OECD International Academy for Tax Crime Investigation
Investigative Techniques for the Effective Use of Banking Information

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CORRESPONDENT BANKING – FOLLOW THE MONEY

HOW GLOBAL PAYMENTS FLOW, EVIDENCE COLLECTION & BANK COLLABORATION

Douglas Sloan
February 2023

OECD
BETTER POLICIES FOR BETTER LIVES

Discussion Topics

- Correspondent Banking -
  - Cross border payments (e.g. SWIFT MT103/MT202cov) explained.

- Common Money Laundering Techniques

Direct and Indirect Banking Relationships

- Correspondent banks process transactions for other banks who have persons and entities as their customers. They often have greater visibility of payment activity, amounts, volumes, counterparties and countries ("breadth").

- Banks with direct customer relationships to the persons and entities have greater profile information about who their customers are ("depth").
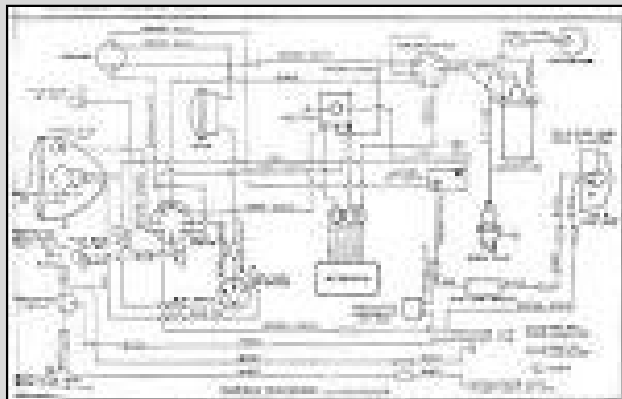
Circuit Diagrams as Wire Transfer Analogy
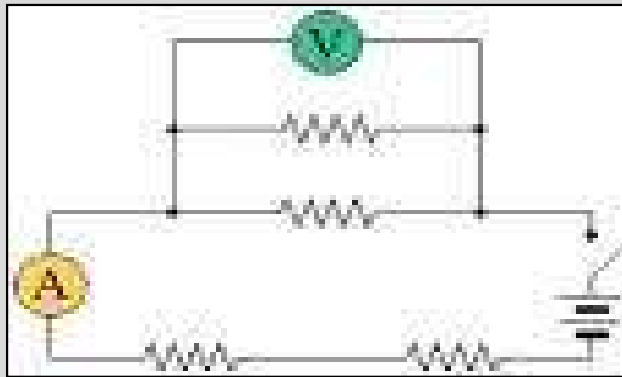
Simple

Standard

Complex

New York City Subway Map
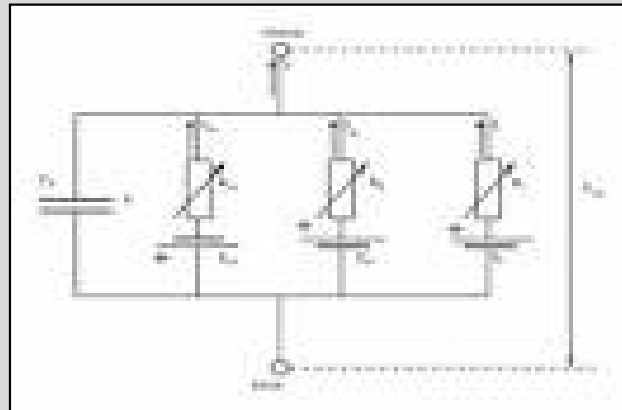
Take the A Train

Your Departure Address

Station Departure

Second Station. Transfer Option

Station Arrival

Your Arrival Address

Standard Mediums of Exchange

Cash

SWIFT

Money Orders

Doesn't even cover some foreign mediums

ACH

EFT

Virtual Currency

Wires

Credit & Debit Cards

Checks

FedWire

CHiPs

Travellers Checks

ICH

Major Money Center & Correspondent Banks

The major money center banks are also the major correspondent banking providers. Along with other large banks, they act as the primary processors of US and global US$ payments.

Chief Characteristics of Money Center & Correspondent Banks
- No two banks are the same
- Depends on Bank
- Depends on the Currency
- Depends on the Market

