

Cash Economy – Investigative Techniques

Al Capone – Downfall

America Made

Introduction into Cash Economy:

- **Part 1 - traditional cash businesses**
- **Part 2 - cash business or cash-system used for other activities**
 - **Part 2 Focus on ML**
- **Part 3 - Risk indicators**
- **Part 4 - Detection**
- **Part 5 - Investigative Techniques**
- **Part 6 - Money Laundering**

Practical Exercise:

- **Please define the 3 most risky cash economy or related areas in your countries (as explained in Part 1,2,3)!**
- **Explain the related problems of detecting – investigating - finishing the cases!!**
- **What could be defined as risk indicators?**

Part 1:

What is traditional cash economy – cash business?

The majority of turnover is generated with cash payments!

Cash business „risk“ areas:

- **Open markets**
- **Newly founded companies**
- **Tourist sector – Hotels / Bars / Red Light Districts / Restaurants / Dancing Bars /**
- **Groceries, retail stores, supermarkets**
- **Agricultural product sellers (farmers/...)**
- **Construction sector**

Related problems:

- **Any kind of products / services possible**
- **Usually services / products meant for final consumers**
- **Cash is not traceable**
- **No crosscheck possibility – leak of info**
- **No regular prices – quality, region, other price influences**
- **Apparently small businesses – front stores**

Related problems:

- **No tax files – non declaration of taxes**
- **Non regulated markets**
- **International approaches**
- **No bookkeeping**
- **Use of front persons / strawmen**
- **Fast business – different locations**
- **No or not so high gains in general**
- **Organized structures**

Part 2:

**cash business or cash-system is used
for other activities“criminal“?**

**Use of at least one or more business
sectors for criminal activities related /
linked to / with cash-money!**

Part 2:

The cash-payment-system itself is used for other criminal activities!

- Different payment platforms**
- Currency exchange**
- E-commerce system (B2B payments..)**
- Etc.....**

Cash business „risk“ areas:

- **Open markets**
- **Newly founded companies**
- **Tourist sector – Hotels / Bars / Red Light Districts / Restaurants / Dancing Bars /**
- **Groceries, retail stores, supermarkets**
- **Agricultural product sellers (farmers/...)**
- **Construction sector**

Cash business „risk“ areas:

- **All traditional cash economy, cash business areas as described in Part 1!**
- **All related problems**

Related problems:

- **No tax files – non declaration of taxes**
- **Non regulated markets**
- **International approaches**
- **No bookkeeping**
- **Use of front persons / strawmen**
- **Fast business – different locations**
- **No or not so high gains in general**
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Other criminal activities:

- **Money laundering – trade based / merchant based (B2B payments)**
- **Covering / hiding illegal income**
- **Bribery and corruption**
- **Tax fraud out of other non cash related activities**
- **Terrorist financing**
- **Fraud in other areas**

The Cash system:

- **Use of cash payments**
- **Different systems**
- **Mixture of using the different systems**
- **eG for Fraud / etc**

Risk Areas:

- **Non-regulated, alternative payment platforms based on cash payments – Western Union, Hawala...**
- **E-commerce B2B system**
- **But also all the cash business areas described in Part 1**

Part 2: Focus on money laundering:

Laundering of illegal money

Use of (semi-) legal business

- **Mix of legal and illegal gained money (Service businesses are best suited to this method - little or no variable costs and/or a large margin between revenue and variable costs)**

Part 2: Focus on money laundering:

Laundering of illegal money

Use of digital electronic money

- **electronic money provides as easy a method of transferring value without revealing identity, especially wire transfers involving anonymity-protecting numbered bank accounts – e.g. Liberty Reserve**

Online gaming/ - gambling

- **E.G Second Life and World of Warcraft, it is possible to convert money into virtual goods, services, or virtual cash that can later be converted back into money**

