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An Introduction to Money Laundering: "The Hunter"

Scott Johnson stood frozen in his penthouse suite in Dubai. Looking out at the glimmering sea and listening to the shouts outside his reinforced steel-and-mahogany door, his mind raced down the path that had led him to this place. The son of a high-ranking U.S. diplomat, Scott had enjoyed a cosmopolitan education and dual citizenship in France and the United States. After a promising start in aerospace engineering, Scott had developed an interest in banking, finishing at the top of his business school class and rising rapidly into a series of executive roles. All this had brought him to Dubai, up to the penthouse, and now to the insistent banging on his door. He felt a chill as he paused before opening the door. He thought his actions had left no trace. How had they managed to find him?

Background

Money laundering describes any financial transaction that aims to "clean" money obtained through illegal activity by concealing or disguising its "dirty" origins.[1] While the precise amount of total laundered funds is not known, they constitute an estimated 2% to 5% of the world's gross domestic product – between $1.6 and $4 trillion a year.[2] Importantly, money laundering is not an offense that stands on its own, but must follow from a prior criminal action. By hiding the trail of proceeds from the prior offense, money laundering serves not only to obscure those offenses but can help ongoing criminal enterprises escape detection. Criminal activities that can give rise to money laundering include white-collar crimes (e.g., embezzlement, fraud, and insider trading) as well as organized crime (e.g., smuggling or trafficking drugs, persons, and firearms).

Money laundering schemes often use a convoluted chain of transactions to obfuscate the source, ownership, and location of criminal proceeds. These schemes follow a first criminal offense, then proceed through three stages of money laundering:

0) *Predicate offense:* Illegal activity generates the money that requires laundering.

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1) *Placement (*or *injection):* Criminal proceeds make a first movement into the financial system; for instance, through deposits into bank accounts, or disguised as revenues from a legitimate business.

2) *Layering: M*oney passes through additional financial transactions designed to appear legitimate and muddle the origin and movement of the funds; for instance, through multiple international transfers via shell companies.

3) *Integration (*or *extraction):* Laundered money becomes available for use with the appearance of licit funds; for instance, for the purchase of real estate or other assets.

While this structure is typical, money laundering schemes need not include nor progress linearly through all three phases after the predicate offense. As an example, a small-time drug dealer may use cash proceeds to buy expensive watches, thus passing directly from the predicate offense (criminal drug sales) to integration (asset purchase). Later, as the drug business grows, the dealer may feel his lifestyle is drawing suspicion and decide to sell his watch collection, disguising the proceeds as revenue from a restaurant he uses as a front for the drug business. This decision effectively reverses the typical scheme from integration (asset purchase) to layering (asset re-sale) to placement (injection into financial systems).

Anti-Money Laundering

Anti-money laundering (AML) describes legal and regulatory efforts to prevent and detect money laundering. As large-scale money laundering schemes often involve international transactions, many AML initiatives rely on inter-governmental cooperation. In 1989, the Financial Action Task Force (FATF), began developing international AML standards and counted 39 member states by 2020.[3] The FATF's recommendations included practices for financial record-keeping, transparency, and international cooperation including extradition.[4] Member countries use these recommendations to create their own AML regulation, surveillance, and procedures. Many organizations, particularly financial institutions, established AML roles or functions within their internal compliance departments.

The inter-governmental International Criminal Police Organization, better known as INTERPOL, pursues many international money laundering crimes. By 2020, INTERPOL counted 194 member countries that share information and cooperate in international investigation and enforcement efforts.[5] INTERPOL issues *Red Notices,* international wanted notices that describe wanted persons and the criminal charges against them.[6]

Organizations and individuals charged with money laundering faced sanctions or embargoes based on international or national mandates. For instance, the U.S. Treasury Office of Foreign Assets Control (OFAC) maintains a list of Specially Designated Nationals and Blocked Persons *(SDN List)* subject to sanctions based on policy and national security goals.[7]

The Predicate Offense

Money can be laundered only when it is generated by a predicate offense. Predicate offenses are defined by individual countries' criminal codes, but are generally focused on serious offenses that often include tax evasion, fraud, arms dealing, and human trafficking. Because the purpose of money laundering relates to these other predicate crimes, AML efforts may target particular predicate offenses.

