



# **INTRO TO FINANCIAL SERVICES SECTOR – FOCUS ON GLOBAL PAYMENTS (FOLLOW THE MONEY)**

**Douglas Sloan  
November 2024**



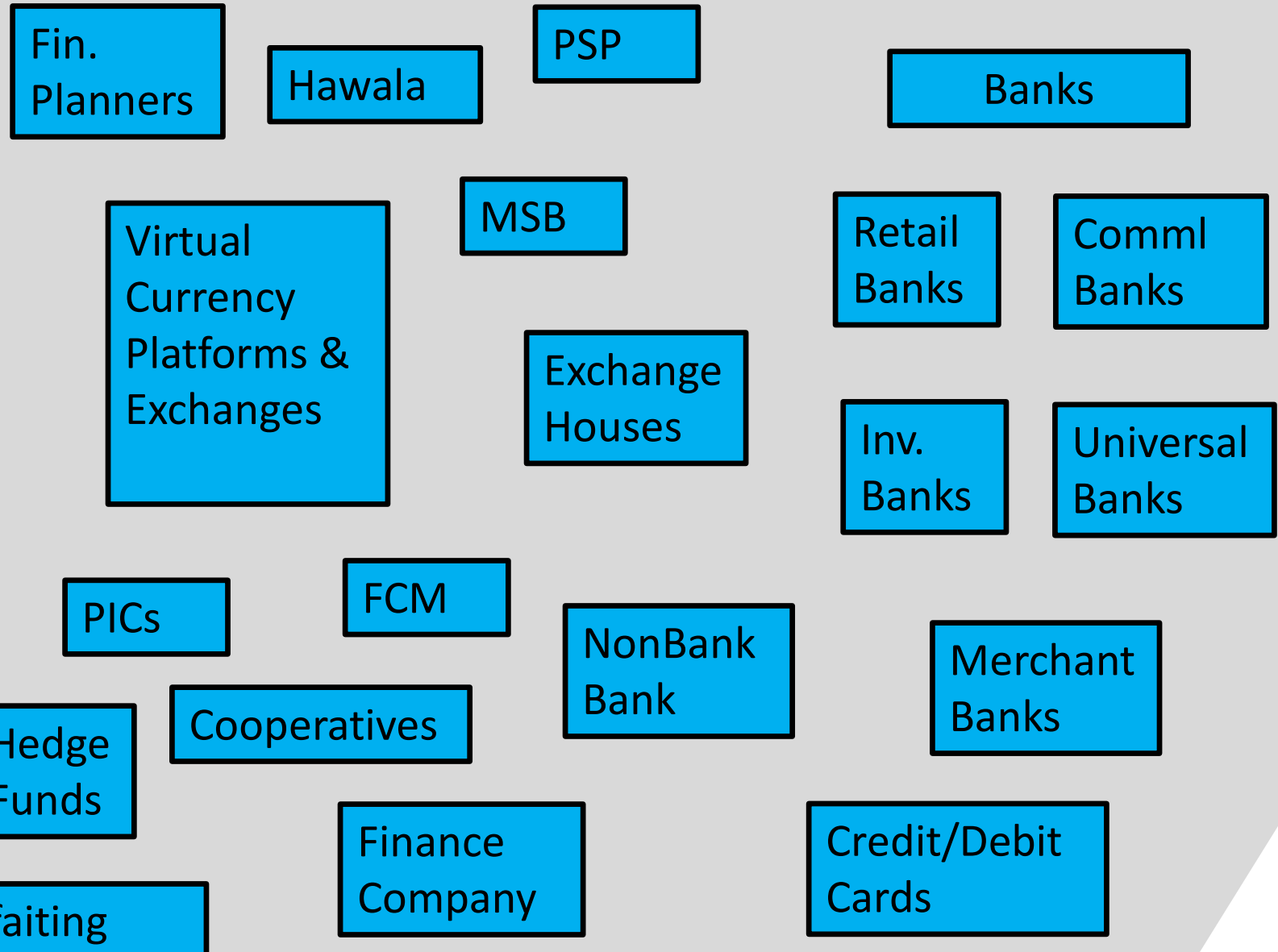
# Discussion Topics

- Financial Services Overview
- Correspondent Banking -  
- Cross border payments  
(e.g. SWIFT MT103/MT202cov)  
explained.
- Common Money Laundering Techniques





# Financial Entities in the Global Financial System





# Types of Companies in the Financial Services Industry - Parameters

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- Purpose of company
- Regulated & Supervised; Regulated & Unsupervised; Unregulated & Unsupervised
- Products and services offered
- Size and scope; customer base; products and services offered and geographic location of company and/or customers can determine if (and to what extent) a financial services company is regulated and/or supervised