Primary Processors of Global US$ Payments
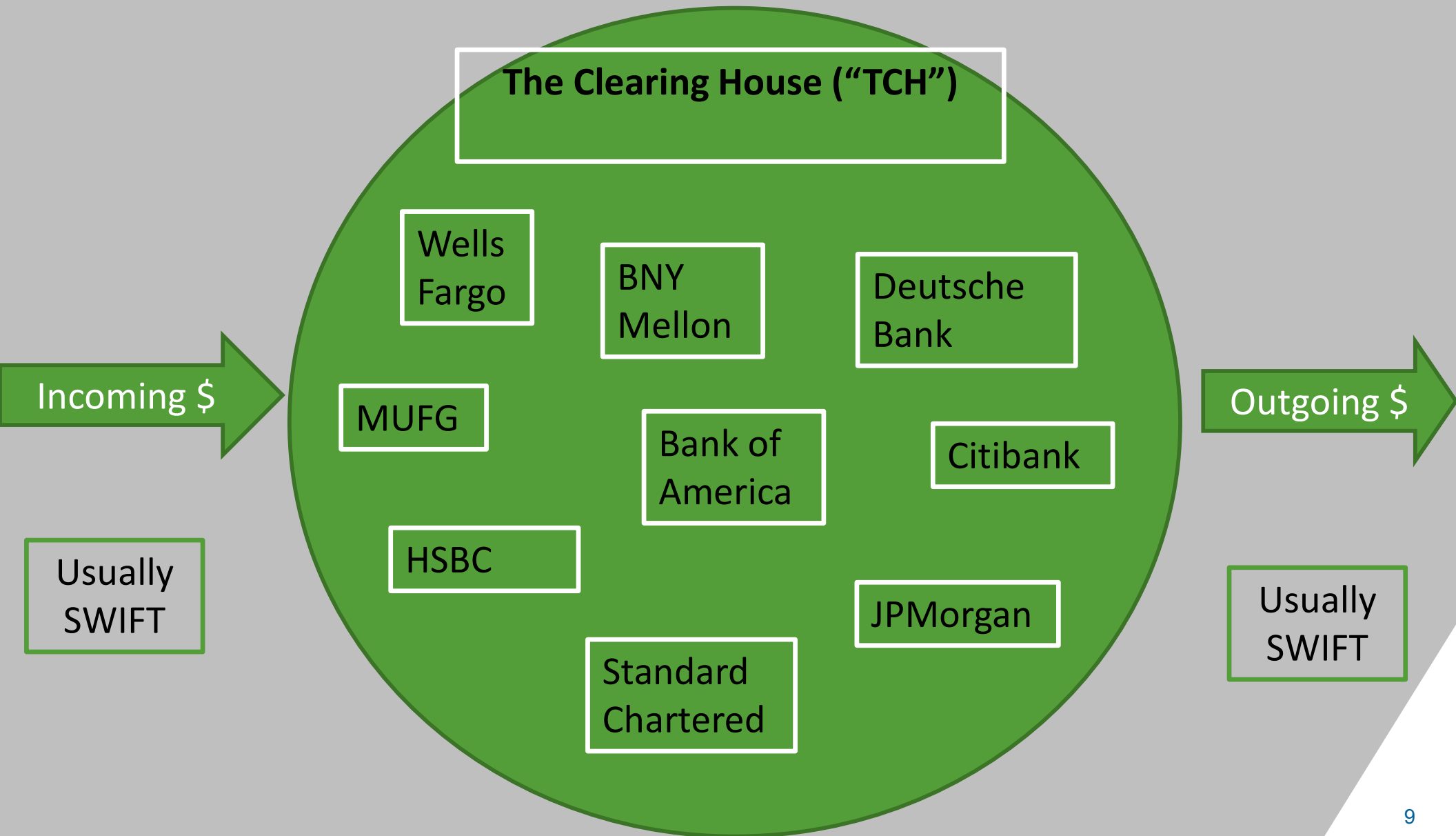
Basic Wire Transfer

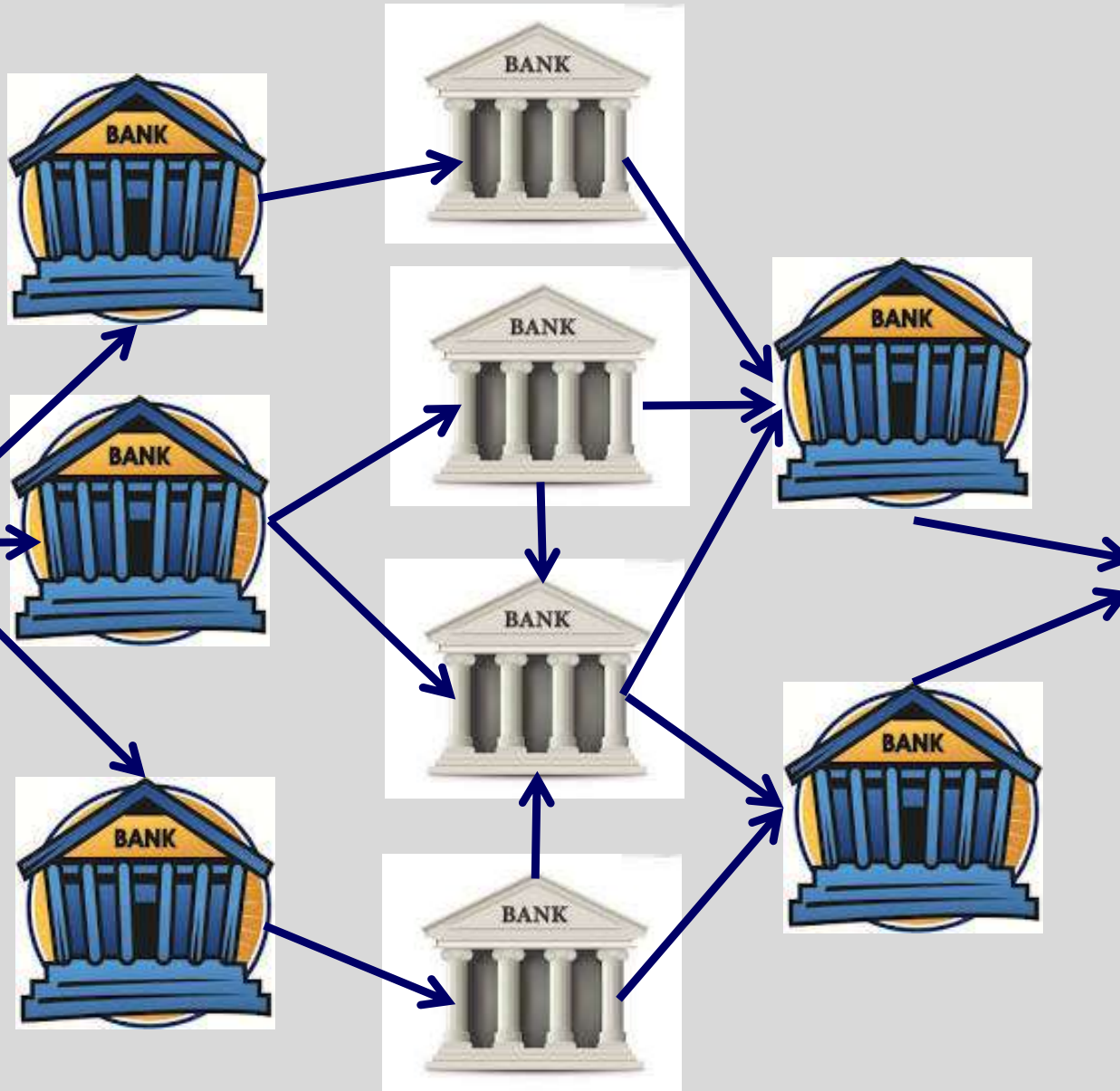Originator → Originating Bank → Intermediary Bank → Beneficiary Bank → Beneficiary

