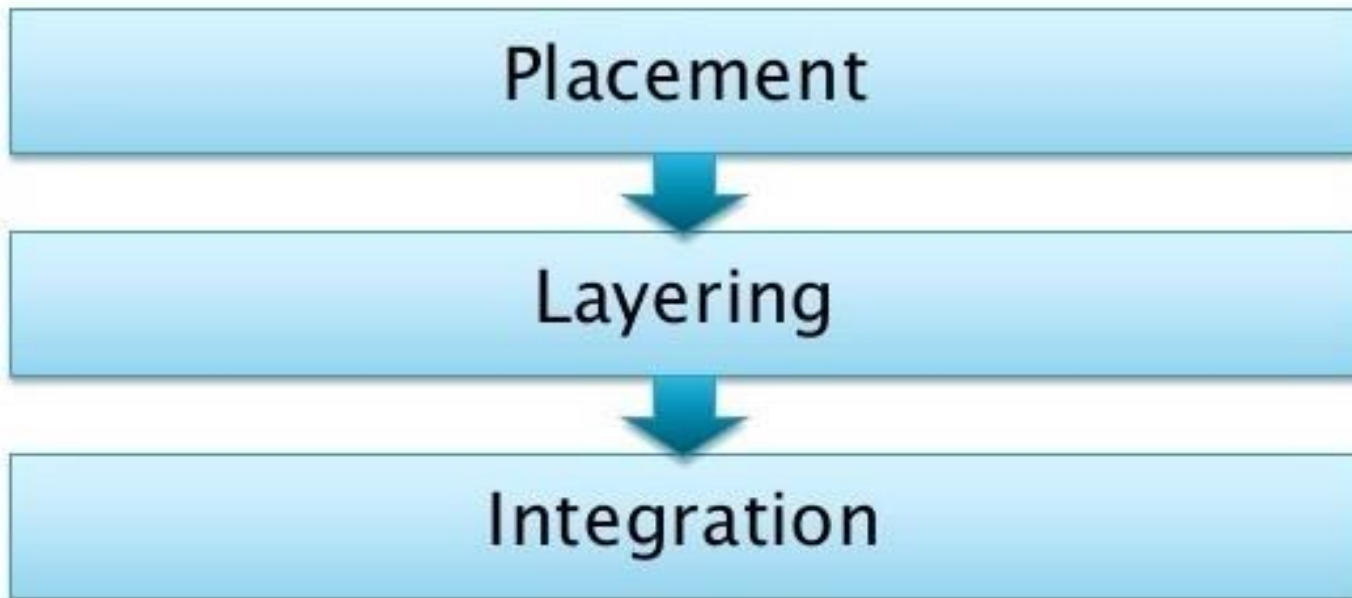
How it Works



SOURCES OF ILLEGAL/BLACK MONEY:

- Trafficking of drug, arms, human beings.
- Loan Sharks
- Organized Crime like kidnapping, contract killing, gambling, prostitution, bank frauds, money paid to gangsters/ criminals for safety of business (protection money), Money earned through adulterated products, corruption.
- **Any Other?**

Three Stages of Money Laundering



How it Works



- **Step 1: Placement** – the initial entry of funds into the financial system, serves the purpose of relieving the holder of large amounts of actual cash and positioning these funds in the financial system for the next stage.

How it Works



Methods or techniques involved in this phase with Financial Institution include:

- **Structuring / Smurfing technique:** Depositing the large amount of illegal money into small amounts of cash in the accounts of unconnected depositors below the reporting threshold limit. The person who involved in the technique is called smurf.

How it Works



- **Using connected accounts:** accounts of relatives, benamis, associates such as shell companies (Fake Companies).
- Use **Multiple legitimate Account** of same person in different banks and misuse of accounts of Educational Institutions, Non Profit Organisations and Charity trusts.

How it Works



- **Step 2: Layering** – this stage, describes a series of transactions designed to conceal the money 's origin.
- At this level, money is often sent from one country to another and then broken up into a variety of investments, which are moved frequently to evade detection.

How it Works



Methods or techniques involved in this phase with Financial Institution include:

- **SHELL COMPANIES OR FAKE COMPANIES AND FRONT COMPANIES:** They are just a paper companies. They may or may not physically exist but they won't do any productive activities like manufacturing or trading.

Any Other Examples?

How it Works



- **For example:** Mr. X is a money-lender, he lends money with heavy interest rate. But he registered his company as M/s. XYZ with sales tax registration and paying sales tax for selling of a commodity. He also files income tax for the net profit in the name of M/s. XYZ as trader. This is a money laundering process since he is actually a loan shark earning income from the lending interest. But he used this fake company and changed the source of revenue as earned from a trading activity (legal).

