



# WHY IS CASH STILL KING?

A STRATEGIC REPORT ON THE USE  
OF CASH BY CRIMINAL GROUPS  
AS A FACILITATOR  
FOR MONEY LAUNDERING



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# DEDICATION

On 7 April 2014, two men working for the UN Office on Drugs and Crime (UNODC), Clément Gorrissen, aged 28, and Simon Davis, aged 57, were killed in an attack by an unidentified gunman in the Puntland region of Somalia.

The two officials were on mission in Somalia to offer technical advice and to help build local capacities in the specialised field of illicit money flows. Both men were experts in this complex field and worked to dedicate their efforts to ensuring that licit money services were available to the Somali people, while criminals were prevented from making a profit.

The Financial Intelligence Group of Europol had the privilege to work with them and would like to dedicate this report to the memory of these colleagues who lost their lives in the line of duty in their devoted efforts to combat criminal finances in troubled areas of the world.



# FOREWORD BY THE DIRECTOR

Almost all criminal activities yield profits, often cash, that criminals seek to launder through different means. These are carried out by transnational Organised Crime Groups regardless of their ethnic origin or geographical location, therefore defying categorisation. Money laundering activities are so diffuse for a relatively simple reason: Organised Crime is a commercial activity working for financial benefit.

Although not a new concept, the fact that criminals operate for profit is something that has not fully translated into the approach towards tackling Serious and Organised Crime. For a host of reasons, money laundering convictions and asset recovery efforts remain largely underdeveloped in the EU.

While the world is looking with concern at the possible misuse of virtual currencies by criminals, this report may seem somewhat unusual in that it is not highlighting a new phenomenon or an emerging risk: money laundering and cash have been the stock of criminals for decades. However, this is precisely what makes the findings of this report of interest: in spite of the changing face of criminality, with significant threats now stemming from new technologies, money laundering schemes detected by law enforcement are still largely characterised by traditional techniques, in particular the use of cash.

There are, of course, numerous other factors which present risks as regards money laundering (e.g. beneficial ownership of companies) many of these are receiving sufficient attention at international level, and are already being addressed through European legislation. The use of cash by criminals however, remains one of the biggest threats reported by Law Enforcement in the area of money laundering, as well as one of the most significant barriers to successful investigations and prosecution.

The findings of this report are reflected in a set of recommendations aimed at providing practical solutions which could assist in preventing the use of cash for criminal purposes as well as enabling investigators to achieve higher rates of successful convictions.



**Rob Wainwright**  
Director of Europol



# EXECUTIVE SUMMARY

In spite of steady growth in non-cash payment methods and a moderate decline in the use of cash for payments, **the total value of euro banknotes in circulation continues to rise year-on-year** beyond the rate of inflation. Cash is largely used for low value payments and its use for transaction purposes is estimated to account for around one-third of banknotes in circulation. Meanwhile **the demand for high denomination notes**, such as the EUR 500 note, not commonly associated with payments, **has been sustained**. These are anomalies which may be linked to criminal activity.

Perhaps the most significant finding around cash is that there is **insufficient information around its use, both for legitimate and illicit purposes**. The nature of cash and the nature of criminal finances mean that there is little, if any, reliable data available on the scale and use of cash by ordinary citizens, let alone by criminals.

One of the few reliable figures available, that of **the volume and value of bank notes issued and in circulation in the EU, leaves open questions around the use to which a large proportion of cash in issuance is put**, especially when considering the EUR 500 note. From a total of approximately EUR 1 trillion banknotes in circulation as of end-2014, the use of a significant proportion of these remains unknown. Furthermore, **the EUR 500 note alone accounts for over 30% of the value of all banknotes in circulation, despite it not being a common means of payment**. Although it has been suggested that these notes are used for hoarding, this assumption is not proven. Even if this is the case, the nature of the cash being hoarded (criminal or legitimate) is unknown.



Law Enforcement findings, stemming from operational cases, suspicious transaction reporting and **cash** detections show that while cash is slowly falling out of favour with consumers, **it remains the criminals' instrument of choice to facilitate money laundering.** In the EU, **the use of cash is still the main reason triggering suspicious transaction reports within the financial system.**

Cash is typically involved at placement stage, but also plays a role at both layering and integration phases in the money laundering process. Furthermore, almost all crime types make use of cash to facilitate money laundering in spite of the fact that not all are readily cash producing criminal businesses. **Although not all use of cash is criminal, all criminals use cash at some stage in the money laundering process.** This may be because their criminal activities generate cash profits or because cash is used as an instrument to disguise the criminal origin of profits. **In spite of the rapidly changing face of criminality and the rise of cybercrime, online frauds and illicit online marketplaces, money laundering methods remain overwhelmingly traditional** and cash is still one of the most prevalent facilitators for money laundering across almost all criminal activities.

**The most significant barrier reported by Law Enforcement concerning cash remains the challenge of linking cash to criminal activities.** Most European law enforcement agencies are required to demonstrate the predicate offence in order to prosecute money laundering: given that cash is a bearer instrument, this is a challenging task, and successful investigations involving cash usually entail the use of traditional techniques.

**Physical cash smuggling** remains a prevalent method, although it is difficult to assess the scale or nature of the phenomenon. This is in part due to the fragmented nature of the many agencies involved and the lack of information exchange and interoperable databases. Nonetheless, highly conservative estimates based on records received by Europol indicate that in excess of **EUR 1.5 billion in cash is detected and/or seized by Competent Authorities each year.**

**The movement of cash via freight or mail remains a blind spot and the movement of other high value liquid assets, such as gold, across borders are not captured under EU legislation.** Cross-border movements of illicit profits using these methods present marked vulnerabilities.

Particular cases brought to the attention of Europol indicate that there may be a **trend towards criminal abuses of the cash declaration mechanism** introduced in the EU to counter money laundering risks presented by physical cash movements. These cases also indicate that criminals are aware of LEA methods and the implications of legislation, and adapt methods and routes to exploit loopholes.

The fact that the EUR 500 note is not commonly used as a payment instrument, yet accounts for one third of the value of all banknotes in circulation, raises questions around the purpose for which it is being used. By contrast, the United States, the UK and Canada are all examples of economies which function perfectly well in spite having no high denomination notes coming anywhere near the value of the EUR 500 note. **The reasons behind the high value and number of Euro banknotes in circulation should be further explored,** in particular with regards to outliers concerning the issuance of high denomination notes such as the EUR 500 note.

**Clearer evidence is needed around legitimate uses** which account for the sustained demand for high denomination notes, known to be so closely linked to criminality. **Further work should be conducted by Europol and the ECB** to address these knowledge gaps.



# 1. KEY QUESTIONS

While not as rapid as one might expect, improvements in alternative payments systems, the rise of e-commerce and the digital economy, as well as greater access to the banking system have led to a steady increase in the use of non-cash payment systems across the EU<sup>1</sup>. This, by no means, indicates that cash has fallen out of fashion: it unquestionably remains the payment method of choice among consumers for low value transactions (i.e. less than 20 EUR).

The overall value of euro banknotes in circulation is increasing year-on-year<sup>2</sup>, beyond the rate of inflation, but the use of cash for transaction purposes is estimated to account for just one-third of banknotes in circulation.

Available information on the total circulation of euro banknotes, in particular when taking into consideration the proportion of high denomination bank notes (500 EUR and 200 EUR) not commonly used by consumers or businesses, indicates that there are large sums of cash in circulation that are not used as means of payment.

Although there are no empirical figures available on either the legitimate or illegitimate uses of cash, information stemming from Law Enforcement investigations still indicates that cash, both for criminal payments and money laundering purposes, remains the instrument of choice. In spite of the rapidly changing face of criminality and the rise of cybercrime, online frauds and illicit online market places<sup>3</sup>, money laundering methods remain overwhelmingly traditional – both out of necessity and choice.

This report seeks to explore the use of cash by criminals in order to assess what is known about why and how cash is exploited by Organised Criminal Groups (OCGs) to facilitate their illegal activities.

1 [http://www.capgemini.com/resource-file-access/resource/pdf/wpr\\_2013.pdf](http://www.capgemini.com/resource-file-access/resource/pdf/wpr_2013.pdf)

2 [www.sdw.ecb.europa.eu](http://www.sdw.ecb.europa.eu)

3 [https://www.europol.europa.eu/sites/default/files/publications/europol\\_iocta\\_web.pdf](https://www.europol.europa.eu/sites/default/files/publications/europol_iocta_web.pdf)





### 1.1. What is money laundering?

Although this report is addressed to those with some existing knowledge of money laundering, for readers less familiar with the phenomenon it is worth summarising in brief what, in fact, it is.

While there is no single definition of money laundering, it is widely understood to mean the process of concealing and disguising the identity of illegally obtained proceeds, making the origin appear legitimate and leaving no link to the real source of the funds, their real owner or intended beneficiary.

Almost all criminal activities are carried out to generate profits and, as such, the process of money laundering is of critical importance as it enables criminals to enjoy the fruits of their “labour” without exposing their source.

Money laundering is not a single act, rather a process which is generally categorised in three fundamental phases.

### 1.2. Why do criminals use cash?

There are countless means of laundering the proceeds of crime, all of which have certain factors in common:

- the need to conceal the origin and true ownership of the proceeds;
- the need to directly or indirectly maintain control over the proceeds;
- the need to change the form of the proceeds in order to either shrink the huge volumes of cash generated by criminal activity or sever the link with underlying criminality.

Cash fulfils all the needs outlined above as it is what is known as a bearer negotiable instrument: it belongs to the person who holds it. Unlike money which is transferred through electronic transfers, it is difficult to ascertain the source of cash and impossible to know the intended beneficiary.

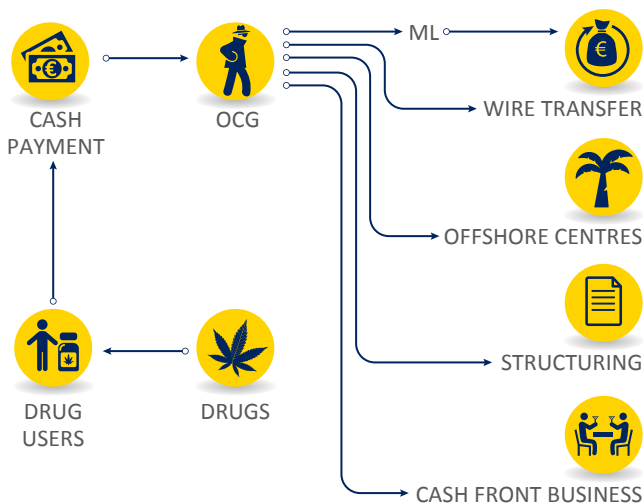
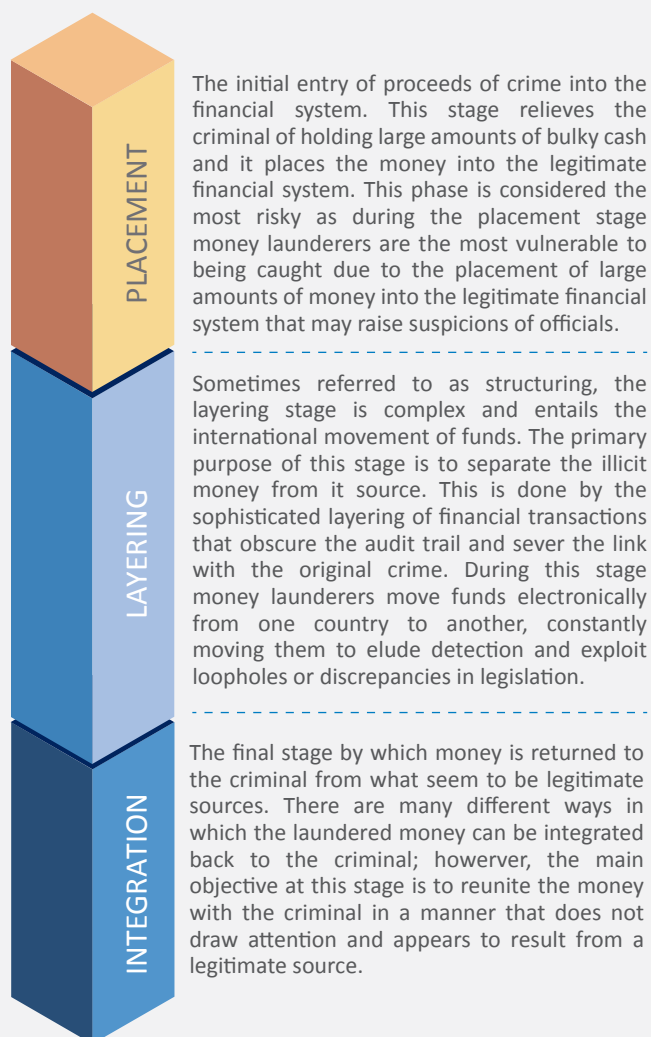
The relationship between physical cash and money laundering, as well as that of the criminal to cash, is complex: cash in itself is not a method of laundering the proceeds of crime, nor is it an illegal commodity; rather it is an entirely legal facilitator which enables criminals to inject illegal proceeds into the legal economy with far fewer risks of detection than other systems.

In the context of money laundering, criminals generally hold cash for one of two reasons:

- their criminal activities generate cash profits – i.e. **cash proceeds need to be laundered**

E.g. drug trafficking generally generates cash profits (multiple cash payments to dealers in lower denomination notes) which require aggregation and laundering, in order that these cash proceeds can be placed on accounts and into the legitimate economy without arousing suspicion.

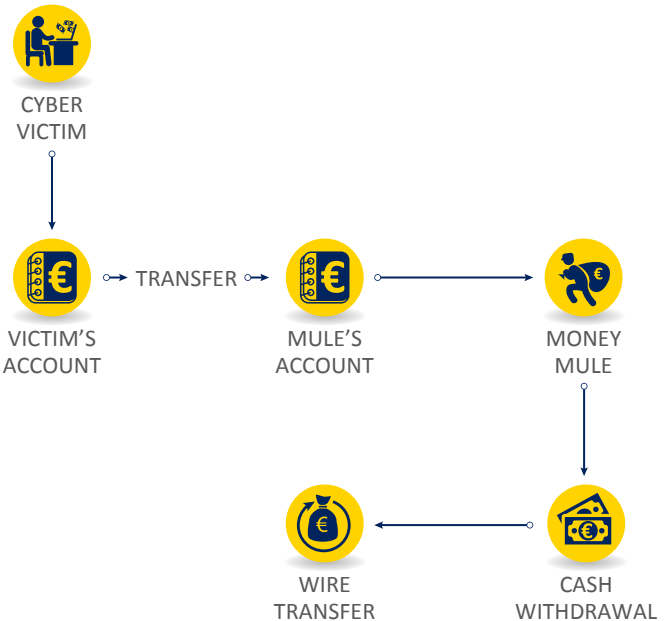
#### The money laundering cycle:



# 1. KEY QUESTIONS

- they use cash to disguise the criminal source of profits– i.e. **cash is required in order to launder**

E.g. cybercrimes such as phishing or hacking do not generate cash proceeds, rather proceeds will be transferred directly from the victim's account to the mule's account. However, as this clearly leaves a trail that can be followed by investigators, mules almost immediately withdraw funds in cash and send this on to the OCG (often by wire transfer) as these cash withdrawals break the link between the crime and the proceeds.



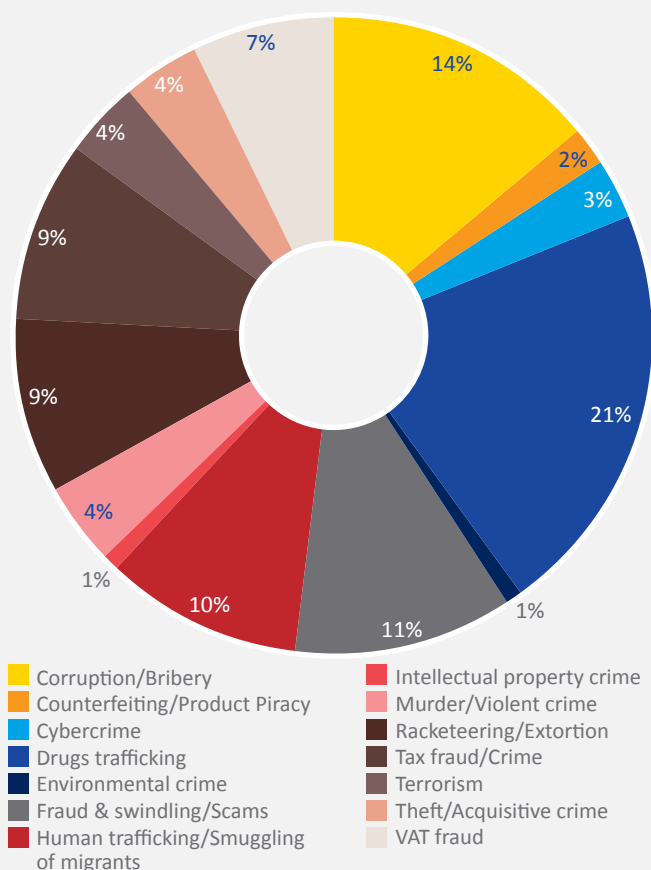
In either event, holding cash does not fulfil the money laundering cycle: it is merely one stage in the money laundering process and cash still requires integration in the legal economy (for example using placement in bank accounts, overseas cash smuggling, cash based investments in assets such as properties and other high value goods). Cash can be considered somewhat a criminal dilemma: criminals at the same time want cash but want to rid themselves of it.

Typically cash is involved at placement stage; however it also plays a role at both layering and integration phases.

Certain criminal businesses are readily associated with generating cash proceeds, for example drugs or human trafficking. However, information collected from Member States around the predicate offences most commonly linked to the use of cash for money laundering purposes, shows almost all crime types use cash as a facilitator for money laundering in spite of the fact that they are not all readily cash generating criminal businesses<sup>4</sup>.

<sup>4</sup> Results of Europol survey to MS ML Units on the use of cash as an instrument to facilitate money laundering (2014)

**Chart 1: Predicate offences, as reported by Anti-Money Laundering Units of Member States most closely linked to the use of cash in money laundering schemes:**



### 1.3. Why is cash a problem for law enforcement?

It has been mentioned that criminals favour using cash because it is a bearer negotiable instrument: it belongs to the person who holds it while providing no information about its origin. Although criminals still face the task of finding ways in which to integrate cash into the legal economy, they remain drawn to the benefits it conveys through disguising the source of funds and cutting the link with the ultimate beneficiary.