One key goal of AML is to track and freeze terrorist financing, which frequently uses similar techniques and exploits the same financial system weaknesses as money laundering. While money laundering aims to obscure the criminal origins of funds that may or may not have a further criminal use, terrorist financing aims to obscure the criminal destination of funds that may or may not have a criminal origin.[8]

Distinct criminal areas also display distinct patterns and "red flags." FATF reports found that illegal Afghan opiate products spread outward through fragmented land routes, while the proceeds often returned through banking centers in the United Arab Emirates[9]; sex trafficking often involved long-term accommodations spending in combination with other suspect spending such as for adult services advertising[10]; and labor trafficking showed signs of centralized operation such as multiple employees receiving wages into a single bank account.[11] In 2019-2020, the FATF added to its priorities the growing illegal wildlife trade,[12] which stood to disrupt the balance of local and global environments.[13]

These focus areas illustrate two key aspects of AML. First, AML investigations not only examine financial transaction patterns, but benefit from data sharing and cooperation on other contextual information and records, such as geographic areas where crimes are concentrated (opiates in Afghanistan) or administrative data (employment records for labor trafficking). Second, pursuing financial crimes can have a critical role in addressing other serious global issues from organized crime to terrorism to climate change. AML follows relatively more centralized and more traceable financial transactions, and can be an efficient complement or alternative to investigating hundreds or thousands of criminal networks and millions of individual criminals, victims, and transactions on the ground.

Scott's Statement, Interrogation 1

Three days later, Scott found himself in an interrogation room in France, with an FBI agent and a French intelligence officer leaning over him. The charge, the FBI agent told Scott, was terrorist financing. French law allowed four days of interrogation before bringing in Scott's lawyer. "You know, I don't think you are a terrorist," the French officer observed. "I think you just got mixed up with the wrong people and it spiraled downward after that. In fact, I believe you didn't even know that you were funding a terrorist organization. So help us understand how it worked so you can be a part of bringing their funding operation down. Just start at the beginning. Why do they call you 'The Hunter'?"

It all started in business school. I met an international student from Tanzania, Peter. We became friends, and he invited me over to his family's estate in Tanzania over Christmas break. Peter and his father were avid hunters; they took me to Mount Galai to track and hunt a leopard on Christmas Eve. Long story short, I was the one who managed to take it down as it was speeding over the savannah. My successful half-mile shot at dusk on a moving target earned me the nickname.

At that point I was already well established in a private equity firm, making a couple million every year since I was 26. I hardly worked more than three hours a day – I had a team of analysts who managed much of the day-to-day. I got to just focusing on making larger strategic calls. I collected Ferraris and had incredible homes in the U.S., France, and Dubai.

But then, despite everything – I guess I got bored. Buying more things wasn't cutting it anymore; I needed something else. I tried skydiving, even experimented with some drugs, but what really made me feel alive was that leopard hunt in Tanzania. I was hooked. Every chance I got, I went back to Africa to hunt every type of big game I could. Well, because of some NGO do-gooders, some of the best hunting locations were restricted, so I asked Peter if he could hook me up with special permits. At first it was just like doing a personal favor. Peter got a permit through a friend, and told me instead of paying cash I could do the friend *a solid and help him move some money to Europe. The guy's dad was on the board of a few state-owned corporations, so the way they explained it to me originally, there were just all these European bureaucratic hoops to jump through even transferring their own money. When I wanted a permit, they would have me move bitcoins out of a cryptocurrency wallet, then wire the same amount to a Swiss account. They invoiced me for the amount under "consulting services."*

As time went on, though, it was more and more money, for more and more friends. Later they had me set up profiles on a free dating app. We used it for security – I created a new account every week, and that profile was so bizarre it never came up in the search results of regular people, but my contacts knew what to look for, and that's how we communicated. I knew the whole thing was sketchy, but at the beginning it felt like a game, getting around the bureaucracy, like I did with my permits. Then one day I received a message from an unknown profile who had the pass phrase I used for the permits, asking me to clean his money through my own investment funds. He never gave me his real name – I called him "John Doe."

