

JOINT CONFERENCE ON REMITTANCES

12-13 September 2005

ADB, Manila, Philippines

Presentation

**WIRE REMITTANCES & AML
NEW YORK/COLOMBIA**

**JOHN FORBES
AML Specialist
Asian Development Bank**

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The Simple Drug Trade Business Model

- Drug producing country – Product development and packaging, legal and security, culture of corruption, transportation, market penetration, sales collection mechanism, direct and outsourcing - brokering, profit repatriation and investment
- Target Market country – market development, legal and security, corruption, sales networks, and revenue collection.

HOW TO LAUNDER A MILLION DOLLARS

The GOVERNMENT-DESTABILIZING COLOMBIAN-DRUG-LORD WAY

START HERE!



PROBLEM:

MR. A IS A COLOMBIAN DRUG LORD. A MILLION DOLLARS HE'S MADE FROM COCAINE SALES SIT IN NEW YORK IN NEED OF DEODORIZING.



PROBLEM:

MR. B IS A LEGIT COLOMBIAN BUSINESSMAN WHO WANTS TO BUY A MILLION DOLLARS WORTH OF AMERICAN COMPUTERS, BUT HIS GOVERNMENT WANTS 21 CENTS FOR EVERY AMERICAN DOLLAR HE BUYS WITH HIS PESOS.



SOLUTION: They BOTH CONTACT A MONEY BROKER, WHO TAKES CARE OF THEIR SPECIAL NEEDS FOR A NOMINAL FEE.

The PESOS BECOME THE SQUEAKY-CLEAN POCKET CHANGE OF MR. A!
(ANNUAL LOSS IN REVENUES TO COLOMBIAN GOVERNMENT: \$6 BILLION TO \$8 BILLION.)

5.

MR. B GIVES THE BROKER A MILLION DOLLARS WORTH OF PESOS.

4.



The MILLION DOLLARS IS SMURFED (WIRE-TRANSFERRED IN TINY AMOUNTS) OR HAULED OVERLAND TO AN ACCOUNT IN A MEXICAN BANK.

1.

XYZ COMPUTERS SHIPS MR. B HIS MACHINES FROM ITS PANAMA-HIAN FREE-ZONE WAREHOUSE.

3.

THE BROKER WRITES A CHECK FOR U.S. \$1 MILLION AT A CORRESPONDENT NEW YORK BANK AND GIVES IT TO XYZ COMPUTERS.

2.



New York City by the Numbers

- In excess of \$900 million flowed through 23 licensed money remitters to Colombia based on payment order data.
- Census figures show 25,521 Colombian households with incomes of approximately \$27,000 or \$689,067,000. Even given a significant allowance for under count \$900 million was not realistic.
- Street survey by El Dorado taskforce indicated average remittance between \$250-300 per transaction.
- The El Dorado study focused on wire transfers and not other forms of remittances like checks, money orders or cash in the mail.
- Treasury estimated flow patterns of \$400 million laundered

Things Get Out of Hand Colombia, NYC, and USA Respond

- El Dorado Money Laundering Task Force and Department of Justice request Treasury to issue an order to examine NYC remittance flows.
- 12 license holders first then expanded to 23 covering approximately 3200 store fronts.
- The Order requires a special remittance form to be filled out and ID presented for transactions in excess of \$750 going to Colombia.
- EL Dorado coordinates with Colombia DIAN, local law enforcement as Order takes effect.
- Disruption in the laundered funds chain in NYC causes reliance on other methods.
- Undercover operations, highway, and outbound port seizures see dramatic increase in activity. Increase of \$63 million in cash seizures at ports of Miami, Boston, and NYC over previous year.

Aftermath

- Remittance costs in NYC drop from 7 - 4-3.5%
- Increase in bulk cash seizures in USA and Colombia
- Remittance cells hit in NYC more than 100 arrests & convictions and approximately \$13 million seized
- AML for Money Services Businesses enhanced in USA and Colombia
- Crack downs on unlicensed remitters in Colombia and USA
- Trade based targeting system used to track displacement
- Laundering shift to commodities, bank drafts, other methods

Payment Orders – Crown Jewel

- Criminals look to infiltrate or establish wire remittance outlets to convert cash into the prized wire transfer.
- The payment order is the primary accounting document and serves two purposes; as an invoice to account for cash received and receipt for the customer.
- Required by regulation to have specific information sender, recipient, tel. #, transferred amount and the fees charged.
- Generating false payment orders became a cottage industry for money laundering in NYC.
- Phone books were used to create senders and recipients, other customer's information was used, and various combinations of individuals information was used to cover the placement of drug cash.

Wire Remittances Vulnerabilities

Observations of Areas of Abuse

Franchises / License Holders

- Pay out agent instructions to transfer funds inconsistent to payment order.
- Willful blindness, co-opted or operated by criminals

Store Front Outlets

- Usually working for multiple license holders- hard to see patterns
- Many locations - easy access for smurf's

Wire Remittances Vulnerabilities

- **Store Front Outlets**

- Large cash deposits – night depository drops, armored car
- Validates identity documents – easy to assist smurfs
- Creates payment order - easy to launder or structure transactions
- Usually connected to paying agent – use of codes, methods to launder
- Usually involved in other products - easy to cover lack of real remittances

The Meaning for Government

- Lack of effective supervision can cost you money and destabilize the country
- Shaking criminal funds out of the system will drive remittance costs down.
- New technology old problem - who is the sender and receiver – cell phone, atm
- Consider the use of an AML monitor for noncompliant firms
- Use non law enforcement data to help identify size of problem
- Team various disciplines to pursue launderers.