Basic Wire Transfer
Multiple Intermediaries
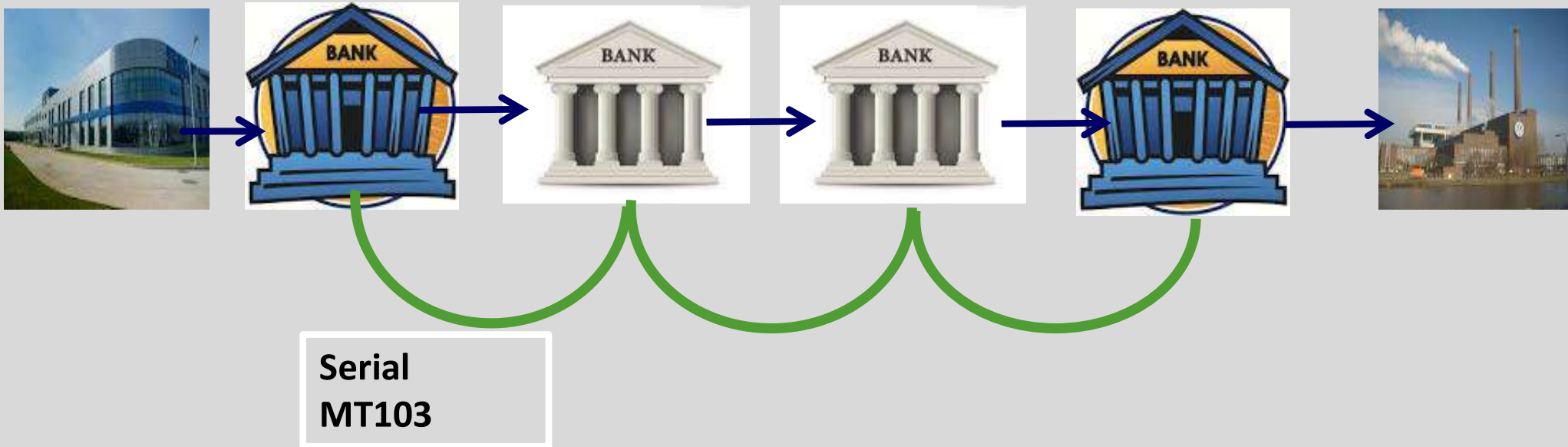
Basic Wire Transfer
Multiple Institutions

