
Money Laundering: Methods and Markets

Money laundering is usually described as having three sequential elements—placement, layering, and integration—as defined in a report by the Board of Governors of the Federal Reserve System (2002, 7):

The first stage in the process is placement. The placement stage involves the physical movement of currency or other funds derived from illegal activities to a place or into a form that is less suspicious to law enforcement authorities and more convenient to the criminal. The proceeds are introduced into traditional or nontraditional financial institutions or into the retail economy. The second stage is layering. The layering stage involves the separation of proceeds from their illegal source by using multiple complex financial transactions (e.g., wire transfers, monetary instruments) to obscure the audit trail and hide the proceeds. The third stage in the money laundering process is integration. During the integration stage, illegal proceeds are converted into apparently legitimate business earnings through normal financial or commercial operations.

Not all money-laundering transactions involve all three distinct phases, and some may indeed involve more (van Duyne 2003). Nonetheless, the three-stage classification is a useful decomposition of what can sometimes be a complex process.

In contrast to most other types of crime, money laundering is notable for the diversity of its forms, participants, and settings. It can involve the most respectable of banks unwittingly providing services to customers with apparently impeccable credentials. For example, Richard Scrushy, chairman and CEO of HealthSouth, a major health care corporation, was indicted on 85 counts, including fraud and money laundering. His financial executives pleaded guilty to using false earnings reports to mislead banks into providing a \$1.25 billion credit line. Scrushy himself is alleged

Box 3.1 Laundering methods of a drug trafficker

“Rick” launched his own drug trafficking operation using the funds of the cartel he once served. With the help of former associates, he used several methods to launder the proceeds. Cash shipments arrived by boat or plane and were promptly placed by couriers into a range of bank accounts (a process known as “smurfing”), an activity that corresponds to the placement phase of money laundering. An agent then moved the funds to the personal accounts of overseas intermediaries, each of whom arranged to transfer the funds back into the country into accounts at the national central bank, which granted authorization.

At this point, Rick would call the intermediary to cancel the transfer. The funds were then withdrawn in cash from the intermediary’s account and wired back in country to other accounts, using the authorization from the national central bank to explain the origin of the funds. Without knowing it, the central bank was giving legitimacy to drug monies.

After this layering phase, Rick purchased real estate with the funds, using lawyers, bank managers, and other professionals, which moves the process to the integration phase. He offered unusually high commission rates (3 to 5 percent) to gain the cooperation of the professionals with whom he was doing business. The real estate purchases were usually made in the names of other individuals or companies.

Eventually, several of the banks noticed that his account activities were rather odd and notified the national financial intelligence unit. An investigation revealed that Rick’s scheme had laundered tens of millions of dollars over several years.

Source: Egmont Group (2000).

to have used personal checks, cashiers’ checks, and wire transfers to purchase nearly \$10 million worth of high-value goods and real estate during the layering phase of this laundering operation.

Money laundering can also involve small nonfinancial businesses knowingly providing similar services to violent criminals, as in the case of truckers smuggling large bundles of currency out of the country for drug traffickers.

Money laundering does not require international transactions; there are instances of purely domestic laundering.¹ Nonetheless, a large number of cases do involve the movement of funds across national borders. Though governments have unique police powers at the border, those same borders can impede the flow of information. Thus the description and analysis in this chapter place heavy emphasis on the international dimensions of money laundering.

1. Just to cite one example, in the *United States v. Clyde Hood et al.*, Central District of Illinois, an indictment returned on August 18, 2000, charged the defendants with fraud for collecting checks from investors, who were promised a 5,000 percent return. Funds were deposited in checking accounts and used to incorporate and support participants’ businesses, as well as to purchase real estate, all within the Mattoon, Illinois, area.

Box 3.2 Embezzlement and (self-) money laundering

Several officials of the Washington, DC Teachers Union (WTU), including president Barbara A. Bullock, were implicated in a recent scandal involving the theft of \$4.6 million.

The astonishingly simple scheme had several concurrent elements. One involved Bullock's chauffeur, Leroy Holmes, who in February 2003 pleaded guilty to laundering more than \$1.2 million. Many of the more than 200 checks Holmes cashed were made out to creditors such as Verizon or the DC Treasurer, with the original payee's name crossed out and replaced with Holmes' name. He often left Independence Federal Savings Bank with his pockets stuffed with as much as \$20,000 worth of bills. The bank never filed either the required currency transaction report or suspicious activity report and may face investigation for colluding in the union's money-laundering plan.