The fact that cash is a bearer negotiable instrument also causes significant difficulties for the Competent Authorities (Criminal Investigative Units, Customs and Financial Intelligence Units (FIUs) etc.) charged with investigating cases concerning suspect sums of cash.

Most European and indeed non-European Law Enforcement Agencies are required to demonstrate the predicate offence to money laundering: that is to say the underlying criminality which generated the profits. Around 60% of respondents to

a Europol questionnaire indicated that, in order to prosecute money laundering, they are required to demonstrate the predicate offence to evidential standards. Only 12% reported provisions for unexplained wealth (whereby civil forfeiture or money laundering convictions may be secured if it can be proven that the money could not have derived from a legal source)<sup>5</sup>. In reality, even those jurisdictions which do provide for unexplained wealth provisions will usually require, at the very least, indicators of criminality in order to secure a conviction or confiscation.

As such, it is unsurprising that linking the suspicious funds to the predicate offence is reported by Law Enforcement as the most significant problem when investigating cases involving cash. This is not to say that the issue of demonstrating the underlying criminality is specific to cases involving cash, however the inability to trace physical cash money movements intensifies the problem when compared to other instruments for which records are kept. This barrier is closely followed by that of slow or inadequate international cooperation among Law Enforcement Agencies and limited powers or inadequate domestic legislation. Together these barriers combine to frustrate the efforts of financial investigators.

### 1.4. What do we know about legitimate cash usage?

To understand the illegitimate use of cash, we first need to consider its legitimate use. Cash certainly has many legitimate functions, and may indeed be preferable to other payment systems under certain circumstances.

However, the nature of cash means that there is little, if any, concrete data available beyond figures around the volume and value of bank notes issued and in circulation. Much else to do with cash is unknown. Assessing the legitimate use of cash suffers from the same problems faced when considering its illicit use: very little hard statistical data is available.

Nonetheless, observations around consumer patterns do paint a picture of how cash is used. Various reports indicate that cash remains the most popular payment method among consumers in terms of volumes of transactions. It is the preferred method for low value payments (87% of purchases with a value less than EUR 20)<sup>6</sup>. For those businesses which receive this cash, most deposit cash income at the bank and cash payments constitute only a small part of the total expenditure of companies.

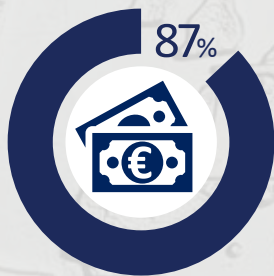
<sup>5</sup> Results of Europol survey to MS ML Units on the use of cash as an instrument to facilitate money laundering (2014)

<sup>6</sup> [http://www.ecb.europa.eu/pub/pdf/other/art2\\_mb201104en\\_pp79-90en.pdf](http://www.ecb.europa.eu/pub/pdf/other/art2_mb201104en_pp79-90en.pdf)

# 1. KEY QUESTIONS

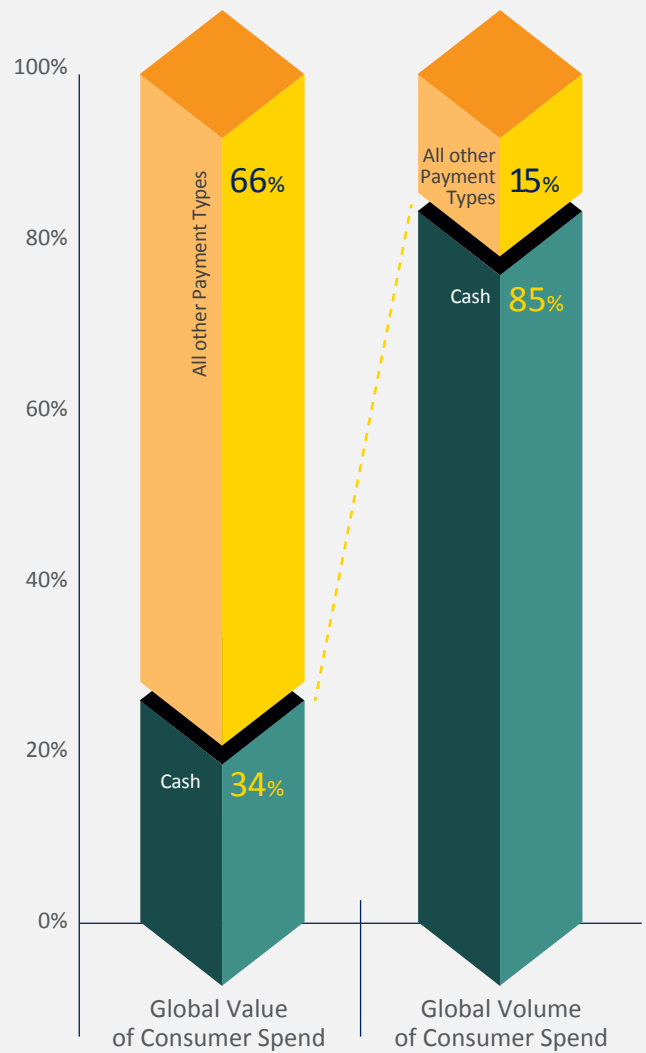


Cash is the preferred payment method for low value transactions:



All transactions under 20 Euros are made in cash  
Source (ECB)

Chart 2: Volume versus value of consumer payments in cash



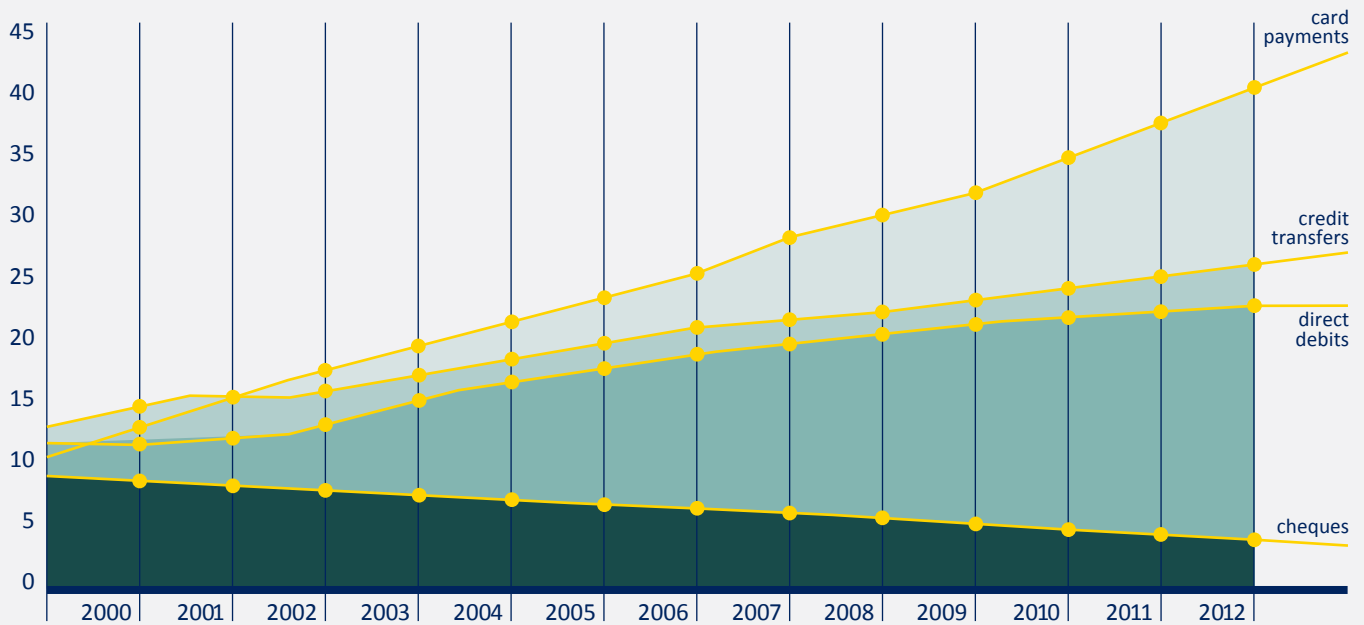
Source: World Payment Report 2014

Certain studies suggest that cash transactions have been moderately declining at rate of between 1.3 – 3.3% per year<sup>7</sup>. This appears to correspond with available information around the growth of non-cash payment methods (an increase of about 4.2% for Europe<sup>8</sup>) and information on EU citizens' access to banking services (around 89% of adults have bank accounts compared to just 41% in the developing world)<sup>9</sup>.

7 [http://www.richmondfed.org/publications/research/working\\_papers/2014/pdf/wp14-09.pdf](http://www.richmondfed.org/publications/research/working_papers/2014/pdf/wp14-09.pdf)  
 8 <http://www.ecb.europa.eu/press/pr/date/2013/html/pr130910.en.html>  
 9 <http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-6025>

Chart 3: Use of the main payment instruments in the EU (2000-2012)

(Number of transactions per year in billions, estimated)



Source: ECB

### 1.5. Why cash if not for payments?

In spite of these observations, the issuance of banknotes and sums of cash in circulation continues to rise. As of end-2014 there were approximately EUR 1 trillion bank notes in circulation.

More notably, a large proportion of the notes in circulation are high denomination notes. In value, the EUR 500, EUR 200 and EUR 100 bank notes account for 54% of banknotes in circulation. The EUR 500 note alone accounts for around 30% of the value of banknotes in circulation, despite not being a common means of payment. Results of an ECB study show that around 56% of respondents have never come across a EUR 500 banknote<sup>10</sup>. Indeed, many businesses are not inclined to accept high denomination notes purely due to practical issues such as associated security and fraud risks.



10 [http://www.ecb.europa.eu/pub/pdf/other/art2\\_mb2011104en\\_pp79-90en.pdf](http://www.ecb.europa.eu/pub/pdf/other/art2_mb2011104en_pp79-90en.pdf)

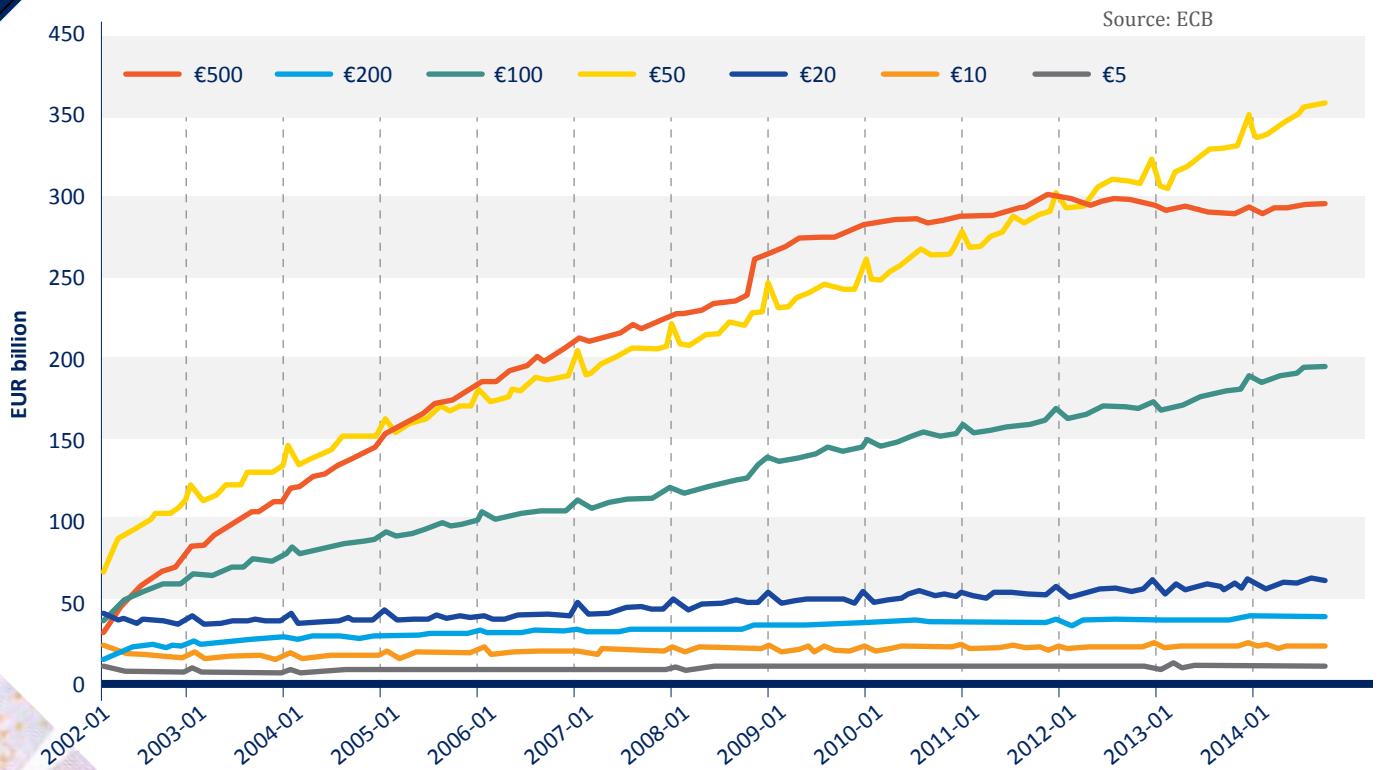
# 1. KEY QUESTIONS

**56%**  
of EU citizens have  
never seen a 500 Euro note



When looking at issuance of Euro banknotes across the different Member States, certain notable findings emerge. The Central Bank of Luxembourg, for example, states in its 2013 Annual Report that “In value terms, the net issuance of banknotes in Luxembourg grew significantly in 2013 (+EUR 11.2 billion, or +14.6 %) and reached EUR 87.5 billion by end-December 2013”<sup>11</sup>. This figure is twice the GDP of Luxembourg (approximately EUR 40 billion)<sup>12</sup>. Furthermore, a significant proportion of these banknotes are accounted for in high denominations, although Luxembourg is noted as one of the most cash-averse countries along with France and the Netherlands (although the same survey did show that Luxembourg residents reported having the EUR 500 note in their possession most frequently)<sup>13</sup>, an assessment which is supported by figures around its annual ATM usage, at around EUR 2.2 billion (another indicator of the prevalence of non-cash use)<sup>14</sup>.

Chart 4: Growth of Euro banknotes in circulation by denomination (value) 2002- 2014



**30%**  
The proportion of EUR 500  
banknotes in circulation value



The high value of banknotes in circulation, in particular the EUR 500 note, begs the question, what is all this cash used for, if not as a means of payment? There can be no single answer to this question.

11 [http://www.bcl.lu/en/publications/rapports\\_annuels/Annual\\_Report\\_2013/RA\\_EN.pdf](http://www.bcl.lu/en/publications/rapports_annuels/Annual_Report_2013/RA_EN.pdf)

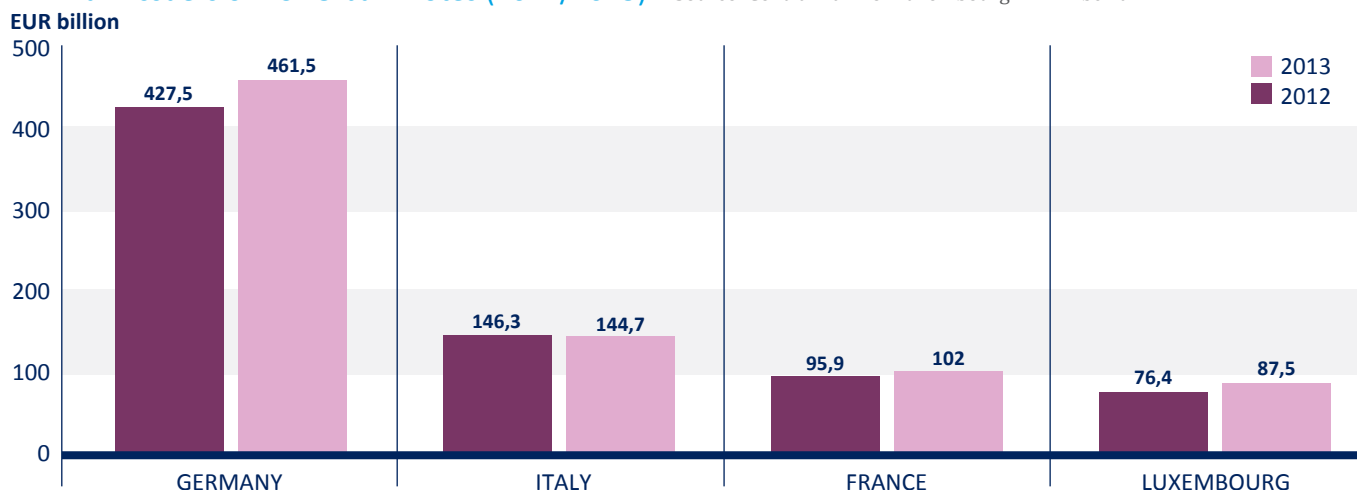
12 Eurostat

13 [http://www.ecb.europa.eu/pub/pdf/other/art2\\_mb201104en\\_pp79-90en.pdf](http://www.ecb.europa.eu/pub/pdf/other/art2_mb201104en_pp79-90en.pdf)

14 [www.sdw.ecb.europa.eu](http://www.sdw.ecb.europa.eu)

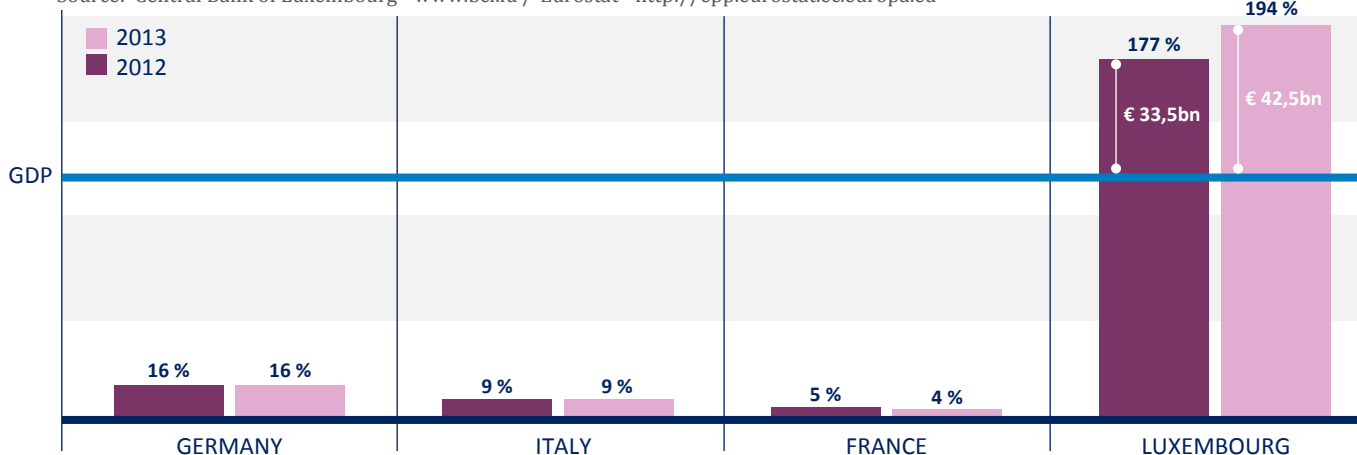
### Main issuers of EURO banknotes (2012/2013)

Source: Central Bank of Luxembourg - www.bcl.lu



### Issuance of banknotes vs. national GDPs (2012/2013)

Source: Central Bank of Luxembourg - www.bcl.lu / Eurostat - http://epp.eurostat.ec.europa.eu



An ECB article from 2011<sup>15</sup> estimates that, of approximately EUR 840 billion of banknotes in circulation end-2010, only around one third of these were used for transaction purposes. Furthermore, the ECB estimates that around 20 – 25% of euro notes were transferred outside the euro area (this demonstrates more where notes are going, rather than what they are being used for). Accounting for vault cash held on banks' balance sheets (approximately EUR 60 billion), the same report estimates that some EUR 100 billion are held by households and companies as store of value in the euro area. Of course, the fact that some people use cash to hoard is possible<sup>16</sup>, however inflation means that year-on-year the value of these cash holdings will be diminished. Notwithstanding, this leaves around EUR 200 billion of banknotes in circulation, the use of which remains unknown. Of course, the ECB highlights the difficulties of making any direct estimations around amounts held in cash.

