



A Q & A with Robert Mazur about money laundering, through the criminal's eyes

Jun 17 2010 [Julie DiMauro](#) recommended

Robert Mazur will be presenting a webinar entitled "Anti-Money Laundering Compliance: Through the eyes of a criminal" through *Complinet* on June 22 at 11 am, EST. To sign up as an attendee, please click [here](#).

The following is a question and answer session *Complinet* had with Mazur in anticipation of this webcast.

Q: To what extent does money laundering occur through the channels of legitimate businesses, and what trends do you see in the laundering of funds through legitimate businesses?

A: There are untold numbers of money laundering schemes involving legitimate businesses. Legal businesses, especially those involved in trade based transactions, have played a much bigger role in the cleaning of illicit funds than most people realize.

Money laundering is a process that begins with "placement," usually involves layering and often winds up including the integration of funds into the "legitimate" economy. Sophisticated money laundering is carried out typically by a loose-knit group of people with varying resources. It is multifaceted and more complex than an otherwise two-dimensional approach carried out by just one method. It's not typical that one person or resource can, in any sustained manner, entirely complete the money laundering process without detection. Legitimate businesses may participate with banks (wittingly or unwittingly) to complete a series of transactions to launder illicit funds.

As an example, three major types of trade-based money-laundering transactions will be addressed:

First: The purchase of goods from legitimate businesses inside free trade zones is a common method of laundering large amounts of illicit funds. It is an extraordinarily popular technique; it not only enables the disposal of illicit cash, but offers a legitimate-appearing source of revenue to organizations when purchased goods are sold. In those zones, representatives of organizations tender large amounts of bulk cash, wire transfers, third-party checks, cashier's checks, money orders and traveler's checks to businesses that offer the bulk sales of goods manufactured all over the world.

These forms of payment are accepted readily and labeled "normal" in free trade zones. The major free trade zones operating around the globe are often situated inside haven countries with limited or ineffective transaction reporting. Dubai is a prime example of the type of free zone that is attractive to those with illicit funds. It is amazing to me that some sources suggest trade-based transactions in Dubai are an emerging money-laundering technique. The truth is that it has been used by crooks to clean dirty money for decades.

Second: Another popular money-laundering scheme involves the exploitation of the legitimate export companies operating in many countries, including Colombia. Colombian export companies offer a unique opportunity for individuals in South America who own illicit funds abroad and want to repatriate dirty money to their countries. The laundering of funds through export companies based outside the US can best be illustrated with a hypothetical example.

Let's say that "export company A" in Colombia sells \$150m worth of coffee to Starbucks in the United States every year. At the time of exportation, export company A receives a "document of exportation" documenting that \$150m worth of coffee was sent to various US ports on behalf of Starbucks. With that document of exportation, export company A can coordinate with its local bank and the Bank of the Republic in Colombia to take advantage of special high exchange rates given to exporters, thus enabling the \$150m to end up in Colombia.

Here's how it works: The US-based buyer sends wire transfers to a US-based correspondent bank, for credit to the account of the Colombian bank in the United States, and for further credit to their foreign branch in Colombia. In some instances, notation is also made that the wire is intended for further credit to export company A. Within 30 days, those

funds are converted to Colombian pesos and credited to the account of export company A in Colombia. What the rest of the world doesn't know is that export company A left much of their US dollar revenue outside of Colombia, because it had no interest in repatriating all \$150m. Some of the money might be kept out of Colombia because of concerns about local inflationary rates, or because some of the \$150m was needed for other types of US-dollar transactions carried out by export company A.

Hypothetically, let's say that \$30m of the \$150m was not repatriated. What often happens is that trafficking organizations pay export company A an under-the-table fee (usually an amount equal to two percent to five percent of the illicit funds moved) to transfer \$30m of narco-dollars from the United States to Colombia, under the guise that it came from the sale of coffee. This process creates a legitimate appearance for the \$30m that crossed the borders of the United States to Colombia.