In addition, the WTU made several payments totaling \$450,000 for the "consulting services" of a phony company called Expressions Unlimited. One of the company's partners, Michael Martin, claimed to be Bullock's hairdresser but has since pleaded guilty to money-laundering conspiracy charges.

Union credit cards were used to buy expensive clothing, electronic equipment, artwork, and other costly items. As of February 2004, Bullock had been sentenced to nine years in prison following a guilty plea, and four others had been indicted.

Source: Washington Post (various editions, 2003 and 2004).

Boxes 3.1 through 3.4 are examples of money laundering that illustrate the variety of clients, providers, and methods involved. The chapter then goes into more detail about the "market" for money laundering—what is known about the providers and prices they charge. The final section presents a typology of offenses intended to provide a structure for policy analysis in dealing with the heterogeneous set of offenses that engender money laundering.

Laundering Mechanisms

A striking feature of money laundering is the number of different methods used to carry it out. Some of the major mechanisms described below are associated with only one of the three phases of money laundering, while others are usable in any of the phases of placement, layering, and integration.

Four methods of money laundering—cash smuggling, casinos and other gambling venues, insurance policies, and securities—are described below in some detail. A number of others that may be of importance are listed in box 3.5. The descriptions draw heavily on the FATF's annual typologies reports, which list notable cases that illustrate the variety of laundering techniques used.

Box 3.3 “Underground” banking that finances human smuggling

A South Asian man ran a small business with an annual turnover of around \$150,000. His banks were understandably surprised to see that between \$1.7 million and \$3.5 million flowed annually through his private accounts for three years. Their suspicious transaction reports triggered investigations that revealed that the suspect's business was the headquarters of an international “underground bank” with “branches” in several Central Asian and European countries. Along with small amounts intended to support relatives in the transferring parties' home countries, this illegal banking system was used to transfer large sums for smuggling people into Europe. In May 2000, the suspect and one of his branch managers were arrested. He had squirreled away around \$140,000 in cash in a safe and had purchased his home for \$400,000 in cash shortly before his arrest.

Source: FATF (2002b).

Cash Smuggling

One of the oldest placement techniques, common smuggling of currency, seems to be on the rise. Bulk shipments are driven across the border or hidden in cargo, even though it is illegal to export more than \$10,000 in currency from the United States without filing a Report of International Transportation of Currency or Other Monetary Instruments (CMIR). Criminals have even been known to purchase shipping businesses so that they can store cash inside the goods. Individual couriers transport cash in checked or carry-on baggage or on their persons. Smugglers can also simply use the mail or a shipping company such as UPS or FedEx. US customs officials spend most of their resources inspecting people and cargo coming *into* the United States, so it is relatively easy to ship currency to another country.² Also, cash stockpiling (allowing cash to accumulate while waiting for a smuggling opportunity) is thought to have increased, particularly in port or border regions. If cash smuggling has grown overall, it may be partially attributed to the success of banks' antilaundering measures.

Casinos and Other Gambling Venues

Casinos. Chips are bought with cash, then after a period of time during which gambling may or may not take place, the chips are traded in for a check from the casino, perhaps in the name of a third party. When a casino

2. The authority to search in the United States does not distinguish between entry and exit. However, historically there has been more interest in preventing the entry than the exit of inappropriate goods and people. Nonetheless, the US Customs Service does occasionally use its authority for exit inspections.

Box 3.4 Pilfering by a media baron

Flamboyant Czech-born British businessman Robert Maxwell used the *New York Daily News* as a money-laundering device, funneling nearly \$240 million through the tabloid's accounts during the nine months he owned the newspaper. In an audacious embezzlement endeavor, he siphoned pension funds from Maxwell Group Newspaper PLC in London and deposited them in accounts controlled by the *Daily News's* parent company in the United States. Within days, wire transfers would move the money to hundreds of other companies that only he could access. Maxwell engineered several bank loans to the newspaper, large portions of which never showed up on the publication's ledgers. After his mysterious drowning death in November 1991, allegations surfaced that Maxwell also laundered money from weapons sales to Iran.

Source: Robinson (1996).

has establishments in different countries, it may serve as an unwitting international launderer if a customer requests that his or her credit be made available in a casino establishment in another country. In addition, tokens themselves may be used to purchase goods and services or drugs.

Horse racing. Winning tickets are bought at a slight premium, allowing the winner to collect his or her money without tax liability and enabling the launderer to collect a check from the track. Relevant taxes will be deducted from this amount.