Complex Wire Transfer

THE BASIC SWIFT PAYMENT MESSAGE TYPES EXPLAINED
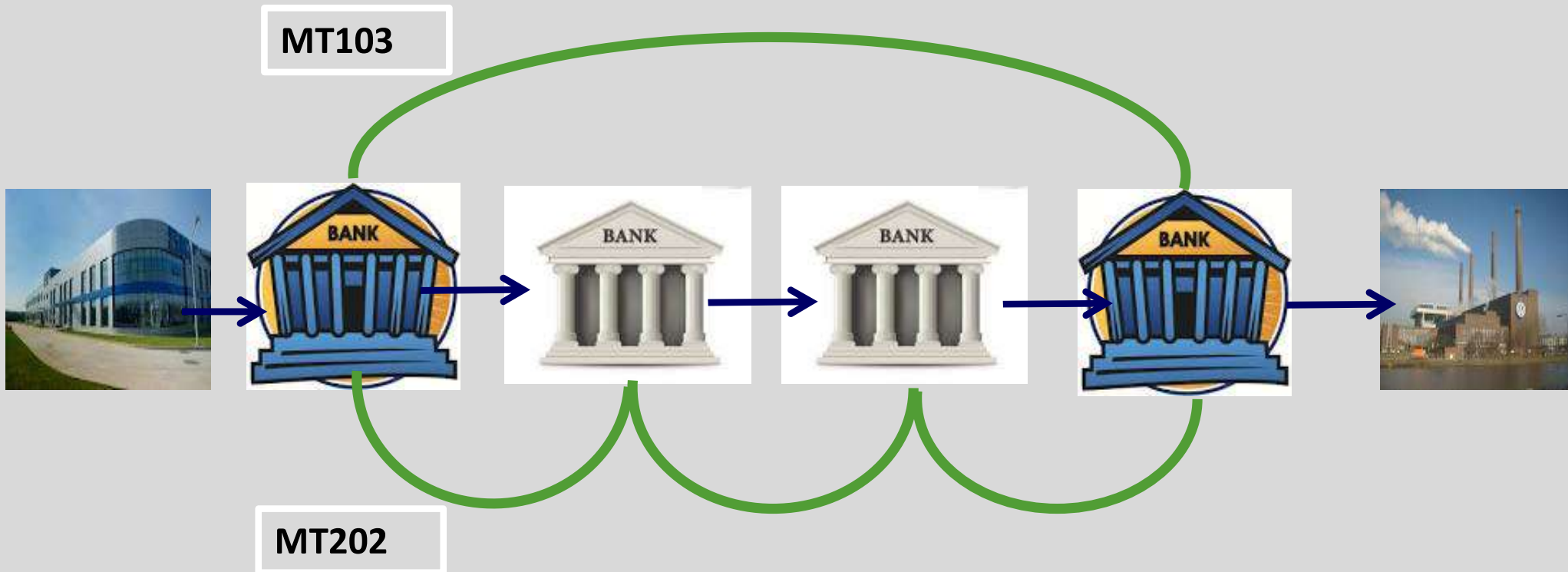
Basic Wire Transfer
Serial MT103

Serial
MT103

Serial MT103: All the Details, All the Value, Lower Risks, Slower

Basic Wire Transfer
MT103 & MT202 (one payment in two messages)

MT103: All the Details and Very Fast Communication b/w Org Bank and Bene Bank; But no value.

MT202: Very few details; slow; but has the real value.

Basic Wire Transfer
MT103 & MT202Cov

MT103: All the Details and Very Fast Communication b/w Org Bank and Bene Bank; But no value.

MT202Cov: All the Details; slow; but has the real value; less risks.

EXAMINING THE WIRE

Train Ticket

HAPPY RAILS TRANSPORTATION

Reservation Number: XN45BT39283
Reservation Date: August 31, 2020
Fare: $237.89
Class: Economy
Date: September 16, 2020
Passenger: Douglas Sloan
Passenger Number: A12345
Departure: B&O Station. Akron, Ohio
Train: 3478 Midnight Express
Destination: Union Station. Harpers Ferry, WV
Transfers: Penn Station, Newark, NJ
Train: 2648 Regional InterCity

Contents of a SWIFT MT103/202Cov

- Date
- Amount
- Originator
- Originator Address
- Originator Bank and BIC
- Beneficiary Bank and BIC
- Beneficiary
- Beneficiary Address (Optional)
- References/Memo Field (Optional)

Standard SWIFT MT103/MT202Cov [appearances may vary]

TXN #: 564794047494
Transaction Date : August 31, 2020
Transaction Amount: $12,237.89
ORG: Bob's Boats
ORG Account #: 009-87-68574
ORG Address: 123 Sesame Street, Paris, France
ORG Bank: HSBC Paris
ORG Bank SWIFT #CCFRFRPP
Intermediate Bank: Bank of America
Bene Bank: Deutsche Bank Hamburg
Bene Bank SWIFT #: DEUTDEHH
Beneficiary: Al Capone
Bene Account #: RT783674842
Bene Address: 64-16 Talbot Street, Seoul, Korea
Memo: Payment for contract number 34453

The SWIFT Code or BIC Code is 8-11 characters including: 4 letters for the bank; 2 letters for the country; two letters or numbers for location. An additional 3 digits is optional for the primary office.

Analyzing a series of payments over a given time period is crucial for understanding the activities of your target/suspect and building on the cope of your investigation.

