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Speech presented by Adam Graycar, Director,
Australian Institute of Criminology:

"Money laundering"

at the International Policy Dialogue, "Tackling Cross
Border Crime", Challenges of International
Development Cooperation, Bonn, Germany,
December 16, 2002

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Australian Institute of Criminology
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Anti-Money Laundering

International Policy Dialogue
“Tackling Cross Border Crime”
Challenges of International Development Cooperation

Bonn
Federal Republic of Germany

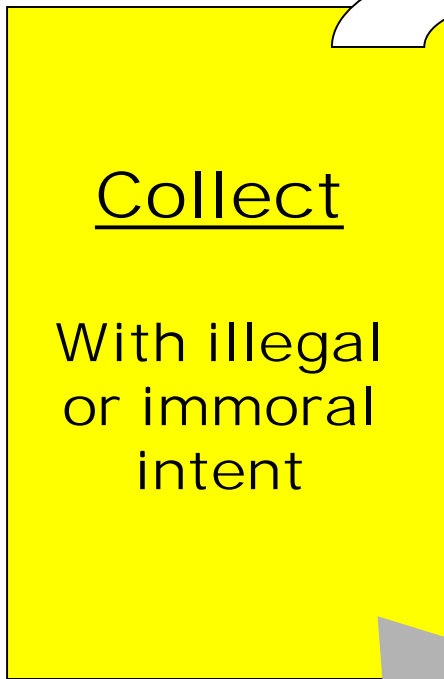
December 16, 2002

Dr Adam Graycar
Director
Australian Institute of Criminology



Basic steps in money laundering, 2002

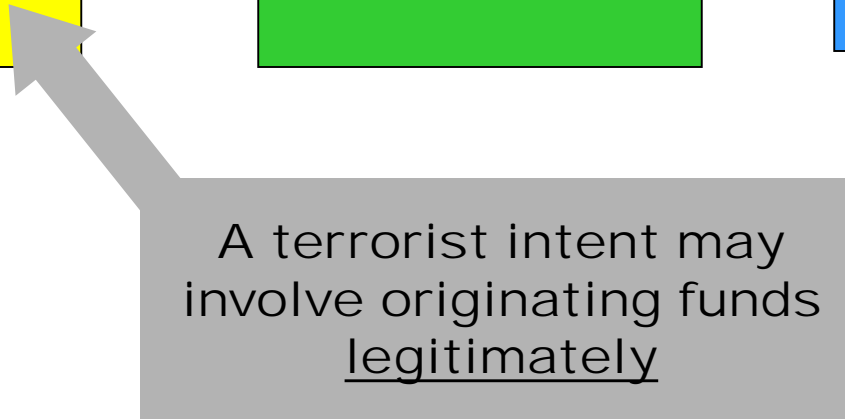
1: PLACEMENT



2: LAYERING



3: INTEGRATION



4: TERRORISM?

**NEW
DIMENSION?**



How Big is the Problem?

- The biggest industry on the planet
 - Bigger than arms
 - Bigger than oil
- 3-5% Of Global GDP
- Potential to destabilise governments
- Undermine financial markets
- Links to corruption and destruction of tax base



