

CHAPTER 5

MONEY LAUNDERING AND TECHNOLOGY

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Laundering (money) is defined¹ as the crime of transferring illegally obtained money through legitimate persons or accounts so that its original source cannot be traced. Money laundering is a huge business. The specter of money laundering is so real that it is extremely difficult to quantify the magnitude of its malaise. It has been estimated that the amount of money laundered globally in one year have ranged between \$500 billion and \$1 trillion.² This is what the society is paying for globalization.

MONEY LAUNDERING IS E-MONEY LAUNDERING

It is no longer money laundering – it is e-money laundering. It is all about electronic money, which is not in the form of currency notes of various denomination but money in the form of electronic impulses – 1s and 0s. The beauty of e-money is, that it is:

- (1) faster to transfer from one geographical location to another
- (2) faster to circulate from one geographical account to another
- (3) easier to hide from law enforcement agencies
- (4) easier to invest in legitimate businesses
- (5) easier to invest in illegitimate businesses

This e-monetisation is facilitating the money laundering activities like never before. There is a new breed of e-money launderers converting money into e-money by click of a mouse.

E-MONEY: FASTER TO TRANSFER

Thanks to the availability of Internet, it has become far easier to transfer

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1. Black's Law Dictionary, Seventh Ed. (1999), West Group, p. 889
2. http://www.unodc.org/money_laundering.html

money from one geographical location to another. Internet has become a new hawala channel. The modus operandi is simple – the hawala operator receives the money and forwards the message to his counterpart in another location using encrypted emails. The entire process may take less than 5 minutes.

E-MONEY: EASIER TO CONVERT

The best part of fast emerging e-money is its speedy conversion into alternate instruments, like gold, shares or bonds. There exist digital currency exchanges in the form of e-Gold, WebMoney, NetPay etc. that hide illicit proceeds by circulating the money back and forth across various accounts.

For example, opening an account at www.e-Gold.com takes only a few clicks of a mouse. Customers can use a false name if they like. With a credit card or wire transfer, a user buys units of e-Gold. Those units can then be transferred with a few more clicks to anyone else with an e-Gold account. For the recipient, cashing out – changing e-Gold back to regular money – is just as convenient and often just as anonymous.³

E-MONEY: EASIER TO HIDE

It is easier to hide bytes (1s and 0s) than cash. Since, e-money is in the form of bytes, it is a much safer option than holding money in a cash form. Cash transactions using financial and banking networks may create an accounting trail which is difficult to hide, whereas e-money transaction using digital currency exchange agents remain hidden from the eyes of law enforcement agencies.

E-MONEY: EASIER TO INVEST

Paradoxically, e-money is easier to invest in both legitimate and illegitimate businesses. As e-money gives complete disregard to accounting and audit procedures, it gets an aura of legitimacy by default. This e-money finds its way into legitimate e-commerce activities without anyone come to know of it. The Office of Tax Policy at the US Department of Treasury defines e-commerce most broadly as any transaction that occurs with the facilitation of electronic “tools and techniques”.

The e-money is increasingly being channelled into business-to-business (B2B) and business-to-consumer (B2C) activities, as most of the e-commerce

3. Gold Rush: Online Payment Systems, Data Quest, February 15, 2006

related activities remain unmonitored and unregulated. If e-money has been able to get a toehold in e-commerce related business it is due to the very nature of e-commerce, which supports a parallel channel of transactions, ignoring the traditional documents based banking practices.

Interestingly, there exists a thin line of demarcation between what is legitimate or illegitimate business on the Net, as it is difficult to know the sources of the funds. The reality is that illegitimate proceeds are being increasingly used in legitimate businesses.

E-MONEY LAUNDERER: A PROFILE

It would be interesting to see the profile of a typical e-money launderer. He is technology savvy and runs anonymous operation converting cash into e-money and vice versa. He creates his own parallel system of collection, payment and settlement.

COMPLETE ANONYMITY

An e-money launderer is nameless, faceless person. Who is he? What is his nationality? Where he lives? What is the location of his operations (web servers)? Is he alone or part of a team?