15 [http://www.ecb.europa.eu/pub/pdf/other/art2\\_mb2011104en\\_pp79-90en.pdf](http://www.ecb.europa.eu/pub/pdf/other/art2_mb2011104en_pp79-90en.pdf)

16 The ECB considers that most notes not used for payment are hoarded and that hoarding is linked to the store of wealth in times of financial turbulence or geopolitical uncertainty, in combination with very low interest rates.

### 1.6. What do we know about criminal cash?

Law enforcement has long been aware of the use of cash by criminals. This awareness has informed the drafting of international anti-money laundering standards<sup>17</sup> and EU policy and regulations around anti-money laundering requirements and cash controls which seek to mitigate particular risks pertinent to the use of cash, such as high value cash payments and physical cash movements<sup>18</sup>.

While no definitive figures can be provided as to the proportions of cash in circulation used for legitimate and illegitimate purposes, Law Enforcement investigations confirm that cash, and in particular high denomination notes, are commonly used by criminal groups as a facilitator for money laundering. While the nature of statistics around cash circulation and issuance do not show correlation between the

17 [http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF\\_Recommendations.pdf](http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf)

18 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:309:0015:0036:en:PDF>  
[http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/cash\\_controls/r1889\\_2005\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/cash_controls/r1889_2005_en.pdf)

# 1. KEY QUESTIONS



Source: Portuguese Judicial Police

demand for cash, high denomination notes and crime, cash detections, financial intelligence and Law Enforcement investigations do: while not all use of cash is criminal, almost all criminals use cash at some stage during the money laundering process.

Suspicious transaction reports (STRs) filed by financial institutions and other regulated entities on transactions and activities of clients which may be linked to criminality, money laundering or terrorist financing indicate that the primary reason for reporting suspicion across the EU is the use of cash: these reports account for in excess of 30% of all STRs.

*While not all use of cash is criminal, almost all criminals use cash at some stage during the money laundering process*

Information submitted to Europol in the area of money laundering also shows the dominance of cash, particularly with regard to physical cross-border cash movements. Reports on cash detections consistently account for around 1/3 of all contributions relating to money laundering.

Operations themselves reveal huge sums of cash moved and stashed by criminals which are steadily invested and integrated in the legal economy in a multitude of ways which rid them of bulky cash holdings at risk of being confiscated. These methods require an army of criminal associates and complicit or negligent gatekeepers to ensure that their insertion in the legal economy doesn't arouse suspicion. For example, in 2012, the Spanish Operation Emperador, targeting a Chinese OCG orchestrating money laundering and tax evasion on an industrial scale, led to the seizure of around EUR 12 million in cash, including EUR 10 million on a single day – the largest cash seizure ever in Spain.

Indicators from international anti-money laundering investigations demonstrate that the EUR 500 is a favoured tool used by criminals to store the proceeds of illegal activities in non-financial environments. A recent case investigated by the Portuguese Authorities against an Angolan General suspected of organising a money laundering fund in Lisbon, led to the seizure of three properties by the Judicial Police, who also made the biggest ever cash seizure on Portuguese soil after finding EUR 8 million, almost entirely in EUR 500 notes inside one of the suspect's apartments.



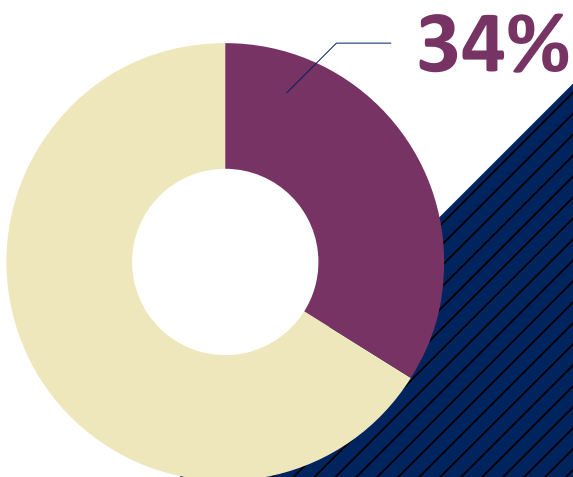


## WHY AREN'T HIGH DENOMINATIONS COUNTERFEITED?

The question of counterfeit currency is also worthy of mention when considering the use of cash by criminals.

The EUR 500 note is not a commonly counterfeited denomination, accounting for just 0.8% of known counterfeit notes (most common are the EUR 20 notes representing 46.5% and the EUR 50 representing 34.7% (Source: ECB Biannual info on euro banknote counterfeiting 2014). The reason for this is simple – few retailers accept the EUR 500 note purely for security reasons, and those that do will normally have means to verify the authenticity of the notes. As such, there would be little profit for criminals who counterfeit such high denominations.

However, although quality counterfeits are rare, for those few quality EUR 500 counterfeit notes which have been detected, intelligence gathered suggests that they were intended to be used for payments between criminal groups. In 2009 for example, Spanish Authorities investigating a drug trafficking group found that the same group operated a side-line business producing high quality counterfeit EUR 500 notes. The investigation led to the largest ever single seizure of such notes – approximately EUR 8 million in EUR 500 notes. These notes were due to be used as payment between OCGs for consignments of drugs. This is just another indicator of the popularity of the EUR 500 among criminals.



**In the EU, the use of cash is still the main reason triggering suspicious transaction reports within the financial system, accounting for 34% of all reports**

## 2. MOVING CASH

As already mentioned, holding large sums of cash does not in itself fulfil the money laundering cycle. On the contrary, vast cash holdings are in themselves an indicator of criminal activity. Furthermore, cash is at a heightened risk of seizure and confiscation by law enforcement. As such, criminals seek to place, layer and integrate cash in such a way that it a) does not arouse suspicion; b) cannot be traced by law enforcement; c) is seamlessly integrated in the legal economy allowing them to enjoy the fruits of their labour, and even, potentially generating further profits to be reinvested in criminal enterprises.

The following methods are reported by Member States to be the most common methods of laundering cash. With the exception of physical cross-border cash movements, they all have a fundamental element in common: they provide a means through which to legitimise the source and movement of funds.

We previously introduced the three stages of money laundering. Physical cross border cash movements (more traditionally through cash smuggling, and potentially evolving to include the open declaration of sums) is one of the most known methods, often beginning the money laundering cycle.

Criminals who generate cash proceeds seek to aggregate and move these profits from their source, either to repatriate funds or to move them to locations where one has easier access to placement in the legal economy, perhaps due to the predominant use of cash in some jurisdictions' economies, more lax supervision of the financial system or stronger banking secrecy regulations, or because they may have greater influence in the economic and political establishment.

However, cash smuggling may occur at other stages and is also used by non-cash generating offences. For example cybercrimes such as phishing and hacking make use of money mules to receive and withdraw sums fraudulently obtained from victims' bank accounts in cash. These funds are thereafter sent via wire transfer to other jurisdictions where they are collected in cash by a select number of individuals, likely for onward transportation.



PASSPORT

## 2.1. Cash Smuggling

### HOW?

Criminals transport cash across borders by concealing sums from Law Enforcement. They employ a variety of ingenious and elaborate methods in their efforts to avoid detection by Competent Authorities (usually customs)<sup>19</sup>. For passengers travelling by air, body packing is a known method, whereby couriers secrete sums of money on their person – hidden inside clothes, shoes, underwear etc. Couriers travelling by road have been known to modify the chassis of vehicles to conceal sums of cash. Increasingly, Law Enforcement detects concealment methods inside checked luggage and hand luggage whereby everyday items such as packets of food, toiletries, toys and even suitcases themselves, are modified to conceal cash. In order to conceal large sums of money, couriers often transport high denomination notes, in particular the 500 EUR. One particularly extreme method detected by Law Enforcement is that of cash swallowing: similar to drugs mules who physically ingest drugs in order to transport them, so too it is seen that cash couriers swallow pellets of high denomination notes.



<sup>19</sup> For the majority of countries, Customs Services are the front line for detecting and recording, cash movements. However, in a number of jurisdictions, police and tax authorities also play a role in detection, and frequently the responsibility for the subsequent investigation of suspect cash movements is split between agencies, e.g. in the case of Italy, Malta, Netherlands, Belgium, Austria etc.

## 2. MOVING CASH

### FACILITATOR 1: HIGH DENOMINATION NOTES

Beyond the use of cash in general as a facilitator for money laundering, the use of high denomination notes, in particular the EUR 500 note, is a problem reported by Law Enforcement in the course of their money laundering investigations. The EUR 500 note is the highest denomination note issued in the EU, and the second highest in Europe after the Swiss 1000 CHF note.

Why do criminals use these notes? Simply the larger the denomination, the more funds can be shrunk to take up less space.

For instance, EUR 1 million in 500 notes equates to just 2000 notes weighing 2.2kg, taking up a space of just under 3 litres (which, for instance, would easily fit inside a small laptop bag). Meanwhile, the same amount of money (EUR 1 million) in EUR 50 notes equates to 20,000 pieces weighing over 22kg and taking up the space of a small suitcase.

When considering the means of transport (often flights) and the means of concealment used by couriers (body packing, swallowing), the importance of shrinking the volume, but not the value of cash consignments is put in relief.

Certain Law Enforcement Agents have even informed Europol that EUR 500 notes trade hands at above their face value in the criminal environment, so important is their role in cash transportation for money laundering.

It is noteworthy that as early as 2005 the Financial Action Task Force (FATF) recommended that *“countries should give consideration to the elimination of large denomination banknotes...used by cash smugglers to substantially reduce the physical size of cash shipments...and by doing so, significantly complicate detection exercises”*<sup>20</sup>

It has been reported that the Bank of Italy voiced similar concerns, questioning the sustained demand for high denomination Euro notes in Italy<sup>21</sup>. Furthermore they note that the issuance of high denomination banknotes shows a significant concentration in certain Italian provinces closely bordering Switzerland and San Marino.

Notably, the United Kingdom removed the EUR 500 note from wholesale circulation in 2010 after SOCA (NCA) findings revealed that 90% of all EUR 500 notes in the UK were in the hands of criminals<sup>22</sup>. The aforementioned Italian report also highlights this move by the UK, and the withdrawal of the highest denomination notes in the USA and Canada.

20 FATF: International Best Practices: Detecting and preventing the cross-border transportation of cash by terrorists and other criminals, February 2005.

21 Banca d'Italia: original report accessed by Europol is not publicly available 1

22 National Crime Agency: original reports are not publicly available

## CAN YOU SPOT IT?

These methods pose a number of difficulties for law enforcement. Firstly, cash is extremely difficult to detect. It is not readily visible on scanners, especially when hidden inside objects, or more so in checked luggage which may not be scanned at all. While sniffer dogs trained to detect cash do have some success, certain methods, like concealing money in food items, understandably reduce their level of success. Furthermore, only a limited number of authorities have cash dogs or mobile scanners at their disposal. In the case of swallows, they may show no physical signs of ingestion at least at the start of their journey, and authorities cannot simply run body scans indiscriminately on all individuals to see if they may have swallowed money.

Resources also constitute a significant limitation. Customs Authorities and border services have many other responsibilities such as preventing illegal immigration, detecting illegal commodities and violations etc. and understandably, there are limits to the controls which can be carried out, especially since cash detections are not always a primary objective.

It should also be borne in mind that not all Competent Authorities have specialised teams working in the area of cash detections, and that most border controls occur inbound (due to the need to protect borders against incoming illegal commodities, irregular migrants etc.) although it is thought that most of the proceeds of crime, for example from drug and human trafficking may be moved outbound. Due to the restrictions imposed by limited resources it is considered best practice by many Competent Authorities to combine the tools available to them (cash dogs, scanners) with profiling and assessments of high risk indicators and routes in order to better focus their resources (see trends).



## 2. MOVING CASH

### POWERS:

Even once detected, cash poses complications not encountered with other commodities like drugs or counterfeit goods. Cash in itself is not an illicit commodity, and as such, the powers of the Competent Authority to seize and investigate vary across the EU. Many Customs Services are administrative; as such the failure to declare concealed sums constitutes only an administrative offence, subject to a fine, the scale of which also differs considerably from country to country. Furthermore, even for those services with powers to investigate and seize cash, the prevailing requirement for conviction-based confiscation requires that the predicate offence – i.e. the illegal source of the funds, is evidenced. In some instances the detected sums must be linked not only to criminality in general, but to specific criminality which accounts for the exact values in question.

### INTELLIGENCE GAP: SCALE OF CASH SMUGGLING

While there is a good overview at EU level of the methods used by criminals to smuggle cash, the same cannot be said of figures which indicate the scale and value of sums smuggled across borders. It is likely that the vast majority of money moved across borders goes undetected. In addition to the practical difficulties posed to Competent Authorities described already, the following points should be borne in mind when considering the issue of measuring cash smuggling:

- 1) Responsibility for detecting, recording and investigating cash movements is fragmented and authorities may face legal barriers preventing customs from controlling or reporting on cash movements within the EU. In addition there may be significant barriers in information exchange between the different authorities involved
- 2) Terminology is inconsistent, causing discrepancies in sums reported – authorities may report the entire sum detected or only the fine imposed. Terminology such as cash seizures, often used in this field, can cause confusion as in many countries very little of the sums detected will ultimately be seized due to the prevalence of conviction-based confiscation.
- 3) Smuggling may often be characterised as an administrative offence, as such details of sums detected may not be reported to LEAs
- 4) Amounts detected may be in currencies other than Euros, as such values may be distorted by the application of incorrect exchange rates.
- 5) Other high value bearer instruments other than cash transported across borders, such as gold, diamonds, pre-paid cards, digital wallets, bearer shares etc. are rarely reported on, due to the difficulty of detecting them or because they fall outside of the scope of cash regulations for most countries.

That said, Europol received records for the period from Q1 2012 – Q2 2014, indicating that in excess of **EUR 3.8 billion** was detected and/or seized by Competent Authorities. However this conservative figure should be taken with extreme caution and is merely an indication<sup>23</sup>.

<sup>23</sup> EUR 3.8 billion from Q1 2012 – Q2 2014 reflects 64,551 records provided by only 23 countries. The majority (over 90%) are records provided by France, Italy and Spain, with few or no records provided by other important countries. Therefore the figure is safely assumed as a significant underestimate.

**TRENDS:**

Certain trends have been noted by Competent Authorities across the EU involved in cash detections. The Euro dominates as the currency of choice for cash smuggling. US dollars, GBP and Swiss Francs also feature, albeit far less frequently.

Typically, cash couriers are male, however one Competent Authority has noted a particular trend for female couriers on particular routes associated with the repatriation of drugs funds.

Regarding means of transport, most cross border cash movements are detected at airports. This is unsurprising given that airports are now set up with rigorous security controls and passenger checks. Furthermore, regarding travel to non-EU countries, logically, airports represent the most common points of exit and entry. Nonetheless, road and rail also feature (in particular en route to and from Switzerland), however there are some difficulties in the physical controls which can take place at such borders, given the impracticalities of establishing airport style controls to check every passenger or vehicle.