The Generation of Laundered Money

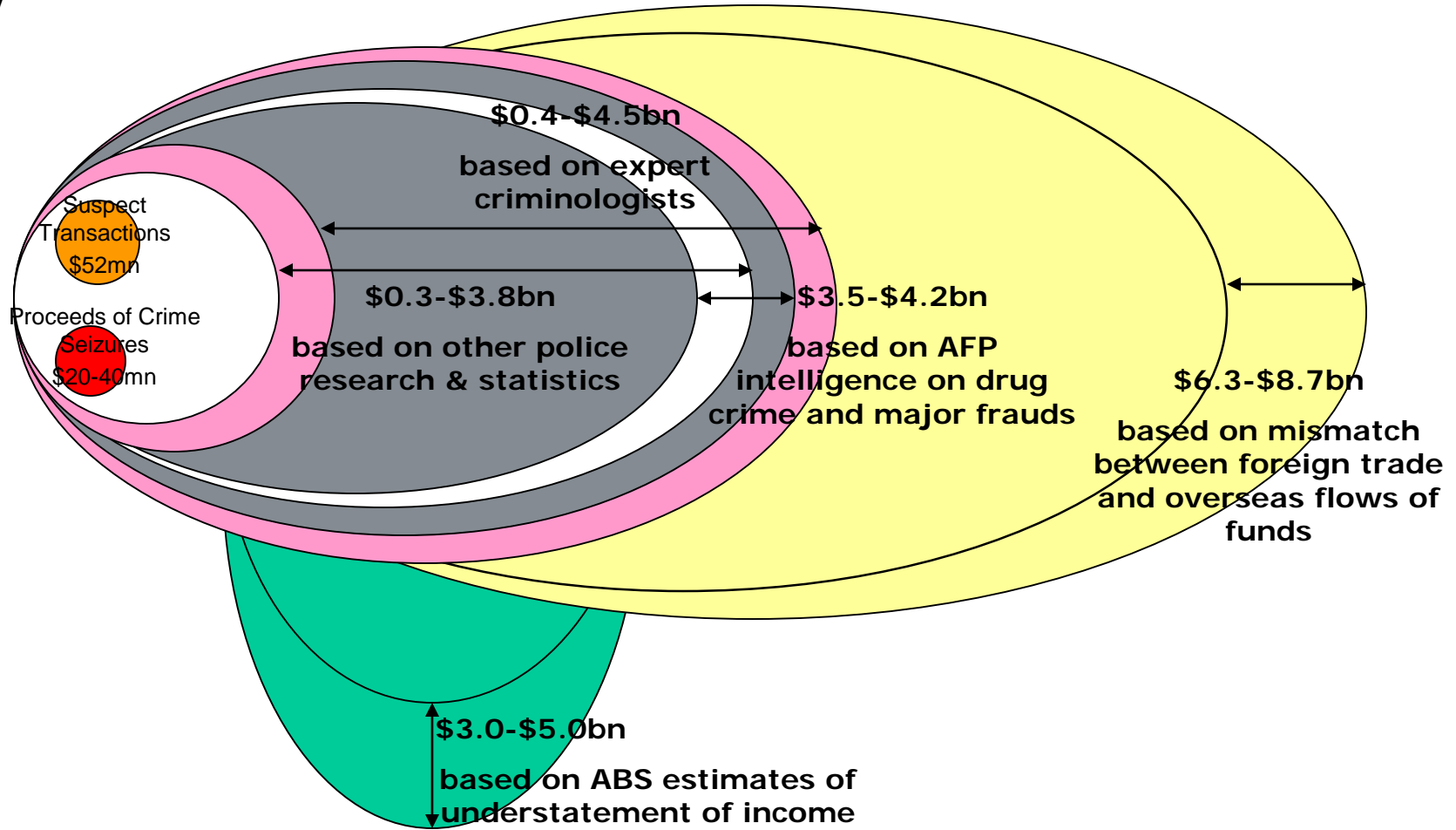
World Region \$US bill./yr

Crime Type

	East Asia	South Asia	Australasia	Africa	Europe	South Amer.	Central Amer.	North Amer.	Total Generated
Bribery & Frauds	327	21	3.7	25	973	30	29	1358	2767
Drug Offences	1	1.6	.5	.5	26	.5	.6	38	68.9
Robbery, Burglary & Other Thefts	0.4	<.1	.2	<.1	6.3	.2	.1	7.2	14.6
Violent Offences	<.1	<.1	<.1	<.1	<.1	<.1	<.1	<.1	<.1
Total Generated	329	22	4	25	1006	31	30	1403	2850



Estimates vary a bit!

