



Objectives

Integration is the third stage of the money laundering process, in which the illegal funds or assets are successfully cleansed and appear legitimate in the financial system, making them available for investment, saving or expenditure. We will look at the different integration techniques in this module:

- credit and debit cards
- consultants
- corporate financing
- asset sales and purchases
- business recycling
- import/export transactions.

Credit and debit cards

The use of credit and debit cards is an integration technique.

1. Credit cards: Larry Launder transfers illegal funds into an offshore bank account. He also signs up for a credit card from the bank.
2. Debit cards: Larry Launder transfers illegal funds into an offshore bank account. He also signs up for a debit card from the bank.
3. Larry Launder uses the credit card or debit card to make payments for purchases and transactions around the world.

Credit and debit cards are efficient ways for money launderers to integrate illegal money into the financial system. By maintaining an account in an offshore jurisdiction through which payments are made, the criminals limit the financial trail that leads to their country of residence.

In recent years, authorities have grown more attuned to the use of offshore credit cards as a money laundering technique. As a result, certain offshore jurisdictions now enable regulators to obtain from banks all records of transactions made by their credit card clients.

Consultants

Consultancy arrangements can cover a wide range of non-quantifiable services and are often used to integrate illegal funds into the legitimate financial system.

1. Larry Launder sets up a shell corporation and a related bank account in an offshore jurisdiction. The shell corporation hires a consultant.
2. The consultant performs services and makes payments for the shell corporation. The consultant is paid by the shell corporation.

The use of consultants in money laundering schemes is quite common. The consultant might not even exist. For example, the criminal could actually be the consultant. In this case, the criminal is channelling money back to him/herself. This money is declared as income from services performed and can be used as legitimate funds.

In many cases, the criminal will employ an actual consultant (e.g. accountant, lawyer or investment manager) to do some legitimate work. This could involve purchasing assets. Often, the criminal transfers funds to the consultant's client account from where the consultant makes payments on behalf of the criminal.

Corporate financing

Corporate financing offers a flexible way to transfer money between companies. This technique is often used in sophisticated money laundering schemes.

1. Larry Launder sets up a shell corporation and a related bank account in an offshore jurisdiction. He also sets up a legitimate business in his country of residence.
2. Using illegal money in the offshore account, the shell corporation makes a business loan to, or equity investment in, the legitimate business.

Corporate financing is typically combined with a number of other techniques, including the use of offshore banks, consultants, complex financial arrangements, electronic funds transfers, shell corporations and actual businesses. This allows money launderers to integrate very large amounts of money into the legitimate financial system.

Money launderers may also take a tax deduction on interest payments made by them in corporate financings!

From appearances alone, such transactions are identical to legitimate corporate finance transactions. Financial service professionals serving legitimate businesses need to look closely to find peculiarities in their dealings, such as:

- large loans by unknown entities
- financing that appears inconsistent with the underlying business
- unexplained write-offs of debts.

Asset sales and purchases

To integrate illegal funds into a legitimate financial system, money launderers often resort to actual or fictitious sales and purchases of assets.

1. Larry Launder sets up a shell corporation and a related bank account in an offshore jurisdiction. He also owns or controls a legitimate business or real estate asset in his country of residence.

2. The shell corporation purchases the business or real estate at an inflated price. The earnings from this transaction are treated as legitimate profits.

This technique can be used directly by the criminal or in combination with shell corporations, corporate financing and other sophisticated methods. The end result is that the criminal can treat the earnings from the transaction as legitimate profits from the sale of the assets.

Around the world, real estate sales and purchases are a favoured method of integrating illegal money.

Business recycling

Business recycling is a common integration technique in which illegal funds are mixed with cash flow from a seemingly legitimate business.

1. Larry Launder owns or controls a legitimate, cash-intensive car wash business.
2. Larry deposits illegal funds into the business. These funds are treated as revenue from the legitimate business.

Legitimate businesses that also serve as conduits for money laundering are referred to as 'front businesses'. Cash-intensive retail businesses are some of the most traditional methods of laundering money. This technique combines the different stages of the money laundering process.

The principal requirement when using businesses as fronts is that they have high cash sales and/or high turnover. This way it becomes easy for criminals to merge illegal funds and difficult for the authorities to spot the scheme.

An important indicator of front businesses is the relation between the size and nature of the business and the amount of revenue it generates. For example, if a newspaper stand starts making deposits into its bank account at \$1 million a month, this should alert the bank to the possibility of illegal activity.

Import/export transactions

Import/export transactions are a common integration technique used by money launderers, especially in order to move illegal funds between countries.