Regarding nationalities, Chinese predominate with regards to cash smuggling, in particular cash concealed in checked luggage. Meanwhile Nigerians are also noted as a frequent nationality associated with cash movements. In contrast to Chinese, Competent Authorities report that movements by Nigerians are characterised by ‘smurfing’: carrying sums just under the reporting threshold of EUR 10,000 on a frequent basis collectively amounting to large sums. Russian and Ukrainian nationals are also frequently occurring nationalities with regard to cash movements, however these

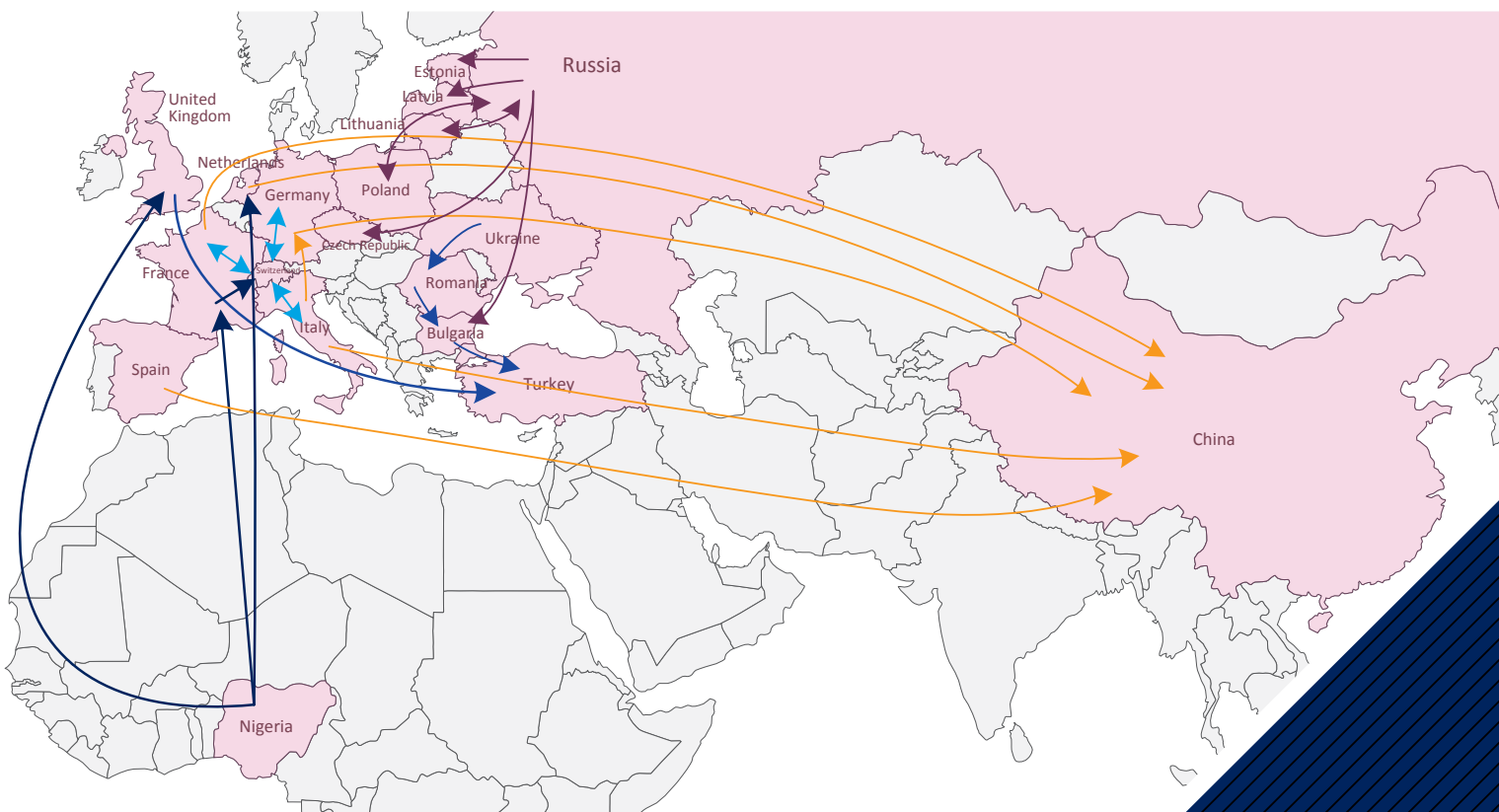
movements differ in that they often openly declare large sums of money entering and exiting the EU as per regulations. Nonetheless, there are doubts around the veracity of declarations and source of funds.

Unlike other commodities such as drugs or counterfeit goods for example, illicit flows of money cannot be mapped. Furthermore, given that much travel in and out of the EU is by air, routes will often be determined flight paths. Nonetheless, the following countries of origin and destination are noted as some of the highest risks concerning cash movements:

Switzerland is the most significant country regarding cash movements on all counts, both inbound and outbound (although records show that more money is still being moved to Switzerland rather than from it). China is a top destination country, as is Turkey, which also plays a significant role in transit for cash movements from the EU to the Middle East. Nigeria features as a prominent country of origin. Russia is both a source and destination of cash flows to and from Europe, largely concerning the Baltic States (Latvia, Lithuania and Estonia), but also Poland and Romania. Although cash may be smuggled, there appears to be a trend for Russian and Ukrainian couriers to openly declare funds.

As mentioned before, assessments of high risk profiles, indicators and routes can assist Competent Authorities in better deploying scant resources. However, such analysis does have limitations and drawbacks in that it can create a tendency to focus on known threats at the expense of detecting new trends: there is a risk that routes and profiles are self-fulfilling.

Map of key countries of destination and origin for cash movements in and out of the EU



## 2. MOVING CASH



### 2.2. Cash Declarations

#### CASH CONTROL REGULATION 1889/2005

Within the EU there is a cash declaration system in place which requires that, at minimum, countries implement a system by which cash movements made by physical persons in excess of EUR 10,000 entering or exiting the EU territory are declared to a Competent Authority.

Before discussing the extent of cash declarations in the EU and the implementation of the regulation, it is perhaps first worth recalling the reasons for the existence of such a regime and the spirit behind the regulation in force.

The Third Money Laundering Directive (Directive 2005/60/EC) introduced several mechanisms to prevent money laundering through transaction monitoring and reporting, record keeping and customer due diligence, etc. These mechanisms apply to regulated sectors, in particular credit and financial institutions, and certain professions which act as gatekeepers to the legal economy (e.g. accountants and lawyers).

The risk that the application of the Directive could cause a shift towards other means of laundering criminal profits and, in particular, be circumvented by cash movements, led to the introduction of a complementary piece of legislation: Cash Control Regulation 1889/2005. This regulation establishes the requirement for all sums of cash in excess of EUR 10,000 entering or exiting the EU to be declared. Declarations should provide details around the identity of the courier, the owner of cash, the ultimate beneficiary, the origin of the funds and the purpose for which it will be used, among other elements.

The Regulation is in line with International Standards for anti-money laundering (in particular FATF Recommendation 32). The threshold was set at EUR 10,000 as carrying large sums of cash in excess of this amount is widely accepted to be an indicator of criminality. Furthermore, considering that the Schengen area (now comprising 26 States, 4 of which are not in the EU) introduced the principle of free movement of goods, persons, services and capital, legislation to reconcile these rights with the prevention of money laundering and terrorist financing was required.

It should be noted that the EU 1889/2005 Regulation does not encompass all bearer negotiable instruments. For example, gold, other precious metals, diamonds and jewels, all of which are high value moveable bearer instruments are not covered by the regulation. In fact, just one EU Member State, Cyprus, reported that gold is covered under its internal cash control regulations<sup>24</sup>. This has been noted as a limitation by a number of EU Competent Authorities (see case example: the Midas touch ).

<sup>24</sup> <http://www.mof.gov.cy/mof/customs/customs.nsf/All/E906CCB9D3760124C22572BF002DF9A1?OpenDocument>



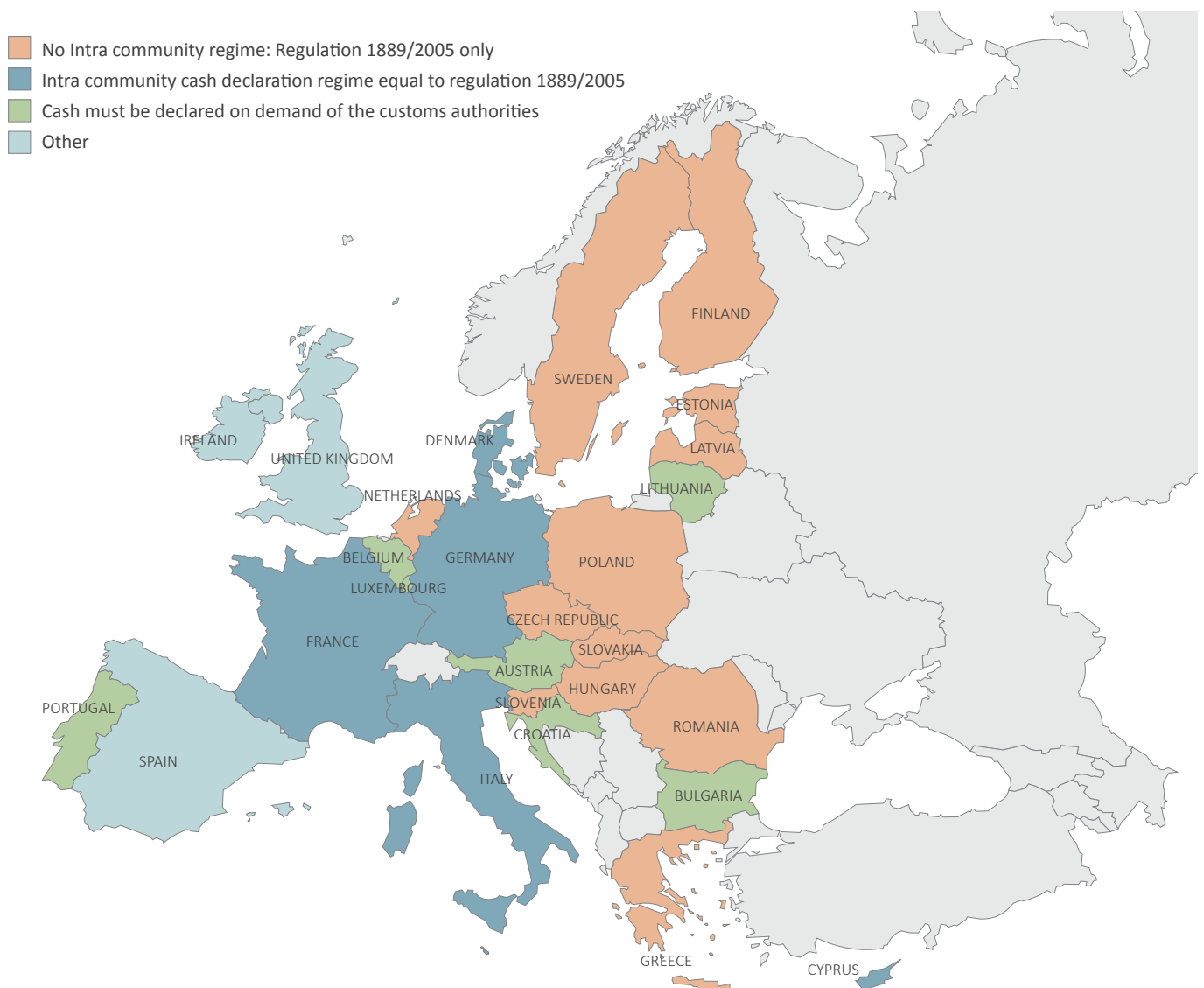
Furthermore, the regulation is only applicable to physical persons and as such, movements of money via post or freight are not covered.

## INTRA COMMUNITY CASH DECLARATION REGIMES:

Beyond Regulation 1889, many countries have national provisions in place which oblige travellers to declare sums of money over a certain threshold when moving across national borders within the EU. The map below shows those countries with an intra-community regime in place.

Map showing the different national provisions concerning cash declaration regimes across the EU MS:

However, the map somewhat over simplifies the matter, and the significant variation between these regimes should be emphasised. In certain countries, e.g. France and Germany, the intra-community regime is very similar to that of Regulation 1889, in that there is an obligation to declare cash movements in excess of EUR 10,000 even for travel within the EU. Meanwhile in Spain, for example, the obligation to declare within the EU applies only to sums in excess EUR 10,000 at Spanish borders and to sums over EUR 100,000 for movements inside the Spanish territory. But in many countries, for example Luxembourg, Austria, Belgium and Portugal, the requirement is that sums should be declared on entering, exiting or transiting the country *only on demand*. In the UK there is no intra-community regime or threshold; however Competent Authorities have the power to conduct random and targeted checks on individuals obliging them to justify the source and use of all sums when asked. Ireland's domestic regime functions in a very similar way to that of the UK: customs also have the power to conduct random checks, and passengers must justify the source and destination of any sum in excess of EUR 6,348.



## 2. MOVING CASH

### SANCTIONS:

National legislation sets the penalties applicable in the case of non-declaration or false declaration, be it under the EU Cash Control Regulation or another applicable intra-EU regime.

The penalties and sanctions applied across the EU show the same wide variation as the powers of Competent Authorities discussed before. In most jurisdictions, the failure to comply is sanctioned with an administrative fine of varying amounts. Some countries, for example Hungary, have increased sanctions. Hungarian Customs recently implemented much harsher penalties for non-compliance with the obligation to declare, and can administer a fine of up to 60% of the amount carried. Meanwhile in Bulgaria, fines amount to between just BGN 1,000 to BGN 3,000 (EUR 511 to EUR 1,533). Others, such as the Netherlands, Ireland and the UK, have possibilities to seize the entire sum and pursue the money via civil or criminal procedures.

While in some jurisdictions, there is the power to provisionally seize undeclared sums of cash, the ability of law enforcement to ultimately confiscate sums is largely limited by the possibility of evidencing the criminal source of money beyond reasonable doubt. In one EU Member State for example, customs may initially confiscate sums for three days. This time period may be extended to three weeks by the prosecutor, after which time the money must be returned if a criminal case is not launched. However, even three weeks is a very small timeframe in which to investigate the origin of cash, particularly given that enquiries often require assistance from Law Enforcement in other jurisdictions.

Very few MS have provisions for unexplained wealth which effectively reverse the burden of proof: if the individual is unable to account for the source of the funds, they may be confiscated (typically under a civil procedure). The UK is one such country which has these powers<sup>25</sup>, and Authorities involved in cash detections even report that individuals prefer not to make a court appearance to justify the source of cash, instead they never claim it. Another EU Member State reports having provisions for unexplained wealth, however in spite of these, building a case can prove complicated: in

25 <http://www.app.college.police.uk/app-content/investigations/investigative-strategies/financial-investigation-2/asset-recovery/cash-seizure/>

one operation dealing with Chinese cash smugglers, the sums could be provisionally seized, however reams of documentation in Chinese relating to companies and businesses which sought to justify the cash movements was provided. The burden of translating, let alone assessing such documentation meant that ultimately, the majority of sums were returned in spite of the fact that they were smuggled in highly suspect ways.

It is widely acknowledged that, at least with regards to sanctions such as fines, greater harmony among EU Member States would be beneficial.

### IMPLEMENTATION OF EXTRA AND INTRA EU DECLARATION REGIMES:

The most recently published report (2010) on the application of the EU cash declaration regime from European Commission (DG Taxud)<sup>26</sup> does indeed show that the number of cash declarations entering and exiting the EU has been increasing since implementation. On the face of it, this is one indicator that the regime in place is working.

*While declarations are increasing overall, for some countries declarations appear incommensurate with travel patterns*

for example, Heathrow alone had around 65 million passengers per year between 2007 – 2009 (with two of the most popular destinations being New York and Dubai). However, there were just 5,895 cash declarations made across the UK for the same period. Furthermore, as the high banknote issuance in Luxembourg cannot be accounted for in its GDP, one might expect to see outflows of cash for those sums. However neither cash declarations (just 15, amounting to EUR 1,150,540) nor detections recorded by Luxembourg show that this is the case<sup>27</sup>.

The ECB estimates that around one third (approximately EUR 300 billion) of euro bank notes are held outside the euro area. Although cash declarations have increased, they amount to just under EUR 80 billion<sup>28</sup> for both inbound and outbound cash declarations (between Q3 2007 – Q2 2009), far short of the sums estimated to move outside the euro zone. It may be that movements are accounted

26 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52010DC0429> (more recent information is not in the public domain)

27 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52010DC0429>

28 Although the vast majority of declarations relate to movements of euro currency, they may also cover physical movements of equivalent amounts in other currencies.



for in movements of cash by freight or mail. However, as legislation does not extend to cash movements other than those by a physical person, this matter remains a blind spot.

On this note, those few Authorities with possibilities and resources to delve into this blind spot report that significant sums of cash are moved in and out of the EU by post and freight. The nature of these movements is often unknown, and many aspects appear unusual, requiring further investigation. However, cash moved in freight is not subject to the same requirements as cash moved by persons, and although ordinary customs declarations relating to all commodities are applicable, details contained in declaration forms for cash movements by persons, such as the ultimate beneficiary or owner of the cash, need not be provided.

These matters aside, it is worth returning to the point of *why* there is a declaration regime in place in the EU. It is generally accepted that carrying large sums of cash in excess of certain thresholds is indicative of criminality, money laundering or terrorist financing. There are many safer means of transferring money across borders which ensure that they reach the intended beneficiary. The declaration regime is in place to counter illegitimate cash movements and therefore it is worth emphasising that a declaration regime is not useful unless there are measures in place to verify that the information provided in a declaration is further investigated when suspicions are aroused. Similarly, a declaration regime also requires that controls are in place to ensure that sums are in fact correctly declared. It is also worth underlining that although cash is declared, this does not in itself mean that it is a legitimate flow of cash.

The varying powers of the many Authorities involved in cash detections and declarations can present certain problems as regards this crucial issue of verifying and investigating declarations. In many jurisdictions, provided sums are 'correctly' declared there may be no recourse to further enquiries. In some countries where administrative customs are tasked with the responsibility for cash detections, information may be sent to an FIU or another unit if it is thought that sums may relate to criminal activities; however, information which could shed some light on the possible criminal origin of the money may be contained in databases (e.g. FIU, police, revenue services etc.) which may be inaccessible to customs.

Furthermore, there is a lack of information exchange between the various authorities involved in controlling and investigating suspect cash movements: In response to a Europol survey<sup>29</sup>, fewer than half of the MS Money Laundering Units reported having access to information contained in cash declarations, while the majority considered it would be beneficial to their investigations. Similarly, half of MS Money Laundering Units reported none, no direct, or limited access to STRs/SARs. Given that these three sources of information (cross-border cash movements, STRs/SARs and ongoing investigations) combine to give a complete picture of the

criminal activity with regards to money laundering, few countries dispose of a framework furnishing any one authority with a comprehensive overview.

For the reasons mentioned above, as well as for cases received by Europol from MS LEAs, there are indications that the cash declaration system put in place to counter money laundering may in fact be abused by criminals. These cases highlight an emerging issue whereby criminals openly declare sums of cash, concealing its illegal origin or purpose (or providing little to no account of these factors) instead of concealing the cash itself.

## **CASE EXAMPLE: SUSPICIOUS CROSS-BORDER CASH DECLARATIONS**

As early as 2010, Europol began to receive information relating to cross border movements of vast sums of cash, openly declared, physically transported from Ukraine, via Romania and Bulgaria onto Turkey.

Vast sums of cash are being moved through the EU on a frequent basis by a small group of Ukrainian individuals coming from the same town. They travel together in rented mini vans and while at the border one person declares money on behalf of the other passengers, although they are almost certainly not the owners of the cash. The amounts are between USD 0.5 - 1 million and smaller amounts of EUR.

