

# What is money laundering?

## Is money laundering a uniquely modern evil?

Whilst the term “money laundering” in the sense we understand it now was first used in print in 1973 during the Watergate scandal<sup>1</sup>, money laundering as a practice reaches much further back into history. Its origins may lie as far back as 4,000BC when Chinese merchants found ways to conceal or move assets accumulated through trade in order to avoid confiscation. We can see many of the actions that form the basis for money laundering throughout history; such as the trafficking of opium after cultivation of the opium poppy began in c. 3400BC, counterfeiting of coins recorded in 640BC, the case of Hegestratos’ Fraud in 300BC, or Roman laws addressing forgery which were enacted through 80BC. Slavery, terrorism, murder, smuggling and theft are also not uncommon throughout both antiquity and into the modern day

## How did we arrive at the modern meaning on Money Laundering?

If we fast forward to the 20th Century, the term “money laundering” is often said to have originated during America’s Prohibition era and from the activities of gangsters. Searching for a way to disguise the origins of large amounts of cash (often in small denomination coins) generated by the illegal import and sale of alcohol and other activities such as gambling and prostitution, they struck on the idea of running cash intensive businesses such as laundromats. These could be used to disguise the proceeds of crimes as revenue generated by legitimate business activities without raising suspicion.

Al Capone, one of Americas’ most wanted criminals in the 1920s and 1930s, was of course famously convicted for tax evasion. This ruling no doubt prompted many others to establish money laundering operations to conceal their criminal proceeds and complicate any potential prosecutions. In fact, Meyer Lansky, who was a cohort of Al Capone, came up with a scheme that would be copied in different guises by others in later years. Lansky established offshore accounts with foreign banks, and then borrowed from them; receiving what looked like legitimate loans (backed by the deposited criminal proceeds). These loans could even be disclosed to the revenue service, and tax deductions declared.

Another high profile example (briefly mentioned above) is the mechanism used by Richard Nixon’s re-election campaign to avoid the disclosure of financial contributions (either from donors who wished to remain anonymous, or illegal contributions from corporations and other impermissible donor groups). Cash was collected and deposited into a bank which did not allow the US government to subpoena their records – in this case, Banco Internacional – and these funds could then be withdrawn into cashiers cheques and easily moved around. In fact, Miami Dade Country chief investigator Martin Dadis, who uncovered one such cheque in the possession of one of the burglars of the Democratic National Committee Headquarters in Washington’s Watergate building, explained “It’s called laundering. You set up a money chain that makes it impossible to trace the source. The mafia does it all the time. So does Nixon [...]”<sup>2</sup>.

Other theories about the origin of the term focus on the how the money laundering process was described – such as in the 1996 book ‘The Laundrymen’ by Jeffrey Robinson:

“Money laundering is called what it is because that perfectly describes what takes place - illegal, or dirty, money is put through a cycle of transactions, or washed, so that it comes out the other end as legal or clean money. In other words, the source of illegally obtained funds is obscured through a succession of transfers and deals in order that those same funds can eventually be made to appear as legitimate income [...]”.

In the 1980s the term gained recognition in the American legal system, being referenced in a 1982 court ruling<sup>3</sup> before being outlawed in the eponymous 1986 Money Laundering Control Act. Indeed, the Act described it as the “process by which one conceals the existence, illegal source, or illegal application of income, and then disguises that income to make it appear legitimate.”

Since then, money laundering has been defined by different bodies from all over the world; including the UN, the Financial Action Task Force (FATF), FinCEN, OECD, Interpol, FINRA, the IMF and the World Bank; to name but a few. As criminals have become more adept in attempting to conceal the true origin and ownership of the proceeds of criminal activities, so too have definitions become more precise and detailed.

1. ‘The Start of the Watergate Flood’, the London Guardian newspaper, 19 April 1973: “Suitcases stuffed with 200,000 dollars of Republican campaign funds; money being ‘laundered’ in Mexico.”

2. ‘All the President’s Men’, Carl Bernstein & Bob Woodward, 1974

3. US v US\$4,255,625.39 (1982) 551 F Supp.314. This matter involved a forfeiture case, where it was decided that over US\$4mio in cash currency plus the balance on a bank account in Miami of more than US\$3.6mio could be seized, as a “substantial connection” between the money and narcotics transactions was established. The court in its judgment mentioned the fact that “Miami has become a centre for drug-smuggling and money laundering.”

