

Process of money laundering

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Abstrakt

Money laundering is the process by which criminals attempt to conceal the illicit origin and ownership of the proceeds of their unlawful activities. By means of money laundering, criminals attempt to transform the proceeds from their crimes into funds of an apparently legal origin. If successful, this process gives legitimacy to the proceeds, over which the criminals maintain control.

Money laundering can be either a relatively simple process, undertaken at the local or national level, or a highly sophisticated one that exploits the international financial system and involves numerous financial intermediaries in a variety of jurisdictions. Money laundering is necessary for two reasons: first, the perpetrator must avoid being connected with the crimes that gave rise to the criminal proceeds (known as predicate offenses); Second, the perpetrator must be able to use the proceeds as if they were of legal origin.

Money laundering disguises the criminal origin of financial assets so that they can be freely used. Money laundering has three stages: placement, layering, and integration. In the placement stage, the launderer introduces the illegal profit into the financial system. In the layering stage, the launderer engages in a series of conversions or movements of the funds to distance them from their source. Finally, in the integration stage, the funds reenter the legitimate economy.

In each stage of the process, the money launderer can employ a variety of mechanisms and monetary instruments to disguise the illicit nature of the criminal proceeds. Methods vary from the simple purchase of luxury items to more-sophisticated techniques involving the transfer of the money through a transnational network of banks and other financial institutions.

To dispose of the illicit proceeds, the launderer may make use of financial or nonfinancial mechanisms—that is, institutions that (knowingly or otherwise) participate in the laundering process. The most frequently used method is to work through banking institutions, mainly in the first stage of money laundering. Besides banks, other sectors are used, notably financial intermediation, because of the higher interests on the capital invested, leasing (the process of granting use or occupation of property during a specified period in exchange for a specified rent), and factoring (the practice of accepting accounts receivable as security for short-term loans). Other financial institutions, such as wire-transfer companies and exchange offices, are also often used to launder ill-gotten gains.

Finally, launderers use the gold market, casinos, and gambling houses. The instruments used for money-laundering operations also vary widely. Besides cash, the instruments most frequently used are stocks, life-insurance policies, letters of credit, bank checks of all kinds, wire transfers, and precious metals.

Key words: intermediaries, banks, property, accounts, operations, credits

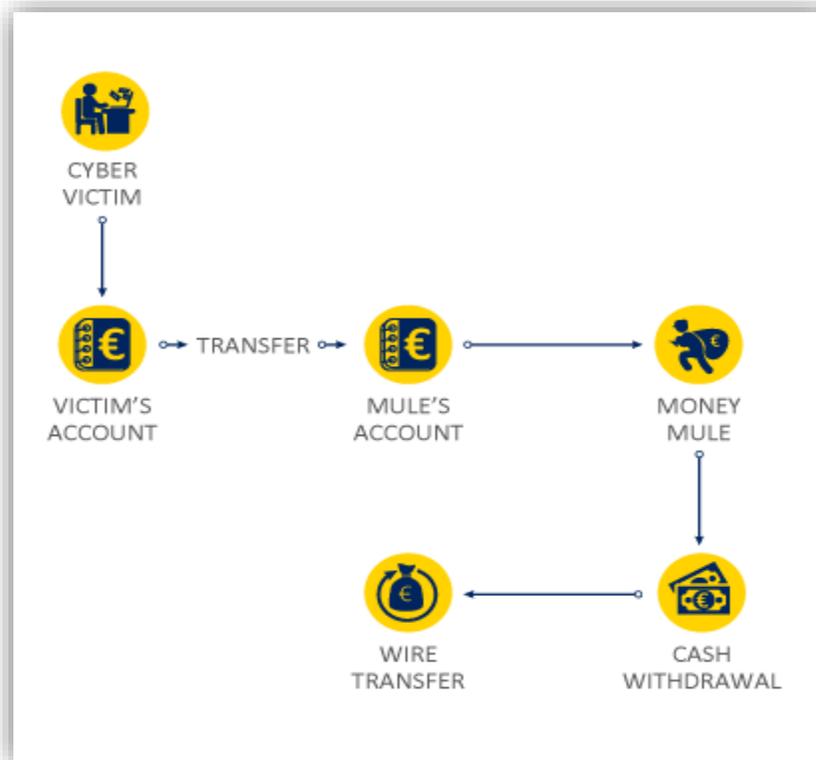
1. CHARACTERISTICS OF MONEY LAUNDERING

Money laundering is an offence in its own right but it is also closely related to other forms of serious and organised crime as well as the financing of terrorism:¹

- ✓ In addition to organised criminal groups, professional money launderers perform money laundering services on behalf of others as their core business.
- ✓ Most organised crime shares a common denominator — the financial motive. Organised crime groups boost their assets and then inject them into the legal economy through different money laundering.

