



## RECENT TECHNOLOGICAL TENDENCIES OF MONEY LAUNDERING

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**Abstract:** *This paper aims to analysing recent tendencies connected to the development of new technologies in the field of money laundering. Cyberspace offers opportunities for financial criminals to improve their illegal activities, money launderers learn rapidly the electronic payment instruments, the use of virtual casinos, online auctions, and virtual games, ensuring a legal façade in order to seize illicit income. Technological advantages such as speed, complexity, anonymity support money launderers in achieving laundering schemes.*

**Key words:** *money laundering, cyberspace, virtual casinos, on line auctions, virtual games*

### 1. INTRODUCTION

The virtual world of the Internet and new technology evolution regarding the means of payment represent for organized criminal groups and implicitly for money launderers a favourable ground for *modus operandi*. Thus, criminals, through data processing, hide or disguise the illicit origin of revenues.

We consider relevant to this research the study of Peng Weibing on money laundering within the electronic payment system. His scientific approach is developed from two perspectives: the first is the analysis of money laundering within the electronic payment systems and the second is a comparison between electronic and traditional schemes of money laundering. The author proposes among the measures to counter the criminal activities of electronic money launderers *the establishment by governments of a perfect system of automatic reporting of electronic payment transactions and he considers essential in this regard, strengthening international exchange and cooperation in the fight against transnational crime of money laundering* (Peng, 2011).

Referring to the three stages of money laundering, the author Krzysztof Woda revealed the combination of various electronic payment systems for completing the entire laundering schemes, which is: the prepaid cards for the placement stage, mobile payment systems for the layering stage and electronic gold currency for the integration stage (Krzysztof, 2006). Regarding the vulnerability towards money launderers of the new technologies in electronic payment systems, Andrew Zerzan author concludes by stating that these channels have the unique risk to be the target of offenders' abuse, especially the financial crime because of the ambiguity of their legal regime (Zerzan, 2010).

The analysis and synthesis of empirical concerns on the matter, the investigation of the evolving money laundering techniques presented in the specialized literature and reported by case law and the analysis of indirect indicators such as information provided by FATF documents are the used methods in achieving this study. The criminal activity of electronic money launderers, regardless of the point of view

that is tackled, legally or technically, is a new area which requires extensive research.

This research is useful to a future study of the methods always "updated" and adapted by money launderers to the technological evolution. The analysis of these tendencies is likely to contribute to the discovery of new methods, tendencies and other areas threatened by money laundering.

We believe that, in order to counter money laundering committed by the new electronic means, it is necessary the involvement of the entire international community. The Financial Intelligence Units must continually improve their performance in software development in order to prevent such criminal activity.

### 2. MONEY LAUNDERING PROCESS

Most definitions of money laundering presented in International Conventions (Vienna Convention, Strasbourg Convention and Palermo Convention), EU Directives (Mitsilegas & Gilmore, 2007) - Directive 91/308/EC, Directive 2001/97/EC relating to preventing the use of financial system for money laundering purposes, Directive 2005/60/EC on the prevention of financial system for money laundering and financing the acts of terrorism) 40 + 9 Recommendations of the FATF experts, the foreign specialised literature and also the Romanian literature and law (Law no. 656/ 2002), have in common the achievement of actions *with the intent to change or transfer goods* having the purpose of *hiding or concealing their illicit origin*, knowing that they are products of crimes. Money laundering is a complex process accomplished, usually in the traditional scheme of the three stages, namely: placement, layering and integration (Bogdan, 2010).

The *placement* consists of the offender's attempt to bring illegal money in the financial system, involving the physical movement of money, in order to put a distance between them and the illicit source of funds, avoiding their confiscation.

The introduction of illegal profits in the financial system can be done by splitting the cash in smaller amounts (below the minimum reporting threshold). In this stage, online payment systems present a risk in terms of customers' anonymity, rendering difficult monitoring the transactions that form the channel for dirty money, because of the possibility of customers' multiple registration, detecting the source of the money due to used payment instruments (FAFT, 2010).

*Layering* is the movement of money between different accounts, in order to hide their source. In other words, criminals want to erase any connection between the illicit source and the money. At this stage, money launderers resort to making cash placed in various instruments of payment (checks, promissory exchange) or purchase real estate. Referring to the two phases of money laundering, Aaron Elkins exemplifies the hypothesis of dividing the illicit cash in more checks, then transmitted electronically from the A account of Bank 1 to B account in

Bank 2, dividing and recombining so that illegal origins of the cash will be lost somewhere in cyberspace (Elkins, 2010).

