

No silver bullet to identify money laundering, says ex-undercover agent

BY KANG SIEW LI AND
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The scandal surrounding Malaysia Development Bhd (1MDB) is reminiscent of the abuses that led to the collapse of the seventh largest private bank in the world in 1991, says Robert Mazur, a former US undercover agent. In the 1980s, the former US Customs agent led a sting operation that proved the Bank of Credit and Commerce International (BCCI) — a Luxembourg-based bank with branches in more than 70 countries — laundered money for Colombian drug traffickers.

"With respect to 1MDB, it reminds me [of] some [things] in one of the cases that I worked undercover [infiltrating] BCCI," he tells *The Edge* in an interview during his first visit to Kuala Lumpur last week.

In addition to laundering money for people involved in illicit activities, BCCI had pilfered funds from its treasury, says the soft-spoken Mazur.

"They [several officials affiliated with BCCI] created a black hole in the bank's treasury and stole hundreds of millions of dollars. I think that a lot of the techniques they used are probably something that can be applied to the 1MDB matter.

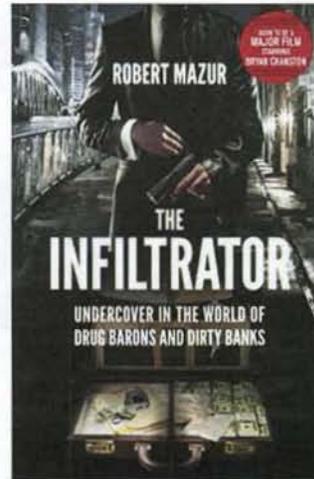
"They [BCCI] created a lot of situations where investment of funds was made on a

certain asset, but the asset was overvalued. So, the recipients of the funds, as part of the conspiracy, took the excess funds and shared them with the bank's officers.

"There were times when they issued loans to two offshore entities that by looking at their files were based on their financial worthiness, but these were offshore corporations with no assets. The money was actually moved to benefit the senior officers of the bank and, therefore, they laundered money out of the bank's treasury in order to fill their own pockets. Some of the money was also pulled out through fictitious loans that actually went back to Pakistan to finance its development of nuclear weapons," says Mazur.

"But it was a pot of money that they [BCCI] controlled, very much like 1MDB, where some of the people with control had a bad intent and participated in schemes to pilfer assets from their funds. To me, there is quite a parallel between the two," he says.

Mazur, who declined to have his picture taken for this interview, had previously worked for the Internal Revenue Service, the Customs Service (now part of the Department of Homeland Security) and the Drug Enforcement Agency in the US. He is recognised for pulling off one of the biggest undercover operations of all time when he infiltrated Pablo Escobar's Colombian drug cartel for two years in the mid-1980s, by pre-



tending to be a money-laundering, mob-connected businessman from New Jersey.

He authored a 2009 book *The Infiltrator: My Secret Life Inside the Dirty Banks Behind Pablo Escobar's Medellín Cartel*, which was based on his years as an undercover agent. The book was adapted into a movie of the same name that was released in July 2016.

"I recognised when I wrote the book that

it was going to probably peel the scab off a lot of wounds and make some people unhappy. But I really think this [money laundering] is an extraordinarily important issue, not just for me. The thing that really drives me is knowing that these organisations are corrupting governments. If there are things that I can possibly do to assist in sharing whatever experience I have and continuing to study the field, then I'm willing to take the risk for that," he says.

According to Mazur, there is no silver bullet in identifying money laundering. "There are hundreds of money laundering techniques. That's what makes it so difficult to identify. I don't have a silver bullet to tell you that's the one."

That said, Mazur notes that China has become increasingly attractive to money launderers. China's capital controls have resulted in wealthy Chinese seeking ways to take their money out of the country through the black market.

"If I were [working undercover posing as] a money launderer again today, working with the drug cartels, I would be taking my business to China. There are several reasons. One is that there are large free trade zones in China, which are a mecca for the laundering of illicit funds because they oftentimes deal with cash.

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'Political will necessary to reduce money laundering'

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"You also have Macau and Hong Kong, which are easy places to dispose of currencies and to, what we call in the money laundering process, 'layer the transactions' so you can wire transfer money out of China through Hong Kong with ease for the purchase of goods," he says.

Another reason China is attractive to money launderers is that pharmaceutical companies there are not rigorously regulated, he says. Thus, large amounts of precursor chemicals used in the production of illegal drugs can easily be acquired in Asia.

"From the story of the drug underworld, China is sitting in a dangerous seat for money laundering but in a very good seat otherwise because the drugs are not intended for distribution in China, but in Europe and the Americas. So, [drug] traffickers just want to break their wealth in China by buying goods," he says.

