

## **An overview of current AML/CTF highest risks**

When contemplating money laundering risks there is a dichotomy between the perceived susceptibility of your business in particular and the vulnerability of your trade sector to abuse and attack by money launderers. To gain perspective on this you need to acquire some understanding of the criminal market and then how and if that impacts on your sector.

Proceeds of crime can be manifest, one of the most common manifestations is as cash, particularly in the world of drug trafficking where cash is still king. Cash creates a headache for criminals both in its handling, safe storage and the transmission of its value to suppliers. Each year some £5 billion sterling cash is repatriated through the wholesale markets to the UK. We believe a large part of this sum represents criminal money smuggled out of the UK. Fraudsters do not usually have the same problem, for example MTIC fraudsters receive electronic payments from HMRC and can quickly wire the money anywhere in the world.

Large quantities of cash makes criminals vulnerable to law enforcement and regulatory constraints and they go to great efforts to convert the cash into less obvious stores of value, or into high denomination notes to reduce the bulk of paper that has to be moved – usually smuggled - from jurisdictions of high regulation to those where there is less effective regulation. Until recently this involved the conversion of sterling into €500 notes often through the use of Bureau de Change services, sometimes with the knowledge of the Bureau that this was money laundering.

In my previous life in the UKFIU, my colleagues were able to demonstrate to HMT and the major banks involved in the wholesale supply of €500 notes to the UK market that around 90% of the notes were used to facilitate money laundering. This could not continue and all agreed that it would create difficulty for money launderers if they could no longer easily acquire €500 notes in the UK, and so the €500 note was effectively withdrawn from availability through normal legal means in the UK market.

This has not stopped criminals from changing sterling into high denomination euro notes, we have seen instances of bulk cash smuggling of €500 notes into the UK – a high risk activity for criminals as it renders the cash liable to forfeiture. Bureaus continue to exchange sterling - but now for €200 notes. This is an interesting development. Having been informed that 90% of the purchase of the €500 note was by/for criminals, what risk orientated thinking has been undertaken by the Bureaus when the same people who previously bought €500 notes in bulk, now bulk buy €200 for sterling cash?

Whatever your business, whether an MSB dealing in large sums of cash or you are a bank, one of the most valuable techniques for any launderer is to corrupt or intimidate your staff or a professional such as an accountant or solicitor. These gatekeepers can open the door to money launderers enabling them to walk through the regulatory constraints with relative ease – it matters not whether the proceeds of crime are cash, electronic, real estate or in whatever form, the launderer succeeds in his objectives. If a terrorist has access to a corrupt insider then funding for training camps could be

passed through an account without detection. Do not believe that you only have to be alert for substantial payments, low level fraud has been used to provide funds for both training and attacks. The importance of internal staff supervision and adequate scrutiny of transactions by professionals cannot be overstated.

Trade based money laundering (TBML) is a high risk laundering technique because of the extreme difficulty in detecting it. Any value transfer system is vulnerable. TBML is often only detected when a specific investigation into a criminal network reveals it.

In recent years we have seen the establishment of money brokers who combine aspects of TBML and Hawala. They receive cash from criminals in the UK and make the value available in another country in whatever currency is required (less commission). The cash they hold in the UK is then made available to overseas business men who may need to make a sterling payment in the UK for the supply of legitimate goods abroad. The sterling is provided at an advantageous rate to the foreign businessmen against local currency. This mechanism has been used in the US/Colombian cocaine market where it has been titled the 'black market peso exchange'. If you want to know more about this there are numerous Google references or go direct to this explanation at <http://tinyurl.com/4bq8dcq> .

Whatever your business area, to evaluate the risk of your business to abuse by money launderers and terrorist financiers you must examine what is there about your business or sector that would make it attractive to launderers. If you are an MSB concentrate your AML controls on those who bring large sums of cash for exchange or transmission to high risk countries, banks and entities that provide account facilities will conduct their due diligence on verification of identity but will also monitor accounts for abuse such as structuring (smurfing). Accountants and other professionals should be wary of transactions under their professional services that seem to achieve little but enable large sums to cross the cash-non cash boundary. There are many other examples but the key features to remember is that these days laundering is principally a value transfer process and one that will often involve placement into the banking system. Whatever you're seeing in your business ask yourself, does it make economic sense. If it doesn't and you become suspicious then you know its time to make a Suspicious Activity Report to the UKFIU.

Cedric Woodhall

Cedric is a former Senior Manager in the UKFIU in SOCA. He was responsible for international financial intelligence, Terrorism finance, PEPs reporting and asset recovery. Cedric is now a Partner in O22G LLP, the October22Group - a consultancy specialising in assisting small and medium firms with AML and SARs training. He can be contacted via [cedric@october22group.co.uk](mailto:cedric@october22group.co.uk)