EU authorities noted that the cash movements, in spite of being openly declared, appeared suspicious: the source of the funds is dubious and the vast sums of cash transported are not commensurate with the living standards of the couriers.

The amounts declared on the detected route, which continues to be used, are ever increasing and highly suspect: since 2008 over USD 550 million and over EUR 14 million has been physically transported by the same small group of couriers.

Amounts relate to legal declarations 'in compliance' with EU Cash Control Regulation 1889/2005 (although elements of the declarations, for example the identification of actual beneficial owners and other relevant information are partially complete or incomplete). It has not been possible to confirm links with any predicate offence as Customs Services have encountered legal obstacles preventing them from undertaking actions against the suspected cash movements: it remains that as the cash is declared, there is no violation of any customs, currency or criminal laws in the concerned countries.

<sup>29</sup> Results of Europol survey to MS ML Units on the use of cash as an instrument to facilitate money laundering (2014)

# 3. TRANSFORMING CASH

## 3.1. Cash front businesses

One common method used by criminal groups to launder profits is to make use of what are known as cash-front or cash-intensive businesses.

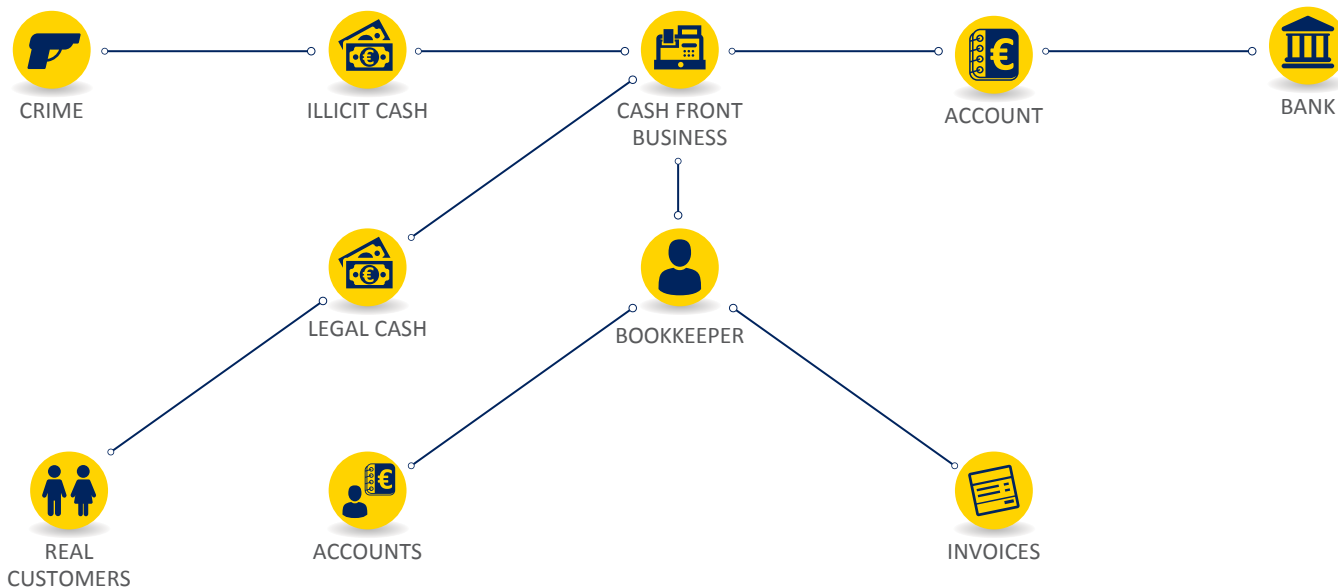
The premise is simple – a business which generates its profits largely in cash (for example, restaurants, nail bars, garages, car washes, kiosks, tanning salons and a plethora of other service oriented businesses) provides an ideal cover for the source of otherwise inexplicable quantities of cash. Within this simple scheme, however, criminals employ varying degrees of complexity.

While businesses can be a front in their entirety conducting no legitimate business, a cash-intensive business offers the added advantage of generating legitimate profits from real customers. This benefits criminals as it enables them to do what is known as 'blending' or 'co-mingling': mixing illegal funds with legal funds, making them more difficult to detect. Blending criminal profits with those generated from legitimate business not only helps to obscure transactions, but in addition, may have the added advantage, depending on jurisdiction, of limiting any confiscation order to those sums which are demonstrably illegal funds – something nearly impossible to show.

A criminal may simply 'start up' a new business. However this leaves them at risk of exposure: where, for example, did the funds come from to pay start up costs, suppliers, company rates, wages etc.? Far preferable therefore, is to buy an existing business which already has a steady stream of customers and cash flow and to own the business at arm's length, allowing the business and management thereof to belong, on paper at least, to an unrelated third party.

Of course, there are ways in which a cash front business can arouse suspicion. Businesses are meant to keep records, such as invoices and receipts, as well as accounts. There would be a significant risk that an accountant may spot money laundering when preparing a business's accounts. Therefore many will employ the services of a complicit bookkeeper or accountant in order to conceal criminal cash flows through generating false invoices, receipts and accounts.





There are, nonetheless, means by which law enforcement can detect the use of cash front businesses for money laundering. “Hockey sticks” in earnings and profits showing sudden increases can be one indicator. The profits a business generates with comparison to local competitors may be another; meanwhile physical surveillance can demonstrate that the volume of customers is not the same as that reflected by receipts and accounts.

### CASE EXAMPLE: PROFITS AND PIZZA

One case investigated by Italian Authorities concerning the criminal activities of the Mafia Clan ‘Fidanzati’ led to the seizure of 14 businesses (restaurants, discos, bars etc.). These cash-front businesses were all owned and managed at arm’s length by the Mafia, through family members, associates and strawmen.

Criminal profits from the groups’ illegal activities were used to acquire the companies and finance business costs (payment for suppliers, labour, rents etc.). A discrepancy between the profits the businesses made and reported to tax authorities and their actual running costs alerted authorities to their possible use in the laundering of criminal proceeds.

Some of the businesses, such as nightclubs, offered an added advantage in that they provided an ideal market place for the group to conduct its illegal activities – the sale of drugs. Drug sellers received payment for their illegal activities through ‘legitimate’ wages paid to family members employed by the clubs as service staff (e.g. waitresses) which were in fact paid out of criminal funds.

In addition to their portfolio of criminal businesses, the clan also ran a protection racket extorting up to 10% of profits from local businesses and service providers (such as valets).

The estimated value of the seized businesses amounted to some EUR 15 million which had been injected from criminal cash proceeds.

### HOW TO SOLVE A PROBLEM LIKE CASH?

The question of physical surveillance to detect the use of cash-front businesses for money laundering underlines an important point regarding the investigation of cash: it largely requires traditional, resource intensive investigative techniques.

Techniques such as financial analysis or transaction monitoring, while able to detect unusual cash deposits, withdrawals or transactions, will not satisfy the requirement to demonstrate the unequivocal link to criminal activities.

As such, the success of money laundering investigations, especially those employing cash as a facilitator at some stage in the process, has been determined by Law Enforcement’s ability to deploy techniques such as physical surveillance, wire tapping and communications analysis, as well as the deployment of under cover agents.

Unsurprisingly, given that many of the cases received by Europol in the area of money laundering relate to cash, analysis in this area is not limited to financial analysis of banking data, but frequently focuses on elements such as communications data.

# 3. TRANSFORMING CASH



## 3.2. Trade Based Money Laundering

While cash front businesses represent one favoured method criminals use to launder illicit profits, the use of companies and businesses is closely linked to a related technique known as trade based money laundering (TBML). This technique aims to legitimise proceeds through the use of global trade transactions, often using false documentation regarding the trade of goods and services.

This practice is thought to have significantly developed and increased in recent decades due to the rapid globalisation of trade. International trade flows show a dramatic increase over the last three decades. According to the World Trade Organisation “the value of world merchandise exports rose from USD 2.03 trillion in 1980 to USD 18.26 trillion in 2011, which is equivalent to 7.3% growth per year on average in current dollar terms”<sup>30</sup>.

As such, the vast volume and value of transactions which accompany international trade deals provide an ideal place in which to conceal large transactions relating to criminal activities.

Usually this is done by misrepresenting the price or quantity of imports and exports and a corresponding abuse of the financial system which supports these trades by facilitating global trade financing transactions.

Typically trade based money laundering employs a number of techniques which require the manipulation of official documentation, such as over and under-invoicing, or false declarations around the import or export of goods. A basic example might be where a criminal group purchases merchandise with criminal profits, justifying the transfer of large sums of money overseas. While not essential, this may be achieved through misstating prices paid, in order that the buyer or seller retains the surplus value.

Given the sheer volumes of international trade, and the impossibility of customs services checking all consignments, trade-based money laundering can be extremely hard to detect. However, as the case example below reveals, cash plays a significant role in the TBML schemes. A recent report from the Research Division of the Dutch KLPD (*A critical approach to trade-based money laundering*<sup>31</sup>) also noted that the use of cash was a significant factor which characterised TBML schemes. Their analysis of a number of Dutch cases showed that, without exception, goods were paid for in cash. In one case they consider, the criminal paid for goods using 3,750 twenty-Euro notes, all of which required depositing on company accounts. Referring back to the legitimate use of cash (section: What do we know about normal cash usage?), cash payments constitute only a small part of the total expenditure of companies and it is worth remembering that such activities should arouse suspicion - large cash transactions are extremely unusual for companies.

<sup>30</sup> [http://www.wto.org/english/res\\_e/booksp\\_e/wtr13-2b\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/wtr13-2b_e.pdf)

<sup>31</sup> Melvin R.J. Soudijn *A critical approach to trade-based money laundering*

## CASE EXAMPLE:

It was detected that a small group of persons, acting on the instructions of the various criminal groups, systematically moved cash (EUR 250-300,000 a time) acquired from criminal activities 2-3 times a week from Western to Eastern Europe. Cash was concealed within the chassis of the vehicles in which they travelled and was moved across several EU countries, to distance it from its source.

One source of cash was found to be related to the import of counterfeit or substandard consumer goods with greatly reduced prices from Asia which were then resold in the EU (although other activities are thought to be involved as well). As such, the criminal business accumulated large amounts of cash which needed to be laundered, as well as transferred to the sellers in Asia.

These cash couriers facilitated the laundering by depositing cash sums on bank accounts opened on behalf of 'trading companies'. It is notable that one of the couriers had significant connections to a commercial bank, which likely made account opening and cash deposits easier. These sums were then further transferred to bank accounts in Asia, also allegedly held by trading companies, and movements were justified as relating to international trade deals and payments for goods.

It is estimated that no less than EUR 100 million and USD 300 million was laundered through just 5 accounts in this way. Furthermore, at least 60 additional companies were detected, the bank accounts of which were managed by the couriers operating in Europe.

### 3.3. Money Service Businesses and Informal Value Transfer Services

While physical cash movements represent one method used to move funds across borders, another commonly employed technique is to send cash funds using non-bank money transfer services. These businesses specialise in receiving cash sums in one country and paying out the equivalent amount at any given location almost instantaneously, settling balances between the money remitters at a later time.

## MONEY SERVICES BUSINESSES

Money Service Businesses (MSBs) are typically defined as non banks which offer financial services, primarily money remittance and currency exchange among other services. MSBs usually operate through a global network of agents. Western Union, for example, has over 500,000 agents worldwide. While such businesses perform a valuable service, transferring funds at lower costs and faster speeds, to locations where there may be a limited presence of credit institutions, and are subject to anti-money laundering controls,

they nonetheless present vulnerabilities concerning the laundering of cash.

Because of the nature of the money remittance industry, a transaction-based, rather than an account-based system is in place meaning that there is no 'long term' customer relationship, and few details around a customer are kept, so it is not possible to assess whether activities are unusual compared to a customer's usual behaviour. While transaction records are usually held centrally, customer due diligence takes place at agent level. Furthermore, while some form of identification of the sending or receiving customer is generally required within the EU, this may not be the case outside of the EU.

Criminals typically abuse MSBs in one of two ways to remit cash money overseas:

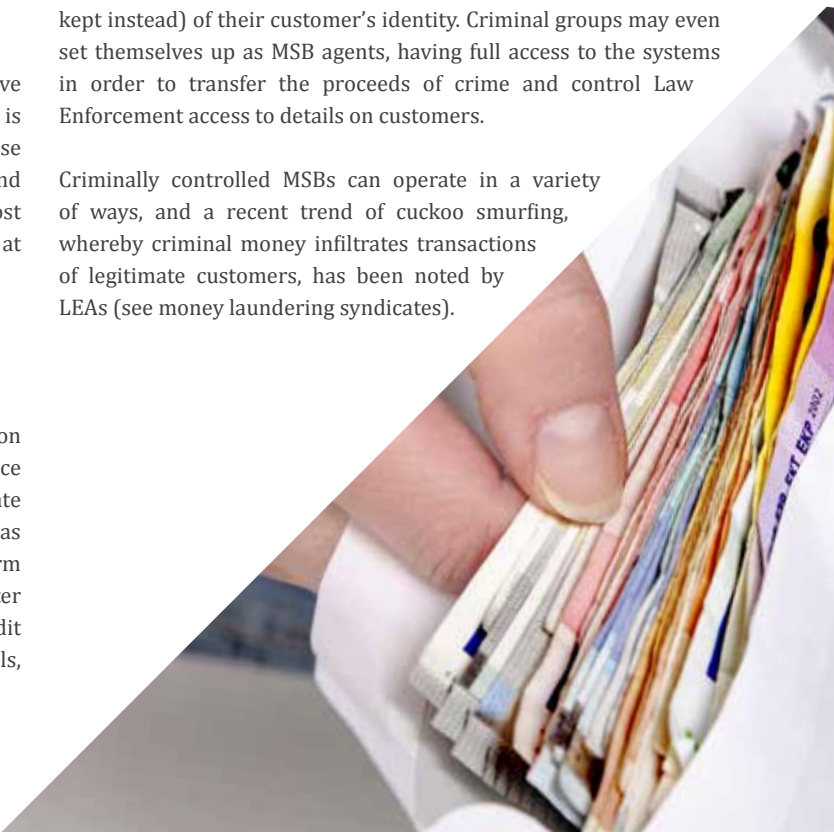
#### 1. SMURFING

Criminal groups employ a number of persons to break large sums of cash into smaller amounts that can be sent below thresholds requiring stricter identification of the customer (a few thousand Euros at a time). Using multiple MSBs and several senders and receivers, collectively large sums of cash can be transferred overseas to the desired location.

#### 2. COMPLICIT/ CRIMINALLY CONTROLLED MSBS

Another method used by criminal groups to facilitate the laundering of cash using money transfer services is to enlist the assistance of a complicit agent. This agent, associated to the criminal group, will send and pay out sums without reporting suspicion of the criminal activities behind the transactions. No customer due diligence will be performed and no records will be kept (or fake records will be kept instead) of their customer's identity. Criminal groups may even set themselves up as MSB agents, having full access to the systems in order to transfer the proceeds of crime and control Law Enforcement access to details on customers.

Criminally controlled MSBs can operate in a variety of ways, and a recent trend of cuckoo smurfing, whereby criminal money infiltrates transactions of legitimate customers, has been noted by LEAs (see money laundering syndicates).



# 3. TRANSFORMING CASH

## CASE EXAMPLE: THE LAUNDRY QUEEN

A long term Spanish investigation into drug trafficking, money laundering and terrorist financing led to the conviction of a woman in charge of an organised network which laundered at least EUR 6 million (some of which ended up in the hands of the FARC<sup>32</sup>).

The woman, a 39-year-old Ecuadorian with Spanish nationality, set up a money-laundering empire in Madrid for at least six drug-trafficking organisations in Colombia and Ecuador.

She started her lucrative businesses in 2007. The first stage involved meeting with the drug-money collector to pick up the cash. The money was then sent using MSBs. As she could not send the money all at once without raising suspicion, she organised a network. The transfers had to look like typical remittances sent by immigrants back to their home countries, so in general they never exceeded EUR 1,000 (EUR 898 was the average).

She and her associates sought out Colombians and Ecuadorians willing to give over their identity in order to open money-transfer accounts with MSB companies. The people handed over their passports and, in exchange for EUR 200-per-month commission, allowed the group to freely deposit and withdraw money according to the needs of the drug gangs.

Wire taps revealed that certain favoured MSB branches used by the network were well aware of the activities and knew that she was operating different accounts in different names to launder money. They even advised her how to make the transfers so they would not seem suspicious and would not be blocked in Colombia. "Have you turned on the washing machine?", "Are there a lot of dirty clothes in Madrid?", "These are from the Colombian cartel," were the words spoken between her and the MSB agents, unwitting to the fact that police were listening in.



<sup>32</sup> A designated terrorist organisation.



## FACILITATOR 2: FALSE DOCUMENTS

Although their customer due diligence measures are understandably less strenuous than, and different to, those undertaken by credit institutions, in the EU MSBs are required to identify customers.

Usually this amounts to requiring a form of photo ID (passport or driving license) and potentially a document demonstrating the customer's address (e.g. a utility bill), depending on the transaction size.

Criminals have overcome this potential barrier through the use of fake documents such as false passports, driving licences and bills. Cases seen by Europol show that the same individuals use multiple documents in order to appear as though they are a different customer each time, or that multiple individuals use the same identity to send and/or receive transactions.

These documents are easily obtained online for very little money, often sold as 'novelty' items, and the quality and authenticity of documents can be very convincing. Considering the size of the agent network and the obstacles this can present in providing adequate training not only around anti-money laundering but recognising false IDs, it is unsurprising that law enforcement frequently finds that the documents provided to MSBs by criminal customers are often false and therefore assist very little in their cases.

Furthermore, copies of identification documents are not stored centrally, but at agent level. As such, there can be a risk, in requesting such information, of tipping off criminal groups who control or are associated with the agent.

Instead, Law Enforcement, in response to these difficulties, often achieve more successful results employing traditional techniques such as surveillance (see How to solve a problem like cash). In some instances, analysis has proven useful to identify complicit and criminally controlled MSBs – for example agents who do not file STRs/SARs, or agents whose turnover does not appear commensurate with their profile (for example a small kiosk providing remittance services which sends and receives several millions of Euros per year).

### CASE EXAMPLE: COUNTERFEITS, CONTRABAND AND CASH

Following investigations by the Italian *Guardia di Finanza* over 20 people were arrested (and many more remained under investigation) for their involvement in a money laundering ring responsible for laundering over EUR 1 billion in less than two years<sup>33</sup>.