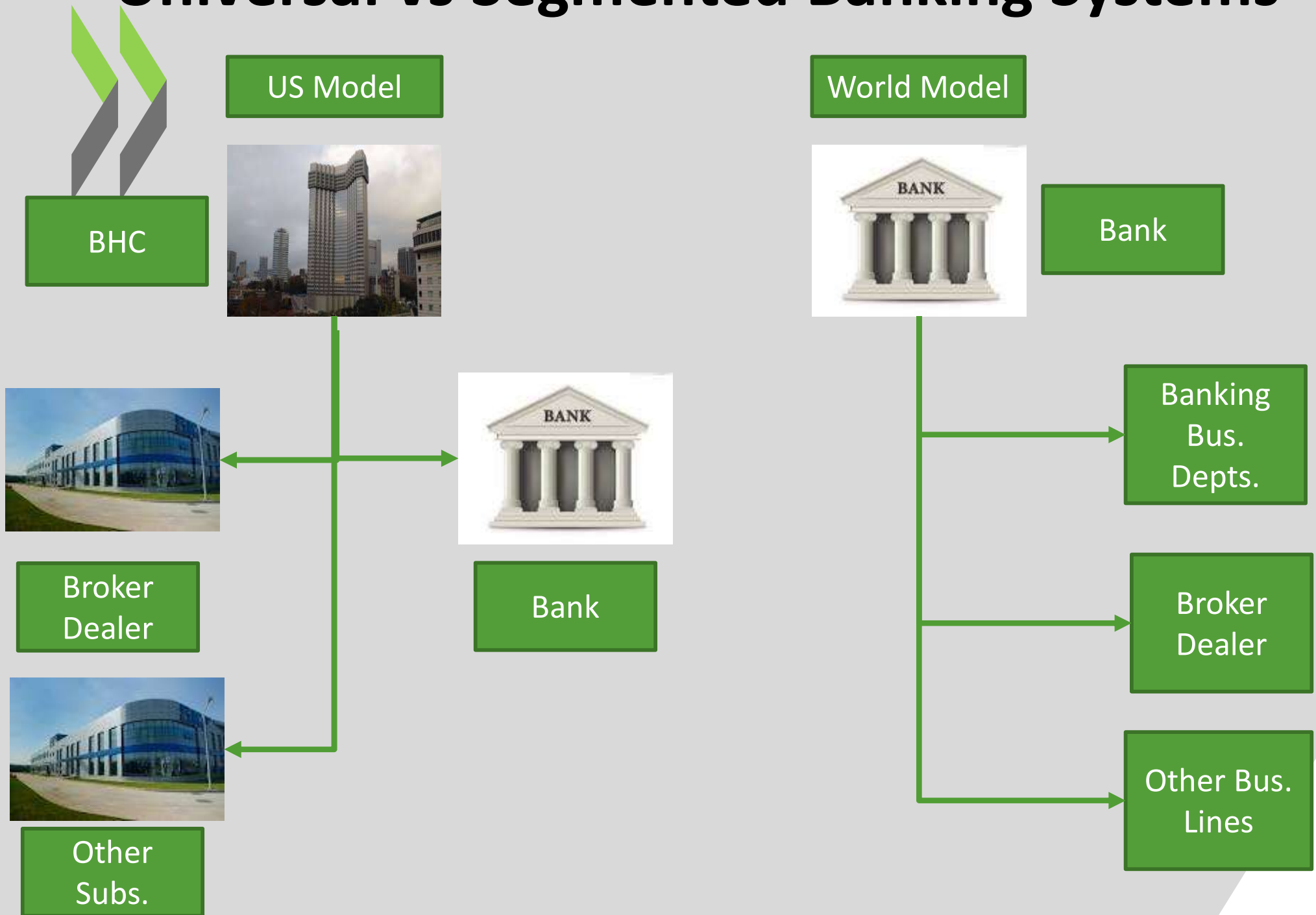


## Focus on Banks

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- Most basic definition of a bank: Any company that takes deposits AND makes loans.
- Nearly all banks are under some form of regulation and supervision. Depending on the jurisdiction depends on the size, scope, and sophistication of supervision. The record of enforcement of AML laws and regulations upon banks varies widely.
- Universal Banks are permitted in most jurisdictions of the world, including the European Union. Permissible financial products and services for banks in the US are limited. However, Bank Holding Companies (BHCs) may own banks as well as other types of financial companies (e.g. broker dealers), thus allowing the BHC organizations to compete in the international financial markets.

# Universal vs Segmented Banking Systems





## Focus on Banks continued

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- The greatest means to investigate, detect, and report money laundering activities remains at banks as banks remain the most common essential link directly or indirectly connecting all financial activities in the world. For this reason, the most stringent AML requirements are imposed upon banks.
- However, the more indirect the connection to banks (e.g. processing transactions for customers' customers; maintaining custodian accounts for hedge funds; etc.) the greater the challenge to connect criminals to their money, gather evidence, and prosecute crimes.



## Focus on Banks continued

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- Banks often contain a treasure trove of information about suspects and other persons of interest.
- Because of the due diligence information collected on customers and their financial transactions, financial profiles can be developed.
- Often such information is not available at other institutions, government agencies or providers.
- Depending on the scope of the relationship will depend on the available information (scope, breadth and depth).
- Comparing the information collected can also be useful.