Lotteries. As at horse tracks, winning tickets are purchased from the winners as they arrive at the lottery office to collect their winnings. In a case believed to be a common type of operation, a launderer placed many low-risk bets at various bookmakers within his city, ending up with a long-term 7 percent loss rate—an unusual pattern and poor record for a professional gambler. He had the checks for the winnings made out to 14 bank accounts in the names of 10 different third parties, some of whom happened to be armed robbers and their immediate families (FATF 2002b).

Insurance Policies

Single premium insurance policies, for which the premium is paid in an upfront lump sum rather than in annual installments, have increased in popularity. Launderers or their clients purchase them and then redeem them at a discount, paying the required fees and penalties and receiving a “sanitized” check from the insurance company. Insurance policies can also be used as guarantees for loans from financial institutions. Many insurance products are sold through intermediaries; consequently, insurance companies themselves sometimes have no direct contact with the beneficiary.

Box 3.5 Other money-laundering methods

Structuring or “smurfing.” This involves breaking down cash deposits into amounts below the reporting threshold of \$10,000. Couriers (“smurfs”) are used to make the deposits in several banks or to buy cashier’s checks in small denominations.

Informal value transfer systems. These which include *hawalas*, an Arabic word for a particular international underground banking system. Handed cash in country A, a *hawaladar* can turn it into cash (or sometimes gold) in country B. The *hawala* includes the complete service from placement to integration. Similar services are provided under other names in other parts of the world, such as *fe chi’en* in China.

Wire and electronic funds transfers. These refer to a method through which banks transfer control of money by sending notification to another institution by cable (in the past) or electronically. Such transfers remain a primary tool at all stages of the laundering process, but particularly in layering operations. Funds can be transferred through several different banks in several jurisdictions in order to blur the trail to the source of the funds. Or transfers can be made from a large number of bank accounts, into which deposits have been made by “smurfing” to a principal collecting account, often located abroad in an offshore financial center.

Legitimate business ownership. Dirty money can be added to the cash revenues of a legitimate business enterprise, particularly those that are already cash intensive, such as restaurants, bars, and video rental stores. The extra money is simply added to the till. The cost for this laundering method is the tax paid on the income. With companies whose transactions are better documented, invoices can be manipulated to simulate legitimacy. A used car dealership, for example, may offer a customer a discount for paying cash, then report the original sale price on the invoice, thus “explaining” the existence of the extra illicit cash.

A slightly more sophisticated scheme may allow a criminal to profit twice in setting up a publicly traded front company with a legitimate commercial purpose—first from the laundered funds commingled with those generated by the business, and second by selling shares in this company to unwitting investors.

“Shell” corporations. These exist on paper but transact either no business or minimal business. A related concept, used mostly in the United States, is the special purpose

(box continues next page)

In addition, relatively complex cases involving single premium contracts have recently been discovered, involving slower procedures and less liquid transactions. These longer-term processes offer criminals a lower risk of detection—in essence, time itself provides the layering by separating chronologically the predicate crime from the eventual payoff. Evidence also suggests forays by money launderers, or those seeking to launder money, into the reinsurance industry, attractive because of its relative lack of regulation. Such transactions allow for more layering.

Securities

The securities sector is characterized by frequent and numerous transactions, and several mechanisms can be used to make proceeds appear as

Box 3.5 (continued)

vehicle. These are set up, usually offshore, complete with bank accounts in which money can reside during the layering phase. The shell corporation has many potential uses. One example is to buy real estate or other assets, then sell them for a nominal sum to one's own shell corporation, which can then pass the funds on to an innocent third party for the original purchase price.

Real estate transactions. These can cloak illicit sources of funds or serve as legitimate front businesses, particularly if they are cash intensive. Properties may be bought and sold under false names or by shell corporations and can readily serve as collateral in further layering transactions.

Purchase of goods. This practice can be particularly attractive for laundering, especially certain items. Gold is popular because it is a universally accepted store of value, provides anonymity, is easily changed in form, and holds possibilities of double invoicing, false shipments, and other fraudulent practices. Fine art and other valuable items such as rare stamps are attractive for laundering purposes because false certificates of sale can be produced, or phony reproductions of masterpieces purchased. Moreover, the objects are easily moved internationally or resold at market value to integrate the funds.

Credit card advance payments. A credit card holder may make a large payment with dirty money to the issuing bank, resulting in a negative balance due. The bank then pays out the balance with a check, which can be deposited into a personal account as apparently clean money. In recent years, increased bank scrutiny of these transactions has discouraged this money-laundering technique.