Figure 1

Money Laundering



Source: Europol, (2024), Money Laundering, <https://www.europol.europa.eu/crime-area>.

¹ Europol, (2024), Money Laundering, <https://www.europol.europa.eu/crime-area>.

Money laundering refers to a financial transaction scheme that aims to conceal the identity, source, and destination of illicitly-obtained money:²

- The money laundering process can be broken down into three stages.
 - ✓ First, the illegal activity that garners the money places it in the launderer's hands.
 - ✓ Second, the launderer passes the money through a complex scheme of transactions to obscure who initially received the money from the criminal enterprise.
 - ✓ Third, the scheme returns the money to the launderer in an obscure and indirect way.
- Tax evasion and false accounting practices constitute common types of money laundering. Often, criminals achieve these objectives through the use of shell companies, holding companies, and offshore accounts. A shell company is an incorporated company that possesses no significant assets and does not perform any significant operations. To launder money, the shell company purports to perform some service that would reasonably require its customers to often pay with cash.
- Cash transactions increase the anonymity of customers and therefore decrease the government's ability to trace the initial recipient of the dirty money. Money launderers commonly select beauty salons and plumbing services as shell companies. The launderer then deposits the money with the shell company, which deposits it into its accounts. The company then creates fake invoices and receipts to account for the cash. Such transactions create the appearance of propriety and clean money. The shell company can then make withdrawals and either return the money to the initial criminal or pass the money on to further shell companies before returning it to further cloud who first deposited the money.
- Criminals often use offshore accounts to hide money because they offer greater privacy, less regulation, and reduced taxation. Some governments has no authority to require foreign banks to report the interest earned by their citizens with foreign bank accounts, the criminal can keep the account abroad, fail to report the account's existence, and receive the interest without paying personal income taxes in own country.

Money laundering is a process that criminals use in an attempt to hide the illegal source of their income. By passing money through complex transfers and transactions, or through a series of businesses, the money is "cleaned" of its illegitimate origin and made to appear as legitimate business profits. Money laundering typically occurs in three phase:³

- Initial entry or placement is the initial movement of an amount of money earned from criminal activity into some legitimate financial network or institution.
- The continuing transfer of the money through multiple transactions, forms, investments, or enterprises, to make it virtually impossible to trace the money back to its illegal origin.
- Final integration is when the money is freely used legally without the necessity to conceal it any further.

² LII / Legal Information Institute, (2024), Money laundering | Wex | US Law | LII / Legal Information Institute, https://www.law.cornell.edu/wex/money_laundering.

³ CFI Team, (2023), Money Laundering - Overview, How It Works, Example, Corporate Finance Institute, <https://corporatefinanceinstitute.com/resources/>

Money laundering is the illegal process of making large amounts of money generated by criminal activity, such as drug trafficking or terrorist funding, appear to have come from a legitimate source. The money from the criminal activity is considered dirty, and the process “launders” it to make it look clean.⁴

Figure 2



Source: Chen, J., (2023), Money Laundering: What It Is and How to Prevent It, <https://www.investopedia.com/terms/m/moneylaundering.asp>.

- Money laundering is essential for criminal organizations that wish to use illegally obtained money effectively. Dealing with large amounts of illegal cash is inefficient and dangerous. Criminals need a way to deposit money in legitimate financial institutions, yet they can only do so if it appears to come from legitimate sources. The process of laundering money typically involves three steps: placement, layering, and integration:
 - ✓ Placement surreptitiously injects the “dirty money” into the legitimate financial system.
 - ✓ Layering conceals the source of the money through a series of transactions and bookkeeping tricks.
 - ✓ In the final step, integration, the now-laundered money is withdrawn from the legitimate account to be used for whatever purposes the criminals have in mind for it.
- There are many ways to launder money, from the simple to the very complex. One of the most common techniques is to use a legitimate, cash-based business owned by a

⁴ Chen, J., (2023), Money Laundering: What It Is and How to Prevent It, <https://www.investopedia.com/terms/m/moneylaundering.asp>.

criminal organization. For example, if the organization owns a restaurant, it might inflate the daily cash receipts to funnel illegal cash through the restaurant and into the restaurant's bank account. After that, the funds can be withdrawn as needed. These types of businesses are often referred to as "fronts."

