English summary of Brå report 2015:22

Money laundering and other money management

Criminal money, black money and murky money in the legal economy

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The Swedish National Council for Crime Prevention (Brå) – centre for knowledge about crime and crime prevention measures

The Swedish National Council for Crime Prevention (Brå) works to reduce crime and improve levels of safety in society by producing data and disseminating knowledge on crime and crime prevention work.

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Summary

Brå has been instructed by the Government to investigate the circumstances surrounding, and methods used for, money laundering in Sweden. The overall purpose of the mandate is to identify central sectors in which a particularly significant amount of money laundering occurs and to assess the risks within such sectors. The mandate also includes surveying money laundering methods, analysing international aspects, presenting projections for the future, and suggesting ways to combat money laundering.

Many definitions

Money laundering is a complicated concept. The words "money laundering" customarily refer to measures to conceal financial gains from criminality, i.e. to convert black or criminal money to clean money. There are, however, offences where the criminal financial gains do not need to be "laundered". One example is when clean money is made black in order to make it possible to withdraw it from the company to finance undeclared work. In respect of environmental offences and the violation of other rules which regulate businesses, no special measures are necessary to conceal gains from "saved" costs since such gains can instead be treated as profit or paid out as wages (so-called "murky money").

For all offences, regardless of whether they involve organised crime or economic crime, a significant percentage of the gains from criminal activity are used for day-to-day consumption. The commission of certain offences also involve high costs and money is then used to finance new criminal ventures and to pay day-to-day expenses; this does not automatically mean that the money is concealed. In other words, money does not always need to be laundered – but it is managed. As a result, it is more suitable to use *crime-related money management* than money laundering as the umbrella term. Other terms, such as reverse money laundering (making clean money dirty) and traditional money laundering (making black money clean) are subcategories falling under this umbrella.

Another central concept is *risk*, which is a combination of threat, vulnerability, and damage, as well as the likelihood that crime-related money management will take place. In this study the concept has been limited to threat – exposure to crime-related money management in legal sectors – and to vulnerability – the exposure of legal sectors to crime-related money management.

Crime-related money management from the perpetrator's perspective

In order to be able to respond to the questions posed in the instruction, the perpetrator's perspective on crime-related money management is the point of departure for the report. Accordingly, Brå has investigated how money is managed, beginning with the collection of the start-up capital until the criminal proceeds are used. The purpose has been to discern the methods and legal sectors used by the perpetrators.

The report begins with a qualitative section in which existing knowledge regarding crime-related money management is collected. Due to shortcomings in respect of such knowledge, the review of the literature has been supplemented by interviews and seminars with representatives from public authorities and industries. The seminar participants also helped weight risks and crime-related money management within various legal sectors.

The need for crime-related money management in legal sectors

In order to survey methods for crime-related money management and identify exposed legal sectors, one must understand the different needs and conditions for crime-related money management presented by various offences. The point of departure for the report being how crime-related money intersects with the legal economy, and the relevant types and areas of offences include criminality for profit which generates a significant sum of money. Roughly speaking, this includes organised crime and economic crime. There are no well-founded turnover calculations for each area of criminality. However, based on previous turnover calculations, it appears that economic crime turns over the greatest amounts of money.

Many of the offences which constitute organised criminality, such as drug trafficking, human trafficking, and illegal weapon trafficking, have high costs of acquisition, and the money management appears primarily to refer to foreign cash payments to suppliers and recruiters. This requires currency exchange or payment services. Smuggling goods may also require coming into contact with transport companies, haulage companies, or wholesalers. Sale and payment take place primarily in cash and the gains are managed in cash. Consequently, a significant portion of the gains are used for cash-based day-to-day and luxury consumption. On the other hand, perpetrators with significant gains attempt to put the money into the financial system and conceal the illegal origin of the funds in order to be able to invest in residences, other properties, or companies.

In respect of economic crimes – such as undeclared work, fraud, and extensive regulatory violations – the costs are, however, very low as a consequence of the fact that much of the criminality takes place within established corporate structures. The greatest need is, instead, to pay wages for undeclared work and to distribute profits by means of account transfers and withdrawals. Economic criminals sometimes use advisors in order to invest their gains in foreign accounts, purchase cars and homes, or start new companies.

Vulnerability is greatest at the point of the perpetrator's greatest need

The need to manage money and the interfaces with the legal sector thus differ somewhat depending on the offence but there are also many common features. Both categories of offence are characterised by (a goal of) luxury consumption, such as cars, boats, watches, jewellery, gambling, travel, and restaurant meals. The trend is also for organised criminality to increasingly use accounts and companies as early as in the planning stage of the offence. This means that regardless of the offence, the perpetrators use similar methods to evade verification and conceal the origin of illegal money. These *money management methods* also constitute significant threats and points of vulnerability for legal sectors. The use of false identities, corporate structures, straw men and other front men as directors, account holders, and owners, makes it more difficult to detect and reach the perpetrators. Moreover, money is often taken abroad to be placed, consumed, or invested there, or after a u-turn, returned to Sweden. False invoices attested by advisors, and sales at multiple levels also give illegal funds a legal appearance. Accordingly, the greatest threat lies in the methods used by the perpetrators to circumvent verification systems.

Three central sectors

Based on the offences which were investigated and their interfaces with the legal economy, three overall legal sectors have been identified: the financial sector (banks, etc.), the advisory sector (lawyers, brokers, etc.), and the retail and service sector. However, the perpetrators do not think in terms of sectors but instead focus on the *functions* provided by the sectors, for example opportunities for cash withdrawals or currency exchange. It is of minor importance to the perpetrator whether the withdrawal takes place through a refund in a store, a false invoice, or a bank cash machine. Risks – threat and vulnerability – are thus described based on these functions and not based on specific actors or industries within the three overall sectors.