Currency exchange bureaus. These are not as heavily regulated as banks, and de facto, at least, may not be regulated at all, so they are sometimes used for laundering. Substantial foreign exchange transactions are said to be shifting from banks to these small enterprises. Two main laundering techniques are used. The first is to change large amounts of criminal proceeds in local currency into low-bulk European currency for physical smuggling out of the country, and the second is electronic funds transfer to offshore centers. In one reported case, a currency bureau reportedly exchanged the equivalent of more than \$50 million through a foreign bank without registering these transactions in its official records.

legitimate earnings from the financial markets. In addition, securities transactions often are international. The sector most commonly is used during the layering and integration phases, since most law-abiding brokers do not accept cash transactions. However, this obstacle is not an issue for criminals operating within the financial sector itself, such as embezzlers, insider traders, or perpetrators of securities frauds, because their (usually non-cash) funds are already present in the financial system. During the layering phase, a launderer can simply purchase securities with illicit funds transferred from one or more accounts, then use the proceeds from selling these securities as legitimate money.

Unlike regular securities, bearer securities (common in some European countries) do not have a registered owner, and when they change hands the transaction involves physically handing over the security, thus leaving no paper trail. The security's owner is simply the person who possesses it. Many

but not all countries and jurisdictions have phased out the use of bearer shares because of their potential role in money laundering and tax evasion.

Another laundering mechanism is the completion of simultaneous “put” and “call” transactions (in essence, “side bets” on a stock’s gain or loss) on behalf of the same client, who pays with dirty money. The broker pays out the winning transaction with clean money (minus a commission) and destroys the losing transaction to avoid suspicion. Technically, the client has only broken even with this deal, but profit is not the ultimate objective.

In its annual typologies reports on recent trends in money laundering, the Financial Action Task Force (FATF) reports that some countries have seen a significant shift in laundering activities from the traditional banking sector to the nonbank financial sector, as well as to nonfinancial businesses and professions.³ Even where the nonbank financial sector is subject to anti-money laundering rules, organizations in these sectors are less willing to abide by them, a reluctance that likely accounts for the relative paucity of suspicious transaction reports originating from the nonfinancial sector. Legal and accounting professionals in particular cite privacy concerns, but FATF experts suggest that the lack of public pressure may also play a role (FATF 2002b).

Which Methods Are Used for Which Crimes?

A reasonable conjecture is that different methods are used for laundering the proceeds from different predicate crimes. The annual typologies reports of the FATF and a report published in 2000 by the Egmont Group of Financial Intelligence Units describe recent cases that illustrate methods of laundering and investigation. Given that these are simply reported cases, they do not necessarily reflect the relative importance of different techniques. With that qualification, the FATF and Egmont Group reports can be used to develop a matrix matching 11 predicate crimes with 20 money-laundering methods (table 3.1). There were 223 cases available for classification, and each case involved one or more offenses and methods of laundering, thus producing a total of 580 entries.

Three offense categories accounted for over 70 percent of entries: drugs (185), fraud (125), and other kinds of smuggling (92). The types of laundering methods were more evenly distributed—wire transfers were involved in 131 cases (22 percent), but no other single method was involved in more than 75 cases. For the three major offense categories, the observations were broadly distributed across methods.

While these findings offer some insights into the laundering methods used for different offenses, the results should not be overemphasized.

3. The report offers no systematic evidence to support this statement, and it is difficult to identify a current database that would allow any agency to do so. But the conjecture is plausible, and an analysis of a fuller sample of actual cases would shed some light on its accuracy.

Table 3.1 Frequency of predicate offenses and methods

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

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

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

Neither the FATF nor the Egmont Group makes any claim to be offering a representative sample of cases. However, the information does have some value. For example, the data show that drug traffickers and other smugglers use a wide variety of methods for laundering the proceeds of their crimes. More weakly, they suggest that some methods are not much used, such as alternative banking systems and trusts and securities.⁴

Who Provides the Laundering Services?

The only information available as to who launders money comes from criminal and civil investigations, and the data represent the interaction of enforcement tactics with the underlying reality. Enforcement may aim primarily at operations that are more professional (because they are higher-value targets) or less professional (because they are easier to catch). Drug dealers' money launderers may get more attention because the dealers themselves are under more intense scrutiny. A substantial share of all reported US money-laundering cases involve drugs (chapter 5). Thus, the following observations about available cases are merely indicative.