<sup>33</sup> [http://www.gdf.it/GdF/it/Servizio\\_Stampa/Ultime\\_Notizie/Anno\\_2014/Dicembre\\_2014/info1446634545.html](http://www.gdf.it/GdF/it/Servizio_Stampa/Ultime_Notizie/Anno_2014/Dicembre_2014/info1446634545.html)

The money laundering ring, formed of Chinese individuals, controlled a network of MSBs across Italy which laundered proceeds deriving from counterfeit goods, contraband and prostitution, among other offences on behalf of Chinese Organised Crime Groups.

The Chinese MSB controllers were well aware of suspicious transaction reporting standards, and deliberately used the technique of smurfing: breaking down large sums of money into transactions just under EUR 1,000 or EUR 2,000 to avoid reporting thresholds. Identification of 'customers' was not carried out, and instead false documents were used, almost entirely relating to fictitious persons. In this way, some EUR 1 billion in cash was transferred from Italy to China.

The criminally controlled MSBs themselves were filing no STRs, and they carefully orchestrated transactions in order that they would not arouse suspicion by other entities. However Law Enforcement noted the irregular nature of the particular MSB's turnover which appeared entirely incommensurate with their activities: hundreds of thousands of transactions amounting to millions of Euros. The case required intensive measures from the *Guardia di Finanza*, such as wiretapping and surveillance.

## CURRENCY EXCHANGE SERVICES

MSBs also commonly provide currency exchange services. Law Enforcement cases have revealed that these services are also abused by criminals, particularly for the purpose of changing up small denomination notes for larger ones. This phenomenon is perhaps more notable in non-Eurozone countries.


MSBs have access to wholesale banknote providers, enabling them to order specific denominations of notes for currency exchange purposes. Criminal groups generating cash profits in non-euro currencies in small denominations have been known to exchange these notes for high euro denominations in readiness for bulk cash movements overseas: a phenomenon normally referred to as "refining".

### CASE EXAMPLE: BUREAUX DE CHANGE IN THE UK HEAVILY INVOLVED IN MONEY LAUNDERING

A massive police operation codenamed Operation Eaglewood took place in the UK which uncovered a spider web of links between gangsters engaged in drug trafficking and money laundering. The OCG laundered an estimated GBP 80 million in the space of just two years, and the role of bureaux de change was crucial to the laundering scheme. The case highlighted the fact that an outwardly legitimate bureau de change was a weak point used by money launderers.

The complicit bureau de change was changing illegal funds for 500 Euro banknotes from a currency wholesaler that was apparently unaware of the money's criminal origin.

# 3. TRANSFORMING CASH



Large bags of dirty money from drug dealers were handed over to the owner of a high street bureau de change in London who then changed the money for 500 Euro notes which he bought in bulk from currency wholesalers. The legitimate turnover of the bureau was no more than £20,000 a day, however it bought up to 450,000 Euros at a time from wholesalers.

As observed by the lead officer for the Operation, the currency wholesaler had correct systems in place however 'bureaux de change are a weak point when it comes to money laundering'. The case contributed to the UK's decision to remove the EUR 500 note from wholesale circulation in the UK (see Facilitator – High denomination notes)

## **INFORMAL VALUE TRANSFER SERVICE:**

While Money Services Businesses represent the regulated face of money remittance services, a large proportion of the value transfer market is made up of unregulated actors: a service known commonly as informal value transfer services (IVTS) and often referred to as 'hawala'.

Rather like MSBs, in the IVTS system, value is also transferred through a network of brokers. However the system differs in that it is based on honour and trust between brokers and more crucially, that although money is paid in and out by customers, money is rarely physically moved between brokers. Instead, brokers keep informal records of transactions, keeping track of the amount owed by one broker to another: any necessary settlements between IVTS brokers take place at a later stage, and may not necessarily involve the physical movement of cash.

The system, which is not regulated in the EU, is open to abuse since it is not encompassed in the scope of anti-money laundering legislation. As such there is no requirement to report suspicion of criminality or retain records around customers or transactions. Since the system is a closed network of trusted brokers, Law Enforcement has little oversight of activities. Furthermore, the system which moves value without in fact actually 'moving' cash, also enables criminals to bypass physical cross-border currency movements, once again reducing opportunity for detection by Law Enforcement.

## EMERGING THREAT: INTERNATIONAL MONEY LAUNDERING SYNDICATES/ CUCKOO SMURFING

A recent trend noted by Law Enforcement in the area of money laundering is that an increasing number of OCGs have opted to outsource laundering activities to organised and experienced networks, capable of transferring the vast sums of cash generated by illicit activities on their behalf. These networks, also known as International Controller-led Syndicates, have the capacity to safely receive, hand over and transfer criminal proceeds charging comparably attractive fees.

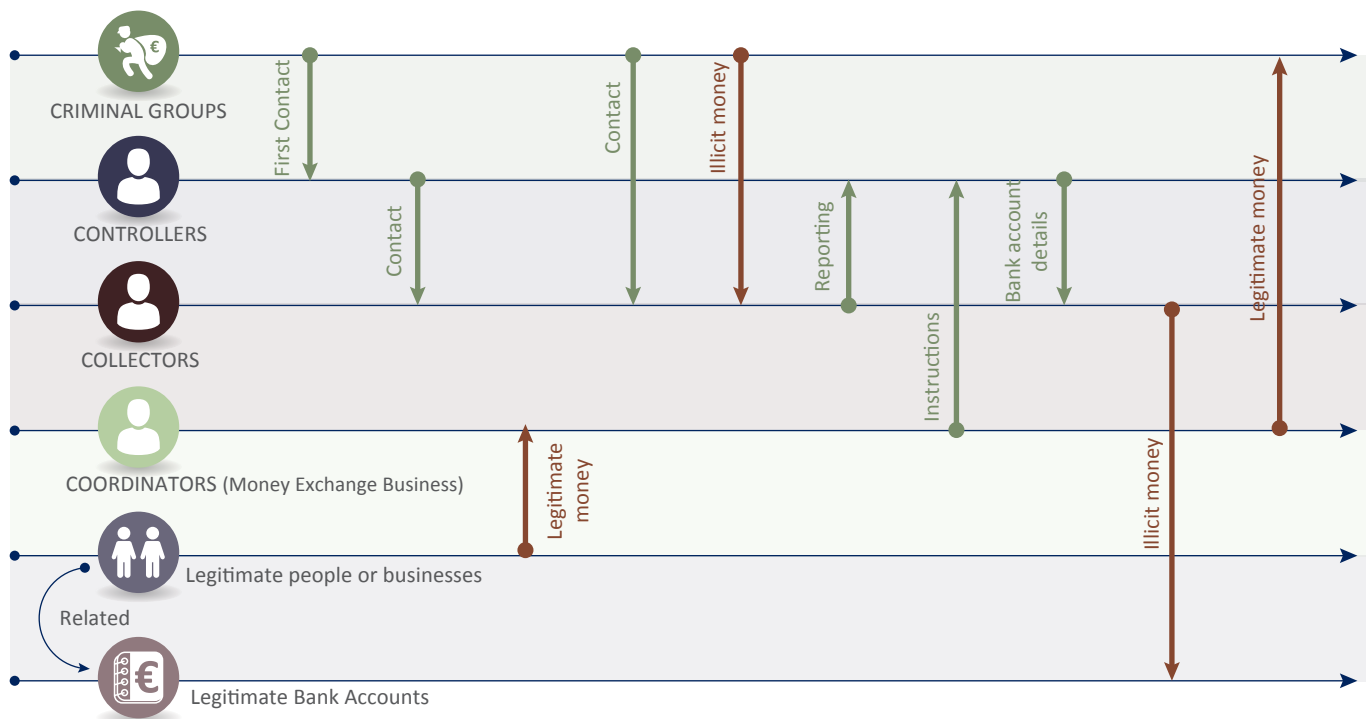
Generally the structure of these networks consists of Controllers, Coordinators and Cash Collectors who operate together to negotiate deals with OCG, collect cash consignments and transfer these sums of money. A crucial role concerning the use of cash is that of the coordinator (usually operating as an MSB agent or IVTS broker). In fact, coordinators usually operate, or are associated with one or more Money Service Business. As such they act as transmitters, moving the funds according to an OCG's instructions so as to conceal the illicit origin of cash and disguise the audit trail.

The syndicates orchestrate the laundering of the proceeds of crime for multiple OCGs located worldwide through a compensation system whereby illegal proceeds are substituted for legitimate funds (cuckoo smurfing).

Placement of funds by "cuckoo smurfing" is a money laundering technique already mentioned as early as 2005 in the Financial Action Task Force's (FATF) "ML & TF Typologies". The term is used to describe an increasingly common money laundering technique which involves the transfer of criminal funds through the accounts of unwitting customers who receive funds or payments from abroad having a genuine reason to receive money. In this scheme an OCG contacts the money laundering syndicate to negotiate a contract for laundering of proceeds. Thereafter, legal funds which are to be transferred into the bank account of an unwitting third party are substituted by the launderer (cuckoo) with the illicit funds of an OCG. The launderer deposits the money in amounts under the reporting threshold (smurfing).

Amounts deposited do not immediately match the overall sums of illicit funds. However, in the long term the value of illicit funds collected against the value of deposits will tend to be equivalent. Where this is not the case, the syndicate may resort to other trade-based techniques, such as fake or over invoicing, in order to legitimise the movement of funds between two or more jurisdictions, essential to balance the system. This technique allows controllers to oversee payments made in another country without the risk of being detected: they operate the system to dispose of large amounts of criminal cash without having to hold bank accounts in their own names.

### Illustration of the cuckoo smurfing modus operandi used by International Money Laundering Syndicates



# 3. TRANSFORMING CASH

## 3.4. High value goods

Another method favoured by criminals to dispose of cash generated by their activities is the purchase of high value goods and properties. It has also been noted as a method used in non-cash generating criminality such as tax crimes.

The method has long been known to Law Enforcement, and as a result international standards for money laundering seek to mitigate the risk posed by the affected sectors. High value goods dealers who can accept cash for purchases upwards of EUR 15,000 (soon to be reduced by EUR 7,500), as well as real estate agents, are required to maintain records of customers and report to their FIU should they have suspicions around the activities behind funds.

A number of European countries have also sought to tackle the prevalence of money laundering through the purchase of high value items in cash through the introduction of cash payment thresholds. For example, Portugal, Spain, Italy, Greece and France have all introduced legal limits for cash payments in order that there will be an official audit trail for the exchange of high sums of cash (ranging from EUR 999.90 to EUR 3,000 for residents - higher thresholds may apply for non-residents). All purchases in excess of these thresholds should take place through another payment system which does not offer the same anonymity as cash. In the vast majority of countries however, there are no limits to the use of cash for payments, although those who accept high value payments should be registered and supervised.

Typically, the reason for using high value goods (such as watches, art works, luxury vehicles, precious metals and jewels) or real estate is that they offer criminals an easy way to integrate funds into the legal economy, converting criminal cash into another class of asset which retains its value and may even hold opportunities for capital growth.

Furthermore, in spite of regulation, high value goods dealers are noted as an under-reporting sector. For example in one EU MS, a specific area is home to the city's jewellery quarter and diamond trade. It houses hundreds of businesses selling high value items certainly capable of accepting cash payments in excess of EUR 15,000; however, few are registered as High Value Goods Dealers for anti-money laundering purposes.

Another reason that attracts criminals to the purchase of high value goods is that certain items, such as gold or precious stones, are readily liquid and moveable asset classes which can be traded globally. As these items have a very high value, just like high denomination notes they offer criminals the opportunity to shrink bulky cash holdings into discrete and portable holdings of gold or diamonds, for example. These items can be smuggled across borders and thereafter sold. As mentioned before, these items are not captured under European cash control regulations, and as such have an added advantage in that they need not be declared.



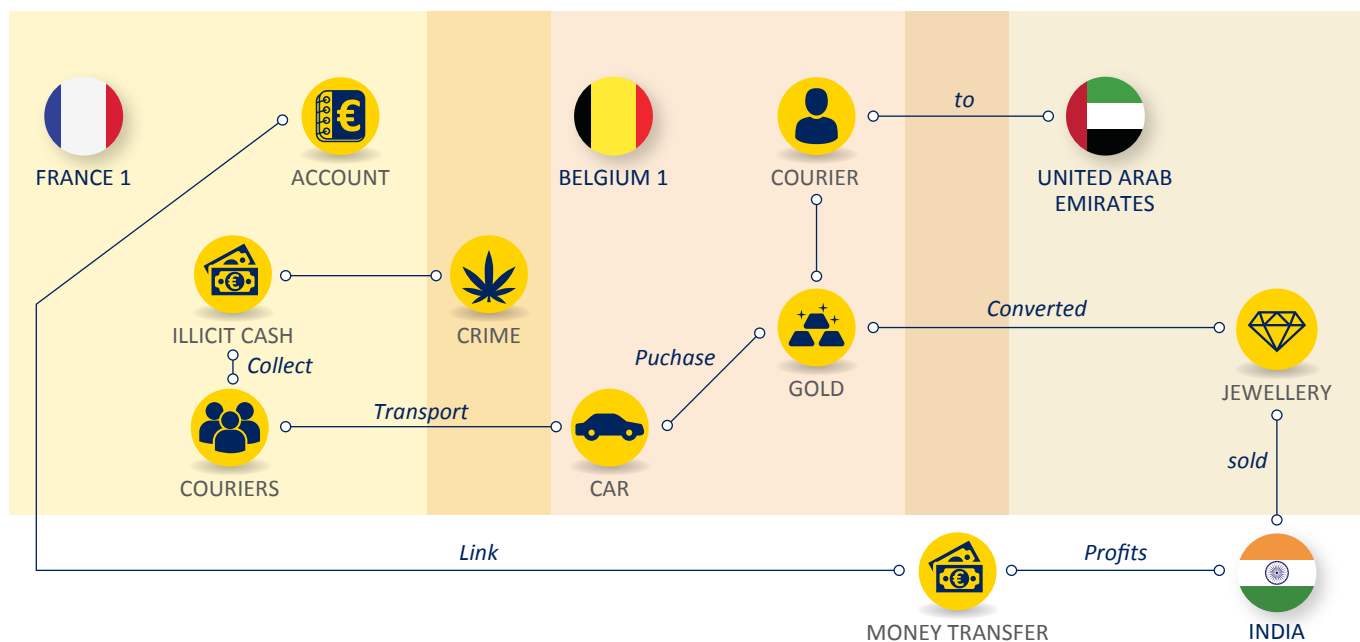
### CASE EXAMPLE: THE MIDAS TOUCH

A recent investigation by French authorities in to a drug trafficking network led to several arrests relating to the laundering of the group’s profits.

Money from the sale of cannabis was collected in France and its laundering was orchestrated through the movement of cash from Paris to Belgium, where it was used to buy gold. Thereafter, couriers (often Belgian students) acted as mules, transporting the gold to Dubai. In Dubai the gold was then made into jewellery and sent to India to be sold on the gold market. The profits were finally shared between the OCGs and money launderers with the assistance of bankers with access to the financial system.

A key organiser admitted laundering EUR 36 million since 2010 and sending 200 kg of gold from Belgium to India. The network collected about EUR 170 million per year.

Furthermore the case revealed a connection between tax evasion and drugs trafficking in a scheme designed to balance two illegal flows of cash. Cash coming directly from cannabis dealing in Paris was exchanged for sums secreted in Swiss bank accounts which tax evaders sought to access or repatriate. The cash profits from drug sales were handed over in plastic bags full of small dirty notes to individuals with hidden Swiss accounts. Equivalent amounts were debited from their secret Swiss accounts and further transferred through a complex network of shell companies which integrated funds through the purchase of high value assets. In this way, the need to smuggle the proceeds of drugs across French borders was eliminated.



### 3.5. Real estate

Investment of criminal funds in real estate is another popular method used by criminals to launder illicit proceeds. Typical schemes involve the under or over-valuation of property, back-to back loans which may or may not involve financial institutions (whereby criminals lend themselves money to make purchases) or mortgage schemes.

Under and over-valuation require the assistance of complicit professionals such as notaries, real estate agents and surveyors. Undervaluation of properties, for example, enables criminals to purchase an asset at below market price, paying the difference to the seller under-the-table in cash. They will therefore be able to legitimise criminal money as profits from a subsequent sale (often to a criminal associate) at a higher price.

Often the purchase of real estate will be orchestrated alongside other techniques such as structuring deposits on bank accounts and the formation of shell companies. While not always involving physical cash, certain cases highlighted a prominent role played by the use of cash.

In one example, an OCG obtained several mortgages on properties overseas. The properties and mortgages were in the names of close associates of the criminal group. These bank loans on fixed assets enabled the criminal groups to initially only present a small upfront deposit on the properties (sums which had been smuggled overseas and placed on accounts of associates and front men through structuring deposits). However they were then able to repay monthly interest payments using cash, making overpayments and redeeming mortgages early.

# 3. TRANSFORMING CASH



## CASE EXAMPLE: CASH AND THE GREY ECONOMY

However, there are ways in which criminal groups launder the proceeds of crime through real estate which do not involve such basic methods such as successive sales and purchases of property. In one example provided to Europol the construction sector was used as part of a money laundering scheme: a criminally controlled construction company employed migrant workers who were paid in cash within the grey economy. As such, criminal profits were passed on to these workers as payment, and the ultimate costs of construction were lower, ensuring that the sale of properties would gross higher legal profits for the criminal group. Their activities were facilitated by false invoicing to account for materials and labour involved in construction costs.

## FACILITATOR 3: THE ROLE OF PROFESSIONALS AND GATEKEEPERS

Over time, money laundering methods and techniques have evolved: previously only affecting the financial system they now extend to non-financial sectors. The role of professionals (often known as gatekeepers or professional enablers) such as accountants, lawyers, notaries and similar professionals as facilitators in the money laundering process continues to underpin the methods used by criminal groups. The services provided by these professionals give the apparatus of money laundering considerable sophistication and a veneer of respectability. The role of professional facilitators is a crucial factor in certain money laundering techniques, such as investments in real estate, the opening of offshore companies and trusts etc. all of which tend to require the involvement of qualified professionals.