- One common form of money laundering is called smurfing (also known as "structuring"). This is where the criminal breaks up large chunks of cash into multiple small deposits, often spreading them over many different accounts, to avoid detection. Money laundering can also be accomplished through the use of currency exchanges, wire transfers, and "mules"—cash smugglers, who sneak large amounts of cash across borders and deposit them in foreign accounts, where money-laundering enforcement is less strict.
- Other money-laundering methods include:
 - ✓ Investing in commodities such as gems and gold that can be moved easily to other jurisdictions;
 - ✓ Discreetly investing in and selling valuable assets such as real estate, cars, and boats;
 - ✓ Gambling and laundering money at casinos;
 - ✓ Counterfeiting; and
 - ✓ Using shell companies (inactive companies or corporations that essentially exist on paper only).

2. MONEY LAUNDERING CYCLE

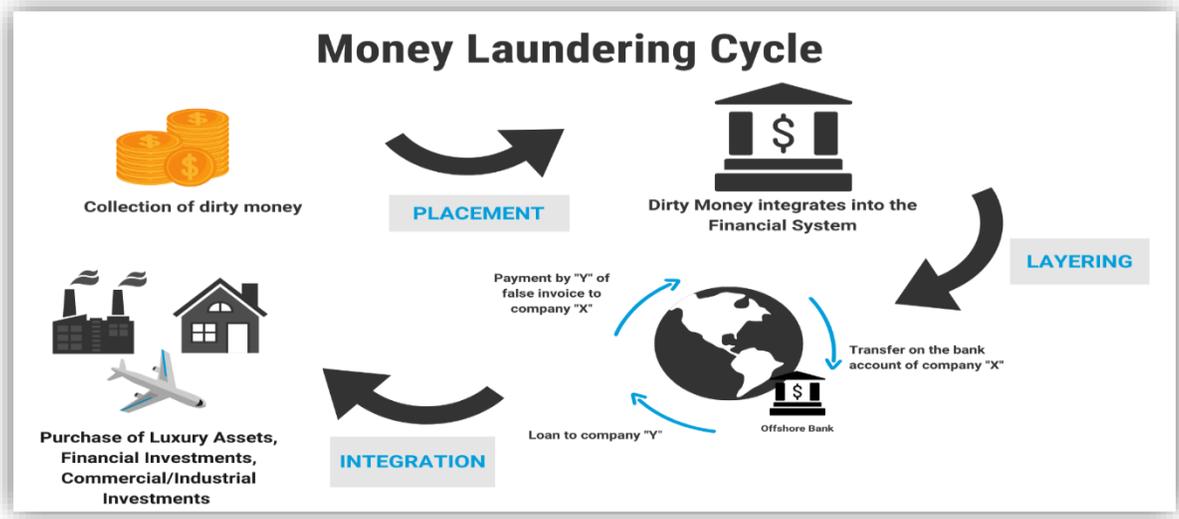
Money laundering is the processing of criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardising their source:⁵

1. Money laundering is a process that typically follows three stages to finally release laundered funds into the legal financial system. 3 Stages of Money Laundering:

- Placement (i.e. moving the funds from direct association with the crime),
- Layering (i.e. disguising the trail to foil pursuit),
- Integration (i.e. making the money available to the criminal from what seem to be legitimate sources) .

⁵ United Nations Office on Drugs and Crime, (2024), Money laundering - United Nations Office on Drugs and Crime, <https://www.unodc.org/romena/en/money-laundering.html>.

Figure 3



Source: United Nations Office on Drugs and Crime, (2024), Money laundering - United Nations Office on Drugs and Crime, <https://www.unodc.org/romena/en/money-laundering.html>.

2. In reality, money laundering cases may not have all three stages, some stages could be combined, or several stages repeat several times. For instance, Cash from drug sales is divided into small amounts then they are deposited by “money mules” and afterward transferred as payment for services to a shell company. In this case, the placement and layering are done in one stage.

3. The most common types of criminals who need to launder money are drug traffickers, embezzlers, corrupt politicians and public officials, mobsters, terrorists and con artists. Drug traffickers are in serious need of good laundering systems because they deal almost exclusively in cash, which causes all sorts of logistics problems.