"Another reason I think traffickers are interested in China is that the goods they buy there are counterfeit. They then flood the Latin American market with these counterfeit goods, selling them for much more than they are really worth."

He says that under China's legal system, it is difficult for Western law enforcement to get clients' detailed banking records. "It is a little bit easier from some of the more traditional jurisdictions, like Panama, as relationships have been developed. But you still have places like Venezuela, where US law enforcement will never get records out of as long as the current administration is



Mazur (right) with a pilot during his undercover days in the 1980s

in power. So politics does come into play.

"Political will has a lot to do with [reducing money laundering]. I hear a lot of feedback from talking with people in the banking industry and regulators all over the world, and a lot of them feel that the regulations in the US have become so immense that it has become a 'check-the-box mentality'.

"As long as you keep the regulators happy by having those things in place that regulators perceive as important, that becomes more important than truly stopping the money laundering. Clearly, regulations are on the rise as far as the box that needs to be checked."

Mazur cites figures from the United Nations Office on Drugs and Crime, which estimates that illegal drug sales amount to US\$400 billion annually.

"When you combine them with money from other illicit activities, be it arms dealing, pilfering of treasury, income tax evasion and white-collar fraud, the figure totals US\$1.7 trillion a year seeking secrecy from governments and money laundering services.

"That kind of money can make good people do bad things and, unfortunately, people of high responsibility — which in some circumstances is well documented by the media — have really turned the minds of some

of the people who were watching the hen house and have allowed these activities to go on. If you look at Venezuela, so far there have probably been a dozen or more political figures, prosecutors, military or intelligence officers who have been charged with drug trafficking or money laundering offences by the US authorities," he says.

Mazur also points out that Malaysia serves as a transshipment point for illicit drugs leaving Asia's Golden Triangle bound for Europe.

"That's because you don't have a big enough market for the supply of drugs coming out of the Golden Triangle," he says. The Golden Triangle refers to the border area between Myanmar, Laos and Thailand.

However, Mazur does not consider drugs the most dangerous to society. He views corruption as the most dangerous.

"That is because [corruption] undermines the free will of the people and otherwise legitimate governments. If you look at the drug cartels in Europe, Venezuela has become a springboard location for drugs destined for countries in West Africa. So, you will see many developing nations in West Africa whose leadership are constantly being tempted with corruption by the cartels," he says.

He cites a case in poverty-stricken Guinea-Bissau, which is located on the west coast of Africa, where its former navy chief was arrested four years ago in a US drug sting off the West African coast and sentenced in October last year to four years in prison for conspiring to facilitate the shipment of cocaine to the US in exchange for weapons.

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Vigilance on compliance needed

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Mazur concedes that the number of drug trafficking and money laundering crimes is higher now than it was in the 1980s.

“The vigilance on compliance is extremely important, because the bad guys have a lot more resources and experience than we sometimes give them credit for. They are a very experienced adversary. There are a lot of professionals who are unfortunately involved in money laundering services that are required in the underworld — lawyers, bankers, financial service providers — it’s not just people with movie star faces. These are very sophisticated, delicate activities because they are controlling literally billions of dollars. So they buy the best minds that they can possibly corrupt,” he says.

Mazur backs cyber security systems in controlling money laundering, saying without them, it would be a “nightmare” for financial institutions. “Without automated transaction systems, it would be a free-for-all for money launderers within financial institutions. However, let’s not be naïve, and recognise that US\$1.7 trillion gets some good people to do bad things because there’s one thing that we can’t regulate, and that’s morality,” he says.

Mazur likens life to a bell curve. “I don’t care whether you sell software or are a special agent or a reporter, most of the people in the middle of the bell are trying to stay within the line. There are some that are extraordinarily talented who are good and a small segment who are bad. So, we have to recognise that constant vigilance is needed ... in order to try to educate the financial sector about the importance of the anti-money laundering compliance programme. At the same time, it is very important for financial institutions to take a realistic look at what is being done when there is a problem.”

Mazur is now a consultant for companies involved in anti-money laundering compliance.

Asked why he decided to leave life undercover, he says: “I went back undercover for another 2½ years (after the Medellín Cartel sting). In that operation, I almost got killed, so I decided it was time to retire. It turned out that the partner I was assigned was on the cartel’s take and he compromised my identity.”

BAE Systems Applied Intelligence vice-president of sales for Asia, Divya Khangarot, who was also present at the interview, says most Tier-1 banks in Asia have been receptive to implementing anti-money laundering programmes and compliance procedures.

“One of our studies this year revealed that the annual spend among banks in Singapore, Malaysia, Indonesia, China and Hong Kong would be around US\$1.5 billion on anti-money laundering transaction monitoring systems alone,” she says. ■