These professionals enable, either through complicity or negligence, the placement, layering and integration of large sums of illicit cash into the financial system or legal economy. A number of examples were already mentioned in the section dealing with MSBs whereby criminals controlled MSBs, or benefitted from services provided by complicit agents. The role of professional enablers is noted in the vast majority of cases seen by Europol. In one case, for example, cash couriers drove large consignments of cash (approximately EUR 2 million on each journey) from the Netherlands to Spain. Their reason for following this route was that the OCG made use of a complicit banking official in Spain who could place these large cash sums into accounts, ready for onwards transfer, without filing any STRs or arousing any suspicions.

In the much publicised case of the former governor of Nigeria's Delta State, convicted of money laundering, embezzlement and corruption, the money laundering scheme would not have been possible without the assistance of a corrupt solicitor. The solicitor contrived complex schemes to launder the wealth stolen from the Delta State, secreting an estimated GBP 50 million in bank accounts worldwide and devising schemes that enabled him to use funds for the purchase of properties and private jets.

However, gatekeepers are not limited to the aforementioned occupations and questions around professional standards of LEAs can also be a factor which facilitates laundering schemes involving cash. For example, one of the border crossings discussed earlier as a route for suspect cash declarations and movements exiting the Ukraine was also recently the site of the arrest of 7 customs officers who allegedly accepted bribes and were involved in extortion and smuggling.

### 3.6. Gambling

The use of the gambling sector is another means through which criminals can explain or legitimise the source of illicit funds.

Schemes can range from simple to sublime: a criminal may purchase a winning lottery ticket from its owner for more than the value of the prize money. The excess payment represents the money laundering commission, and they will hold a winning ticket which swaps criminal profits for lottery winning.

Casinos are by their nature considered cash-intensive businesses as the majority of transactions are cash-based. As such the casino and gaming sector are vulnerable to money laundering: casino activity is cash-intensive, competitive in its growth and vulnerable to criminal exploitation. Europol has received cases indicating that criminals enter establishments with bags full of dirty bills which will be ‘gambled’ and cashed out in clean bills or cheques. On a more sophisticated level, a number of casinos are associated to criminal groups, and criminal groups attempt to control casinos as their own money laundering vehicles.

However, as the gambling sector has come under closer scrutiny and the days of Las Vegas laundry are long gone, other facilities such as gaming machines have become an emerging money laundering trend, due to the lack of scrutiny they are afforded: there are no croupiers or other gamers watching you or observing your betting patterns. What’s more, bookmakers often provide a facility to pay out ‘winnings’ to accounts or credit cards, relieving the criminal of the burden to place funds on their accounts. By contrast online casinos, which are nonetheless also used for money laundering, do not represent a vehicle for cash placement – you would need to transfer cash proceeds into an accepted digital form (credit cards, pre-paid cards, virtual currency etc.) in order to begin laundering profits through online gambling.

### FACILITATOR 4: FIXED ODDS BETTING TERMINALS

For drug dealers, fixed odds betting terminals, found in betting shops, arcades, bars and cafes, provide an ideal vehicle for laundering cash proceeds. Through feeding small notes provided at street level for payment for drugs, these machines can be used to ‘clean’ the cash, providing an explanation for the source of money. Through gambling criminal cash proceeds, a small proportion of the profits will be lost, however they retain the vast majority of their stake and on cashing out, a ticket will be printed showing they have gambled that day. As such, if and when stopped and questioned by the police, they will have an explanation and paper proof as to the source of the cash.

In the UK alone there are some 33,000 fixed odds betting terminals. And the sums laundered through them are not always small: In one instance a UK bookmaker was fined GBP 90,000 for failing to prevent one drug dealer from laundering over GBP 1 million in its outlets.

The manner someone seeking to launder money via this process uses is simple, for example: by placing even bets on both red and black, as well as a smaller stake on 0, the vast majority of the stake will never be lost as this is a 50/50 stake. There are many variations to ensure that odds are as such and that the minimum amount of money is lost.



## 4. CASH AND NEW TECHNOLOGY

### 4.1. Technology for criminals

Although cash has always been a popular facilitator for money laundering among criminals, it could be argued that advances in technology, such as online payment systems which leave a digital trace, accompanied by stricter regimes for recording and reporting transactions in order to detect and investigate money laundering, may have caused OCGs to depend even more on cash to launder their profits.

While new technologies, such as virtual currencies and pre-paid cards, certainly offer money laundering possibilities to criminals, investigations from Member States demonstrate that criminals make use of these tools in conjunction with cash. For example, pre-paid cards will be loaded with cash, and criminals will credit and debit virtual currency wallets using cash. As such there is a symbiosis between the traditional and the innovative.

As previously mentioned, it is not only cash generating criminal enterprises which use cash as a facilitator for money laundering. In spite of the rapidly changing face of criminality and the rise of cybercrime, online frauds and illicit online market places, money laundering methods remain overwhelmingly traditional and cybercrimes such as phishing and hacking also rely on cash to launder proceeds.

In fact cash plays a crucial role in the laundering of proceeds from cybercrime. As proceeds are generated in the 'virtual' world, and are as such traceable to bank accounts, or other financial instruments with a digital footprint, there is a need to break the trail – this is done by converting proceeds to cash, primarily using ATM withdrawals and/or wire transfers.





### CASE EXAMPLE: E-MULES

Typically, crimes such as phishing, as well as identity fraud, cloning and compromising of bank cards and online frauds (e.g. fraudulent Ebay sales) require a network of Money Mules<sup>34</sup> who provide a vital function.

By far the best established money mule modus operandi is that in which the mule receives a payment directly from a victim’s account, withdraws the money in cash and transfers it overseas via a money transfer service (most commonly Western Union, but also MoneyGram, Web Money, PayPal, Ukash, etc.). The mule keeps a percentage of the money transferred to their account (usually 5%). The mule handler network collects the Western Union payment and pays it on to the criminal less a service cost.

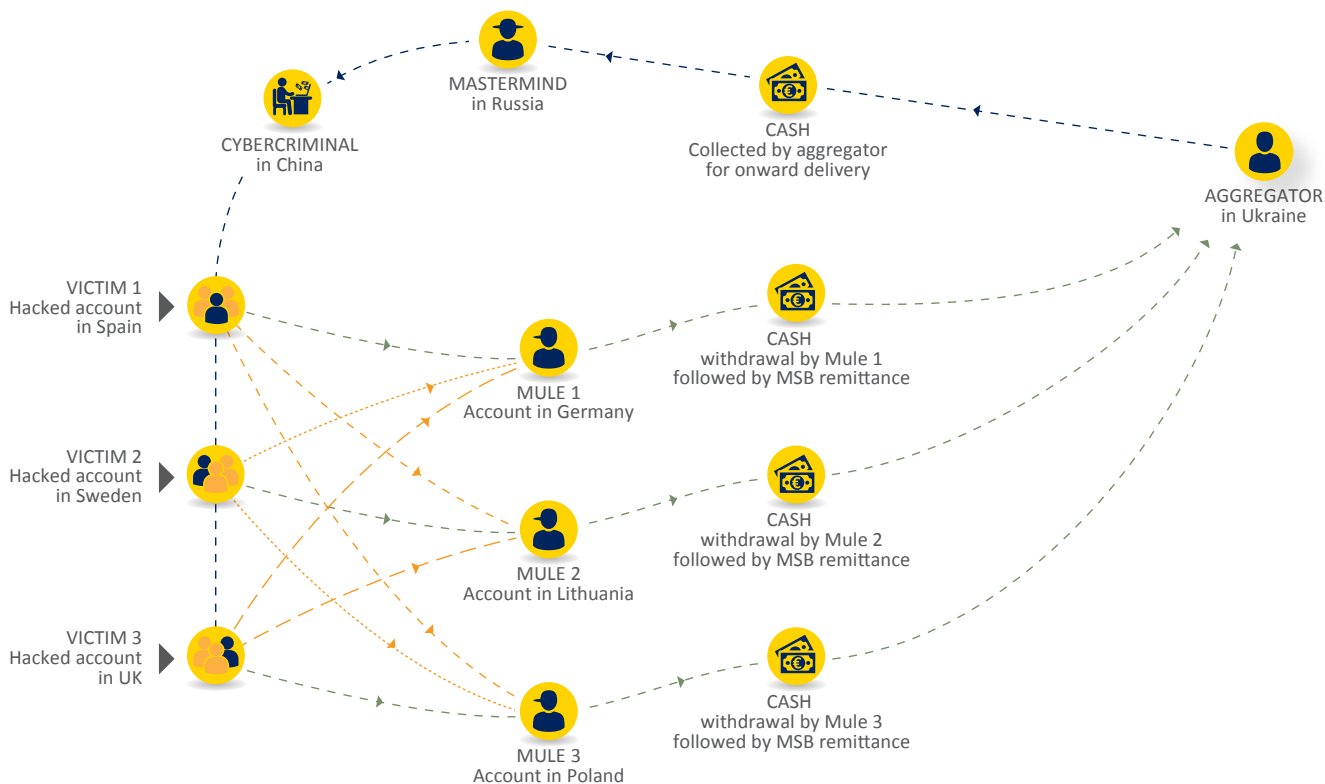
The main reason for using a mule account/system is to quickly withdraw proceeds obtained illegally via electronic means and transfer them before the offence is detected. Without mules to “cash out” stolen credit card or banking data into real-world financial instruments, criminals would not have the means to enjoy the profits of their activities.

<sup>34</sup> Defined as individuals who are recruited by fraudsters to help transfer fraudulently obtained money (most of the time online banking scams). After being recruited by the fraudsters, money mules typically receive funds into their accounts and are then asked to send it on to a third party; minus a certain commission payment.

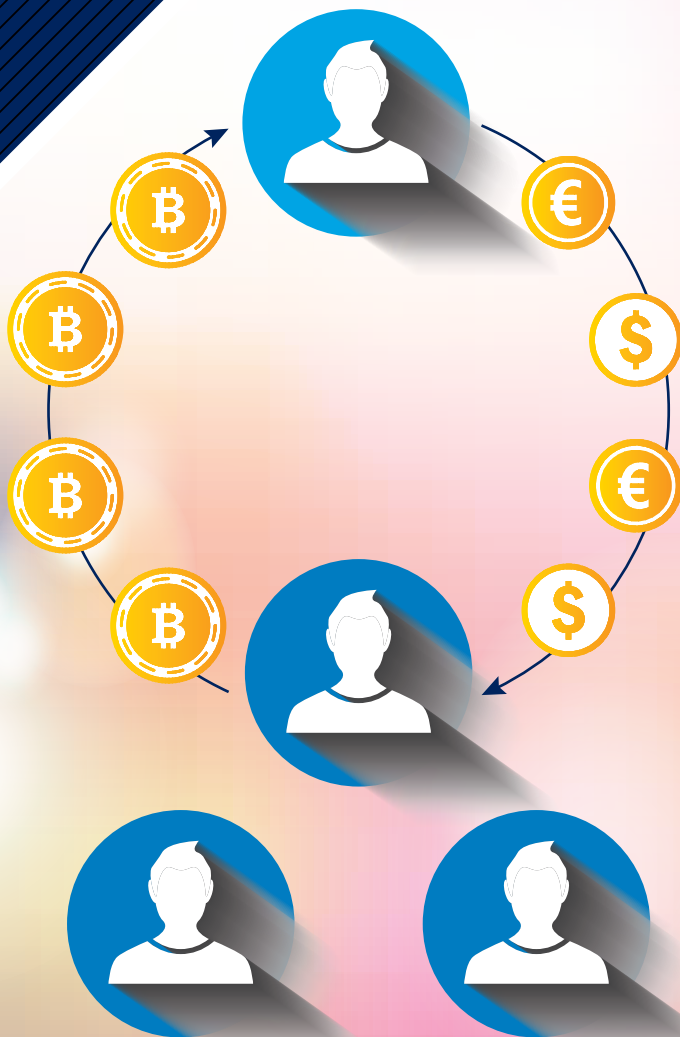
Our findings show that the above modus operandi remains the most common, which indicates that criminals still find the combination of mule accounts, cash withdrawals and wire transfers an effective way to carry out the layering stage. Indeed, cash withdrawals coupled with wire transfers which imply less stringent customer identification/verification requirements, help to break the paper trail of financial flows and obscure the ultimate beneficiary of the funds.

### 4.2. Technology for Law Enforcement

Technology poses threats not only in terms of the expanding predicate crimes which generate criminal profits, but also through offering new channels for money laundering (e.g. online banking, e-money, virtual currencies, etc.). However, technology is simultaneously a tool which could be exploited by Law Enforcement in their money laundering investigations. Although there is no such system in place currently in the EU, there has been discussion of establishing a system for tracking euro banknotes, in particular high denominations. Similarly, advances in technology, such as more sophisticated scanners, have assisted customs in their efforts to detect cash. Developments may lead in the future to more sensitive scanners which will have a greater capacity to detect smuggled cash using sensors for specific inks etc. Likewise, pre-paid cards, which are loaded with cash and smuggled to transfer values across borders currently pose a problem to Law Enforcement in that values contained on cards are not visible. However the development of a card reader which would enable officers to ascertain the sums being carried on such cards is a not-so-distant possibility.



# 4. CASH AND NEW TECHNOLOGY



## 4.3. Virtual Currencies

The possibilities to launder the proceeds of crime using virtual currencies<sup>35</sup> have recently attracted much attention. Bitcoin is perhaps the best known of all virtual currencies, and this section will deal specifically with this type of virtual currency. However, the same principles could be applicable to other types (e.g. Litecoin, Darkcoin etc.).

Real cases and theory indicate that the use of virtual currencies to launder the proceeds of crime may require the use of cash at some stage in the process. This is largely due to the fact that virtual currencies require 'cashing in' in order to acquire them, or 'cashing out' in order to spend them.

There are a number of ways to obtain Bitcoins: by mining<sup>36</sup> them or by obtaining them in exchange for goods and services or other fiat currencies (more recently Bitcoin ATMs have also emerged). In order to purchase Bitcoins for legal tender (USD, EUR, GBP etc.), individuals can approach Bitcoin exchangers which offer to buy and sell Bitcoins. There are countless exchangers worldwide of varying sizes which offer the possibility to buy Bitcoins. They can broadly be categorised in two ways – centralised Bitcoin trading sites and decentralised peer-to-peer (P2P) networks. Commonly, Bitcoins are bought from centralised online trading sites. These act as a 'second hand' market for Bitcoins and function much like a stock exchange, offering trades at an exchange rate that changes regularly according to supply and demand. Typically customers set up and load their Bitcoin wallets using various means of payment including SEPA, OkPay, wire transfers, Astropay etc.

By contrast, decentralised P2P exchanges exist whereby Bitcoins can be purchased for cash. Unlike the centralised services which function like a stock exchange, these networks directly connect buyers and sellers. Finnish based LocalBitcoins.com, for example, is not an exchange in its own right, rather it is a platform enabling customers to locate Bitcoin exchangers in their own area who are able to trade Bitcoins for cash. The site posts advertisements from different Bitcoin exchangers, showing their location, trade limits and accepted payment methods.

There are adverts from exchangers worldwide offering to sell Bitcoins for cash. There is no limit to the amount an exchanger may be willing to trade: some are willing to trade Bitcoins for cash up to EUR 500,000. Given the high volumes of cash which can be traded, there is clearly a potential money laundering threat which theoretically enables criminals to use trades on localbitcoins.com as a vehicle for money laundering to dispose of illicit proceeds.

<sup>35</sup> No single definition, however US treasury categorises it as "a medium of exchange that operates like a currency in some environments, but does not have all the attributes of real currency"

<sup>36</sup> A competitive process in which participants verify and record payments in exchange for fees/ bitcoins. Mining requires significant computational power in order to solve complex algorithms

## Example of Localbitions sellers accepting cash

Buying or selling:  I want to buy bitcoins  I want to sell bitcoins

City:

Amount:

Payment method:

[Find offers](#)

### Results for buy bitcoins with cash near Spain

Seller	Distance	Location	Price/BTC	Limits	Buy
[Redacted]	6.4 km	Madrid, Spain	210.29 EUR	10000 - 19999 EUR	Buy
[Redacted]	6.4 km	Madrid, Spain	206.28 EUR	20000 - 188000 EUR	Buy
[Redacted]	6.5 km	Madrid, Madrid, Spain	197.05 EUR	400 - 9900 EUR	Buy
[Redacted]	6.5 km	Madrid, Madrid, Spain	201.07 EUR	4500 - 25000 EUR	Buy
[Redacted]	6.5 km	Madrid, Madrid, Spain	207.11 EUR	50 - 1000 EUR	Buy

[Show more on map for buy bitcoins with cash](#)

LocalBitcoins.com

- ABOUT**
  - Blog
  - Who we are?
  - Careers
  - Terms of service
- SUPPORT**
  - New support request
  - Forgot password
  - Lost two-factor
  - Report phishing
- SERVICES**
  - API
  - Affiliate
  - Block Explorer
  - Bitcoin Price Charts
- FOLLOW US**
  - Facebook
  - Twitter
  - Google Plus
  - Reddit

Source: LocalBitcoin.com

### CASE EXAMPLE: LOCAL BITCOIN

A case from the US also shows that two users of Local Bitcoin.com offering Bitcoin exchange services were arrested in 2014 in Miami by Florida State Police and the US Secret Service.

Undercover agents located two people in the local area advertising their services on localbitcoin.com. Several meetings were arranged with the agent, who posed as a customer seeking to buy Bitcoins from sellers. The agent bought Bitcoins from the sellers with cash for increasing amounts, up to USD 30,000. During the course of their meetings, the sellers asked no questions about the origin of the funds or the purpose of the trades: in fact, the Agent clearly told the sellers that the Bitcoins would be used for the purpose of purchasing batches of stolen credit card numbers from a Russian OCG. In spite of this, they proceeded with all the transactions ordered by the 'customer'. The seller even indicated he would be interested in receiving stolen credit card numbers as partial payment for the Bitcoin trades. Both sellers were arrested on counts of money laundering and operating as an unlicensed money service business.

Currently it seems that the possibilities to launder money using virtual currencies are limited and require cashing in and out (in cash in order to entirely break the trail). But, as the network of virtual currency accepting merchants and list of goods and services which can be paid for using virtual currencies expands, so too does the risk of the emergence of criminally controlled merchants, accepting virtual currency, who can effectively operate online businesses in the same way as cash front businesses to legitimise the source of income. This scenario would eliminate the need to cash in or out, as income and expenditure could take place within a closed system which does not interact with 'real world' finances.