# What information is available? – Breadth vs. Depth

- **Direct banking relationship** – client due diligence (depth of client profile and transactions within that bank's relationship)
- **Correspondent relationship** – transaction (breadth of client activity)



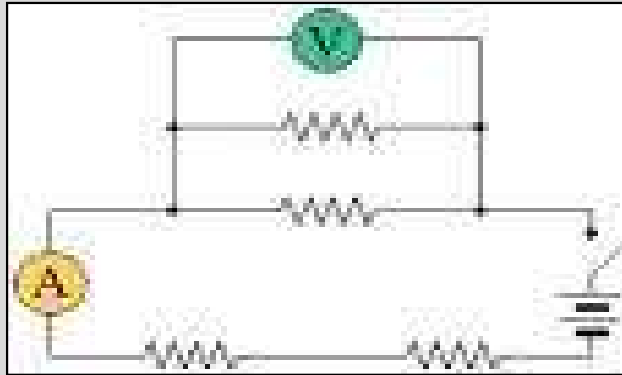


# Discussion Topics

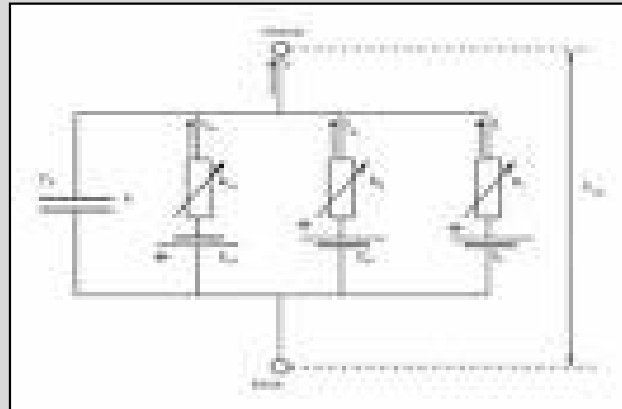
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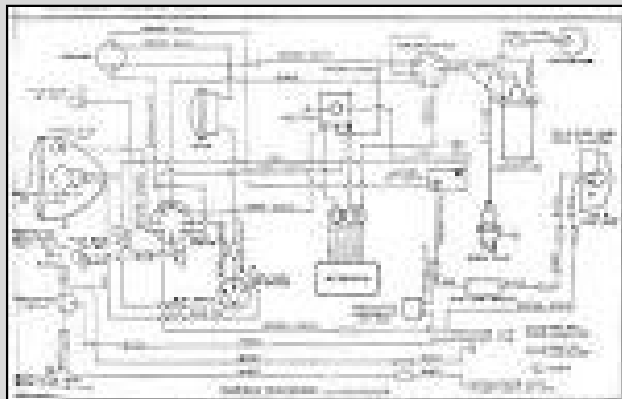
# Circuit Diagrams as Wire Transfer Analogy



Simple



Standard



Complex





# 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

Travellers  
Checks

CHiPs

ICH





# Major Money Center & Correspondent Banks

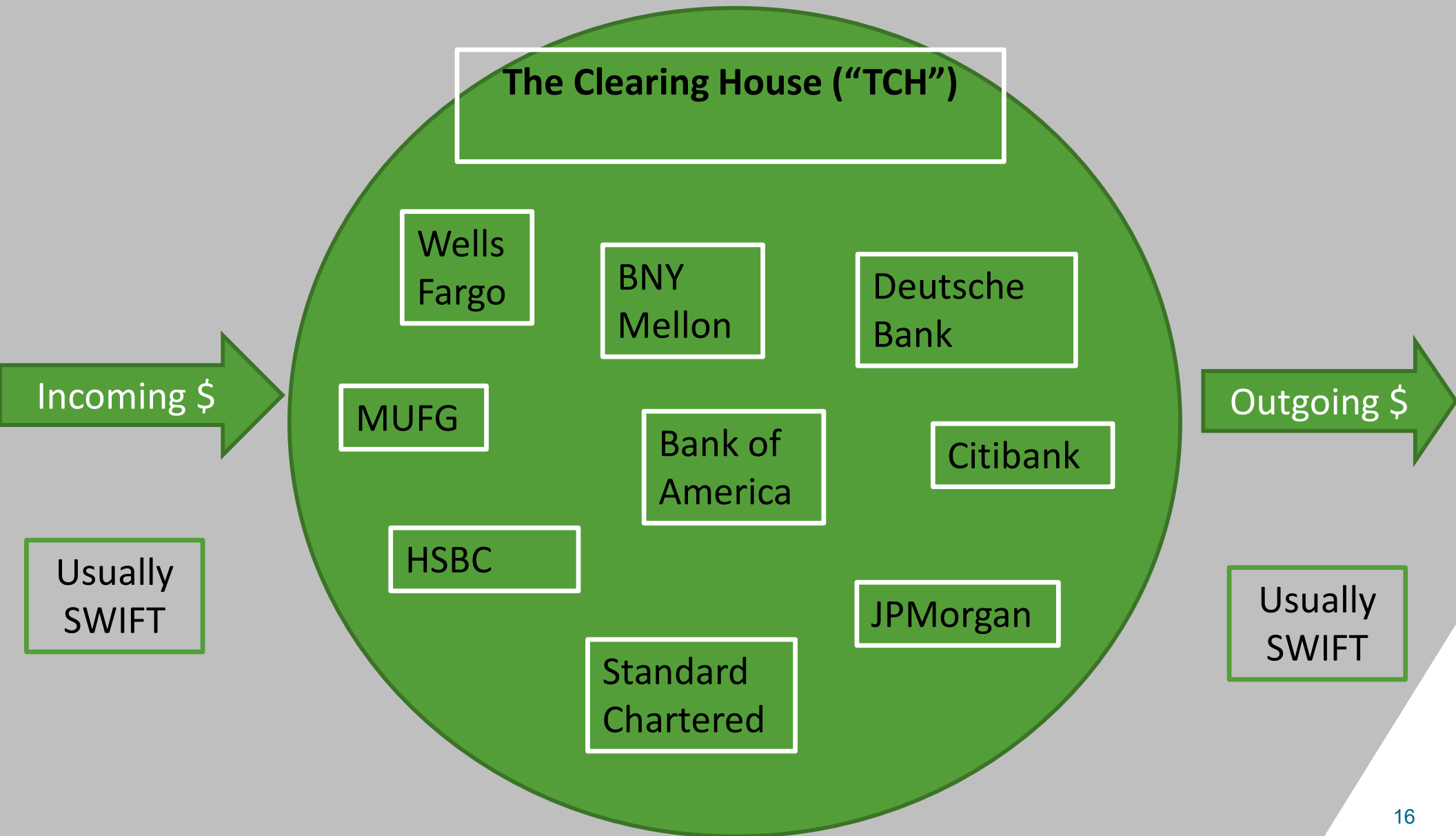
The major money center banks are also the major correspondent banking providers. Along with other large banks, they act as the primary processors of US and global US\$ payments.