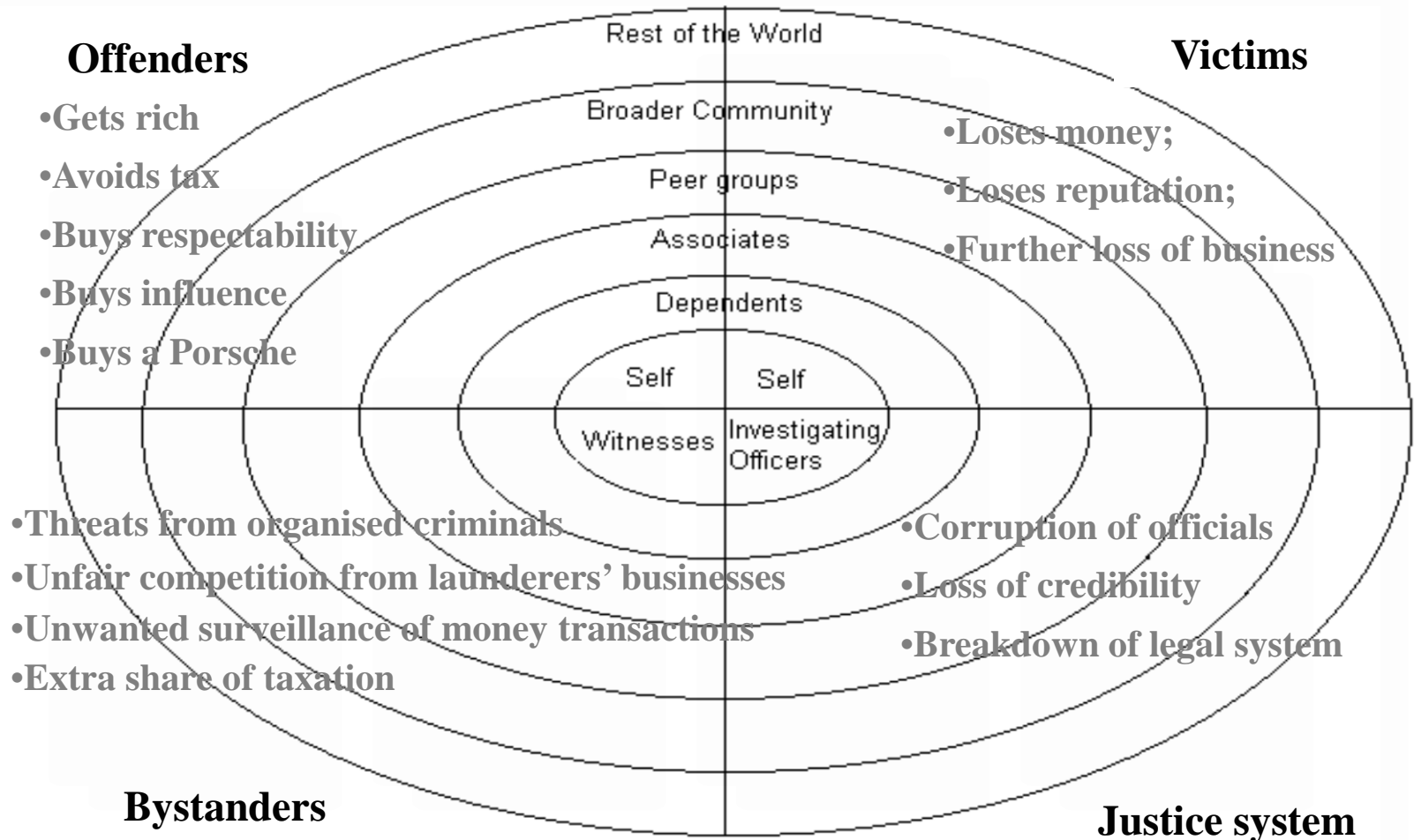


Legend [Areas proportional to size of estimate; Overlaps suggest actual matching of funds]

- Suspect Transactions ●
- Other Police estimates
- Tax-based estimates ●
- Proceeds of Crime Seizures ●
- Expert Criminologists' estimates ●
- Australian Federal Police estimates ●
- International Finance estimates ●



The Money Laundering Ripple



The crime incident brings together the victim, the offender, witnesses, and investigating officials at the focal point. For each of these, there may be implications for their dependents, their associates, their peer groups, the broader community, and even the rest of the world. 6



On 11 September 2001

- The World Changed . . .
 - Because the US changed. Its domestic politics drove its international response. Fear and vengeance were key political drivers.
- Immediate response - find the culprits and make them pay
 - Enormous effort – no expense spared
 - 50,000 personnel to find the terrorists
 - Who were they
 - How did they get here
 - How were they paid
 - Financial transactions the key to investigations



Post 11 September (1)

- The 'War of Terrorism' – Military Response
 - Broad international support
 - War enables changed rules
 - Security concerns as a driver of policy
 - Dissent not politically viable
 - Loss of life and loss of freedom acceptable
- Major US legislation foreshadowed



Post 11 September (2)

- UK followed suit – military response and legislation
- Other jurisdictions followed over time
- Links between money laundering and terrorist financing widely recognised
 - Pressure to comply with 40 Recommendations increased
 - New laws on terrorist funding in many jurisdictions
 - UN lists banned organisations



Post 11 September (3)

- Western Europe, Russians joined in.
- Anti-Terrorist activity in Indonesia, Malaysia and Philippines
- Australia announced policy initiatives
 - New laws on terrorist groups
 - Enhanced controls on possible terrorist financing
 - Protection of infrastructure
 - Proposed new powers for ASIO
 - Slower legislative response due to election timing

New FATF Rules on Terrorist Financing

- Special meeting in December 2001
- Drew up 8 new Recommendations
 - Ratify 1999 UN Convention on Terrorist Financing
 - Criminalise terrorist financing
 - Freeze and confiscate assets
 - Report suspicious transactions
 - Enhanced international co-operation
 - Target alternative remittance systems
 - Link identity to remittance
 - Non profit organisations

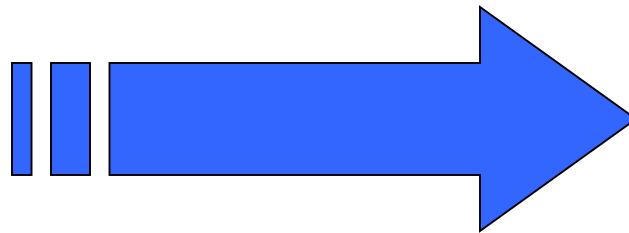


Consequences of the Paradigm Shift

- Global Reaction - The ‘unthinkable’ became acceptable
 - Controls on movement of people and cargo
 - New law enforcement powers
 - Power to freeze financial transactions on suspicion
 - New controls on securities markets foreshadowed
 - Business convenience gives way to security imperative