## 5. CASH AND THE FINANCING OF TERRORISM

Although this report focuses on the use of cash as a facilitator for money laundering, it is also worth noting that a number of the methods described throughout the report, involving the use of informal value transfer, MSBs and cash couriers have also been detected in investigations into the financing of terrorism.



Terrorist financing (TF) is in principle different from money laundering: money laundering schemes aim at concealing the money obtained through criminal activities, whereas terrorist financing seeks to conceal the purpose to which funds will be put, irrespective of whether these funds derive from legal or illegal sources.

Often the source of funding for terrorist activities comes from legitimate sources and terrorist organisations may engage in revenue-generating activities which appear to be legitimate (e.g. sales of publications, donations etc.). Financing can also derive from criminal activities, such as kidnapping, or even drugs trafficking.

What both have in common, however, are the methods used to move, conceal and use funds. Funds raised for terrorism are moved by various means, including money remittance companies, hawala brokers, the use of prepaid cards, and of course, cash.

A standard method for money movements in support of terrorism involves the use of cash couriers. Large quantities of cash have been intercepted at hub airports and transnational rail stations. It is suspected that these had been gathered from donations and other enterprises. For example, in November 2013, two Lebanese passengers were found in possession of nearly EUR 770,000 at

Brussels airport and it is suspected that at least some of this cash was destined to finance the military wing of Hezbollah in Lebanon.<sup>37</sup>

Recent terrorist attacks in both Paris and Belgium also reveal that cash plays a role in the financing of terrorist activities. One of the gunmen responsible for the killing of 17 people during three days of attacks in Paris is alleged to have returned from Yemen with USD 20,000 in cash to finance the operations. Furthermore, following raids on the terrorist cell in Belgium, police are reported to have found not only weapons, ammunition and false documents, but also a significant sum of cash<sup>38</sup>.

<sup>37</sup> Europol EU Terrorism Situation and Trend Report (TE-SAT) 2014

<sup>38</sup> "Belgian terrorist cell 'linked to targeting of news agents selling Charlie Hebdo'" [Telegraph.co.uk](http://Telegraph.co.uk).



## 6. CONCLUSIONS AND RECOMMENDATIONS

Perhaps the most significant finding around cash is that there is insufficient information around its use, both for legitimate and illicit purposes. The nature of cash and the nature of criminal finances mean that there is little, if any, concrete data available on the scale and use of cash by ordinary citizens or criminals.

Even one of the few concrete figures available, that of the volume and value of bank notes issued and in circulation in the EU, leaves open questions around the use to which a large proportion of cash in issuance is put, especially when considering the EUR 500 note. There are at least EUR 200 billion of euro banknotes in circulation, the use of which remains unknown. Furthermore, the EUR 500 note alone accounts for around 30% of the value of all banknotes in circulation, despite it being an uncommon means of payment. Although it has been stated that these notes may be used for hoarding, this assumption is not proven and should this be the case, the nature of the cash being hoarded (criminal or legitimate) is unknown. At the same time, the preference for using high denomination notes in order to smuggle cash is reported by Law Enforcement Agencies.

Information around the illicit use of cash suffers from similar problems concerning the paucity of statistical data available.

Nonetheless, various sources of information, ranging from STR data through cash detections and case examples from money laundering investigations, indicate that cash functions as a significant facilitator to enable criminal groups to launder the proceeds of crime. Although not all use of cash is criminal, all criminals use cash at some stage in the money laundering process. This may be because their criminal activities generate cash profits or because cash is used as an instrument to disguise the criminal origin of profits.

Although typically involved at placement stage, cash also plays a role at both layering and integration phases. Furthermore, almost all crime types make use of cash to facilitate money

laundering in spite of the fact that not all are readily cash producing criminal businesses.

Physical cash smuggling remains a prevalent method, however the recording and sharing of details pertaining to cash detections is not always centralised at national level, and certainly not at international level, making it difficult to assess the scale of the phenomenon or other related elements such as preferred routes for criminal cash movements. Nonetheless, highly conservative estimates, based on records received by Europol indicate that from 2012 to end June 2014 in excess of EUR 3.8 billion in cash was detected and/or seized by Competent Authorities.



Furthermore, particular cases brought to the attention of Europol indicate that there may be a trend toward criminal abuses of the cash declaration mechanism introduced in the EU to counter money laundering risks presented by physical cash movements. These cases also indicate that criminals are aware of LEA methods and the implications of legislation and adapt methods and routes to exploit loopholes.

In part, the aforementioned issues related to the recording and reporting of cash detections stem from the fragmented nature of the agencies involved in controls and detections of cash and subsequent investigations. A lack of information exchange and interoperable databases between Customs Agencies, FIUs and police both at national and international level was noted as a significant barrier in the investigation of money laundering cases in connection with cash.

However, the most significant barrier reported by Law Enforcement regarding investigations concerning cash remains that of the inability to link cash to criminal activities. Most European LEAs are required to demonstrate the predicate offence in order to prosecute money laundering: 60% of respondents a Europol survey indicated that they are required to demonstrate the predicate offence to evidential standards while only 12% reported provisions for unexplained wealth. Given that cash is a bearer instrument, this is a challenging task, and successful investigations involving cash usually entail the use of traditional techniques such as surveillance, wire tapping and undercover agents, as well as specialised investigators such as forensic accountants.

These factors are compounded by the often limited powers of Competent Authorities to investigate the origin of cash once it is detected or to make further enquiries into cash declarations which appear suspicious. Information which could provide clues to the possible criminal origin of money may be contained in databases (e.g. FIU, police, revenue services etc.) which are inaccessible to customs.

In addition, movements of cash by freight or mail remain a blind spot as cash control legislation does not extend to cash movements other than those made by a physical person. Similarly, the movement of other high value liquid assets such as gold, which are known to be used by OC to transfer values across borders, are not captured under EU legislation. As such, cross border movements of illicit profits using these methods present marked vulnerabilities.

In spite of the rapidly changing face of criminality and the rise of cybercrime, online frauds and illicit online market places, money laundering methods remain overwhelmingly traditional and cash is still one of the most prevalent facilitators for money laundering across almost all criminal activities.

The findings of this report reveal a number of areas which could be addressed to effectively tackle the issue of the use of cash as a facilitator for money laundering, as well as to inform intelligence gaps highlighted throughout the report:

**I. EU CASH CONTROL REGULATIONS:** Cases reported to Europol highlight the possible emergence of an abuse of EU cash control regulations, whereby criminals openly declare sums of cash, concealing their illegal origin or purpose (or providing little to no account of these factors) instead of concealing the cash itself. A consistent approach to the completion of forms and the subsequent interrogation of information provided could help to prevent abuses of the cash control regime or the selection of 'weak' routes by criminals.

**II. INTRA-EU CASH CONTROL REGULATIONS:** Many EU Member States have no provisions to control cash movements within the EU territory, and there is significant variation in the regulatory framework for those which do. As such, once criminal cash has entered the EU, certain routes and intra-EU borders may be vulnerable to criminals who will select them due to absence of any risk of controls. Consideration should be given to a more harmonised approach among EU MS concerning cash movements within the EU.

**III. SANCTIONS:** The penalties and sanctions applied across the EU for failure to comply with cash declaration requirements show wide variation. Greater harmony among EU Member States would be beneficial in preventing criminals from selecting routes where there are limited sanctions for failure to comply.

#### **IV. EXTENSION OF THE SCOPE OF CASH CONTROL REGULATIONS:**

**IV.I. PRECIOUS METALS AND STONES:** Assets such as gold and diamonds represent high value items which enable criminals to smuggle values across borders. Only Cyprus reported that gold is covered under its domestic cash control regulations. Consideration should be given to extending the scope of cash control regulations in order that they apply to gold, precious stones and metals.

**IV.II. FREIGHT AND MAIL.** Although significant sums of cash are moved in and out of the EU by post and freight, cash moved in freight is not subject to the same requirements as cash moved by persons, and although ordinary customs declarations related to all commodities are applicable, details contained in declaration forms for cash movements by persons, such as the ultimate beneficiary or owner of the cash, need not be provided. Consideration should be given to extending the scope of regulation to encompass cash movements in freight and mail.

**IV.III. E-MONEY INSTRUMENTS:** Stored value and pre-paid cards present difficulties to those involved in cash detections since LEAs do not dispose of technology to reveal the values stored on instruments. Industry and LEAs should work together to find technical solutions to these barriers, while policy makers

## 6. CONCLUSIONS AND RECOMMENDATIONS

should ensure that any such instruments, which also act as bearer negotiable instruments to transfer values across borders, are captured under relevant legislation.

### V. COOPERATION:

**VI. NATIONAL LEVEL:** issues related to the recording, reporting and sharing of information relating to cash detections among the agencies involved in controls and detections of cash and subsequent investigations was reported as an issue by many MS. In particular, a lack of information exchange and interoperable databases between Customs Agencies, FIUs and LEAs at national level was noted. Consideration should be given to fostering cooperation through task forces, secondments, multi-agency action days and interoperable and mutually accessible databases.

**VII. INTERNATIONAL LEVEL:** Money laundering is international by nature, and criminals move cash across borders in order to distance criminal funds from the predicate offence. As such, international cooperation is crucial. However, the issues faced between multiple and fragmented agencies at national level exist also at international level. As a multi-disciplinary Law Enforcement Cooperation body, Europol offers possibilities for cooperation and information exchange among all Competent Authorities and is not limited to police. As such, MS FIUs, Customs and Police services should leverage all the operational possibilities available at Europol to further their investigations with overseas counterparts across all Competent Authorities.

**VI. CREATION OF AN EU DATABASE FOR SUSPICIOUS CROSS BORDER CASH MOVEMENTS:** Frequently, information which could shed some light on the possible criminal origin of suspicious cross border cash movements may be contained in databases of one agency (e.g. FIU, police, customs, revenue services etc.) which may be inaccessible to another. In response to a Europol survey, the majority of MS Money Laundering Units reported that they do not have access to information contained in cash declarations, while most considered it would be beneficial to their investigations. Europol could provide a pan-European intelligence hub for data on cash movements across borders where there are indications that the sums of cash are related to any illegal activity. Such an intelligence hub could prove advantageous for Member States willing to share this data, as it would, among other things:

- bring together information from all relevant forces holding data on cash movements (thus helping to remove any barriers in information exchange);
- allow for the detection of instances where under and/or creeping declaration techniques are used to move large quantities of cash in/out of the Community;
- identify travel patterns of cash couriers;





- reveal any criminality behind excessive and dubious declarations that have increasingly been seen.

The use of Europol as a pan-European intelligence hub for data on suspicious cash movements would bring together all relevant stakeholders involved in cross-border cash movements and ensure that data on physical cash movements is utilised fully and effectively to prevent illegal activities (especially money laundering and terrorist financing).

**VII. EXPLOITATION OF INFORMATION CONTAINED IN CASH DECLARATIONS:** The issue of information stemming from declarations made under Regulation 1889/2005 on cash entering and leaving the European Community has been discussed on various occasions. The FIDE system<sup>39</sup> already collates some data stemming from declarations made under Regulation 1889/2005; however, since this data is not transferred to or compared with police databases, the potential criminal implications of such declarations cannot always be corroborated.

As such, consideration should be given to the interconnection between databases which would enable the fullest exploitation of this information to detect instances and indications of money laundering and terrorist financing.

**VIII. CASH PAYMENT THRESHOLDS:** Following examples set by a number of European countries (for example, Spain, Italy, Greece and France) that have sought to tackle the prevalence of money laundering through the purchase of high value items in cash, consideration should be given to the introduction of common cash payment thresholds across MS.

**IX. DAYS OF ACTION:** A cash declaration system is only valuable if controls to verify that money is, in fact, declared and furthermore correctly declared, take place. MS are encouraged to carry out joint days of action to derive both operational and strategic benefits. As responsibilities for cash detection and investigations are often separated, these actions should involve all relevant agencies.

**X. BANKNOTE CIRCULATION:** The reason behind the high value and number of euro banknotes in circulation should be further explored, in particular with regard to the high denominations, such as the EUR 500 note. Although the ECB considers that a large share of the EUR 500 banknotes in circulation may be used for hoarding purposes, there is also evidence that the EUR 500 banknote is used disproportionately in the various stages of criminal activity and the money laundering process. Furthermore, although there are indications that part of the hoarding is linked to the store of wealth in times of financial turbulence or geopolitical uncertainty, in combination with very low interest rates, law enforcement investigations show that part of the cash in circulation is used by criminal groups in their money laundering activities.

Further research should be carried out to explore the legitimate and illegitimate uses of cash and the reasons behind the amount of EUR 500 banknotes in circulation.

Even if only a small fraction of the EUR 300 billion in circulation denominated in EUR 500 banknotes end-2014 can be attributed to criminal use and money laundering, a small percentage of a large amount is still very substantial in absolute terms. Therefore, Europol recommends conducting further work together with the ECB to address these knowledge gaps. In the absence of concrete evidence around legitimate uses which account for such high values in circulation the appropriate Authorities should give consideration to the continued issuance of banknotes so closely linked to criminality. The United States, the UK and Canada are all examples of economies which function perfectly well in spite having no high denomination notes coming anywhere near the value of the EUR 500 note. At least some of the same policy reasons (e.g. links to criminality; redundancy as a payment instrument), informing their decisions not to issue high denomination notes naturally apply to the Eurozone. Central Banks and LEAs generally reach an impasse around the question of prohibiting high denomination notes: a less extreme approach to tackle the criminal use of high denomination notes would be for LEAs to work with Central Banks and Financial Institutions to develop a tracking system for high denomination notes.

**XI. UNEXPLAINED WEALTH PROVISIONS:** Very few MS have provisions for sanctioning unexplained wealth whereby if the individual is unable to account for the legitimate source of the funds, they may be confiscated (typically under a civil procedure). For this reason very few MS can carry out simple and effective investigations in instances of international cash detections, even in cases where cash is detected while being smuggled in highly suspicious ways. In this particular field, legal harmonisation between all the EU MS allowing for the reverse burden of proof, would mean a strategic and substantial quick win for all Law Enforcement Agencies and anti-ML supporters.

<sup>39</sup> Customs Files Identification Database hosted by OLAF

# ANNEXES



## I. DEFINITIONS AND ABBREVIATIONS

**CASH:** for the purpose of this report cash is defined as banknotes and coins that are in circulation as a medium of exchange. It does not cover gold, diamonds or other precious metals and jewels which are equally liquid and moveable high value assets.

**BEARER INSTRUMENT:** a bearer instrument, such as cash, bearer shares or bonds, is a type of instrument requiring no ownership information to be recorded.

**CASH DETECTION:** a cash detection refers to the discovery of sums of cash (usually in excess of a certain threshold, e.g. EUR 10,000) which have either not been declared or have been incorrectly declared (e.g. the declared sum is lower than that which is actually carried)

**CASH SEIZURE:** a cash seizure is essentially the same as a cash detection, however as the name implies, in this case Competent Authorities have exercised the power to seize the sum from its owner pending further investigations which made lead to permanent confiscation.

**CASH DECLARATION:** a cash declaration is a process by which an individual, either orally or in writing, provides information to Competent Authorities concerning sums of cash they are transporting in excess of a certain threshold (for example, exiting or entering the EU territory, in excess of EUR 10,000). A declaration should contain details of the origin of the money, final destination, owner, courier and ultimate beneficiary.

**FACILITATORS:** Facilitators, please change first sentence to read 'A facilitator, for the purpose of this report, is considered an element, such as a financial instrument or person, which may have legitimate and necessary functions which however, present certain vulnerabilities open to criminal use. Cash is a facilitator in itself, however, the use of cash as a facilitator for money laundering also entails the use of a number of other facilitating factors mentioned throughout this document: e.g. high denomination notes, false documents, etc.

**FINANCIAL INTELLIGENCE UNIT (FIU):** a government agency set up to collect, analyse and disseminate financial information and create/maintain databases for suspicious transaction reports and, according to domestic legislation, to investigate suspicious financial activity.

**INFORMAL VALUE TRANSFER SYSTEM (IVTS):** a system or network of people, generally based on ethnical, cultural or familial relations, who receive and transmit money in order that the funds are available to a third party in another location. Informal value transfers generally take place outside of the conventional banking system.

**MONEY SERVICE BUSINESS (MSB):** a regulated financial service that accepts cash, cheques, other monetary instruments or other stores of value in one location and pays a corresponding sum in cash or another form of value to a third party in another location.

**SMURFING:** the act of parcelling what would otherwise be a large financial transaction into a series of smaller transactions to avoid scrutiny by regulators or law enforcement. Typically each of the smaller transactions is executed in an amount below some statutory limit that normally does not require a financial institution to file a suspicious transaction/activity report with a government agency. Criminal enterprises often employ several agents (smurfs) to make the transactions.

**STRUCTURING:** a money laundering technique, which involves the splitting up of large bank deposits into a number of smaller deposits to evade the suspicious activity reporting requirements of financial institutions.

**SUSPICIOUS TRANSACTION REPORT (STR):** also referred to as Suspicious Activity Report (SAR) in some jurisdictions. It is a report that all banks and financial institutions and designated categories of professionals must file with an independent Financial Intelligence Unit (FIU) in their jurisdiction whenever there is a suspicion that funds may derive from crime or relate to money laundering activities. The STRs/SARs take into account the overall elements of the financial transactions including customer activities in compliance with both International and European anti-money laundering prevention measures.

**WIRE TRANSFER:** an electronic transfer of money from one account to another by telegraph (or wire). This is often used for sending money overseas as it is quicker than sending a cheque through the post. Wire transfers are often offered through Money Service Bureaus, for example, Western Union, MoneyGram.

# ANNEXES



## II. METHODOLOGY

The findings presented in this report are based on significant research conducted by the Financial Intelligence Group at Europol. Findings are based on both quantitative and qualitative data sources available to Europol, including the following:

- Member State and Third Party intelligence contributions to Europol;
- On site visits to selected Competent Authorities specialised in bulk cash smuggling interceptions;
- Dedicated input from EU Financial Intelligence Units (FIUs).
- Dedicated questionnaires to relevant MS LEA services (Customs and Money Laundering Units);
- European Commission DG Taxud and ECB statistics;
- FATF “Money laundering through the Physical Transportation of Cash” 2014 dedicated questionnaire;
- Open source information;

All information has been sanitised in order that only information of a strategic nature and no operationally sensitive information is contained within the report.

**PHOTO CREDITS**

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