## 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



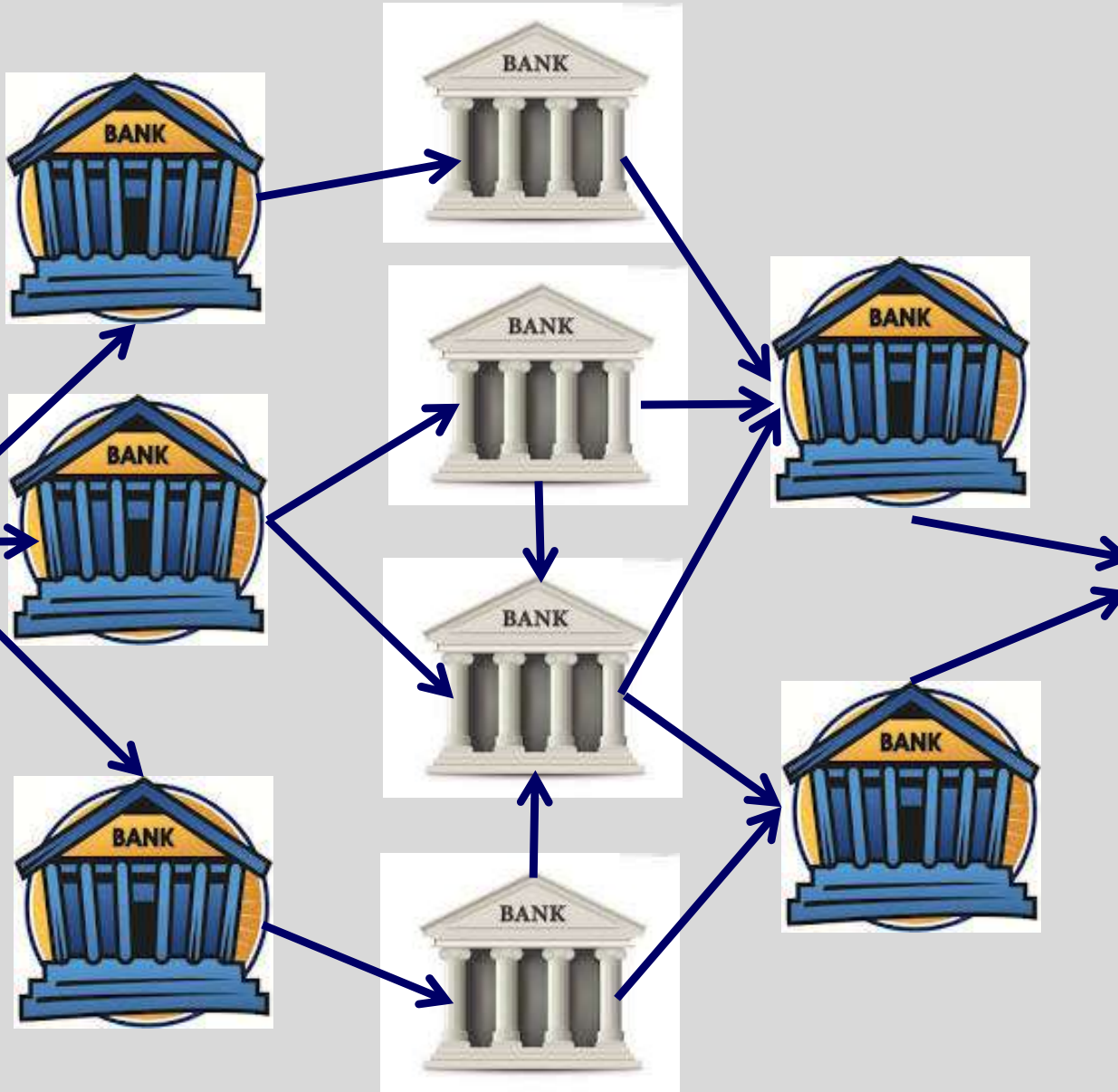
# Basic Wire Transfer

## Multiple Intermediaries



Basic Wire Transfer

# Multiple Institutions



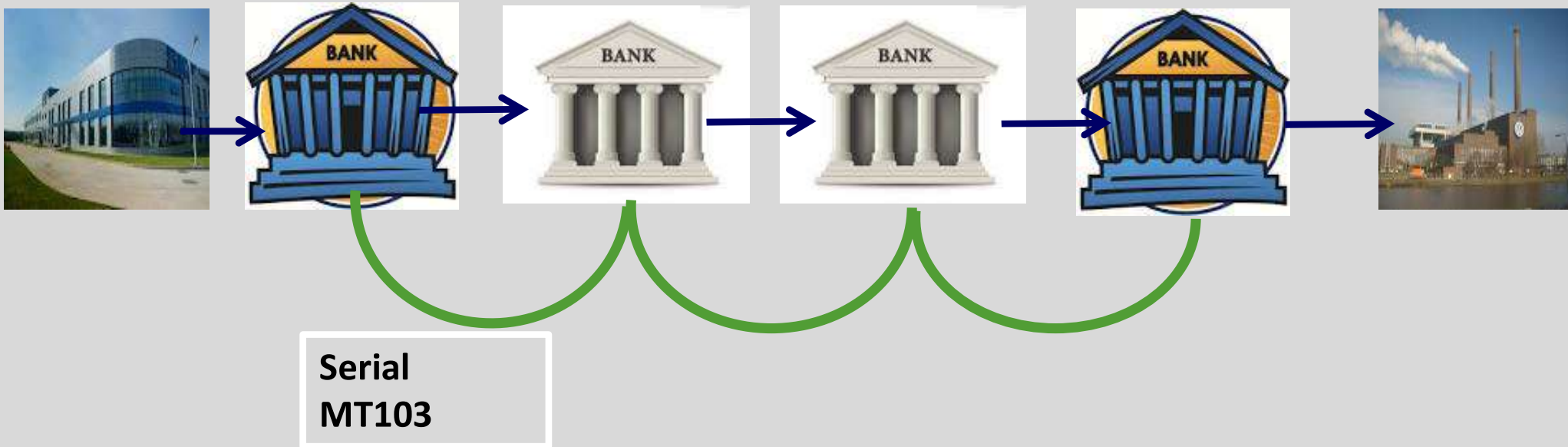


## Complex Wire Transfer



# **THE BASIC SWIFT PAYMENT MESSAGE TYPES EXPLAINED**

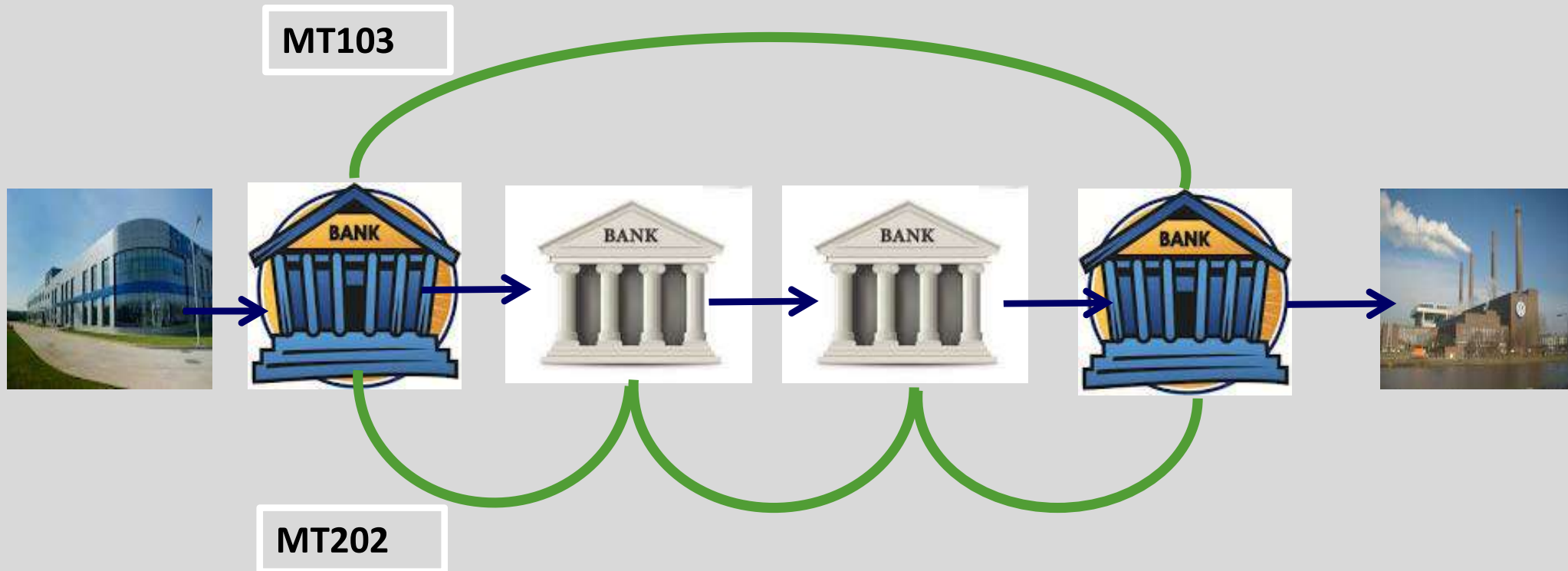
# Basic Wire Transfer Serial MT103



**Serial MT103:** 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



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 scope 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
TXN_EXCTN_DT	TXN_BASE_AMT	SCND_ORIG_NM	SCND_ORIG_ID	SCND_ORIG_STREET	SCND_ORIG_CITY	SCND_ORIG_COUNTRY_CODE	ORIG_NM	SCND_BENE	SCND_BENEFID	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...

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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 expensive 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.**



WHERE TO GO FOR  
INFORMATION/EVIDENCE:

GLOBAL PAYMENT FLOWS  
VERSUS CUSTOMER PROFILES



# COMMON CRIMINAL TECHNIQUES USING (AND ABUSING) THE GLOBAL PAYMENTS SYSTEM





# Common Money Laundering Techniques— Games People (Bad guys) Play

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- 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