These unanswered questions give the e-money launderer power and prestige in the circle of money launderers.

ZERO PHYSICAL RISK

It is difficult to apprehend him as he is constantly on the move – changing locations of his operations (web servers). Since he is nameless, faceless person – there is a zero risk of he being apprehended by the law enforcement agencies.

CORPORATE ENTITY

An e-money launderer is a full time money launderer, running global operations, 24x7. His business model is online catering to both corporate and retail customers. There is no need to open an International Business Company (IBC) in any of the tax heavens, as online model is a far better option. E-money laundering represents an online all ‘clicks’ model.

As evident from above, e-money laundering is a zero risk game that is why criminals are converging on the Net.

E-MONEY LAUNDERING CYCLE

It has been established⁴ that money laundering is a dynamic three-stage process usually referred to as placement, layering and integration. The e-money laundering cycle follows the same route with the difference that as compared to its offline version, online money laundering cycle is faster and much more convenient.

Stage I: Placement

The placement stage represents the initial entry of the funds into the financial system. For the drug trafficker, in particular, this is not necessarily an easy task. The immense cash profits of the illegal drug trade can pose an enormous problem. Carrying too much of a cash is a risky proposition. Banknotes are also easily lost, stolen or destroyed.

Stage II: Layering

The layering stage consists of a series of transactions designed to conceal the origin of the funds. This is the most complex stage of the process, and the most international in nature. The money launderer might begin by sending funds electronically from one country to another, then break them up into investments in advanced financial options or in overseas markets, moving them constantly to evade detection, each time hoping to exploit loopholes or discrepancies in legislation and delays in judicial or police cooperation.

Stage III: Integration

The final stage of money laundering is termed the integration stage because it is at this point that the funds return fully assimilated into the legal economy. Having been placed initially as cash and layered through a number of financial operations, the criminal proceeds are fully integrated into the financial system and can be used for any purpose.

One such e-money laundering cycle was discovered by prosecutors and police in Palermo, Italy in 1999, when they stumbled on a 330 million pound sterling fraud masterminded by the Italian drug mafia. Money from drug deals was moved between a US company that was in fact registered in New Zealand, the Cayman Islands and had accounts in Israel and Spain. Subsequent to those movements the funds were deposited in Switzerland

4. http://www.unodc.org/unodc/money_laundering_cycle.html

and physically transported to banks in Romania, Croatia, Russia and Liberia. Somewhere along the way the money disappeared into cyberspace and reappeared as stocks and shares purchased online. Palermo's prosecutor concluded⁵ 'that their investigations have highlighted an unregulated and borderless financial market open to anyone with the capacity, for whatever reason, to exchange stocks and money.'

Technology has made the money laundering cycle shorter and simple. Tragedy is, it is simple for the money launderers' but complex for the law enforcement agencies. Money is moving seamlessly from one destination to another, from one channel of operations to another – all due to Internet and network technologies. Websites have become windows to the world wide money laundering web. They have emerged as the most sought after tool in the money laundering trade providing an online platform for all sorts of transactions.

WEBSITES AS TAX HEAVENS ON THE NET

Websites have emerged as an alternative to tax heavens as they provide far greater reach and convenience to money laundering activities. In fact, websites are putting tax heavens of Nauru, Niue, ST. Kitts and Nevis out of business. It is thus imperative to see the inherent advantage of websites vis-à-vis International Business Companies (IBCs) operating from tax heavens.