Placement

Placement, or the first move into the banking system, often begins with deposits into a bank account or via an intermediary instrument such as a money order. Initial placement is more likely than later transactions to take place close to the source (i.e., domestically), particularly for illicit proceeds received in cash.[14] However, many criminal activities involve non-cash transactions, such as embezzlement through bank transfers, that move directly into domestic or foreign accounts[a] for further layering.

Placement refers not only to the first transaction with dirty money, but to the techniques that ensure the transaction escapes detection.[15] Many AML systems rely on financial institutions to monitor and report activity potentially related to money laundering, with such reports triggering further scrutiny or investigation. In the United States, the Bank Secrecy Act of 1970 (BSA) requires financial institutions to report cash transactions above $10,000 per day as well as suspicious activity.[16] Suspicious activity reports (SARs) cover both detected criminal violations and a broad range of unusual activity, which can include transaction patterns that are simply unusual for a particular account.[17] The BSA requires stringent confidentiality for SARs, which may not be disclosed to the parties under investigation.

Money launderers can avoid triggering bank thresholds by breaking large sums into smaller transactions *(structuring)* sometimes made by multiple individuals *(smurfing).*[18] Dirty money can also be combined with and deposited under the guise of legitimate revenues from cash-intensive businesses – such as the fictional car wash and fast-food chicken restaurants used to launder methamphetamine proceeds in the TV series *Breaking Bad.* These businesses function as front companies[19] that use *commingling* (or *camouflage)* to make it difficult to distinguish funds from legitimate and illegitimate sources.[20]

Cash can also be distanced from a criminal source before entering the banking system. In casinos, cash can be converted to chips, then used to document gambling "winnings."[21] *Money or value transfer services (MVTS)* such as Western Union allow senders to make payments that the service company transfers to recipients located elsewhere. Transfers made for money laundering may be disguised as remittances, or money sent home by immigrant and migrant workers, a common use for MVTS and especially important to senders and recipients without access to the formal banking system – for

[a] "Foreign" and "offshore" are sometimes used interchangeably to describe accounts and transactions in other jurisdictions. We avoid the use of the term "offshore" because of its popular association with tax havens. While tax evasion may be a predicate offense and weak banking oversight may make some jurisdictions attractive for both money laundering and tax evasion or avoidance, money laundering is a distinct offense.

example, undocumented immigrants who receive cash wages, or recipients in unstable home countries.[22] Money laundering activity may be detected by remittance patterns that do not match the movements of migrant workers.[23] Physical *cash smuggling,* or *currency smuggling,* also distances dirty money from its source and can move it into jurisdictions with weaker AML controls.[24]

Scott's Statement, Interrogation 2

"What can you tell us about Doe?" asked the FBI agent.

Well, what Doe was asking for was way more than a one-off. After his third request, I asked to meet him in person. We met in Kinshasa, and when I started asking about where his money came from and how he knew about the pass phrase, he pulled out an MP3 player and started playing me these audio recordings, me talking to Peter's friend about the hunting licenses, agreeing to move money, the bitcoins, the invoices. So I did what Doe asked, but I wanted to have some insurance on my own, so I hacked his computer. I needed him to sign some papers to invest in my fund, for my compliance department, even if all the documentation was fake. So I sent him the templates with malware embedded. A friend of mine helped me set it up. Once I got into Doe's computer I looked around in his files and read his emails for a month, until he changed his tech which he did regularly. That's how I put it all together.

As far as how Doe got his money in the first place, he basically sold elephant tusks, rhino horns, and even live big game for collectors. He ran some restaurants, and he would move the cash physically around to the restaurants and add it to their revenue. He would say the extra was from a big party or something. He had great lawyers and accountants to help it all look legit. Some of those transactions, though – rhino horns can go for $65,000 a kilo. For that kind of money, he ran a private auction house in Guinea. He would post ads on the dark web and use the auction house as a front, buying paintings, arts and crafts at the local markets. Market value close to zero, but he would arrange private sales pretending they were rare artifacts from ancient African tribes. The buyers would pay the asking price, but the crates delivered to them would always have a hidden compartment where the real merchandise was stashed. The proceeds of the sales went to the corporate bank account of a very successful private auction house.