The *integration* of whitening capital in the economic and financial circuit is the final stage of money laundering. It is the objective pursued by criminals, to have a legal façade to the illegally obtained income.

Specific to this stage is the purchase by money launderers through the commercial website, of some valuable items, precious metals, real estate, and for their payment they use electronic systems (FAFT, 2010).

### 3. CYBERSPACE - NEW OPPORTUNITIES FOR MONEY LAUNDERERS

The claim that the Internet has changed the world is a truism. Important aspects of people's lives have become dependent on a binary language expressed in bits and bytes (Påhlsson, 2002). Thus, with the advent of the Internet and electronic payment options, they have expanded their mode of operation into cyberspace.

In the following we will analyse briefly the key virtual financial instruments used by criminals, such as: online payment systems, virtual casinos and gambling and online auctions.

Electronic Payment Systems – the major electronic payment instruments are: card, electronic money, and electronic wallet.

The best known techniques used by money launderers in the electronic payment systems are the electronic transfers (using a false identity, trading money through offshore companies); investing the electronic money into financial products (bank checks, bonds and shares) or in virtual gold.

The role of electronic payment systems is very well defined in money laundering matters in relation to companies, there are the transfers via SWIFT.

In the *Report of New Payments Methods*, in October 2010, FAFT does not include in the electronic payment systems category the mobile prepaid cards, having rather the feature of intermediary value reserve (FAFT, 2010). (fig.1)

Virtual casinos - The illusion of legality of some illegal money and the transfer of such amounts can be achieved through casinos as well. The casino's websites offer visitors the experience of a real casino games (Lilley, 2006).

To access the games on the virtual casino's website, there must be created an account on the website, download the gambling software and use a credit card or electronic funds transfer service to cover the bets and gambling earnings (Dvorak, 2004).

Money launderers speculate the possibility that the virtual casino websites offer, they ask them to send money coming from illicit sources in the accounts that they open on these websites, thus justifying the origin of money from gaming winnings (Bogdan, 2010).

On line auctions – There is a special attraction of financial criminals for online auctions, especially when buyers bid for an asset of some value, and in return they receive a counterfeit good or nothing at all (Newton & Jents, 2007).

Money launderers may use online auctions, by increasing the price of a bid good, so the seller receives a considerable amount from the buyer, whose origin is illicit, which then is integrated by the vendor in the legal commercial activities.

Virtual Games - The emergence of virtual games such as Entropia Universe and Second Life, offer new opportunities for money launderers to transfer or conceal fraudulent income. The players involved in virtual games through the so-called *Avatar*, selling virtual goods and properties for a real compensation.

These avatars were able to enrich people that sell virtual goods.

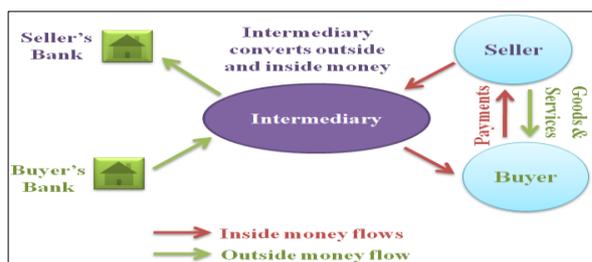


Fig. 1. Electronic payment system (Krzysztof, 2006)

Players can convert virtual money into real money by simply selling them on the auction websites. In the virtual world of games, a person who retains its anonymity, pays no taxes and is not obliged to report can produce significant amounts of financial products (Miller & Jents, 2007). Money launderers use virtual games because the virtual products can be purchased and transferred anywhere, and once the funds are withdrawn from a virtual account, they are considered legal and their source cannot be identified.

### 4. CONCLUSIONS

Money Laundering in Cyberspace has new meanings that can be discovered and studied. If so far most of the money laundering offenses were detected in the first stage, the placement, the emergence of electronic money allows criminals to easily overcome this stage. Electronic payment instruments are used by money launderers in certain situations: the payment of the divided cash or card transactions made on behalf of the true owner of the card. We note that the benefits of the Internet are outweighed by the increased potential that these technologies are being used illegally, the money launderers often resorting to new technologies to take advantage of the amounts obtained from committing crimes.

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