Part 2: Focus on money laundering: **Laundring of illegal money**

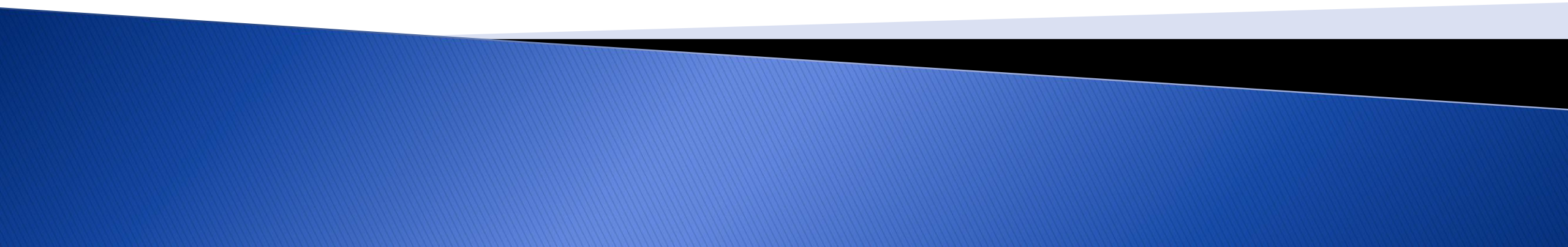
Reverse money laundering

- **Reverse money laundering is a process that disguises a legitimate source of funds that are to be used for illegal purposes – eg collecting of funds for terrorist financing purposes**

Part 3 - Risk Indicators:

- **Business areas themselves**
- **Comparison business to business**
- **Single products, goods, services,**
- **Way of doing business – the flow of business**
- **Non regulated markets/payments/systems**
- **Location of business**
- **Compliance behaviour**
- **.....**

Risk Indicator Topics

- **Techniques to find risk indicators**
 - **Accounting and financial risk indicators**
 - **Risk indicators and challenges specifically in the cash economy**
 - **How to find Information – techniques, sources, databases**
 - **Profiling models – how to identify potential cases**
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Part 4 - Detection possibilities:

What do you think are the detection possibilities?

How do investigation units get notice of risk areas/problems/cases?

Group discussion!

Detection possibilities:

- **Informants**
- **Whistleblower**
- **Self case detection by evaluation of general infos – intelligence units**
- **Audit activities**
- **Random case selection in risk areas**
- **Investigative techniques**

Part 5 - Investigative Techniques eG:

- **Audits – get knowledge about the business**
- **Surveillance, observation after getting notice of business**
- **Information exchange national/internat.**
- **Inter-agency co-operation police / customs / industry or business areas**
- **Digital techniques**

Digital Techniques:

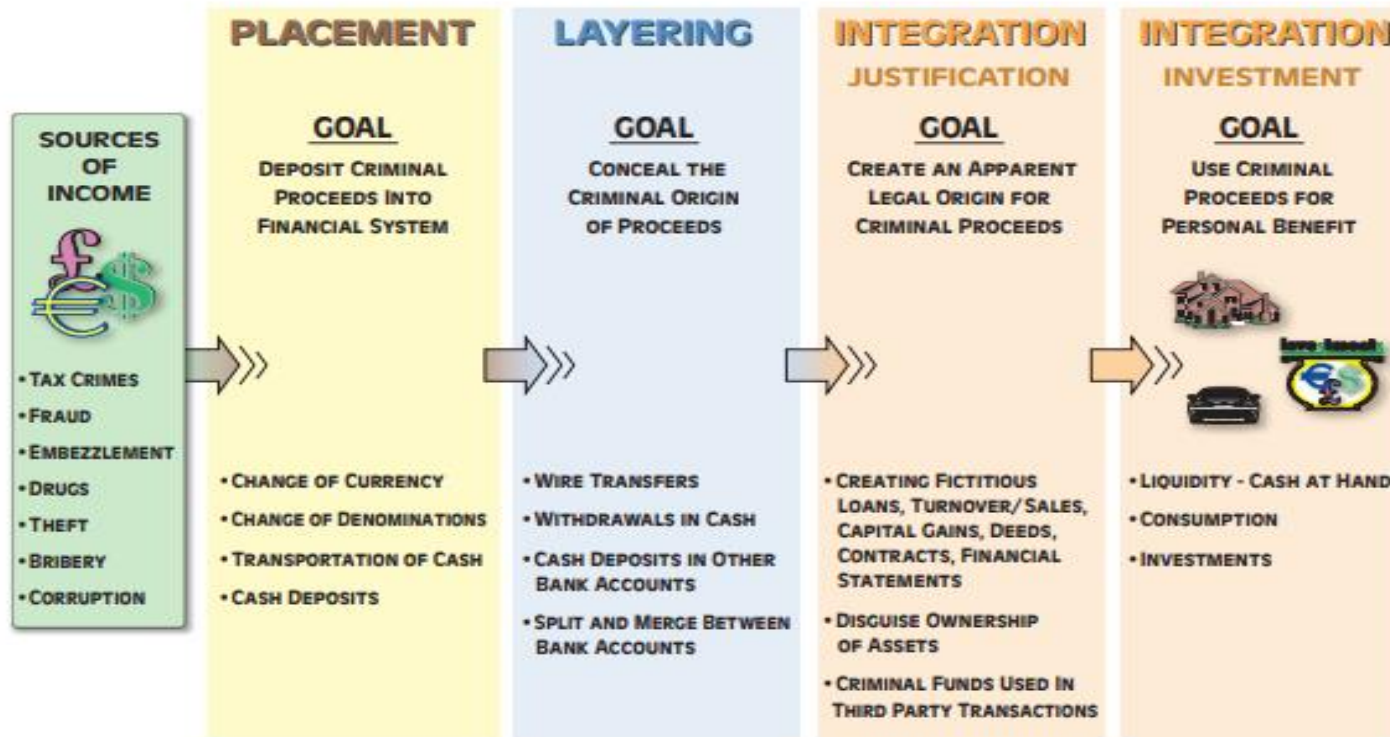
- **Margin comparison**
- **Gains comparison**
- **Business figures at all**
- **Cost structures compared – eg employees visa turnover**
- **Special different business database-crosschecks of databases**

Methods of proof topics

- **Direct method of proof**
 - **Specific item method**
 - **Different schemes**
- **Indirect method of proof**
 - **Net worth method**
 - **Projection method**
- **Preparing for trial**

Part 6 - Money Laundering

OVERVIEW OF MONEY LAUNDERING



Focus on detection of money laundering

- All methods mentioned before
 - to detect while placement process
e.g. criminal or criminal organization owns a legitimate restaurant business. Money obtained from illegal activities is gradually deposited into a bank through the restaurant. The restaurant reports daily cash sales higher than what it actually takes in

Detection of money laundering

- All methodes mentioned before
 - to detect while layering process
e.g. to deal with tax issues – on example of the restaurant - further disguise the criminal source of the extra deposited funds, the restaurant invests the money in another legitimate business, such as real estate - further obscured from the authorities by using shell companies or holding companies that control several business enterprises that the laundered money

Detection of money laundering

- All methods mentioned before
 - to detect while integration process
e.g. – integration – the money is placed into legitimate business or personal investments (purchase high-end luxury goods, such as jewelry or automobiles. At this stage, the money has, ideally, been sufficiently laundered. The money is typically then either legitimately invested or exchanged for expensive assets such as property.

Indicators of Money Laundering

- All indicators as for detection of fraud/tax evasion/.....
 - Everything unusual / suspicious
 - Everything with no economical reason
 - Under-valuing or over-valuing of property value
 - Rapid successive buying and selling
 - Use of third parties or companies that distance the transaction from the criminal source of funds
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Indicators of money laundering –

Real estate area

Table of indicators of FINTRAC

**FINTRAC = Financial Transactions and
Reports Analysis Centre of Canada**

Table of indicators