Money laundering
is also a risk management
issue in
Corporate Governance



Money laundering - a risk management issue

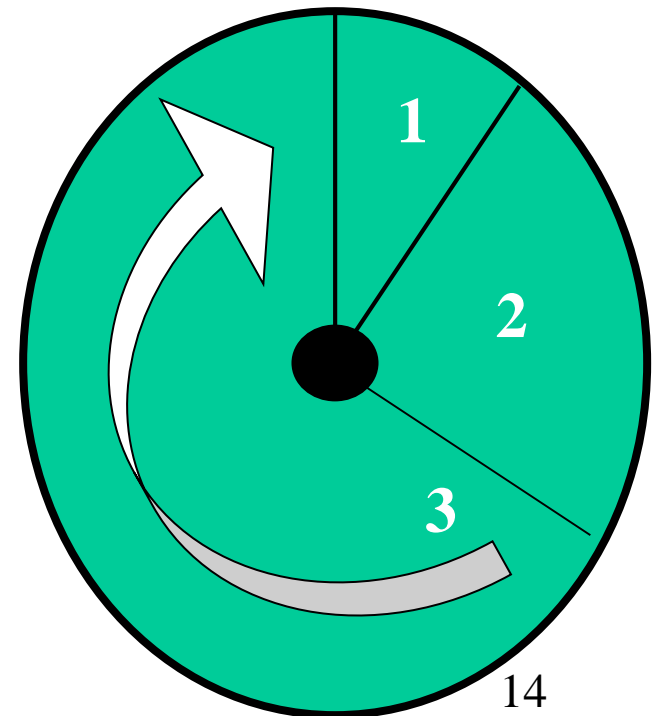
- *The Board of directors should be aware of the major aspects of an institution's operational risks as a distinct risk category that should be managed* (comments in italics on this and following slides are all taken from the “Sound Practices Paper” - www.bis.org)

1: Market Risk

2: Credit Risk

3: Operational Risk

- Board should consider its Threat Risk Profile (TRP)
- Consider a definition of operational risk
- Definition should clarify & assist identification



Money laundering - a risk management issue

- Definition: ‘the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events’.