Table : Comparisons between IBCs and Websites

Details	IBCs Operating from Tax Heavens	Websites
Availability	Due to the inexpensive cost of incorporating and maintaining an IBC, "off-the shelf" companies are readily available.	Cost of domain name is Rs. 495.00 per year.
Incorporation	Companies can be incorporated within 24 hours once the proposed company name has been submitted to and approved by the Registrar of Companies.	Cost of creating a website with requisite security protocol is between Rs. 40,000.00 to Rs. 75,000.00

5. Lilley, Peter: *Dirty Dealing: The Untold Truth about Global Money Laundering, International Crime and Terrorism*, Kogan Page, London, 2003, pp. 121-122

Name Availability	Name availability is normally able to be confirmed within one hour.	Domain name of all kinds available. Online booking of domain name may take less than 5 minutes.
Capital Requirement	There is no minimum capital requirement. Capital may be expressed in any currency or combination of currencies.	No need to disclose or give details.
Shareholders	The minimum number of shareholders is one.	No need to disclose or give details.
Directors	The minimum number of directors required is one. There is no requirement for any of the directors to be resident in the tax heaven.	Non need to disclose or give details
Registered Office	A company must have a registered office in the tax heaven. This is usually at the offices of the company's professional advisers.	No need to disclose or give details.
Audit	There are no statutory requirements for a company's accounts to be audited.	No need to disclose or give details.
Information on Public Record	The only information filed with the RoCs that is available to the public is the address of the registered office.	Address of domain name registrant available with the domain name registrar.
Jurisdiction	Tax heavens have two separate jurisdictions – the international jurisdiction which is exempt from taxation and the domestic jurisdiction. Most of the tax heavens have specialized legislation to protect offshore transactions.	No clear-cut law on this issue.

It is clear from the aforesaid table that websites are taking over the IBCs as favourite new destinations of money laundering. One of the critical advantages of a website is that it may act as a proactive tool for secure payments. If online payment mechanism has proved boom to the e-commerce, it has also proved boom to money laundering operations as well.

THE SCOURGE OF ONLINE PAYMENT

Facilities, like e-cash, e-wallet, digital cheques⁶ and smart cards are increasingly playing an important role in online payment systems. However, technology is a double-edged sword – if on one hand it is popularizing the concept of Internet banking, then on the other it is giving ideas to money launderers to spread their area of influence.

For example, smart cards use a micro controller chip embedded in the card. It works as an electronic purse storing digital money, which could be used over public terminals (Websites, ATMs, Telephone lines) etc. The cards can be purchased and reloaded again and again. Now consider the use of smart card in the hands of drug trafficker – the money he might pay for narcotics, the supplies he might order and the transactions he might accomplish if, for instance, he could download an unlimited amount of cash from a smart card to a computer and then transmit those funds to another smart card in locations around the world –all anonymously, without an audit trail, and all without the need to resort to a traditional financial institution.

Similarly, what stops an e-money laundering website to use digital certificates⁷ for Secure Electronic Transaction (SET). It gives them an aura of legitimacy in the murky world of illegitimate business. It is like gaining respectability.

E-MONEY LAUNDERING: VER 2.0

With the technological advancements, e-money laundering has also moved to the next level. It is now more deeply embedded in the Net than ever before. Some of the salient features of e-money laundering, version 2.0 are:

- Increase in mobility
- Faster response and deal acquisition time
- Legitimacy under the grab on online gambling
- Us of advance technological tools to create secure website
- Better knowledge of forensic applications to gain insight into law enforcement agencies working

6. It is a cheque in the electronic form. Here, the consumer uses his digital signatures to sign an e-cheque. The consumer fills in the cheque online and then sends it via secure server to the recipient. The amount specified on the cheque is electronically withdrawn from the sender's account and deposited in the recipient's account.

7. Digital certificates are like trust certificates developed by a consortium led by Master Card and Visa.

Another disturbing trend, which is quite visible, is the increasing role of the sovereign Government(s) to use the e-money laundering networks for terrorists' related activities, espionage, nuclear proliferation and related activities.

E-MONEY LAUNDERING NETWORKS: A CHALLENGE TO LAW ENFORCEMENT AGENCIES

E-money laundering is no longer a local phenomenon. It is prevalent at a global level. Its scale of operations is huge. E-money laundering networks are for real and here to stay. Their menace would grow with the passage of time and they would pose a real threat to the survival of nation States. It is time that the law enforcement agencies all over the world should start pooling their resources for universal good.