

# FINANCIAL CRIME

## A Threat to Global Security!

### What is Financial Crime?

**Financial Crime** refers to illegal activities that are usually economically motivated. They can range from a one-time fraud committed by a corrupt individual to large operations being organized by criminals.

### WHO

Financial Crime can be perpetrated by criminals, politicians, business leaders, executives and employees of all levels with access to company assets.

### Examples of Financial Crime

#### Examples of Financial Crime include:

- ◇ Money Laundering (ML)
- ◇ Terrorist Financing (TF)
- ◇ Proliferation Financing (PF)
- ◇ Bribery and Corruption
- ◇ Fraud
- ◇ Tax Evasion
- ◇ Market Abuse
- ◇ Insider Dealing

### Financial Crime affects all of us!



### How does Financial Crime affect us?

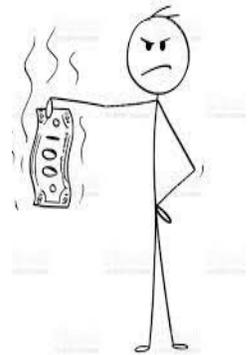
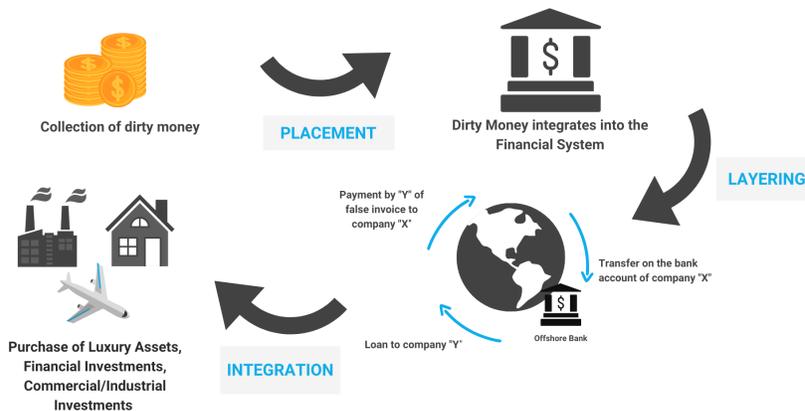
Financial Crime affects everyone. It threatens the integrity of financial systems and the stability of economies.

### Money Laundering

The process of concealing or disguising the existence, source, movement, destination or illegal application of criminally derived property or funds to make them appear legitimate.



### Money Laundering Cycle



**Note:** The stages of ML do not always follow this order. Sometimes, two (2) steps occur almost simultaneously!

### Terrorist Financing

Terrorism Financing is the act of providing financial support, from either legitimate or illegitimate sources, to terrorists or terrorist organizations to enable acts of terrorism.

This crime is very different to Money Laundering in that the money is not necessarily derived from the proceeds of illegal activity. The key differences therefore lie within the **source of the funds** and the **ultimate beneficiaries**. Some methods of raising funds to finance terrorist activities include donations, extortion, smuggling, the use of charities and drug trafficking.

#### The HAWALA System

The Hawala system is an example of an informal system that can facilitate the movement of terrorist-related funds. It involves the international transfer of value outside the legitimate banking system. This system is primarily dependent on a 'trusted' network of individuals.



## Proliferation Financing

Proliferation Financing (PF) is the provision of funds used for the manufacture, possession, development, transport, and use of nuclear, chemical or biological weapons and/or related materials. PF can contribute to global instability and potential catastrophic loss if weapons of mass destruction are developed and deployed.

## Bribery and Corruption

Bribery is the giving or receiving of money or a gift or an advantage given in connection with the 'improper performance' of a position of trust, or a function that is expected to be performed in good faith.

The risks of bribery and corruption are present in government and state owned enterprises where officials may change their activities or decisions in exchange for a bribe. Some industries are at higher risk especially those in which success is driven by getting approval, authority, or contracts. It is therefore vital to know your customer's business and potential activity to watch or detect warning signs.



## Fraud



Fraud is an intentional act of criminal deception in order to obtain an unjust or illegal advantage. Persons typically commit fraud for financial or personal gain. It is an intentional act and can be done by one or more individuals, from low level employees to high ranking ministers of government.