The most obvious nexus between the criminal and financial realms would be persons inside the financial institutions themselves. Bank employees can be coerced or bribed not to file suspicious activity reports (SARs) or currency transaction reports (CTRs). Alternatively, the forms may be filled out, with the government's copy conveniently filed in the trash while the other copy remains in a drawer in case of an investigation.⁵

Lawyers are thought to be among the most common laundering agents or at least facilitators, though they have been at the center of few cases in the United States. A lawyer can use his or her own name to acquire bank accounts, credit cards, loan agreements, or other money-laundering tools on behalf of the client. Lawyers can also establish shell corporations, trusts, or partnerships. In the event of an investigation, lawyer-client confidentiality privileges can be invoked. In one case cited by the FATF in its 1997–98 typologies report, a lawyer charged a flat fee to launder money by setting up annuity packages for his clients to hide the laundering. He also arranged for credit cards in false names to be issued to his clients, who could use the cards to make ATM cash withdrawals. The card issuer knew only the identity of the lawyer and had no knowledge of the clients' identities.

Other professionals involved in money laundering include accountants, notaries, financial advisers, stockbrokers, insurance agents, and real estate

4. A Dutch study reports some details on a sample of cases involving money laundering (van Duyne 2003). The sample was dominated by drug cases and most involved relatively simple means of laundering.

5. Electronic filing, which would eliminate this option, is not currently required, at least not in the United States.

agents. A British report on serious and organized crime noted that in 2002, “purchasing property in the UK was the most popular method identified, involving roughly one in three serious and organized crime groups where the method was known” (National Criminal Intelligence Service 2003, 53).

Markets for Laundering Services

Since money laundering is a criminal service offered in return for payment, making laundering services more expensive would reduce their volume and thus the volume of predicate crime. Price might thus serve as a performance indicator. Unfortunately, law enforcement agencies do not systematically record price information acquired in the process of developing money-laundering cases, since that information is not necessary to obtain a conviction.⁶

Moreover, price is an ambiguous concept in this context. Apart from the fact that some laundering agents provide only partial services (for example, placement or layering), there are at least two possible interpretations of price: first, the fraction received by the launderer, including what he or she paid to other service providers, and second, the share of the original total amount that does not return to the owner’s control. The latter share could include tax payments, as in the case of a retail proprietor who might charge only 5 percent for allowing the commingling of illegal funds with his or her store’s receipts, but then might have to add another 5 percent for the sales tax that would be generated by these fraudulent receipts.⁷

The policy-relevant price is the second of these, i.e., the difference between the amount laundered and the amount eventually kept by the offender. Pushing offenders to use laundering methods that involve smaller payments to launderers but higher total costs (for example, because of taxes) to the predicate offender is indeed preferable to raising the revenues received by launderers as a group; after all, the difference may include payments to the public sector. Such substitution might occur if the government mounted more sting operations aimed at customers.

The difference is by no means only of theoretical interest. Take, for example, one case cited by the Egmont Group (2000) of high-priced laundering where most of the price did not accrue to the launderer. A credit manager at a car loan company was suspicious about one of his customers. “Ray” had just bought a luxury sports car worth about \$55,000, financing the car through the credit company for \$40,000, and paying the balance in cash.

6. The 2002 US *National Money Laundering Strategy* noted the importance of collecting such data.

7. It is possible, of course, that this laundering will generate income tax payments. This depends on the skill of the firm in generating false expenses. However, the sales tax is an unavoidable consequence of inflating gross retail revenues.

Records showed that Ray had taken out several loans over the past few years, all for the same amount of money and with a large portion as a cash deposit. In many cases the loans had been repaid early with cash. The national financial intelligence unit realized Ray was laundering for a long-established criminal organization, putting cash from the sale of drugs into the banking system. He would resell the newly bought cars, obtaining checks to deposit into a single bank account, in all totaling over \$300,000. The losses made on the loan and the drop in the automobiles' resale values were the cost of obtaining "clean" money.

Information about the price of money-laundering services is scattered and anecdotal. In the money-laundering activity targeted by Operation Polar Cap, a coordinated law enforcement sting operation during the late 1980s, the drug trafficker would pay only 4.5 percent to the government sting launderer initially, but was willing to go to 5 percent if the laundering were done rapidly (Woolner 1994, 43). Later in the operation there were reports of much higher margins. Experienced investigators refer to a general price range of 7 to 15 percent for laundering for drug dealers, but some reports are inconsistent with such estimates. One *National Money Laundering Strategy* (US Treasury 2002, 12) reported a study that found commission rates varying between 4 and 8 percent but rising as high as 12 percent.