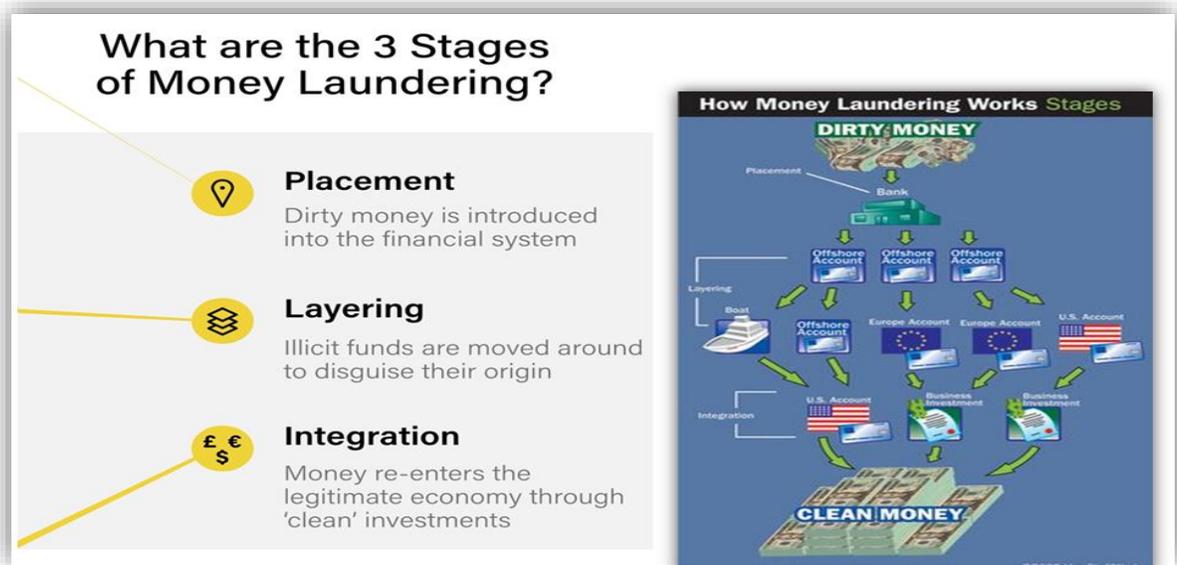
Money laundering is a process of converting cash, funds or property derived from criminal activities to give it a legitimate appearance. It is a process to clean ‘dirty’ money in order to disguise its criminal origin. Commonly, there are three stages of the money laundering process: placement, layering and integration:⁶

- Placement - Illicit funds are separated from their illegal source. This typically happens when illegal funds are placed into a reporting institution.
- Layering - Creating multiple layers of transactions to distance or disguise the illegal funds from their illegal sources. This is to obscure or make it difficult to trace the origin of the illegal funds. This may involve multiple transfers between accounts, hiding funds in shell companies or trusts or transferring funds into multiple assets.
- Integration - Final stage where the laundered proceeds are successfully integrated into the economy appearing as legitimate funds. This may include purchases of properties or high value goods, and investment into business ventures. Money launderers tend to

⁶ Global web icon, (2023), What is Money Laundering? - Anti Money Laundering. <https://amlcft.bnm.gov.my/what-is-money-laundering>.

seek out reporting institutions with weak anti-money laundering controls to 'clean' the illegitimate funds through these multiple stages, since there is less risk of detection.

Figure 4



Source: Global web icon, (2023), What is Money Laundering? - Anti Money Laundering. <https://amlcft.bnm.gov.my/what-is-money-laundering>.

3. VARIANTS OF MONEY LAUNDERING

Money launderers typically use methods to avoid detection and hide the real sources from where their money actually comes. Some of the most common methods are smurfs, mules, and shells:⁷

1. Smurfs. Smurf is the term used to describe a money launderer who wants to avoid government scrutiny. They do this by using the placement, layering, and integration steps to hide the money. Large sums of money are deposited in different banks using smaller transactions.

2. Mules. Mules are individuals who are hired by money launderers to help carry out their laundering schemes. Money mules are just like drug mules, who may be in on the scheme or may be recruited unknowingly. But rather than smuggling drugs, these individuals carry money.

- ✓ People who are recruited are usually approached by money launderers and often don't have any knowledge of the scheme. They may be enticed by being promised jobs that pay large sums of money in return. Criminals often target people who usually fall under the radar, including those who don't have a criminal record or the financially vulnerable.
- ✓ One of the mule's responsibilities is to open up bank accounts and deposit the illegal money into them. Money launderers then begin making wire transfers and

⁷ Investopedia Team, (2024), What Methods Are Used to Launder Money? <https://www.investopedia.com/ask/answers/022015/what-methods-are->

using currency exchanges to move the money around the financial system to avoid further detection.