Third: Large volumes of manufactured goods in the United States are also purchased with illicit dollars converted to third-party checks, cashier's checks, money orders and traveler's checks. These funds are tendered routinely to US companies with Latin American divisions that market products in Latin America. Poultry, cigarettes, aircraft and even global greeting card companies receive these funds, usually through a lock-box arrangement with their local US bank, and often fail to file the 8300 forms disclosing their receipt of these funds. I have spoken to credit managers around the United States who collect debt from Latin American buyers purchasing container loads of US-produced goods. They have reported to me that hundreds of thousands of dollars' worth of payments from Latin American companies are received most often in the form of third-party cashier's checks, money orders and traveler's checks in increments under \$10,000.

Q: Have we made in-roads stopping the river of illicit funds laundered through tax havens, off-shore transactions, fictitious identities or wire transfers?

A: The law enforcement, regulatory and compliance sectors are improving their anti-money laundering techniques and their awareness on a continuing basis. With greater frequency than ever we read reports of arrests and seizures involving each of the issues you identified, but we have to face reality. The resources and imagination of the people involved at the highest levels of money laundering are astounding. There is a reason that, of the \$400bn to \$500bn a year generated from drug trafficking around the globe, less than one percent of that money is ever identified. That is a statistic one cannot avoid when you compare the UN estimates of annual global drug proceeds to the value of annual seizures of drug proceeds by law enforcement agencies.

Our regulatory and compliance efforts are challenged to identify the flow of illicit funds because those who are breaking the law take years to put businesses and systems in place before they use them for illegal purposes. I wish this wasn't true but, in my view, we catch the little fish and never see the whales swimming deep beneath our radar systems.

This has to be dealt with in a manner similar to how we now attack terrorism, that is to say, proactively. We can't wait until a terrorist act occurs before we begin an investigation. For some reason, within law enforcement, that same mentality has not developed in terms of the money laundering threat. That amazes me, since drug trafficking is the number one source of terrorist financing. Law enforcement agencies should be doing what I and my colleagues did 20 years ago. We set up a highly sophisticated front that took a long time to establish and then we became a part of the money laundering side of the underworld. Within two years of launching the undercover operation, our credibility was so well established that we learned more in a week about what was really going on in the money-laundering world than an entire office of agents could uncover in a year.

Q: Despite the implementation of the requirements of the [USA PATRIOT Act](#), FINCEN regulations and the [Bank Secrecy Act](#), what challenges do you think compliance officers continue to face?

A: Compliance officers have one of the most challenging responsibilities in banking. This challenge varies from institution to institution, but this is what I sense from speaking with many compliance officers. There is a vibrant dedication among compliance officers to stay abreast of the regulations and trends to accomplish their goals. Sometimes, they are criticized unfairly by the regulators for not resolving alerts within an unreasonably short period of time. If something comes across the compliance radar screen that may warrant reporting, a fair evaluation of the threat in question might not be able to be made in 30 days.

While compliance officers attempt to evaluate a threat, they are sometimes pressured by regulators and by the business line at the institution to resolve an issue and move on. Regulators seem to want to measure ability by quick action, and the business line at some institutions find it bad for business to allow due diligence reviews to linger on and "interfere" with an evolving profitable business relationship.

I think the recent Wachovia case might exemplify that problem. In that instance, the Wachovia AML section tried aggressively to convince the business side that certain correspondent banking relationships were high risk and should be terminated. At the same time, account executives from the business line apparently felt otherwise and prevailed. It strikes me as odd that Wachovia and the government came to the conclusion that the bank failed intentionally to maintain an AML program. The facts suggest that the AML side of the house did their jobs proactively. Compliance officers need more support when these types of situations arise. They should be given a means by which – when the circumstances warrant it – they have the time and resources to come to a fair risk assessment and evaluate "the big picture," and not just the snapshot transaction of the moment. I don't get the sense that many compliance officers get that opportunity, and that this is a common frustration.

Robert Mazur is the author of "The Infiltrator," a memoir about his career as an undercover agent. He is the president of Chase & Associates, a private investigative agency. He is also a court-certified expert in money laundering in both the US and Canada. Find more information about "The Infiltrator" at www.The-Infiltrator.com.

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