The Meaning for Private Sector

- Proper oversight of franchisee is important to avoiding legal problems
- Reliance on illegal funds could cause problems if funds dry up as a result of law enforcement or competitors actions
- Lack of an internal AML regime may cause problems with banking institutions.
- Paying agent wire transfer instructions should be reviewed if not consistent with the business e.g., Pay a multinational company in a third country.
- Assist government in developing reasonable safe guards.

The Meaning for Research

- Money laundering is market driven and encompasses more than drug activity e.g.. Tax evasion, gambling, human trafficking, illegal logging, terror financing
- Research
 - Payment order data should be considered in analysis
 - Allowances for potential money laundering flows should be factored into any measurement or analysis
 - Wire transfer flows could be distorted by laundering
 - Outbound as well as inbound flows should be compared to spot possible distortion caused by laundering schemes
 - Census data in both sending and receiving countries may be useful in identifying legitimate remittance ranges by country, city and profession

For More Information

John F. Forbes

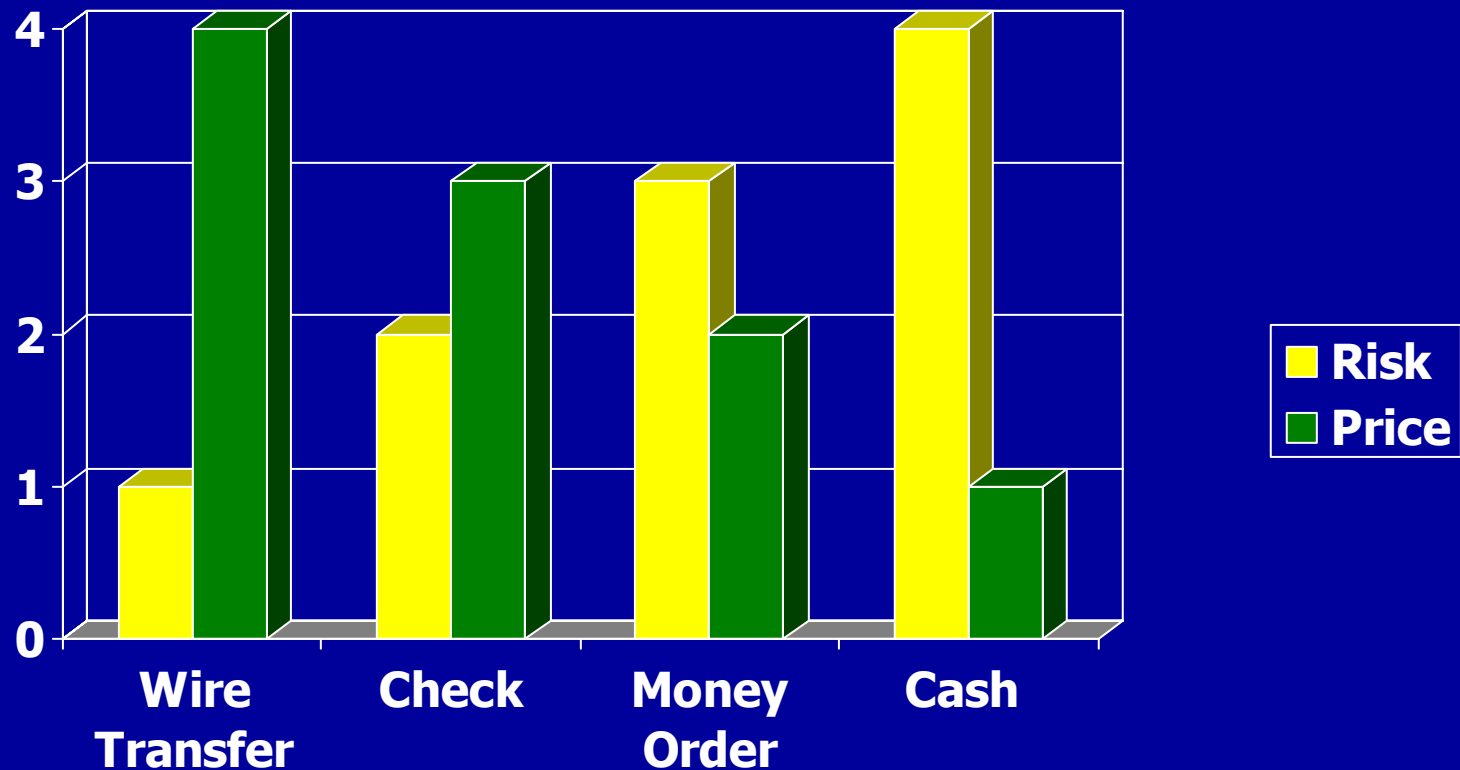
jforbes@adb.org

Web site - <http://www.adb.org>

Big Sales Big Bundles of Cash

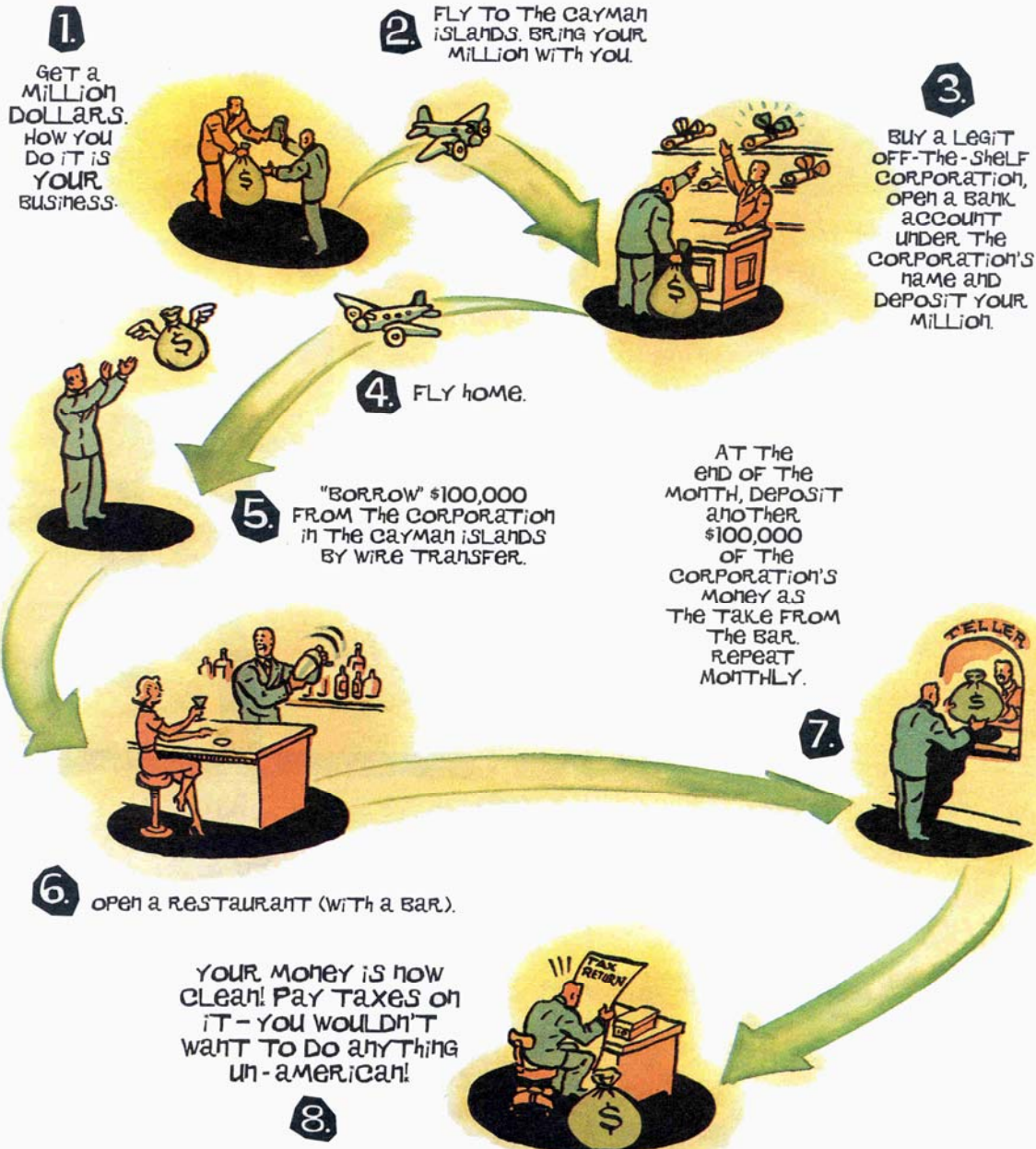
- Most street drug sales in USA done in cash in small denominations usually under \$100
- Booming drug sales mean booming volumes of cash.
 - Each kilo of cocaine generates 3 kilos of cash
 - \$5 million in \$100 stacked is 20 feet high
- The quantity and velocity of drug money is high risk
- Invites competitors and law enforcement to target the collection and consolidation points - stash houses
- Bulk cash movements are risky – need to find a safer way.

Cost of Brokered Dollars Based on Instruments



HOW TO LAUNDER A MILLION DOLLARS

(The OLD-FASHIONED POT-SMUGGLER'S WAY)



The Indispensable Money Broker

- Very active and important part of the drug trade.
- Money Broker serves as intermediary between drug cash and domestic importers.
- Operated fairly openly where importers shop for US Dollars.
- A surplus of cash from the drug trade reduces the exchange rate on the black market, no taxes and tariffs to pay. could save as much as 21% on the transaction.
- Brokers commission based on location and type of instrument. Wire Transfer is lowest risk, highest value instrument.