4. <http://www.fatf-gafi.org/faq/moneylaundering/>; March 2017.

5. United Nations Office on Drugs and Crime (UNODC), 2011 Issued, 2009 figures

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### So what is the modern definition of money laundering?

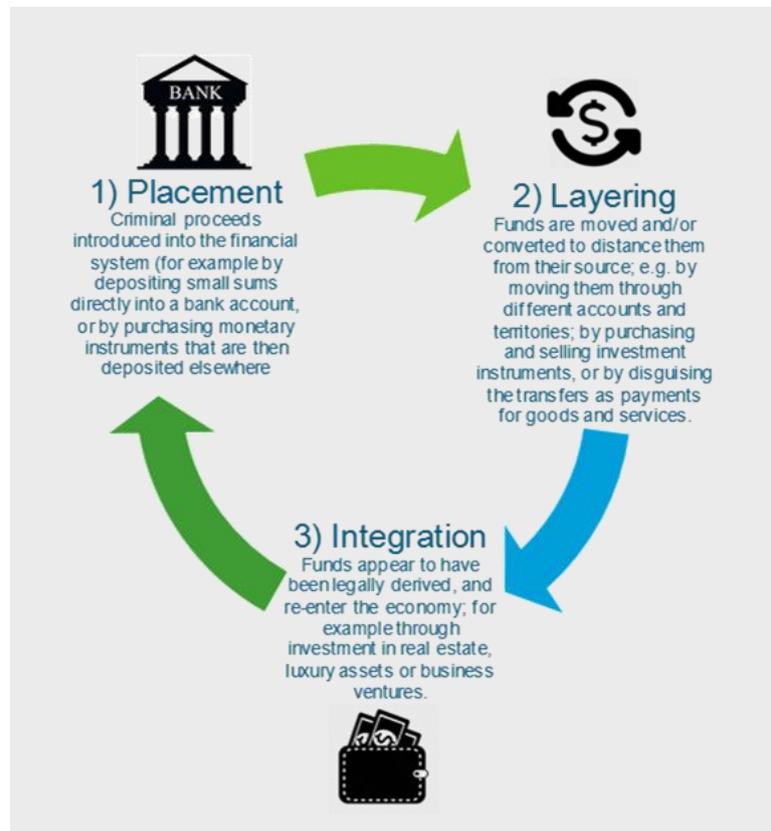
According to the Financial Action Task Force<sup>4</sup>, money laundering can be summarised by the three stages shown in the graphic below: placement, layering and integration.

### Can we quantify the scale of money laundering?

There is an often quoted, but incorrect, statement that money laundering is the third largest global industry behind foreign exchange and oil and gas. Although in reality the Food, Retail, and Energy (including Oil and Gas) sectors amongst others are all substantially larger, money laundering is without doubt carried out on a huge scale - perhaps large enough to take it into the top 10 industries worldwide. Furthermore, it is without doubt one of the most profitable with big margins and no tax on the proceeds.

The UN estimated in 2009, that criminal proceeds globally amounted to approximately US\$2.1 trillion, of which approximately US\$1.6trillion was laundered.<sup>5</sup> Of this amount, only US\$3.1billion was seized, which equates to only 0.2%. These numbers also related only to classic predicate offences - if we included other offences such as bribery and corruption, insider dealing and market manipulation, fraud, and tax fraud, these figures could increase by up to US\$9.5trillion.

Whilst we can tentatively place a \$ value against money laundering, what is less quantifiable is the devastating effect it has, either directly or indirectly, on individuals around the world. Trafficking of people and narcotics, bribery and corruption, terrorist financing and many other types of criminal behaviour ultimately levy a much higher price.



## The future of money laundering

As new criminal activities evolve or as new activities are classified as predicate offences, the original definitions of money laundering and the three-stage model have rapidly become too limited to describe the full nature and scope of the process. Trade based money laundering, insider dealing, market manipulation, terrorism finance, tax fraud and tax evasion are all leading us to question the boundaries of the definition. And with advances in technology - such as digital currencies and electronic and mobile cash - we also know that “money” itself is changing. And the methods used by money launderers are also evolving as well. This means the future of money laundering will involve new questions about how a process which has reinvented itself throughout history has adapted to modern times and changing technology.