Example: Operational Risk

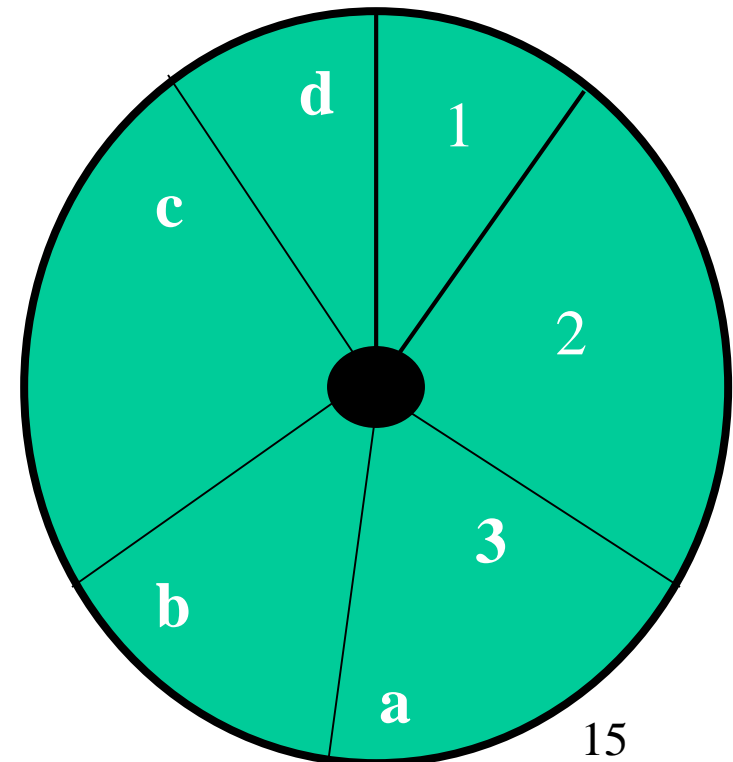
a: processes

b: people

c: systems

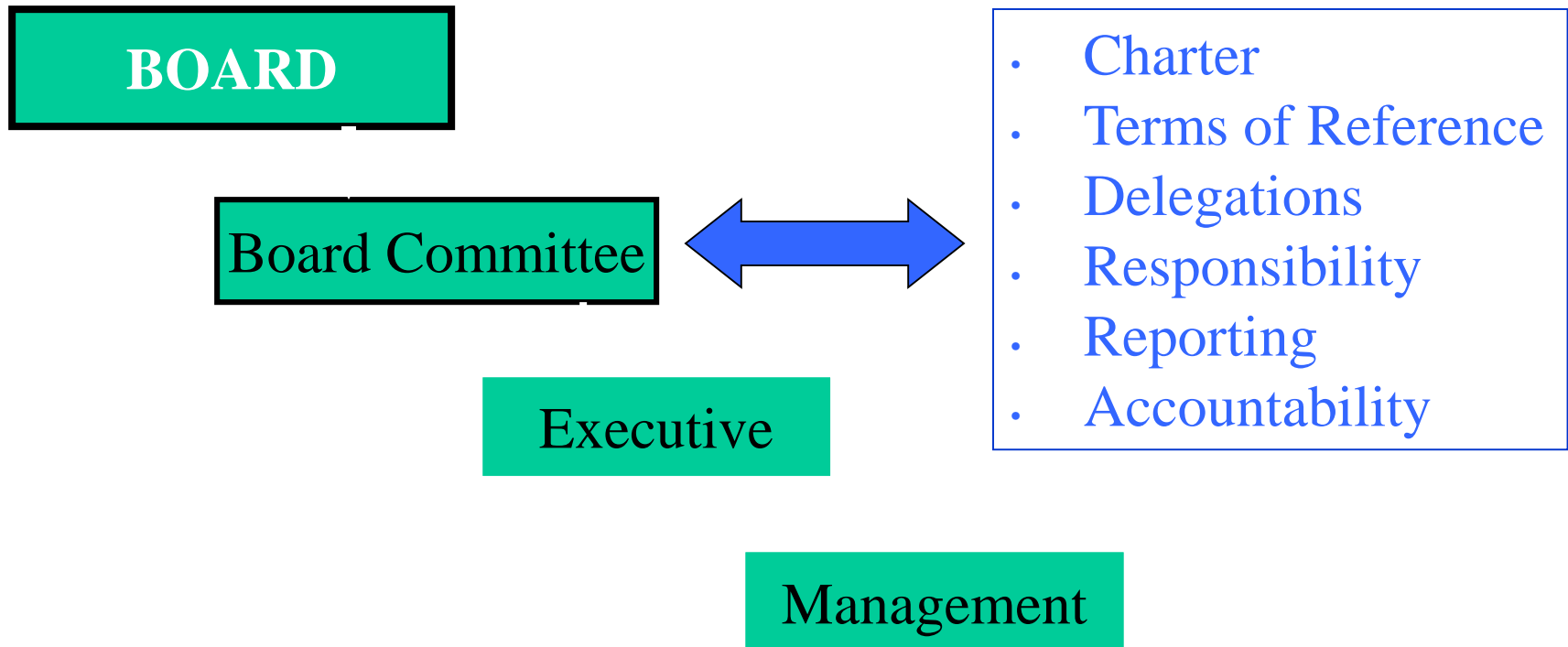
d: external events

- Concentrates on the causes of operational risk
- Includes legal
- Excludes strategic, reputation & systemic risk
- The latter tend to be a result of op risk



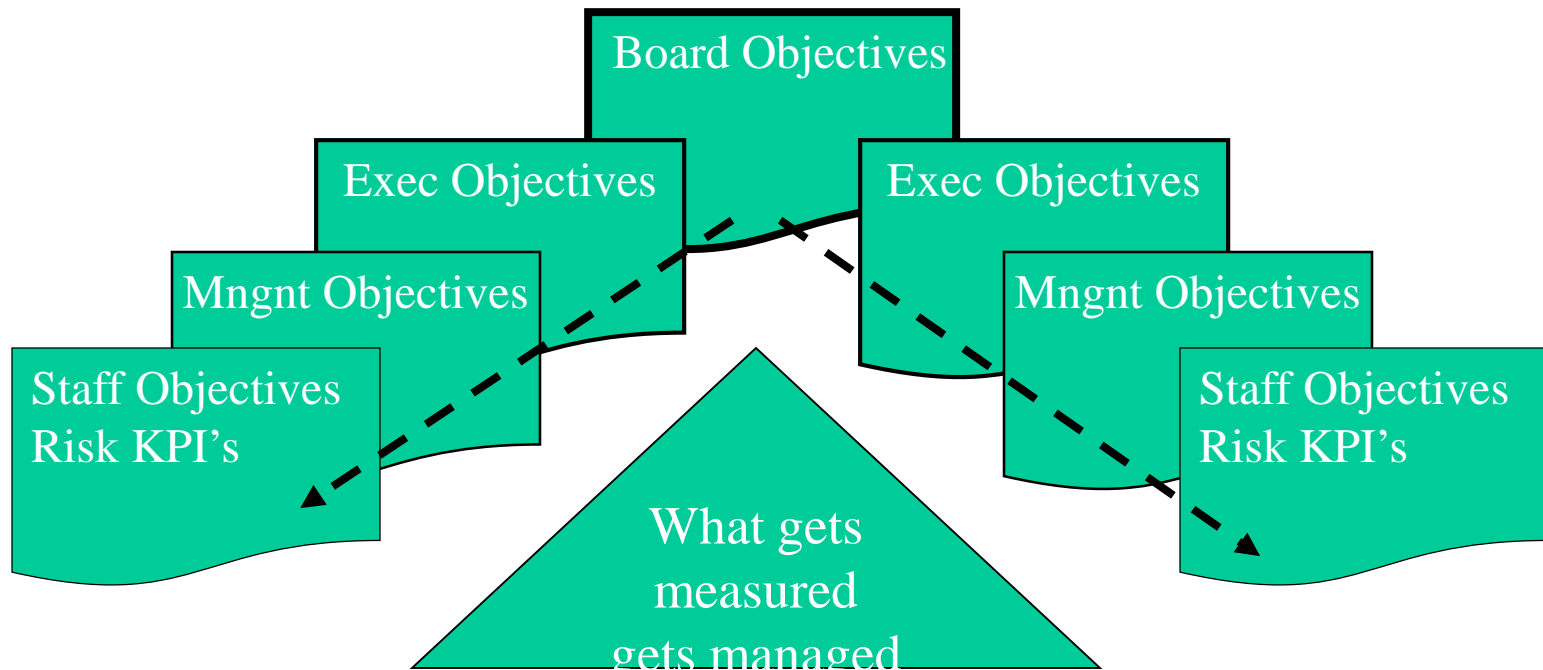
Money laundering - a risk management issue