3. Shells. Shells or shell corporations are companies that don't have any business activity or operations, physical operations, assets, or employees. Many shells are legitimate business entities that are used to raise money and fund the operations of a startup company or to manage a merger or acquisition. But other cases involve the creation of shells by fraudsters who want to hide illegal activities and/or avoid paying taxes. Many individuals do this by setting up shell companies in jurisdictions that guarantee anonymity, allowing them to make deposits and transfer money into different accounts. Shells also allow people to avoid reporting income and paying taxes to authorities like the Internal Revenue Service (IRS).

4. Gambling/Casinos. Using casinos for money laundering leverages the high volume of cash transactions and the relative anonymity of the players to disguise the origins of illicit funds. Criminals buy chips with dirty money and engage in minimal gambling activity, often choosing low-risk bets to avoid significant losses. After spending a small amount on the games, they cash out their remaining chips. Since casinos provide winnings in the form of checks or direct bank transfers, the funds appear to originate from legitimate gambling activities.

5. Cryptocurrency. The use of digital currencies and cryptocurrencies for money laundering exploits the decentralized and often pseudonymous nature of financial systems. Cryptocurrencies like Bitcoin enable users to move money across borders quickly and with relatively low fees. The blockchain technology underlying these currencies records transactions transparently but often does not directly link them to personal identities, making it challenging for authorities to trace the origins and destinations of illicit funds. In practice, a money launderer might purchase Bitcoin using illicit cash. They can then transfer the Bitcoin through multiple digital wallets, further obscuring the transaction trail. After moving the funds through several intermediaries or using mixing services that pool and redistribute transactions to enhance anonymity, the launderer can convert the Bitcoin back into fiat currency in a different country with more lenient regulatory oversight.

6. Cash-Intensive Businesses. Money laundering through cash-intensive businesses involves using establishments that primarily deal in cash to mix illicit funds with legitimate income. These businesses are ideal for laundering because their high volume of cash transactions makes it easier to blend dirty money with clean money, reducing the likelihood of detection. If you've seen the television show *Breaking Bad*, you can imagine why Walter chose a laundromat as his business.

Among the many variants of money laundering are structuring (aka smurfing), currency exchanges, bank capture, shell company schemes, and both trade-based and gambling-based money:⁸

1. Structuring (aka smurfing): "Structuring" transactions into small payments and other miniscule exchanges (like the Smurfs moving tiny packages around) to reduce the chances of detection from authorities.

2. Currency exchanges: Transferring the nature of the illicit funds, especially in the knowledge that currency values constantly fluctuate.

3. Bank capture: Gaining and exploiting partial or even full control over the operations of a bank – often offshore and in a jurisdiction that has limited AML measures – with the aim to

⁸ Jendruszak, B., (2024), What Is Layering In Money Laundering & How Does It Work? Global web icon, <https://seon.io/resources/layering-mon>.

launder money under the guise of a legitimate system of payment processing, whether it's in terms of storing, exchanging, investing, or otherwise.

4. Shell company schemes: Utilizing shell companies, i.e. organizations that exist in name only (although shell companies can be legitimate, especially those that are transparent about why they're shell companies in the first place) so that transactions can be made under the cover of one or more registered businesses.

5. Trade-based money laundering: Disguising illicit activities by carrying out ostensible business exchanges, especially through price misrepresentation tactics such as over-invoicing and/or under-invoicing.

6. Gambling-based money laundering: Obscuring illegal transactions by placing ostensible bets and wagers and exploiting certain transactional activities that are specific to the targeted and/or complicit casinos – with chip walking being a common example, namely when criminals “clean” their money by buying a great many chips, running through the motions of a brief and conservative gamble, and then cashing out the vast majority of their chips leftover.