How it Works



- **Step 3: Integration** – Giving a legitimate image for illegal money. This is the last stage of the laundering process. During this stage it is very difficult to find the illicit origin of the money. After using the above methods of laundering, the illegal money is now circulated into the economy by way of investments, purchase of lands, expenditure or savings.

How it Works



- **Investing in legitimate businesses:** Launderers sometimes place dirty money in otherwise legitimate businesses to clean it. They may use large businesses like brokerage firms or casinos that deal in so much money it's easy for the dirty stuff to blend in, or they may use small, cash-intensive businesses like bars, car washes, strip clubs or check-cashing stores.

How it Works



- **How does the gambling industry/casinos aid in Money Laundering?**

Case Study



Case 1: Bangladeshi bank heist (15 minutes)

Class to review case studies and thereafter have discussions around:

What interesting scenarios they identified in the case studies

What loopholes exist that facilitate growth of money laundering?

Case Study



- **Case 2: Chinese Kenyan Laundering (10 minutes)**

Table 3.1 Frequency of predicate offenses and methods

Method	Drug trafficking	Blue-collar ^a	Smuggling (non-drug)	Counterfeiting	Bribery/corruption	Tax evasion	Fraud	Terrorism	Crime unknown	Total
Cash smuggling	6	1	1				1	1		10
Money orders, cashiers' checks	12	1	6			3	4	3	2	31
Structured deposits	10	5	1		2	2	2	2	2	26
Casinos/bookmakers		1					3			4
Currency exchange bureaus	13	1	5				2	4		25
Wire transfers	33	5	22	1	7	4	30	18	11	131
False invoices/receipts	5	2	6		1	4	4		3	25
Credit cards			1			1	1	2		5
Front company/organization	18		15	1	3	5	19	6	6	73
Purchase of high-value goods	14		9		2		5	3	1	34
Insurance policies	5		1						3	9
Alternative remittance systems	4	2	6					4		16
Real estate	13	2	5	1	2		5		3	31
Lawyers	11	2			1	2	10		3	29
Accountants/financial officers	11	5	4	1	3		10	1	1	36
Offshore accounts	8	2	4		3	3	7	1	3	31
Securities	10	2				1	8		1	22
Trusts	4		1		1		2		1	9
Shell corporations	8	1	5		2	2	12		3	33
Total	185	32	92	4	27	27	125	45	43	580

a. Includes prostitution, armed robbery, loan sharking, and illegal gambling.

Sources: FATF typologies reports, 1998–2004 (reports prior to the 1997–98 report do not feature case studies); Egmont Group (2000).

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Detecting Money Laundering



- 1. Making use of data (Historical and current)

Detecting Money Laundering



- **KYC** and **AML** are acronyms for **Know Your Customer** and **Anti-money Laundering** and refer to the set of activities that both financial institutions and regulated businesses must perform to **verify the identity** of their customers and obtain sensitive information from them as well as **prevent money laundering from illegal activities**.

Detecting Money Laundering



- **Know Your Customer (KYC)**

*****Branch level**

Detecting Money Laundering



- **AML**
- **Computer Assisted Subject Examination and Investigation Tool (CASEit®):** A Web-based tool that facilitates AML compliance, AML transaction monitoring, trade surveillance, operational risk and anti-fraud case management
- **Customer Due Diligence Tool (CDD):** Web-based tool that acts as the single data entry point and risk rating for all existing and new customer and account data in support of Know Your Customer (KYC) requirements. Additional customer and account information captured includes, ultimate beneficial owners, officers/directors (non-individuals and financial institutions only), power of attorney, co-signers, and other related parties

Detecting Money Laundering



- 2. Follow the Money

How it Works



- Why is cyber laundering attractive for those seeking to launder money?

Detecting Money Laundering



BITCOINS

- One of the biggest reasons why people sought after cryptocurrency as an alternative to store value and transact is the anonymity features of blockchain and crypto. Keeping ones' information and business private is a way of life that people have been longing for and was not possible with the old systems until the age of crypto began.

Detecting Money Laundering



Why is detection difficult?

- **Anonymity:** The use of the Internet and modern systems allows money launderers to easily avoid detection. This includes
 - 1) Online banking institutions
 - 2) anonymous online payment services
 - 3) Peer-to-peer transfers using mobile phones
 - 4) Virtual currencies such as Bitcoin

Detecting Money Laundering



Money can be laundered through:

- online auctions and sales, gambling websites and even virtual gaming sites, where ill-gotten money is converted into gaming currency, then transferred back into real, usable and untraceable "clean" money.

Detecting Money Laundering



- Existing anti-money laundering laws (AML) are slow to catch up to these types of cybercrimes, since most AML laws attempt to uncover dirty money as it passes through traditional banking institutions.

Detecting Money Laundering



- **The challenge** we face during the Digital Onboarding process is to apply the technology that allows **KYC compliance** without suffering the user experience and usability , keeping the processes 100% digital, paperless and without the need to do it face-to-face.