•Senior management should have responsibility for implementing the operational risk framework approved by the board of directors.



Money laundering - a risk management issue

•Senior management should implement the framework consistently throughout the whole organisation and all levels of staff should understand their responsibilities with respect to operational risk management.



Money laundering - a risk management issue

•Institutions should identify the operational risk inherent in all types of products, activities, processes and systems.

Products Acti v i t i e s Processes Systems

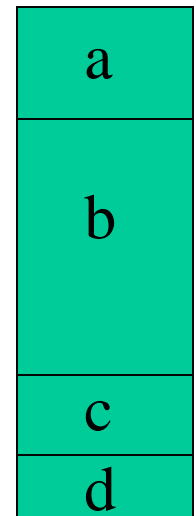
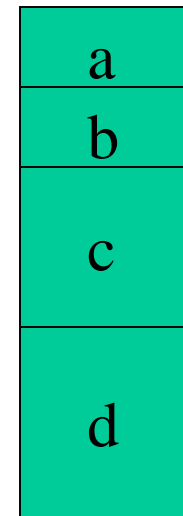
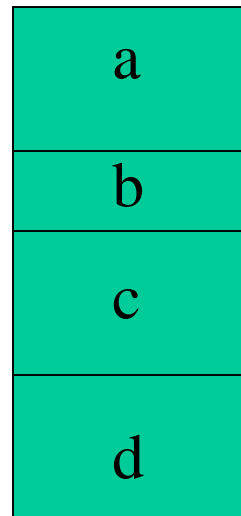
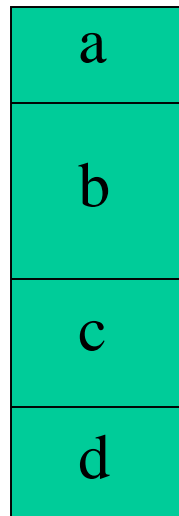
Operational Risk

a: processes

b: people

c: systems

d: external events





Money laundering - a risk management issue

•Institutions should also ensure that before new products, activities, processes and systems are introduced or undertaken the operational risk inherent in them is subject to adequate assessment procedures.

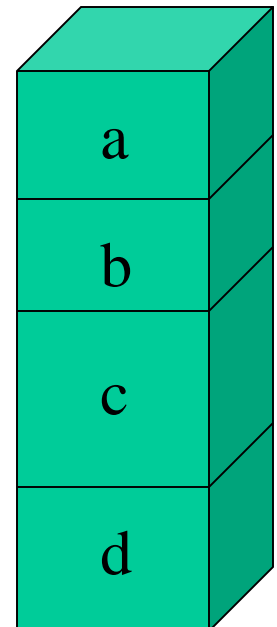
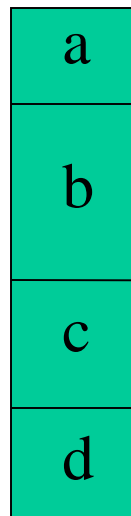
Operational Risk