Sourcer A



Sourcer B



Collector



Sourcer C

Originating  
Bank



Intermediary  
Bank



Send Wire

# PAYMENT SERVICE PROVIDERS & MONEY SERVICE BUSINESSES

Originator  
PSP/MSB

Originating  
Bank

Intermediary  
Bank

Beneficiary  
Bank

Beneficiary

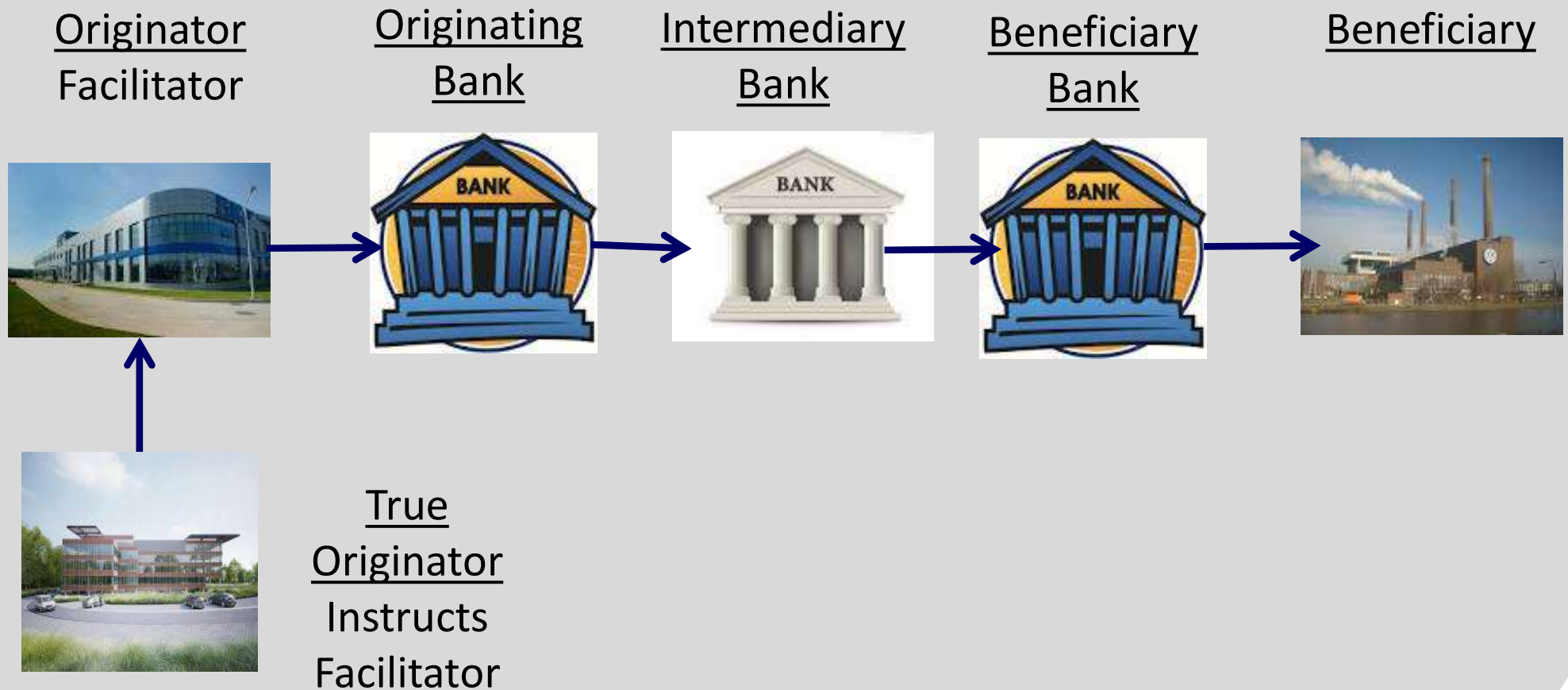


True  
Originator  
Instructs  
PSP/MSB

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



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



**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

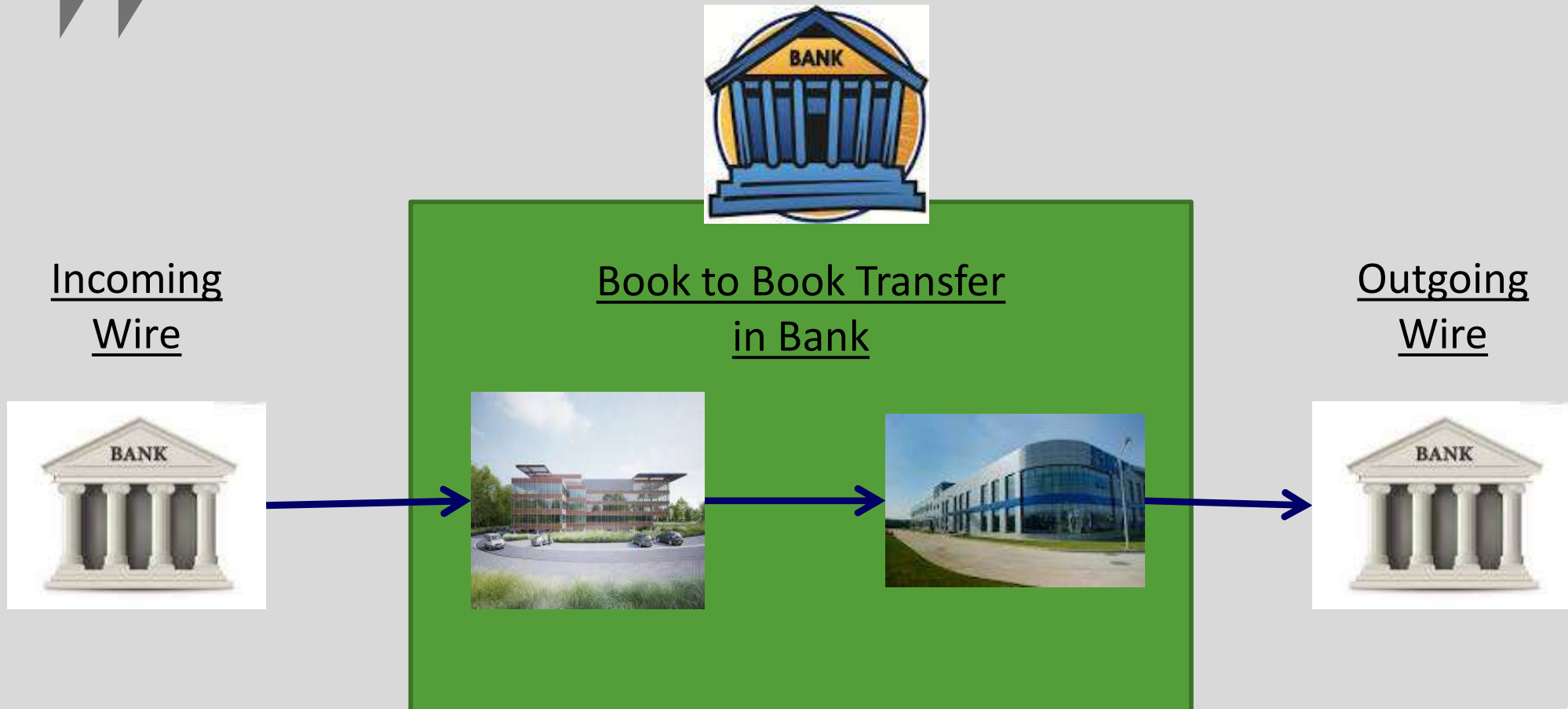