TXN Date	Base Amount	Originator Name	Originator Account ID	Originator Address Street	Originator Address City	Originator Country Code	Originator's Bank Name	Beneficiary Name	Beneficiary Account ID	Beneficiary's Bank Name	Bank to Bank Instructions
RXN_EXCTN_I	TRXN_BASE_AM	SCND_ORIG_NM	SCND_ORIG	SCND_ORIG	SCND_ORI	IG_ADDR_C	ORIG_NM	SCND_BENE	SCND_BENEF	BENEF_NM	BANK_TO_BANK
15-Jun-07	$29,973.02	Chester Chan	12345	Suite 4 Chen	BEIJING	CN	BANK OF CHINA	Bad Guy	74310753794	BANK INDONESIA	FOR LIVING COST
29-Oct-10	$100,950.00	Desert Heat	21296-00	PO Box 89	SANAA	YE	UNITED ARAB BANK	Bad Guy	1001565223	COOPERATIVE BANK	Consulting Fee
18-May-09	$10,000.00	Bad Guy	ad67898	7th Avenue,	LAGOS	NG	ECOBANK NIGERIA	NewCo Ltd	sdrea	JPMORGAN CHASE	Invoice 23423425
1-Sep-10	$69,001.94	Bad Guy	12345678	7th Avenue,	SHARJAH	AE	UNITED ARAB BANK	Bobs Boats	HY98036	UBS BANK	Electronic Goods
1-Oct-10	$100,950.00	Bad Guy	876543456	7th Avenue,	SHARJAH	AE	UNITED ARAB BANK	Bobs Boats	HY98036	UBS BANK	Trade Goods
30-Aug-10	$1,400,000.00	DW82902652543	Bad Guy	6 Maple Ave	CALGARY	CA	TD BANK	Bobs Boats	LB20005600	BANK AUDI S.A.L	Investments
30-Jan-13	$40,000.00	Muhammad Ali	678946	21 Safari Wa	KANO	NG	FIDELITY BANK	ABC Corp	053-05533	HSBC HONG KONG	B/O Jessie James

Software Assistance Please…

MS Excel and MS Access are good but basic tools to use in analyzing payment data for criminal activity. However, they can be limited. There are a variety of free and expenses software solutions, some more user-friendly than others. Common examples include:

- Python (and Python notebook: Anaconda)

- Knime

- Neo4J

- ACL and Arbutus

- Many others…

If working in the cloud or software is through provider, make sure you have complied with proper security and confidentiality protocols.

Common Money Laundering Techniques– Games People (Bad guys) Play

- Spoke and Wheel
- PSPs & MSBs
- Facilitators and Anonymity (Lawyers, accountants, back office service providers)
- Let me do you a favor (one entity sends for another)
- Switch Entities
- Multiple firms with accounts at same bank
- Switch currencies on the wire
- Mexican Diversion
- Virtual currencies
- Hawala
- Loans & Taxes
- Other Schemes/Cases