### Common Red Flags of Fraud include:

- ◇ Often sounds too good to be true
- ◇ A promise of high returns for low investment
- ◇ Demands for upfront payments
- ◇ Artificial shortage of the opportunity
- ◇ Element of secrecy
- ◇ Sense of urgency
- ◇ Pressure to act... **RIGHT NOW!**

### People commit fraud for three (3) main reasons, as shown below:



## Tax Evasion

Tax evasion is often confused with tax avoidance. Tax evasion is **ILLEGAL** while tax avoidance is not. **How?** Tax evasion is the use of illegal practices to reduce or eliminate tax liability. Tax avoidance, on the other hand, is the activity of reducing the amount of tax owed to government through legitimate means such as establishing an offshore company in a jurisdiction with less taxes.



# Tax Evasion is **ILLEGAL**



## HOW IS FINANCIAL CRIME A THREAT TO GLOBAL SECURITY?

### Scenarios

Jacob illegally supplies opioid drugs to dealers in a rural area. To launder his monthly cash profit of \$100k, he deposits \$9,500 to different banks over a month's period to avoid the \$10k limit alert. Jacob is using a very common money laundering tactic called structuring.

#### Possible THREATS:

1. Damage to reputation and loss of trust in the financial institution when the crime is exposed.
2. Increased solvency and liquidity risk if Jacob withdraws a large amount of funds from the institution.

Barbara has large amounts of assets ranging from cash, securities, property, dividends, shares, self owned companies. Many of these assets are hidden in off-shore bank accounts and are linked to foreign shell companies. All interest earned is stashed in foreign banks. She finds ways and means to intentionally lower her income on her tax returns and also the income earned by her companies to lower the tax liability.

#### Possible THREATS:

1. Lower tax income for many governments.
2. Increase reputational risks for professionals involved.
3. Corruption

Well-known, famous and well celebrated Minister of Government, Mr. Judas has earned a great deal of wealth over his three (3) terms in government. Last year, he accepted a bribe of \$2M from a Mafia group to increase his wealth. After the group blackmailed him by threatening to reveal and expose the details of the bribe, he misused public funds in excess of \$8M in an attempt to "silence" the Mafia Group. Mr. Judas and the Mafia hid the funds in shell companies to evade taxes.

#### Possible THREATS:

1. Increased crime and violence
2. Loss of respect and trust in Government Systems
3. Corruption

# IMAGINE THIS

A terrorist group's mission is to kill as many children in the largest elementary school in a city. Funds are sent to specific accounts in various banks to provide the group with the necessary technology, equipment and tools to carry out their mission. The financial system did not flag any of the transactions as they appeared 'legitimate'. The school is blown up and there is a 86% death rate of teachers and children. Families are distraught and the terrorists cannot be found. This could have been avoided if the financial system had proper screening systems to identify the terrorist group and freeze the funds in its possession.

*Find the key words (listed) in the puzzle below and reveal the secret message!*

**Key Words**

S C E F F E C T I V E C O M P L B T  
 M T I A N C E H L I Y S K E Y R L A  
 S O S E T U S R L K D O O U I R P X  
 C A N I R T F E E O R O U B R N A E  
 R T I E R O N A G S F I E S N N A V  
 E N H C Y O I T A A L R S A O E C A  
 E U R A I L R T L Y Y F R N I S X S  
 N J S E W R A R X X T I V C T E K I  
 I O C N A A Q U E R N H F T N C Y O  
 N G I T A M L U N T I I X I E U E N  
 G P M T T I K A E D N S K O V R I F  
 F U B I P A C G K A E S K N E I D L  
 M C P B X U R I N A U R Z S R T S A  
 H J E Y J I R C T S J R I F P Y E J  
 D O T W T A I R Z I U C R N I S C R  
 Z F A Y P A C Q O H L A A Y G K W L  
 D N K C L G F I U C U O O C Y D X D  
 S L A N I M I R C D P P P Q Z N C E

- Bribery
- Corruption
- Criminals
- Effective
- Financial
- Fraud
- Hawala
- Illegal
- Integrity
- KYC
- KYE
- Money Laundering
- Politicians
- Prevention
- Risk
- Sanction
- Screening
- Security
- Tax Evasion
- Terrorists
- Threat



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our nation's security!  
 Let us do our part for  
 Compliance is Key!  
 Key Message:

References

For more Newsletters,

AML Foundations for Gaming, Association of Anti Money Laundering Specialists, [www.acams.org](http://www.acams.org)

<https://www.fsrc.kn/newsletters>