Layering

Besides the physical movement of cash, money laundering moves funds through the financial system and the trade system.[25] The layering stage involves complex and repeated financial transactions through these systems, including bank transfers, conversion across monetary instruments or high-value assets, or the use of intermediary services and businesses. Many of these layering techniques were highlighted in the 2016 Panama Papers leak, in which millions of records from the former Panamanian law firm Mossack Fonseca revealed clients engaged in financial crimes including money laundering.

Foreign Banking Systems. Within the formal financial system, *foreign banking* can provide a means of avoiding scrutiny when assets are deposited in jurisdictions with weaker oversight or lesser cooperation with AML bodies. In some of these jurisdictions, the financial sector primarily serves foreign entities. Switzerland, for instance, had a particular reputation for attracting foreign money because of strict banking secrecy laws that protected account holders' identities.[26,b] However,

[b] The Swiss Banking Act of 1934 made it a criminal offense to disclose the identities of account holders, punishable by up to three years' imprisonment and fines up to 250,000 CHF (U.S. $259,000 in April 2020). The resulting confidentiality practices protected client identities even within banks, with account holders accessing funds via code words or code names. Like other financial

Switzerland strengthened its AML measures and international cooperation significantly through the 2010s.[27] For uncooperative countries lacking adequate AML measures, The FATF maintains a list of "high-risk jurisdictions subject to a call for action," informally known as the "black list."[28] The call to action indicated that FATF member countries should exercise greater due diligence in financial dealings with black-list jurisdictions. In February 2020, the black list included only two countries, North Korea and Iran. A second list of "jurisdictions under increased monitoring," or the "grey list," denoted countries cooperating with the FATF following agreed AML action plans. In February 2020, the grey list included 18 countries, including Panama.[29]

Designated non-financial professionals. Besides financial institutions, other types of businesses can be particularly at risk of involvement in money laundering and terrorist financing. These *designated non-financial business and professions (DNFBPs)* include those trading in high-value assets that may be used to place dirty money, such as real estate developers, real estate agents, car dealers, art dealers, and dealers in precious metals or stones.[30] Real estate can be attractive for money laundering because of the potential to launder large amounts of dirty money in a single transaction and because real estate assets often appreciate over time. Art pieces, precious metals, and precious stones effectively function as global currencies that can be traded anonymously.

Other DNFBPs provide legal, accounting, and other business services that criminal enterprises may misuse to layer over the origin or ownership of dirty assets. In particular, *trust and company service providers (TCSPs)* – including Mossack Fonseca – engage in potentially higher-risk activities such as setting up shell companies and providing nominee services either as shareholders or as directors.[31]

Shell companies. A *shell company* effectively exists only on paper, with no business activities, active employees, or independent assets.[32] It facilitates transactions or holds assets only on behalf of its owner. Shell companies serve a range of purposes, from providing legitimate protection for strategic development or concealing the location of celebrity homes, to illegally hiding assets from divorce proceedings, taxation, or criminal investigations.[33] A dormant *shelf company* is a shell company that sits on the shelf to age, until purchased or leased to give the appearance of a long-standing presence or to bypass the procedures for starting a new company, which can include client identity verification. Both shell companies and shelf companies may serve in the money laundering process to conceal the identity of beneficial owners; that is, the individuals who ultimately own, control, or benefit from the companies' assets.[34,c]

Nominees. A business may arrange for outside entities to act as *nominees,* or *strawmen,* on the business's behalf.[35] Nominees may be directors, shareholders, secretaries, or trustees that have authority and accountability for the business on paper. Nominees may be used in conjunction with shell and shelf companies to create added layers of privacy. While nominees, like shell companies, may have legitimate uses, one fraudulent scheme in Australia shows how strawmen may be abused. Brown Baldwin, a former accounting firm offering TCSP services, identified people who were homeless or addicted to drugs, then installed them as straw directors for nearly 200 shell or shelf companies.[36] In exchange for a few hundred dollars, vulnerable individuals signed paperwork leaving them liable for millions in unpaid debts, taxes, invoices, and employee wages.

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system vulnerabilities, Swiss secrecy had both legitimate and illegitimate uses, famously sheltering the assets of both Jewish Holocaust refugees and Nazi fugitives.