Spoke and Wheel

PAYMENT SERVICE PROVIDERS & MONEY SERVICE BUSINESSES

Originator
PSP/MSB

Originating
Bank
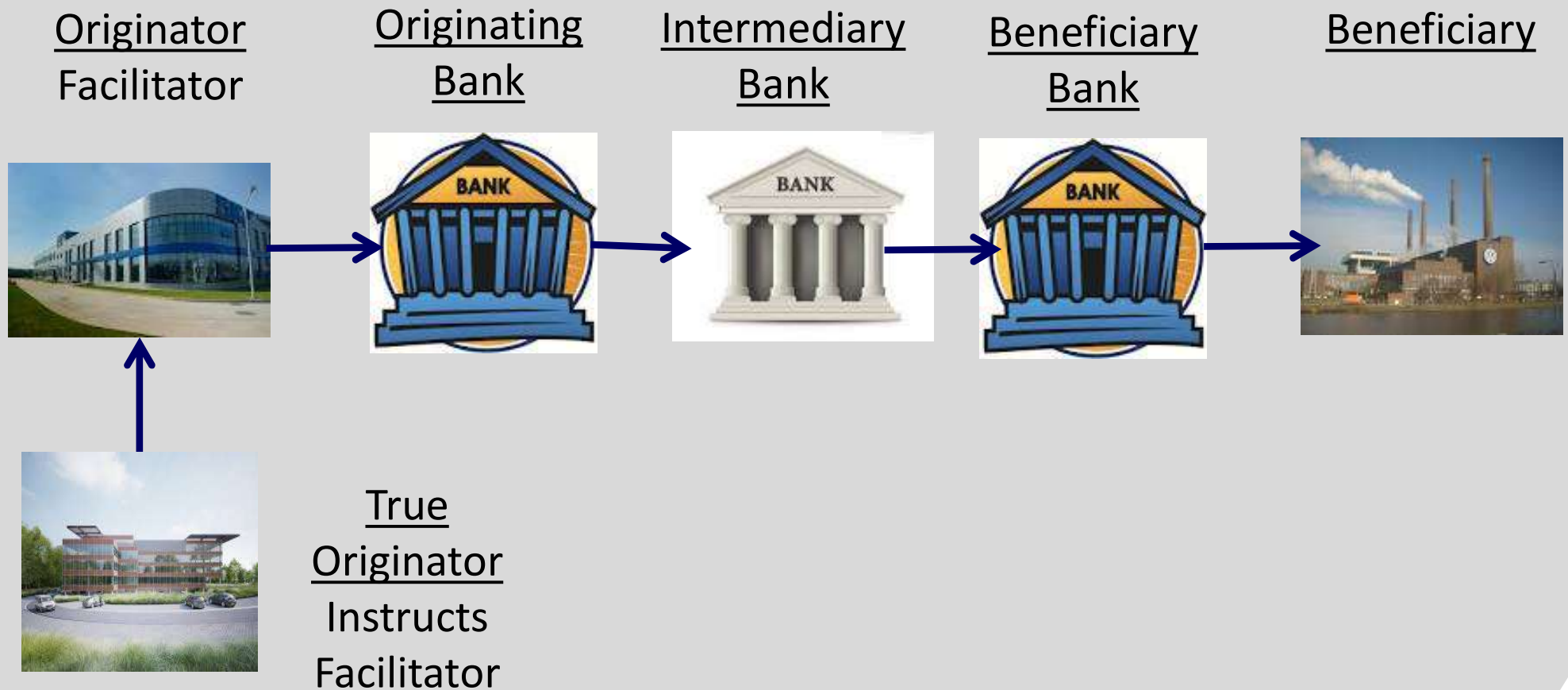
Intermediary
Bank

Beneficiary
Bank

Beneficiary

True
Originator
Instructs
PSP/MSB

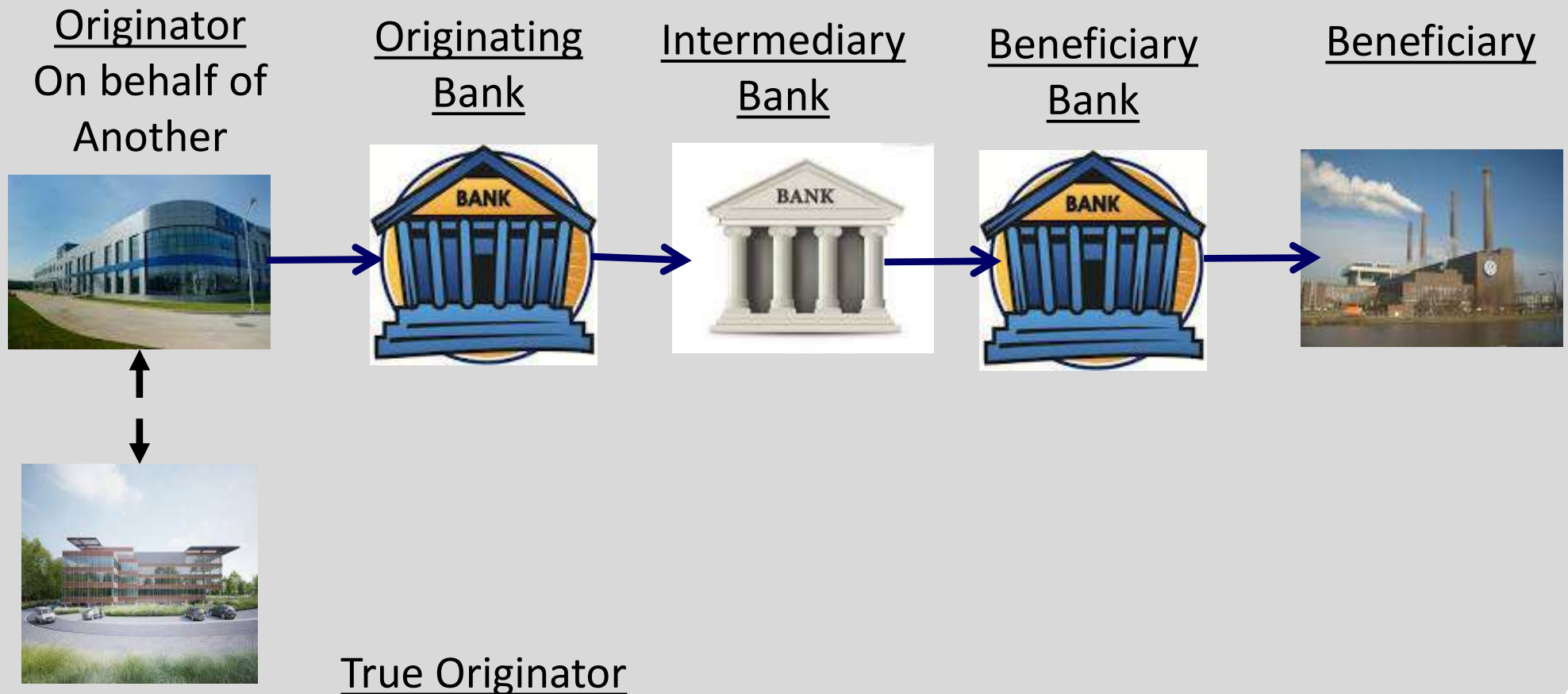**Note: True Originator could also be true beneficiary or both!**

Facilitators and Anonymity (Lawyers, accountants, back office service providers)

Originator Facilitator	Originating Bank	Intermediary Bank	Beneficiary Bank	Beneficiary

True Originator
Instructs Facilitator

Note: True Originator could also be true beneficiary or both!

LET ME DO YOU A FAVOR (ONE ENTITY SENDS FOR ANOTHER)

Originator
On behalf of
Another

Originating
Bank

Intermediary
Bank

Beneficiary
Bank

Beneficiary

True Originator

Asks friendly entity to send pymt on its behalf.
They exchange value between themselves locally.

