💰 MONEY LAUNDERING & TERRORISM FINANCING 🏠 🚫

CHAPTER 1 KYC/AML PART A

⚖️ What is Money Laundering? Its Origin

✅ **Money Laundering = Converting Illegal Money into Legal Money**

✅ **Criminals use money laundering to hide the origins of illicit funds** 🕵️

◇ **Sources of "Dirty Money":**

- 🚓 Drug Trafficking

- 🔫 Illegal Arms Sales

- ☠️ Smuggling & Extortion

- 🎰 Gambling & Bootlegging

📌 **Example:** A drug cartel launders its illegal earnings by investing in **real estate and luxury businesses** to make their money appear legitimate 🏡 💰 .

⚖️ **Origin of Money Laundering**

✅ Money laundering **dates back to ancient times**!

✅ First **trade-based laundering**: False trading to deal in illegal goods ☠️

📌 **Modern Example:**

- **1930s USA**: Chicago gangster **Al Capone** used laundromats to hide **illegal liquor money** 🍺 💸 .

- **Drug Trade & Smuggling**: In recent times, **cartels launder billions** to legitimize their profits 🚨 💊 .

⚖️ **Use of the Term "Money Laundering"**

✅ **First appeared in media:** British Newspaper *The Guardian* (1972) – **Watergate Scandal** 🗞️

✅ **First legal use:** 1982 in a US case ⚖️

📌 **Why "Laundering"?** 🏛️ 💸

Because **dirty money is "washed"** through financial transactions until it appears **clean** ✅

📌 **Example:** A fraudster deposits **illegally earned money into offshore accounts** and **invests in businesses** to make it seem legitimate.

🌐 Impact on Global Economy

☑️ Why Is Money Laundering a Problem?

- ◆ It supports **criminal networks** 📉 🚓

- ◆ It destabilizes **financial systems** 💰 📊

- ◆ It leads to **corruption & fraud** ⚖️ 💳

🔨 Economic Effects 📈

📌 Issue	🔍 Impact
Unfair Competition ❌	Illegal businesses outcompete honest ones
Price Distortion 💰	Laundered money inflates real estate & markets
Economic Slowdown 🏛️	Legitimate businesses struggle to compete
Unstable Exchange Rates 📉	Cross-border illegal funds affect currency values

📌 **Example:** A corrupt politician **invests laundered money in high-end real estate**, leading to **artificially high property prices** 🏠 📊 .

🔨 Social Effects 🌍 ⚠️

- **Money laundering = More corruption** 🏛️ 🔓

- **Facilitates organized crime** (drug trade, terrorism, fraud) 🚓 💀

- **Creates a "safe haven" for criminals** 🏴‍☠️

📌 **Example:** A corrupt official launders money from **bribery** into offshore accounts, escaping justice.

🔨 Political Effects 🏛️ 🛑

- **Criminals gain power in politics** 🏛️ 📊

- **Democratic institutions weaken** ⚖️ 📉

- **Bribery and corruption increase** 💰 🤝

📌 **Example:** A drug cartel uses laundered money to **fund politicians and gain legal protections**.

🔨 How Big is the Money Laundering Problem? 💰 📊

- **Hard to track**, but estimates exist!

📅 Year	💰 Estimated Laundered Money	📊 % of Global GDP
1995 (John Walker)	$2.8 Trillion	❓
1998 (IMF – Michael Camdessus)	$1.5 Trillion	5%
2006 (Buehn & Schneider)	$603 Billion	1.74%
2011 (UNODC Study)	$1.6 Trillion	2.7%

📌 **Example:** The **Panama Papers leak** exposed how **politicians and businessmen laundered money globally** 🌍 🔍 .