Other criminals pay much less for money-laundering services. For example, John Mathewson, who operated a Cayman Islands bank that laundered money for a number of white-collar offenders (e.g., Medicare fraudsters, recording pirates) and US tax evaders, charged a flat fee of \$5,000 for an account, plus a \$3,000 per annum management fee (Fields and Whitfield 2001). Mathewson, who provided a complete set of services, also kept 1 percent of the float that the clients' money earned when held overnight by other banks (US Senate 2001a, b).

The price paid for a particular money laundering service apparently is partly a function of the predicate crime and the volume of funds that needs to be laundered. Whereas legitimate financial transactions generate lower per-unit costs the larger they are, the opposite is true for money laundering—the risk of detection is a major cost, and that risk will rise with the quantity being laundered. On the other hand, a broker involved in Colombian black market peso operations stated in an interview that he charged less for larger volumes of money. He once garnered between \$600,000 and \$700,000 (5 to 6 percent) on a \$12 million transaction that took two months to process.⁸

Table 3.2 provides information on a few cases for which some data on prices are available. The data are merely illustrative and so sparse that no inferences about price trends can be drawn.

8. Public Broadcast Service (PBS) interview. www.pbs.org/wgbh/pages/frontline/shows/drugs/interviews/david.html.

Table 3.2 Examples of money-laundering costs (in current dollars)

Name and date	Predicate offense	Amount laundered	Stages covered and techniques	Amount launderer received	Total cost of laundering to client	Comments
Name unknown, 1994	Drug trafficking	\$633,900	Placement: Smurfing Layering: Transfers, offshore accounts, trusts Layering/integration: Real estate, truck parts All stages: Accountants	\$63,390	10 percent commission	Cash handed off to accountant, who handled all stages of laundering.
Servicio Uno, date unknown	Drug trafficking	\$3.3 million annually	All stages: Alternative remittance system	\$165,000–\$330,000 annually	5–10 percent commission	
Unknown	Armed robbery	\$3.3 million	Placement/integration: Bookmaker No real layering necessary	Unknown	7 percent loss on bets	Lauderer placed bets with bookmaker at high stakes and low odds, then received checks for winnings made out to clients.
"Henry," date unknown	Fraud	\$850,000	Placement: Deposits in associates' accounts Layering: Wire transfers, notaries	All, minus costs (self-lauderer)	\$210,000, including real estate expenses and payoffs to associates	

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Table 3.2 Examples of money-laundering costs (in current dollars) (continued)

Name and date	Predicate offense	Amount laundered	Stages covered and techniques	Amount launderer received	Total cost of laundering to client	Comments
German Cadavid, 1995	Drug trafficking	50–60 million pound sterling	Placement: Exchange business Layering: Structured wire transfers	Estimated \$3–\$4 million	7 percent commission	Owned money-transmitting service and exchange office serving local Dominicans.
Robert Hirsch, Richard Spence, Harvey Weing, 1994	Drug trafficking	About \$100 million	Placement: Cash shipments and large cash deposits Layering: Wire transfers	About \$7 million, minus \$1,000 to \$6,000 to couriers per pickup	7 percent commission	Worked for Cali cartel. Deposits approved by rogue assistant manager at Citibank branch. Tried to steal \$2.5 million from cartel.
Nilo Fernandez, 1993	None—Sting	\$335,000	Placement: Cash shipments to Philippines Layering: Shell corporations	\$56,000	16 percent commission	Fernandez was launderer for Dung Cong Wa, Vietnamese dealer in methamphetamines and stolen computer parts.
Stephen Saccoccia, 1993	Drug trafficking	\$200–\$750 million	Placement: Cashier's checks Layering: Wire transfers, false invoices	\$20–\$75 million	10 percent commission	First and only launderer for both Cali and Medellín cartels.

A large number of money laundering cases appear to involve opportunistic laundering rather than professional services. Where someone apart from the offender provides the service, he may provide it only to that offender, perhaps because they are related or connected through some other activity. Drug dealers appear to be more likely to purchase formal money-laundering services.