Risks of crime-related money management in the financial sector

As mentioned above, the perpetrators – particularly those of economic crimes – have a great need to manage money in the financial sector. Taken as a whole, a significant percentage of the illegal funds thus move about in an account environment. Transfers between accounts and account withdrawals are deemed as the most central functions for the perpetrators. This goes hand in hand with the need which arises in conjunction with economic criminality – the area where the most money is turned over – to withdraw money from companies. This money often appears legal by virtue of the various money management methods presented above. In order to protect themselves, the perpetrators also use false identities and front men for accounts associated with the transactions. The greatest problem from a risk perspective is thus not attempting to prevent the perpetrator's money from being placed in the account, but rather identifying and localising the illegal money. From a risk perspective the combination of companies and accounts legitimising crime-related money management and making it difficult to

separate out suspected transactions thus constitutes a vulnerability. *This also means that the risk of crime-related money management within the financial sector is greatest in conjunction with account transfers and cash withdrawals*.

Risks of crime-related money management in the advisory sector

It is primarily economic criminals who need advisors. Accordingly, when the advisor enters the picture, the perpetrator's money is already in an account. It is also probably common that this money does not appear to be illegal since the perpetrators control companies and have other legitimate façades. The conclusion is thus that the advisors are managing relatively few, but large, sums of money.

The most central advisory sector functions in terms of crime-related money management are the use of client funds accounts and other aids to transactions, advice on (for example) legal and financial issues, and the drafting and approval of false certificates and other documents. The two first functions are used primarily in conjunction with placement, transfer, and investment of gains, while the latter functions address whether economic criminals with companies need public accountants and accounting consultants in order to legitimise illegal transactions and regulatory violations.

Since the money does not look illegal, it may be the case that an advisor seldom consciously contributes to concealing or transferring criminal money. False invoices and other false documents are also difficult to detect. As in the financial sector, the legitimate background of the illegal money constitutes a threat which renders the advisory sector vulnerable. *It is thus on these points as well – use of client fund accounts and other transaction aids, advice, and drafting and approval of false certificates and other documents– that the risk of crime-related money management is greatest within the advisory sector.*

Risks of crime-related money management in the retail and service sector

Consumption is a common denominator for all criminality. It is hardly surprising that consumption of goods and services – both day-to-day consumption and luxury consumption – are deemed to be the most central functions for crime-related money management within the retail and service sector. By its very nature, it is impossible to detect day-to-day consumption since it disappears into the vast flow of payments. Money laundering regulations which impose conditions on cash payments in excess of EUR 15,000 pose a significant vulnerability in conjunction with luxury consumption. A great deal of luxury consumption lies under this level and, moreover, payment may be made through accounts. It is also not remarkable to purchase expensive goods in a store which sells expensive goods. There is also the problem of front men. *Day-to-day and luxury consumption therefore represent the greatest risk of crime-related money management in the retail and service sector.*

Conclusions and proposals

The conclusions and proposals presented in the report aim at providing a basis for deliberations and measures. They are structured on the basis of the factors which are included in a risk assessment: threat, vulnerability, consequences, and likelihood. The report proposes the following:

Threat and vulnerability

- The greatest volumes of illegal money appear in *economic crimes*. Greater focus may thus be placed on combatting economic crimes, verifying cash flows within the financial system, and investigating where this money goes. This could be achieved, among other things, by the Police's Financial Intelligence Unit becoming a multi-agency financial intelligence service, by instructing the Tax Agency to work to counteract crime-related money management, and by providing the supervisory authorities with stronger representation in the multi-agency effort to counteract organised crime (GOB).
- A review of how to improve detection of *murky money* could be conducted, including how it can be prevented with the help of verification authorities.
- *Companies* are central to crime-related money management. This applies in particular to economic crime but it also applies to organised crime. As a result, there is a need to focus increased attention on the infiltration of companies and the way in which companies are used for crime-related money management.
- *False identities* are regularly used for crime-related money management. The routines of the Tax Agency and the Companies Registration Office for population registration and company registration, respectively, can be reinforced and there is a need for more registries.
- *Advisors* come into contact with significant amounts of illegal money. There is cause to consider how one can enhance their options for verification. The vulnerability of advisors and other business operators to participation in crime-related money management should be investigated.
- *Luxury consumption* permeates all criminality. Crime-related luxury consumption can be identified as a priority area and more energy can be devoted to discovering and combatting this consumption. There is also cause to investigate ways to strengthen control functions for business operators in the retail and service sector.
- Despite the fact that significant resources are expended on combating money laundering, there is a lack of knowledge and we know little about how crime-related money management within various offences, how perpetrators manage their gains, and the scope of such money management. *Knowledge* about the management of illegal money should therefore be increased through long-term work in surveying the criminal economy.

Consequences

- A great deal of the illegal money remains in an *aquarium economy* where perpetrators transact with each other (drugs, stolen goods, etc.). The illegal money thus never comes into contact with the legal sector. Asset-oriented law enforcement which is based on forfeiture of criminal gains can thus also focus on money which does not interface with the legal economy. One could consider a review of Swedish Customs' ability to seize cash.

- Perpetrators manage money in financial systems. Greater focus can be placed on the accounts system, as well as on the *gatekeepers*, e.g. currency exchange offices, bitcoin traders or factoring companies, or insiders at such businesses, who enable the influx and outflow of the perpetrators' cash.

Likelihood

- The illegal economy, too, is moving towards *increased internationalisation* and use of accounts, cards, and new *payment solutions*. Increased attention should therefore be paid to alternate means of payment, such as virtual currencies, virtual wallets and prepaid cards, and contact interfaces with them. There is a need for mutual assistance agreements with other countries, as well as increased attention paid to money which is brought in to Sweden.