Shell B.  
Pass the  
funds and  
kill the firm



Shell C

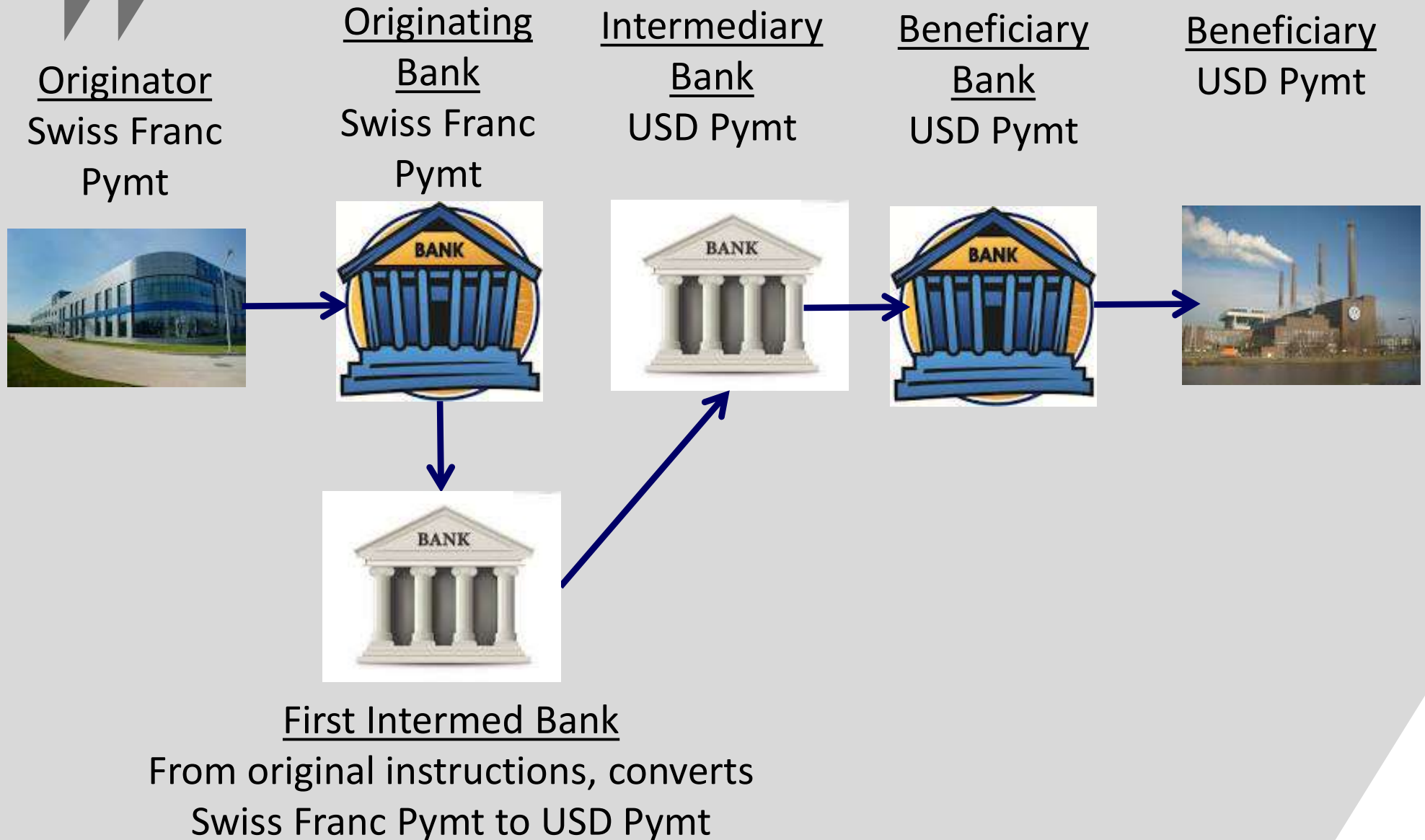
 Multiple firms with accounts at same bank – Separate the illegal flow using two payments switched inside a bank with a book-to-book transfer.







# SWITCH CURRENCIES ON THE WIRE







# Mexican Diversion

Originator

Originating  
Bank

Intermediary  
Bank

Beneficiary  
Bank (MX)



Bene Bank  
Redirects based on  
customer advice



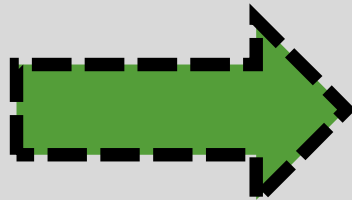
Beneficiary



Third Party



# VIRTUAL CURRENCY



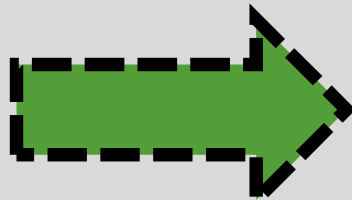
Criminal in country A  
purchases Bitcoin in  
local currency.  
Anonymously sends or  
“Sells” Bitcoin to  
criminal counterpart on  
other part of world.

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

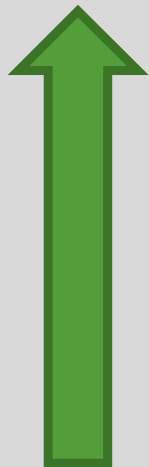
Parent Holding  
Company



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

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- 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...

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