We began this study assuming that money-laundering services were provided by professional money launderers. Some would be engaged in other legitimate activities, but the assumption was that money laundering was a service that they provided to a number of clients, and that they were willing to provide it to those who could demonstrate financial capability and who seemed not to be working for the government. Such launderers exist, but in reported cases they are surprisingly rare.⁹ A great deal of money seems to be self-laundered. For example, box 3.4 briefly describes laundering by Robert Maxwell, a flamboyant press lord in the United Kingdom. Other people may have aided him, but no one was an independent provider of laundering services. Terrorist financing cases also seem to involve people who belong very much to the cause rather than being mere commercial providers.

This is certainly not the first study to raise this question about self-laundering or money laundering integrated with the underlying crime. A decade ago, Australia's National Crime Authority stated: "Most money-laundering activity is carried out by the primary offender, not by 'professional' launderers, although the use of complicit individuals is often crucial to the success of the money laundering schemes" (Gilmore, 1999, 128, citing National Crime Authority, 1991, vii).

The question of whether there are large numbers of stand-alone money launderers is important for both policy and research purposes. The rationale for the current system is based in part on the claim that its design allows for apprehending and punishing actors who have provided a critical service for those who commit certain kinds of crimes, and who previously were beyond the reach of the law. For research purposes, the assumption of a substantial number of stand-alone launderers makes the market a useful heuristic device for analyzing the effects of laws and programs. As will be discussed in chapter 5, however, that assumption appears not to be well justified by the facts.

If money laundering is done mostly by predicate offenders or by non-specialized confederates, then the current regime accomplishes much less. A central point in a study by Mariano-Florentino Cuéllar (2003) is

9. The case of the Beacon Hill Service Corporation (Morgenthau 2004) is a conspicuous exception to this generalization. Beacon Hill was an unlicensed money-transferring business that allegedly provided money-laundering services to a wide range of clients over a period of almost a decade.

that in the enforcement of the AML regime there is no new set of offenders, just a new set of charges against the same offenders. Consequently, the new tools of the AML regime, while they might help increase the efficiency of law enforcement, would likely bring substantially more modest gains than has been posited.

For research, the market model may be strained. Price may not be well defined to most participants because the service is rarely purchased. Risk may also be hard to observe because it is derivative from participation in other elements of the crime. Assessing how interventions increase risks and prices for those transactions that do involve stand-alone launderers will have only modest value.

Classification of Offenses

Offenses can be classified into five categories for purposes of understanding the effects of specific money-laundering controls: drug distribution, other “blue-collar” crime, white-collar crime, bribery and corruption, and terrorism. The categories are more homogeneous with respect to the effects of interventions and the seriousness and distribution of the harm caused by particular offenses to society, but they also differ from each other in these dimensions. It can be conjectured, for example, that the response of white-collar offenders to increased scrutiny of, say, casinos, is likely to be different from the response of those who launder money on behalf of drug dealers. Similarly, the benefits from reducing white-collar crime by 1 percent might be seen as substantially less than those associated with a similar reduction in drug trafficking. The distribution of benefits from reducing either of the two types of offenses may also be quite different: those who are harmed by drug trafficking are disproportionately from poor and minority urban populations, while the costs of white-collar crime are borne far more broadly across society.

The five-part classification is offered here as a preliminary typology. Further research may show that some categories can be collapsed or that others may need to be expanded. For example, research might eventually demonstrate a need to distinguish between white-collar crimes in which the proximate victim is a corporation and those in which the victim is a set of individuals. It may indeed even be that the characteristic of the fruits of the crime matter; certainly cash is different from other forms of proceeds. At this stage, the classification is useful for conceptual purposes and for suggesting approaches to policy modeling.

Table 3.3 provides hypotheses about the differences among the five categories of offenses in four dimensions: reliance on cash, quantities of money involved, the severity of adverse effects, and whom they affect. The entries concerning the “severity of harm” and the “most affected populations” are judgments offered here not as authoritative but simply

Table 3.3 Taxonomy of predicate crimes for money laundering

Crime	Cash	Scale of operations	Severity of harm	Most affected population
Drug dealing	Exclusively	Very large	Severe	Urban minority groups
Other blue-collar	Mostly	Small to medium	Low to modest	?
White-collar	Mix	Mix	Low to modest	Broad
Bribery and corruption	Sometimes	Large	Severe	Developing countries
Terrorism	Mix	Small	Most severe	Broad

to identify dimensions that deserve consideration in policymaking and research.