[c] Legally, beneficial owners are "natural persons," or human individuals, as distinct from "legal persons," which are legal entities that may include corporations.

Other techniques. Another commonly used layering avenue is *trade-based money laundering (TBML)*, which hides criminal proceeds using seemingly legitimate trade transactions and operations.[37] TBML techniques include misrepresenting the amount or the value of goods and services on invoices and customs records. For instance, a money launderer may inflate the amount invoiced for an export shipment, then commingle the lesser revenue amount with criminal proceeds that make up the difference. In the case of a "phantom shipment," invoices and customs documents describe shipments that do not exist at all. Effectively a trade analogue of the use of cash-intensive front businesses in the placement stage of money laundering, TBML transactions are readily missed because of the volume and complexity of global trade as well as the limited inter-governmental exchange of customs information.[38]

Notably, the deployment of layering techniques constitutes money laundering only when applied to the proceeds of a predicate offense. Many financial transactions and structures used for layering also have legitimate uses, such as creating strategic secrecy or personal privacy. Others like falsified trade transactions are intrinsically criminal offenses but may or may not be tied to money laundering.

Scott's Statement, Interrogation 3

Scott returned to the interrogation room the next day feeling rough. He had spent the night in a tiny isolation cell, barely sleeping. He dreaded the coming days and was more than eager to cooperate and try to cut a deal. He continued where he had left off the previous day, detailing the trail of his business associate's dirty money.

First, I traveled to Panama and the British Virgin Islands. I knew of a TCSP company which was known to be lax when it came to KYC ["Know Your Customer" identity verification] controls, and I bought six shelf companies from them. My shelf companies had history back to the 1980s, so, basically, I could spin any story I wanted for them. It's 100% legal. They also come with pre-existing bank accounts and sometimes specific assets.

The first company I used to issue fake invoices supposedly regarding research and consulting activities for companies controlled by the guy I told you about, "Doe." As such he had a reason to wire money to the bank accounts of Lucky Snow Consultants, Ltd. The other companies were split into two groups, air and sea. Basically they were used to issue invoices for cargo shipments from Africa to other continents, and they owned either planes or container ships, which were used to transport goods belonging to the guy's network. I never asked what the goods were.

I used strawmen to act as different beneficial owners and directors of those companies, had them sign hundreds of sheets of blank paper so I could fake transactions orders from banks, draw up invoices and contracts, and I also used burner phones, one for each director. I had three directors and one beneficial owner per company, about 24 guys at any given time. They were dirt cheap – I paid them one-off, 500€ each. It was a good deal for them, too. They made more money in 20 minutes signing papers for me than in four months searching through the trash.

Each of these companies had at least two bank accounts: one in Switzerland, the other in Bermuda. The Swiss bank account was managed by a family-run private bank that was well known for its discretion. As you know, I manage a private equity fund. I created a dedicated compartment, or sub-fund if you will, with the Swiss bank invested as a nominee. So all the transactions were in the name of the nominee, and only the nominee knew the name of the actual guy behind the transaction.

Integration

Money that has been effectively layered can then be integrated, or used in the legitimate economy with the appearance of licit funds. Once the integration stage is reached, "cleaned" money has been distanced from its criminal origins and becomes difficult to trace. However, integrated money may still provide signals that individuals warrant investigation for money laundering and criminal activity, if they have large amounts of unexplained assets or spending disproportionate to their apparent income and occupation.

Thus, while integration can be as simple as the earlier example of purchasing a watch with criminal drug revenues, large-scale criminal operations often use more complex techniques to avoid drawing suspicion. Some integration techniques overlap with layering techniques, and the two stages are distinguished by the purpose of either obscuring criminal origins (layering) or making criminal proceeds available for use (integration). For instance, integration may include the use of front businesses, TBML schemes, or inflated or falsified consulting engagements (often through a shell company) to make funds available as seemingly legitimate income. Money may also be transferred into jurisdictions where the funds are effectively available without raising red flags tied to identity. Integration may also involve purchasing assets such as gold that can be traded anonymously and globally.[39] Integrated money may also be used to reinvest in business activities including criminal activities related to the predicate offense, money laundering efforts such as additional cash-intensive businesses, or genuinely legitimate enterprises.