Switch Entities…. Overlap the lifespan of a shell entity, transfer the assets, and continue the movement of funds.
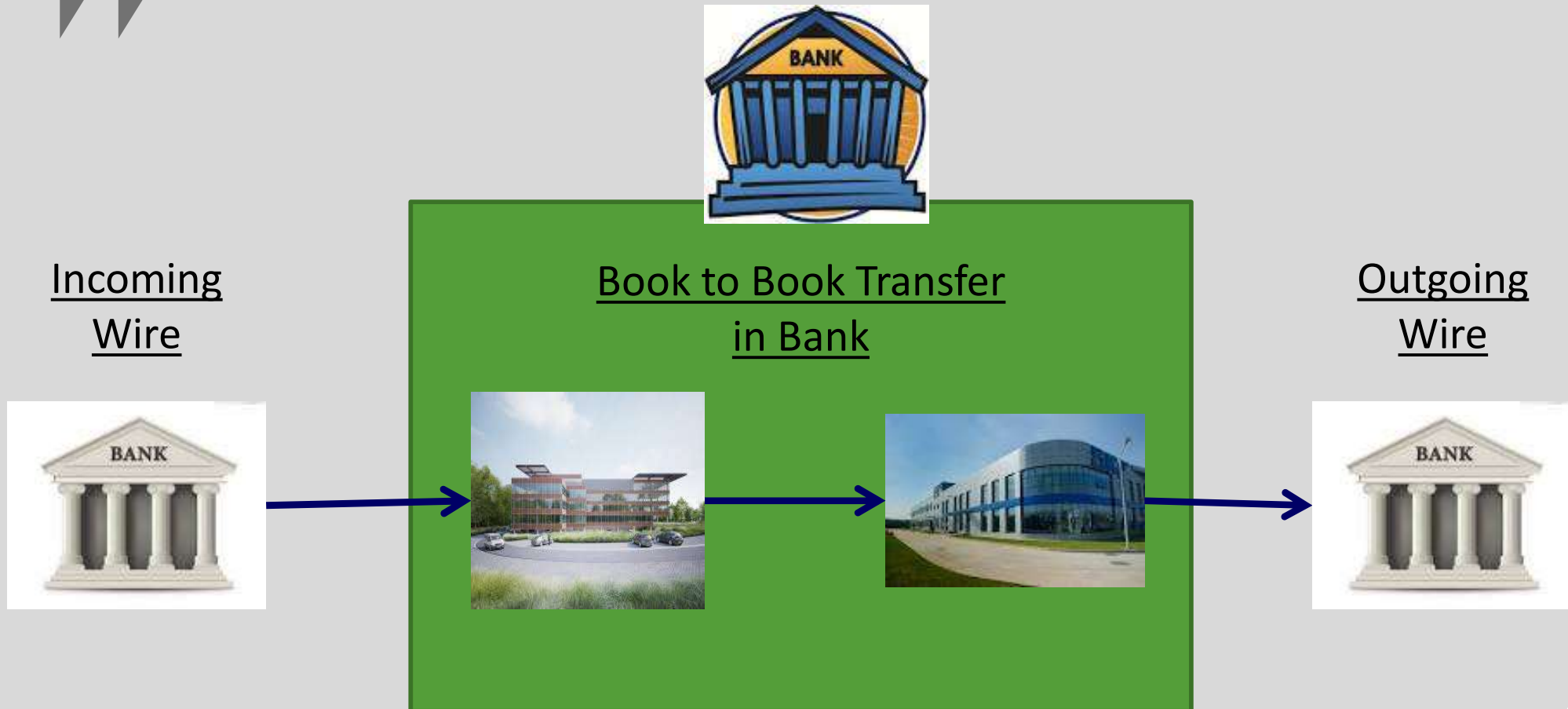