a: processes

b: people

c: systems

d: external events

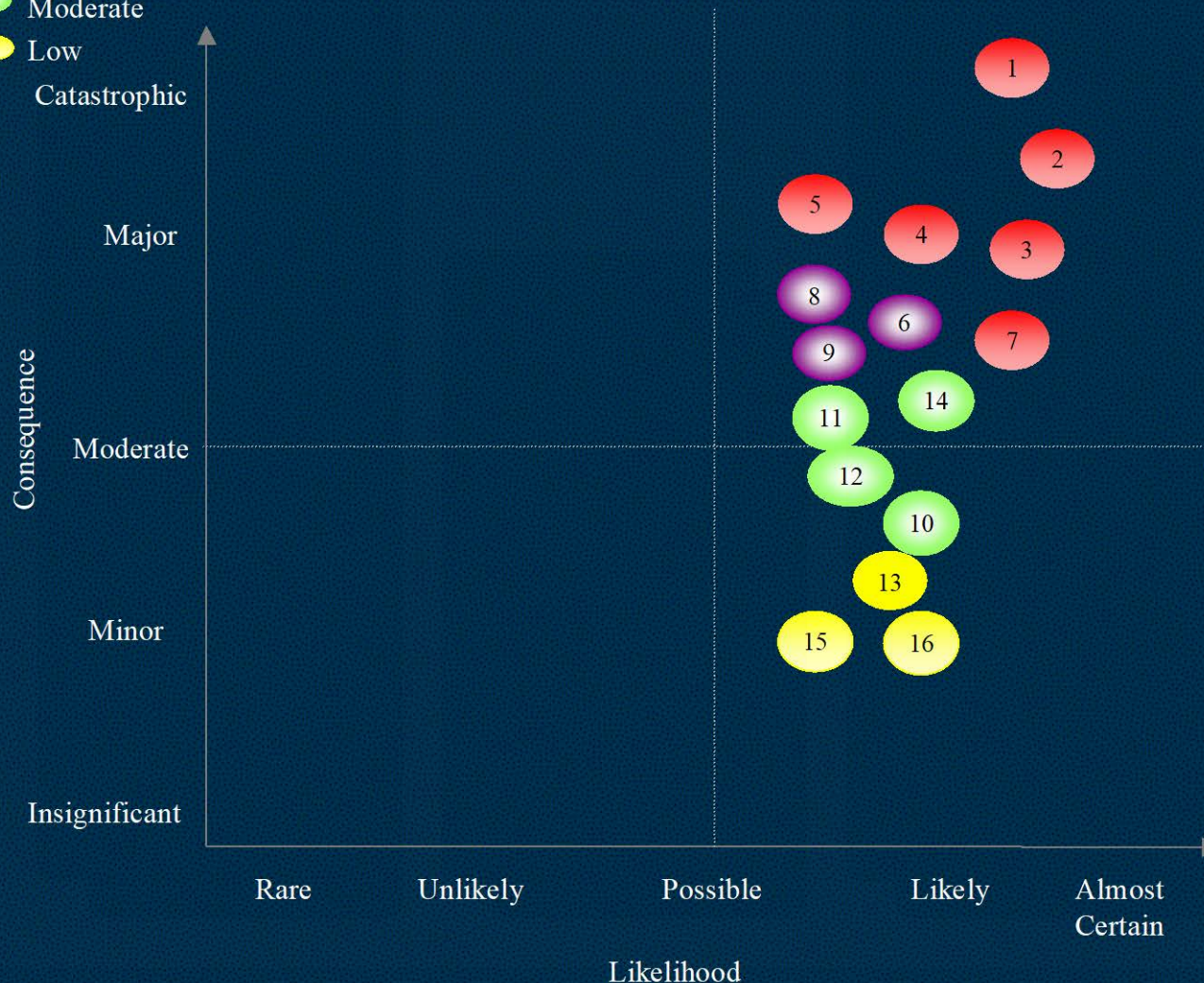


Money laundering - a risk management issue



- Extreme
- High
- Moderate
- Low

Inherent Risk Profile



- Accept
- Reduce
- Transfer
- Avoid



Global Village Concept (1)

Actions taken by various jurisdictions now have extra-territorial coverage.

Many Financial Institutions conduct operations in more than one jurisdiction and have centralised processing.

Delivery of cost-effective controls is a real challenge.

Major International Banks are moving to adopt the Wolfsberg Principles for Private Banking - pressure mounting on others to also adopt.



Global Village Concept (2)

FSA Reforms and EU Directives

- impact on Foreign Banks' operations.

USA PATRIOT Act

Foreign Banks implicated through:

- US based operations
- Correspondent Banking arrangements
 - Certification required
 - Enhanced due diligence surveys

Failure to satisfy US Correspondent Bank requirements could lead to cancellation of Correspondent Banking facilities - this has potential for financial and reputational damage.



Global Village Concept (3)

US Authorities, and therefore US Based Financial Institutions are targeting

- High Risk Banks
- Banks that permit “Payable through” accounts
- Use of “Nesting” in Correspondent Banking facilities.

Robust ongoing due diligence on ownership of banks with which Foreign Banks have Correspondent Banking arrangements is now the order of the day.

Monitoring for changes in usage / transaction patterns is imperative



Developing an Effective Compliance Program (1)

“Know Your Customer” has taken on an expanded meaning.

Technology has provided opportunities to deliver products & Services in new ways

Non face-to-face dealings are increasing in volume and value

- third-party introducers / brokers
- telephone banking
- Internet banking

Proof of Identity now more important than ever before- banks need to know who they are dealing with.