1. Larry Launder sets up an import company in a foreign country as well as an export company in his country of residence.
2. The export company exports goods to the foreign import company. The import company remits illegal funds to pay for the goods on an over-invoiced basis.

To bring 'legal' money into the criminal's country of residence, the domestic trading company will export goods to the foreign trading company on an over-invoiced basis. The illegal funds are remitted and reported as export earnings. The transaction can work in the reverse direction as well.

In many cases, there is no actual export of goods or only the export of fake goods. In such cases, the trading companies may also exist only on paper. Bankers may be able to spot these transactions if the underlying trade documentation is inadequate or the underlying pricing is incorrect.

Summary

This is the final stage of money laundering. Once the funds are layered and distanced from their origins, they are made available to criminals to use and control as apparently legitimate funds. This final stage in the money laundering process is called 'integration'. The laundered funds are made available for activities such as investment in legitimate or illegitimate businesses, or spent to promote the criminal's lifestyle. At this stage, the illegal money has achieved the appearance of legitimacy.

Integration techniques quiz

This quiz will test your understanding of integration techniques.

Question 1

Select the single correct response.

Integration:

- a) can not happen without layering
- b) can occur without layering

Question 2

Select the single correct response.

At the integration stage illegal money is

- a) difficult to trace
- b) fairly easy to trace

Question 3

Identify the integration technique used in the following money laundering scenario.

A Canberra-based smuggling group sets up a company and transfers the title of an office building to this company. A related offshore company buys the office building for a substantial premium. The sales price is recorded as return of investment plus profit.

This integration technique is known as using:

- a) credit and debit cards
- b) consultants
- c) corporate financing
- d) asset sales and purchases

Question 4

Identify the integration technique used in the following money laundering scenario.

An Indonesian smuggling group controls a retail chain in Java. Money from the smuggling operations is mixed in with the retail chain's cash flow and recorded as sales revenue.

This integration technique is known as using:

- a) corporate financing
- b) asset sales and purchases
- c) business recycling
- d) import/export transactions

Question 5

Identify the integration technique used in the following money laundering scenario.

A Middle Eastern trading company has a juice processing plant in an export zone. It sells juice to a company owned by a European drug cartel at a large premium. The revenue is treated as export revenue.

This integration technique is known as using:

- a) consultants
- b) import/export transactions
- c) business recycling
- d) corporate financing

Question 6

Identify the integration technique used in the following money laundering scenario.

A Chinese entrepreneur brings a number of debit cards with large balances into Singapore. The entrepreneur sets up a bank account and has the stored value on the cards transferred into the account.

This integration technique is known as using:

- a) corporate financing
- b) asset sales and purchases
- c) business recycling
- d) credit and debit cards

Question 7

Identify the integration technique used in the following money laundering scenario.

A reputable but struggling French company engages a merchant bank to raise 40% of the funds needed for a corporate restructuring. The company arranges the remaining 60% of the financings through a loan made by an offshore finance company.

This integration technique is known as using:

- a) corporate financings
- b) asset sales and purchases
- c) consultants
- d) import/export transactions

Question 8

Identify the scenario that uses the integration technique 'consultants'.

- a) Trisha Lim runs a narcotics distribution ring in Hong Kong. She also earns and declares substantial revenue from an investment advisory business although the business has no apparent customer base.
- b) A Singapore export-import firm exports machine tools to the United States. The firm has a large number of unsecured international accounts payable, which it discounts with an offshore finance company.
- c) A US company runs a chain of restaurants with slowly declining sales, but high cash flow levels. The chain is sold to a newly established company, which does not require any acquisition financing and appears to have a big hoard of money.

Question 9

Select the single correct answer.

A single money laundering technique:

- a) can combine elements of placement, layering and integration.
- b) will use either placement, layering or integration, but will not combine them.

Question 10

Indicate whether the following statement is True or False.

Businesses which are highly suited for integration through business recycling include newspaper stands, laundromats, video games arcades, bars and restaurants.

Answers – Integration techniques quiz

1. b) Correct. Money laundering does not have to happen in three stages. These stages can be combined or skipped. For example, a criminal could go directly from placement to integration by placing cash into the legal system by purchasing a debit card and then using this card to purchase a legitimate asset.
2. a) Correct. At the integration stage illegal money is difficult to trace as it is used in a range of legitimate transactions and generally does not have an audit trail. Placement is the stage at which illegal money can most easily be recognised.
3. d) Correct
4. c) Correct
5. b) Correct
6. d) Correct
7. a) Correct
8. a) Correct
9. a) Correct. An example of a technique covering all three stages is business recycling.
10. True – Correct. All these businesses have high cash sales and high turnover.

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