Scott's Statement, Interrogation 4

Scott paused. He'd told them almost everything about his role, and he still didn't understand where the supposed terrorism fit in. There must be something bigger than what he had to tell them. "I want a deal before I say any more," he said flatly. Outside, the French officer admitted, "The guy is a serious white-collar criminal, but I think it's worth a deal to get all the info he has on the money trail. I think he set up a huge network without even seeing how it was going to be used." Hours later, the officer and the FBI agent returned to the room and pushed the agreement and a pen toward Scott.

Well, the thing with money laundering is that usually when you have $100 to launder, you're happy if you get out with $75 after all the fees and bribes you had to pay. With my set up, John Doe got out with $125 and was still making profit.

The starting point was to redeem the units that the nominee held in the fund. The proceeds were then distributed across the bank accounts of the shelf companies based on the amount invested. That already generated extra income because my fund generated so much alpha.

Once the money was back in the bank accounts in Bermuda and Switzerland, it was transferred to bank accounts controlled by John Doe's companies, using real invoices for fake services, advisory mostly. Then the real integration started through three separate streams. The first one was buying listed stocks and gold, which could be easily transferred from one bank account to another without raising eyebrows. The second stream's purpose was to extend the scale of the money laundering capacities of the scheme. In that sense, the funds were used to buy new cash intensive businesses such as strip clubs, restaurants, pawn shops. This helped broaden the injection surface of the scheme.

Then the last was the real master stroke: buying insurance. Not like car insurance, but you know why it was so hard to take down Pablo Escobar? His empire was like a hydra, cut one head off and two popped back *up. But the main thing between him and the police was that he was well-liked. He built schools, donated money to charities. To them he was a hometown hero instead of a drug lord.*

So that's what I did for Doe. Built hospitals, schools, and orphanages all over Africa, enough that authorities would think twice before investigating them. And the cherry on top was that the charities brought in extra cash, clean money from governments, NGOs, and private donors. So much, in fact, that it evens out the dark side of their business and in one generation they will probably go entirely legit.

Coda

As he pushed back the papers, Scott asked the question he'd been turning over since the day of the raid in Dubai. "How did you find me?"

The FBI agent smiled. "Do you know how Al Capone got caught? Tax fraud, caught by the IRS."

"But I pay a fortune to a tax lawyer to make sure everything is in order," Scott replied.

"Mr. Johnson," the French officer said, "You're a clever man, but even clever men make mistakes when their empire grows too big for them to manage. Remember your visit to Liechtenstein in 2004?"

Scott paused, then blanched. He'd made a day trip to Liechtenstein just once, to open an account in a family-owned private bank and deposit his yearly bonus in cash – a little over half a million dollars, stashed away just in case.

"See," the FBI agent continued, "You didn't declare all your foreign accounts. When that bank finally started cooperating with the U.S., they gave the IRS a list of all their American clients, and your name popped up. They looked into you and figured you would probably have more hidden away, so they passed the ball to us, and we tapped your phones. And the best thing is, since you did so much international business, we managed to get intelligence agencies interested in you too. Some of your conversations were red-flagged because the guy you were talking to, Doe – he's got a voiceprint on file, talking about funding terrorist attacks in Africa."

The French officer concluded, "The FBI got INTERPOL involved, we tracked you to Dubai, and now, here we are."

Days later, a team of agents searched the Hyena, a Liberian-flagged yacht they'd found among Scott's assets. On board, they found backup records of all Scott's transactions, verifying his statements. Back in the interrogation room, the French officer and the FBI agent brought in a set of mugshots and scrolled through until Scott identified "Doe" – a suspected fixer for a terrorist organization whose influence across Africa that had gone unexplained by Western intelligence services, until they found Scott. Scott had not only been laundering money for an organized criminal group, but had set up an effective international network to finance terrorism across the African continent.[d]

[d] Wildlife trafficking is considered a potential but unconfirmed source of terrorist financing in West and Central Africa, according to the FATF.

Endnotes

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[23] FATF and MONEYVAL, pp. 48, 51.

[24] ACAMS, "AML Glossary."

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