Developing an Effective Compliance Program (2)

Know Your Customer has become :-

- Know Your Customers' Customers**
and
- Know Your Banker**



Current trends in money laundering detection

- Structured Query Language (SQL)
- Artificial Neural Network (ANN)



Recent evolution of SQL-based database structures

- 1995 - ScreenIT: Filtering, Customer nets
- 1997 - Oracle, Web Access, TES II
- 1998 - TargIT: profiles
- 1999 - Data Warehouse, TES 2000, Java
- 2002 - Data Mining?



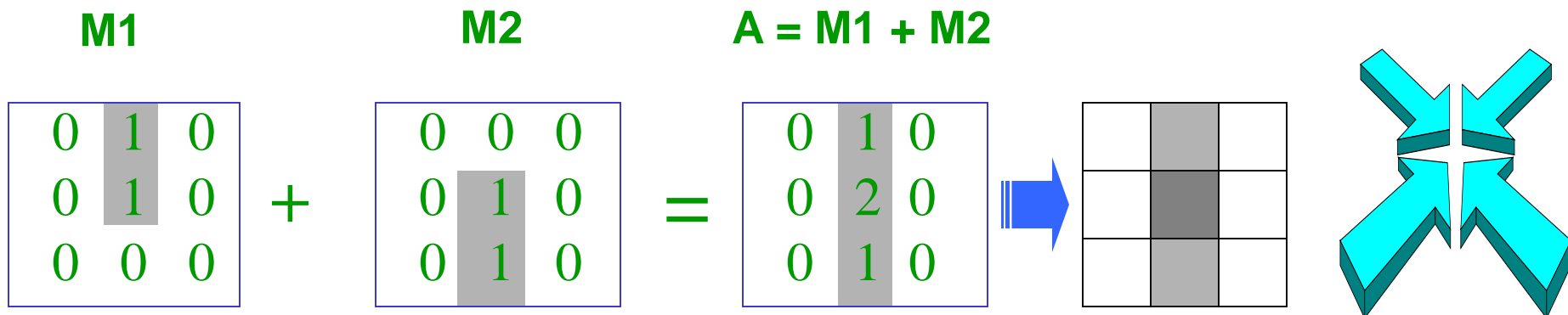
Transaction Reporting systems:

- Significant Cash >\$10K
- Suspect Transactions
- All International Funds Transfers
- Cross Border Cash >\$10K
- Cash Betting >\$10K

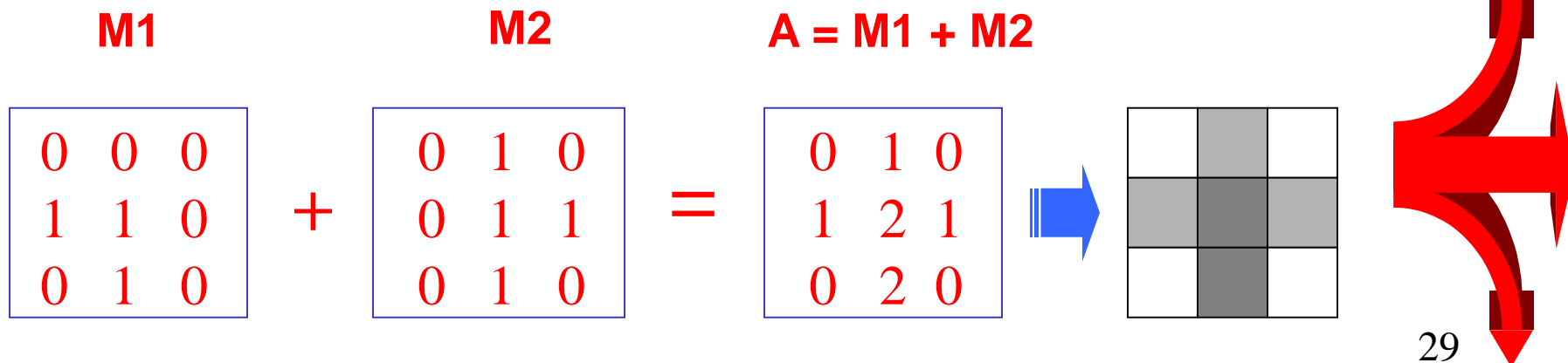
Artificial Neural Networks:

With training, data memories 'Accumulate'

Learning to identify recurrent activity patterns (eg regular cash movements):



Learning to identify odd activity patterns (eg suspect cash movements):





In conclusion

Money laundering is not a short-term problem

- There are no quick-fixes
- Robust programs are needed and must be risk-based
- Government / Industry must work together
- The economic implications of deficient Anti Money Laundering and Suppression of Financing of Terrorism programs will not only affect the relevant Financial Institution – a country's reputation and well-being is at risk.



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End of Presentation

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