Shell A.
Pass the
funds and
kill the firm

Shell B.
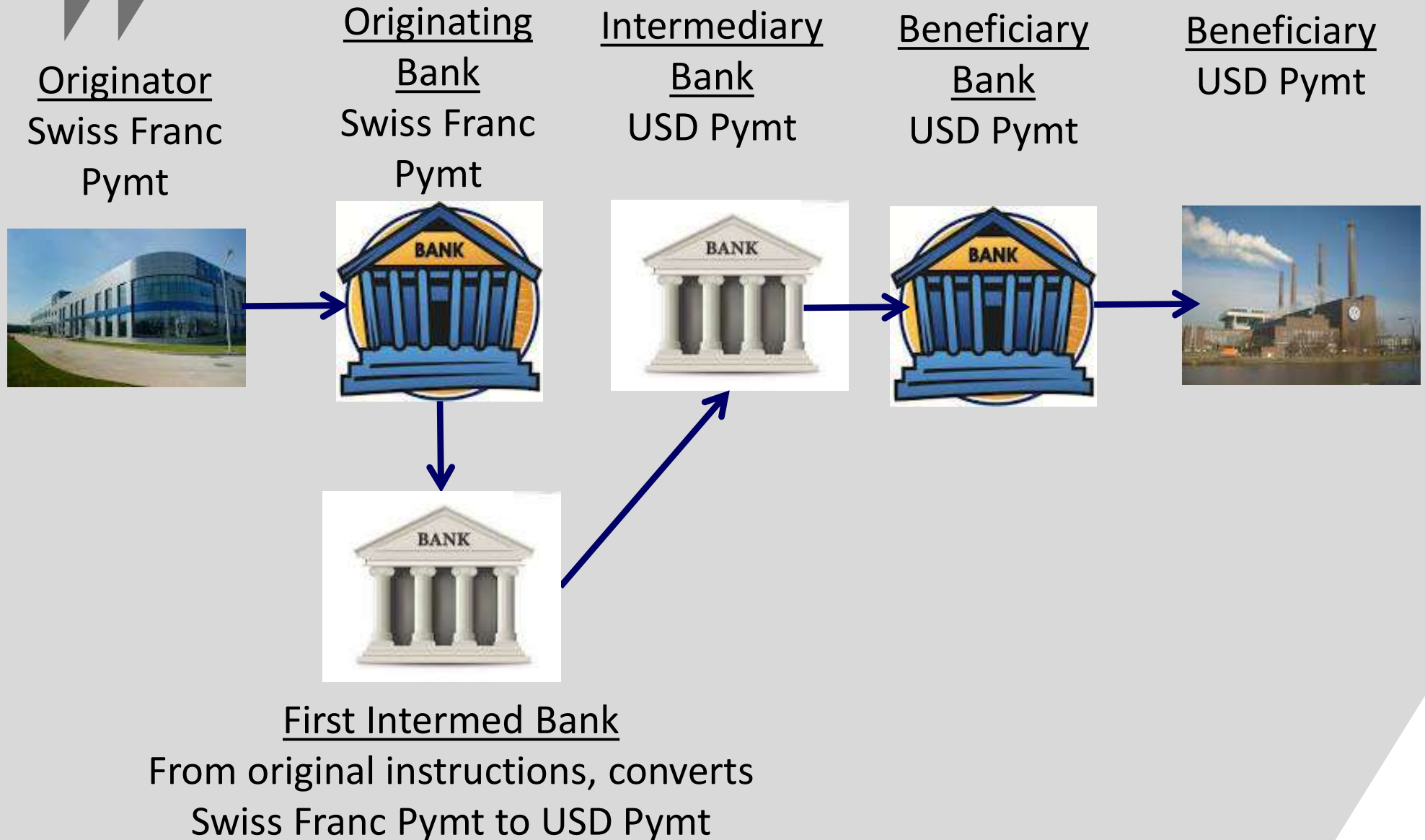Pass the
funds and
kill the firm

Shell C

Multiple firms with accounts at same bank – Separate the illegal flow using two payments switched inside a bank with a book-to-book transfer.

Incoming Wire

Book to Book Transfer in Bank

Outgoing Wire

Mexican Diversion

Originator → Originating Bank → Intermediary Bank → Beneficiary Bank (MX)

Bene Bank
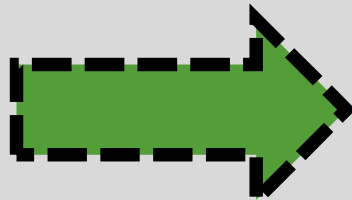Redirects based on customer advice

Beneficiary

Third Party

VIRTUAL CURRENCY

Criminal in country A purchases Bitcoin in local currency. Anonymously sends or "Sells" Bitcoin to criminal counterpart on other part of world.

Criminal counterpart in country B receives Bitcoin. Can hold or "sell" in currency of choice, and use or wire out as desired.

NOTE: Any wires can be conducted locally with complete break in transaction activity from one party to another; from one location to another. Many ways to structure the virtual currency exchange of value.

HAWALA
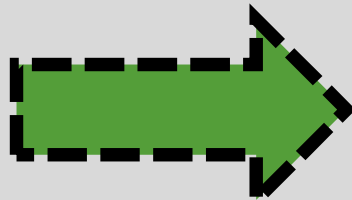
Criminal in country A transact with Hawala Broker. Hawala broker receives or directs placement of funds/cash, and "communicates" with counterparty or with another Hawala broker.

Hawala Broker receives (coded) instructions from first Hawala Broker, and provides funds to the criminal beneficiary.

Both Hawala Brokers "settle" their own "ledgers."
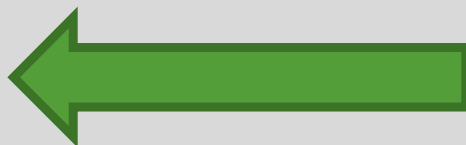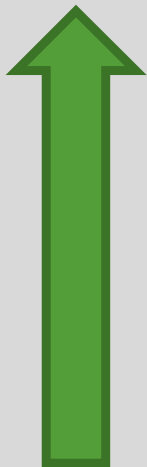
LOANS, TAXES & TRANSFER PRICING

Parent Holding Company

Affiliate A

Affiliate B

Loans:

- In lieu of dividends, loans upstream to parent can reduce tax liabilities.
- Loans from parent to subsidiary (or vice versa) or from affiliate to affiliate can (but might not) violate transfer pricing laws and regulations; capital controls; and tax evasion; not counting other criminal laws and violations.
- Many offshore "shell jurisdictions" as well as jurisdictions with favorable intercompany transaction laws, permit certain favorable treatment allowing the use of loans (and other transactions) at non-arm's length.

Other Schemes/Cases

- The inside job
- Strawmen
- Mirror Trading
- Flips
- Pump & Dump
- L/C Invoicing and Amendments

If you are interested in exploring the possibilities for collaboration and strengthening your abilities...

Douglas A. Sloan

President

Catamount Huntsman

DASloan@outlook.com

+1-917-565-7695