⚖️ Impact on Financial System and Banks

🚨 **Vulnerability of Financial System**

✅ **Why Are Banks & Financial Institutions Vulnerable?**

🔷 They **deal with public money** 💰

🔷 They **offer various financial services** (loans, deposits, remittances) 📊

🔷 **Globalization & technology** make tracking laundered money difficult 🌍 💻

🚫 **What Happens Without Prevention?**

- **Reputation risk** 📉 (loss of public trust)

- **Increase in financial frauds** 💳 🔍

- **Weakening of economic stability** 🏛️ 📊

📌 **Example:** A bank unknowingly facilitates **illegal wire transfers** from a drug cartel, leading to **strict penalties & damaged reputation** 🚨 .

⚠️ **Impact on Reputation**

🔷 **Money laundering links banks to criminals** 🕵️ 💰

🔷 Institutions in **low-regulation areas** attract illegal money 💸

🔷 **Public confidence is lost** when banks get involved in scandals 📰

📌 **Example: HSBC (2012)** paid **$1.9 billion in fines** for **allowing drug cartels to launder money** through their accounts.

⚖️ **Regulatory Action**

🏛️ **Banks must operate under strict legal, professional & ethical standards** 🏛️ 🔍

🚫 **Failure to comply leads to:**

- **Heavy penalties & fines** 💰 🚨

- **Loss of banking license** ❌

- **Increased government scrutiny** 📜

✅ **How Banks Prevent Money Laundering?**

🔹 **Trained staff for fraud detection** 👨‍💻

🔹 **AI-based transaction monitoring systems** 🤖 📈

🔹 **KYC (Know Your Customer) & AML (Anti-Money Laundering) measures** 🆔 ✅

📌 **Example: Deutsche Bank** was fined **$630 million** for failing to prevent **Russian money laundering** (2017).

🌐 **1.4 International Definitions of Money Laundering**

📢 **Various global organizations have defined Money Laundering:**

🌍 Institution	📜 Definition
United Nations (UNODC) 🏛️	"A method by which criminals disguise illegal origins of wealth to avoid suspicion & prevent a trail of evidence."
International Monetary Fund (IMF) 💰	"Process where proceeds from a criminal activity are disguised to conceal illicit origin."
Financial Action Task Force (FATF) 📝	"Processing of criminal proceeds to disguise their illegal origin."
Interpol 🌍 🚓	"Any act to conceal/disguise illegally obtained proceeds so they appear legitimate."
EU Directive (1992) EU	"Disguising the true nature, source, or ownership of property derived from serious crime."
Office of the Comptroller of Currency (USA) US	"Concealing criminal activity linked to illegal tax avoidance or drug trafficking."

📌 **Example:** The **"Panama Papers" leak** exposed how politicians, celebrities, and businesses **hid illicit wealth using offshore accounts** 🏝️ 💼 .

🏛 Money Laundering and Its Impact on Banks: Case Studies & Lessons 💰 🚨

⚖ Bank of Credit and Commerce International (BCCI) – A Global Scandal

✅ Background:

- **Founded in 1970s**, operated in **70+ countries** 🌍
- Engaged in **illicit activities**, including money laundering, fraud, and illegal arms trade 🔫 💰

🚨 Key Issues:

🔹 Had **complex structures** (shell companies, subsidiaries) to avoid detection 🏦 📊

🔹 Served **traffickers, terrorists, dictators & fraudsters** 🕵️

🔹 **Evaded regulations** using offshore financial centers 🏝 💳

🔴 Outcome:

- **$12 billion assets seized in 1991** 🚓
- Highlighted the need for **stronger banking regulations & due diligence**

📌 **Lesson:** Banks must **thoroughly vet correspondent banks, major shareholders, and foreign banks** to prevent fraud.

📌 **European Union Bank of Antigua – The First Online Banking Fraud**

✅ **Background:**

- Launched in **1994 as an offshore bank**

- Marketed itself as **"tax-free" banking for hiding illegal money** 🏝️ 💰

🚨 **Key Issues:**

🔹 Customers could **open anonymous accounts** (numbered/coded) 🔐

🔹 Explicitly aimed at **evading taxes & laundering money** 🚨

🔹 **1997: The bank collapsed**, and officials disappeared with all customer deposits 💸 👀

📌 **Lesson:** Regulators must monitor **offshore banks & online banking platforms** to prevent fraud.