Drug Distribution

Major drug traffickers face a unique problem, which is how to regularly and frequently manage large sums of cash, much of it in small bills. For example, in Operation Polar Cap in the mid-1980s, US agents acting as distributors associated with the Medellín cartel, handled some \$1.5 million a week in currency. Few legitimate establishments—or even illegal ones, for that matter—operate with such large and steady cash flows.

This distinctive characteristic of drug distribution is particularly important because the current anti-money laundering regime initially was constructed primarily to control drug trafficking, an aspect of the regime that continues to affect public perceptions of the nature of the money-laundering problem.

Other Blue-Collar Crime

Other potential large-scale illegal markets that would seem at first glance likely candidates for generating a demand for money laundering include gambling and the smuggling of people. However, as seen in chapter 2, these crimes in fact generate relatively modest demand for money laundering simply because they have substantially lower revenues than drug markets. That is not a historical constant but an observation about the past two decades in industrial societies.

The amounts of money for any individual operation in these other areas appear to be much smaller than for drug distribution, in part because total and unit revenues are smaller and in part because what has to be laundered is net rather than gross revenues. For example, a bookmaker will receive from customers and agents only what they owe at the end of the accounting period (perhaps one or two weeks).

White-Collar Crime

The white-collar crime category includes a heterogeneous range of activities, such as embezzlement, fraud, and tax evasion. A distinctive feature of these crimes is that the money laundering is often an integral part of the offense itself, as illustrated in the Washington Teachers Union case (box 3.2). The Enron case demonstrates a more complex scheme in which shell corporations in the Cayman Islands served not only as questionable tax shelters but also as laundering mechanisms to obscure a trail of fraudulent behavior. Money-laundering services in such cases often are provided by the offenders themselves, since the offense requires skills similar to those involved in money laundering. Indeed, where there are false invoices and other elements of accounting fraud, such activities often constitute both the predicate as well as the laundering offense.

Bribery and Corruption

While bribery and corruption can be classified as white-collar crime, they are distinctive in terms of who benefits (public officials and those who benefit from their decisions), where they occur (primarily though not exclusively in poor countries), and the nature of their harm (reduced government credibility and quality of public services), as well as the almost inherently international character of the laundering—those corrupted would be well advised to keep the proceeds out of local banks unless the banks themselves were complicit or the amounts were small. Money laundering also is often embedded in the offense itself when the corruption is large-scale.

Terrorism

As has been frequently noted, the distinctive feature of terrorism is that it takes money both legitimately and criminally generated and converts it into criminal use. The sums of money involved are said to be modest—tens or hundreds of thousands of dollars rather than millions. Yet the harm is unique and enormous.

Table 3.3 summarizes the assessments of the relevant differences between the five types of offenses categorized in this chapter. There will be near consensus that terrorism poses a greater threat to social welfare than any of the other offenses. The harm associated with white-collar crime and non-drug, blue-collar crimes, on the other hand, may be considered by many to cause modest harms relative to the others. However, these two categories are very heterogeneous. For example, major environmental crimes (white-collar) could well strike some observers as just as harmful as selling cocaine.

The assessment of distributional consequences is intended as a reminder that benefits of interventions are far from uniform, since these offenses

affect different parts of society. Indeed, there even are significant differences across nations; kleptocracy—corruption by high-level officials—is probably more important for sub-Saharan Africa than any of the other offenses.

Conclusions

This chapter has sketched only a few of the many dimensions of the money-laundering business. For example, it has addressed neither the manner in which laundering is distributed among nations, a matter of great political interest and controversy, nor the characteristics of those involved (such as their criminal histories and occupations), about which almost nothing is known. Rather, the focus has been on important characteristics that have been little studied in evaluating existing money-laundering controls.

Most striking is the variety of money-laundering methods and the variegated nature of what generates laundering. Much more is known about drug dealing, and it probably forms its own submarket, with more reliance on professional money launderers than other submarkets. So while it may be useful analytically to consider money laundering as a market, it is clearly a variegated set of markets at best.

Examining the variety of offenses and their adverse consequences suggests that the estimates of the total volume of money laundered, as set forth in chapter 2, have limited value, for a number of reasons. A reduction in the total amount of money laundering that represented a decline in gambling or corporate fraud but hid a smaller increase in terrorist finance would hardly be indicative of progress, given the much greater social harm caused by terrorism. Similarly, the methods that may prove most effective in reducing money laundering associated with cash smuggling for cocaine dealers may be much less useful in controlling money laundering by kleptocrats. So while there are certainly commonalities in many dimensions of money laundering across different offenses, it is also important to track performance of the AML regime for the individual categories of offenses.