There are many forms of money laundering though some are more common and profitable than others. Some of the more popular money laundering techniques include:⁹

- Bulk cash smuggling involves literally smuggling cash into another country for deposit into offshore banks or other type of financial institutions that honor client secrecy.
- Structuring, also referred to as “smurfing,” is a method in which cash is broken down into smaller amount, which are then used to purchase money orders or other instruments to avoid detection or suspicion.
- Trade-based laundering is similar to embezzlement in that invoices are altered to show a higher or lower amount in order to disguise the movement of money.
- Cash-intensive business occurs when a business that legitimately deals with large amounts of cash uses its accounts to deposit money obtained from both everyday business proceeds and money obtained through illegal means. Businesses able to claim all of these proceeds as legitimate income include those that provide services rather than goods, such as strip clubs, car washes, parking buildings or lots, and other businesses with low variable costs.
- Shell companies and trusts are used to disguise the true owner or agent of a large amount of money.
- Bank capture refers to the use of a bank owned by money launderers or criminals, who then move funds through the bank without fear of investigation.
- Real estate laundering occurs when someone purchases real estate with money obtained illegally, then sells the property. This makes it seem as if the profits are legitimate.
- Casino laundering involves an individual going into a casino with illegally obtained money. The individual purchases chips with the cash, plays for a while, then cashes out the chips, and claims the money as gambling winnings.

In today's interconnected world, financial crimes have become increasingly sophisticated, posing significant threats to global economic stability and security. Trade-Based Money Laundering is a complex method employed by criminals to conceal the proceeds of illegal activities through the manipulation of international trade transactions. By altering trade documents

⁹ Content Team, (2023), Money laundering, <https://legal.thomsonreuters.com/en/insights/white>.

and processes, such as invoices and shipping records, criminals can mask the true sources of their funds, making them appear legitimate:

1. Trade-Based Money Laundering encompasses various techniques, including over-invoicing or under-invoicing goods, misrepresenting the quality or quantity of goods, and using false documentation to deceive authorities. These tactics enable criminals to channel illegal funds into the legitimate financial system, bypassing traditional anti-money laundering measures.

2. Trade-based money laundering methodologies frequently involve a misrepresentation of the value of the goods that are part of a trade deal:¹⁰

- Essentially, trade-based money laundering is the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.
- Trade-based money laundering techniques vary in complexity. They are frequently used in combination with other money laundering techniques to obscure the money trail further.
- In essence, there are six different methods of trade-based money laundering, which are:
 - ✓ Over-invoicing or under-invoicing: The first technique involves over-invoicing or under-invoicing. In the case of over-invoicing, the goods or services are priced above the fair market price, and the seller can receive value from the buyer. In the second case, under-invoicing, the goods or services are priced below the fair market price, and the seller can transfer value to the buyer.
 - ✓ Over-shipping or short-shipping: The second technique makes use of over-shipping or short shipping. They work through a difference in the invoiced quantity of goods and the number of shipped goods. The buyer or seller gains excess value based on the payment made.
 - ✓ Ghost-shipping: The third technique is called ghost-shipping. Ghost-shipping is fictitious trades where a buyer and seller collude to prepare all the documentation indicating goods were sold, shipped, and payments were made, but no goods were shipped
 - ✓ Shell companies: The next technique is not necessarily limited to trade-based money laundering but can be used throughout several money laundering activities. This technique involved the use of shell companies. Shell companies are part of a broader subject about which we will also briefly talk about later. They are used to reduce the transparency of ownership in the transaction.
 - ✓ Multiple invoicing: The fifth technique is called multiple invoicing. Multiple invoicing means that numerous invoices are issued for the same shipment of goods, thus allowing the money launderer the opportunity to make numerous payments and justify them with the invoices
 - ✓ Black-market trades: Lastly, there is the technique of so-called black-market trades. Black-market trades are also commonly referred to as the Black-Market Peso Exchange. A domestic transfer of funds is used to pay for goods by a foreign importer.

¹⁰ Financial Crime Academy, (2024), Trade-Based Money Laundering: Definition, Risks and Regulatory Methods, <https://financialcrimeacademy.org/trad>.

CONCLUSION

Money laundering is a necessary component of the organized crime that too frequently spans borders, skirts taxes, funds terrorism and corrupts officials—and it comes with hefty macroeconomic costs. Bad actors are also embracing new technologies on top of their traditional techniques, all of which makes economic growth less inclusive and sustainable, fueling inequality and informality:

The international community has made significant progress toward strengthening safeguards against money laundering and terrorist financing, with help from the IMF and other organizations. We decided a decade ago to take a more bespoke approach to identifying key risks, working with member countries and international partners, particularly, the Financial Action Task Force, the international standard-setter in this area.

The overall efforts are still broadly insufficient. For example, as the FATF noted last year, there is still a major gap between progress countries have made on technical compliance, such as enacting new laws, and on the effectiveness of these efforts. For example, very little laundered ill-gotten proceeds are ever confiscated.

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