📌 **Riggs Bank (USA) – Pinochet Case**

✅ **Background:**

- Chile's **former dictator, Augusto Pinochet**, accused of corruption & arms smuggling 🔫 📜

- **Riggs Bank (Washington DC) helped Pinochet hide millions of stolen dollars** 💰 🏛️

🚨 **Key Issues:**

◆ Bank **hid accounts from US regulators** to protect Pinochet 🕵️‍♂️

◆ Helped Pinochet **retain access to illegal funds** ✈️ 💰

🔴 **Outcome:**

- **$9 million paid to victims** 💵

- Massive **reputational damage for Riggs Bank**

📌 **Lesson:** Banks must ensure **transparent customer verification (KYC) & report suspicious activities** to regulators.

🔨 Riggs Bank (USA) – Mbasogo Case

✅ **Background:**

- **Equatorial Guinea's dictator**, Teodoro Obiang Nguema Mbasogo, used **Riggs Bank to launder money** 💰 🏛️

🚨 **Key Issues:**

◆ **$35 million withdrawn** without notifying federal authorities 🚨

◆ Money was **siphoned off to his family & government officials**

🔴 **Outcome:**

- **Riggs Bank fined $16 million** in 2005 🏛️ ⚖️

📌 **Lesson:** Banks must **report large cash transactions & politically exposed persons (PEPs) under AML laws**.

📌 Fraudulent Encashment of Cheques – KYC Failures

✅ **Background:**

- Fraudsters **opened fictitious accounts in five major banks** 🏦 🕵️

- Used these accounts to **cash stolen cheques, drafts & postal orders** 📜 💰

🚨 **Key Issues:**

🔶 Banks **failed to follow KYC norms** for customer verification 🆔 🔍

🔶 Fraud went undetected for **1-2 years**

🔴 **Outcome:**

- **RBI fined two banks ₹50 lakh & ₹25 lakh** 🚕

- **Three other banks were cautioned** for weak compliance

📌 **Lesson:** Banks must **strictly follow KYC procedures & transaction monitoring** to prevent fraud.

📌 Fraudulent Overdraft Against FDs – KYC Failures

✅ **Background:**

- Fraudsters **created fake FD accounts** in Mumbai branches of public sector banks 🏦 📊

- Used these **fake FDs to take overdraft loans** 💳 💸

🚨 **Key Issues:**

◆ Banks **ignored KYC norms & customer verification** 🆔 ❌

◆ **RBI's transaction monitoring guidelines were not followed**

🔴 **Outcome:**

- **RBI fined three banks ₹1.5 crore each**

- **Eight other banks were cautioned**

📌 **Lesson:** Banks must **verify FD-linked overdraft loans & detect unusual withdrawals**.

🔨 <mark>Trade-Based Money Laundering – Fake Import Remittances</mark>

🚨 **1.5.7.1 Remittances for Fake Imports via a Public Sector Bank (₹6000 Cr Fraud)**

✅ **Background:**

- **8000 illegal remittances** made between **July 2014 – July 2015** 💰 📤

- Money sent abroad for **imports that never happened** 🚢 🚫

🚨 **Key Issues:**

◆ **Many transactions below the reporting threshold**

◆ **Several shell companies involved**

🔴 **Outcome:**

- **CBI & ED arrested 10 people**, including **3 bank officials** 🚨

📌 **Lesson:** Banks must **monitor large outward remittances & verify import documents**.

🚨 **Remittances for Fake Imports via 8 Banks (₹500 Cr Fraud)**

✅ **Background:**

- Individual transferred **₹500 crore using 70 fake accounts** 🏦 💰

- Opened **66 fake accounts in one bank alone** 🔍

🚨 **Key Issues:**

🔷 Money sent abroad **through fake companies & fake invoices** 📄 🚢

🔷 Transactions were **split into smaller amounts** to avoid detection

🔴 **Outcome:**

- **ED cracked down on forex violations** & started investigations

📌 **Lesson:** Banks must **flag multiple accounts under one identity & conduct transaction pattern analysis**.

🚨 **Lessons for Banks & Bankers**

✅ **Global regulators are stricter on AML compliance** 🌍 🔍

✅ **Heavier penalties & criminal actions** against banks that violate laws ⚖️ 💰

✅ **Employee liability has increased** – individual bankers can be fined/imprisoned ⚠️ 👨‍⚖️

Major Takeaways for Banks 🏛️

🔍 Key Issue	📌 Action Required
KYC Violations 🆔 🚨	Strict customer identity verification & background checks
Unusual Transactions 💸 🔍	AI-based monitoring of accounts & real-time alerts
High-Risk Customers (PEPs, Offshore Accounts) ⚠️ 🏛️	Enhanced due diligence for politically exposed persons
Shell Companies & Fake Imports 🏦 📜	Verification of corporate accounts & import-export invoices
Cross-Border Transactions 🌍 💳	Stronger oversight on forex transfers & wire transactions

📌 **Example:** Banks like **HSBC, Deutsche Bank & Standard Chartered have faced billion-dollar fines** for AML failures!

⚖️ **Terrorist Financing**

✅ **Terrorism Financing = Mobilizing funds for terrorist activities** 🎯 🔫

✅ **Funds come from both legal & illegal sources** 💰 ❌

🔷 **Key Differences from Money Laundering:**

- **Money laundering conceals the source of funds** 📜 🔍

- **Terrorist financing conceals the purpose of funds** 💸 🔫

📌 **Example:** A **charitable NGO** is used as a front to collect donations, which are secretly funneled to a terrorist group.

⚖️ **Definition (UN Convention - 1999)**

🔷 **Terrorist financing includes:**

1️⃣ **Direct or indirect funding of terrorist acts** 🎯 💰

2️⃣ **Supporting acts that cause death, injury, or threats** 🚨

3️⃣ **Compelling governments or organizations through violence** 🏛️ ⚠️

✅ **Key Point:** Even if the funds were **not actually used** for terrorism, the act of collecting or providing funds itself is a crime.

📌 **Example:** A businessman donates funds to an organization, knowing they support militant groups, even if the money is later used for other activities.

⚖️ Differences in Global Perspectives

◆ **"Terrorism" is defined differently across countries** 🌍 ⚖️

◆ Political, religious, and regional factors **influence definitions** 📜 🏛️

◆ Some groups are seen as **freedom fighters in one country & terrorists in another** 🎭

📌 **Example:** A group fighting a regime may be labeled **"rebels" by one nation but "terrorists" by another**.

⚖️ Money Laundering vs. Terrorist Financing

🔍 Aspect	💰 Money Laundering	🎯 Terrorist Financing
Source of Funds	**Always illegal** (crime, fraud, drugs) ❌ 💵	**Can be legal or illegal** (donations, smuggling, fraud) ✅ ❌
Use of Funds	**Legalized through laundering** (real estate, businesses) 🏡 📊	**Used for criminal/violent activities** (attacks, propaganda) 🔫 💣

Main Goal	Hide the **source of money** 🕵️ 💳	Hide the **purpose of money** 🎭
Common Techniques	Shell companies, offshore accounts, fake invoices 🏦 📜	Fake charities, cash couriers, trade-based transfers 🚚 📦

📌 **Example:**

- A **drug cartel launders money through real estate purchases** (money laundering).

- A **terrorist group collects legal donations from sympathizers** and transfers them for attacks (terrorism financing).

✅ **Why Are These Linked?**

- **Both misuse financial institutions** for illegal transfers 🏦 🔍

- **Both use trade-based money movement** (fake invoicing, cross-border remittances) 📜 💰

- **Criminal funds can be diverted to terrorism** 🚨

📌 **Example:** A cybercriminal hacks bank accounts, steals funds, and sends them to terrorist groups abroad.