



Objectives

Placement is the first stage of the money laundering process, in which illegal funds or assets are first brought into the financial system. In this module we will look at the different placement techniques:

- smurfing and structuring
- alternative remittance
- electronic transfer
- asset conversion
- bulk movement
- gambling
- insurance purchase.

Smurfing and structuring

Smurfing is a common placement technique. Cash from illegal sources is divided between 'deposit specialists' or 'smurfs' who make multiple deposits into multiple accounts (often using various aliases) at any number of financial institutions. In this way, money enters the financial system and is then available for layering. Suspicion is often avoided as it is difficult to detect any connection between the smurfs, deposits and accounts.

Structuring involves splitting transactions into separate amounts under AUD10,000 to avoid the transaction reporting requirements of the FTR Act and AML/CTF Act. Many money launderers rely on this placement technique because numerous deposits can be made without triggering the cash reporting requirements. However, it can backfire if an attentive financial institution notices a pattern of deposits just under the reportable threshold. This can lead to reporting such activity to AUSTRAC under the suspicious activity provisions of these instruments. Structuring is a criminal offence itself, as well as an indicator of other potentially illegal activity.



Reporting entities should be on guard in situations involving frequent deposits of small amounts of money by individual clients or businesses where such activity is unexpected or unusual. This could indicate structuring!

Alternative remittance

Alternative remittance is a common placement technique. For example:

1. Larry Launder brings a large sum of illegal cash to an alternative remittance provider. Larry specifies the identity and location of the recipient and the alternative remittance provider arranges for the funds to be sent overseas. Larry may or may not receive a receipt for the transaction.
2. The recipient, Sally Simple, goes to the counterpart of the alternative remittance provider in the overseas location. The counterpart provides the specified amount of cash (less any transfer charges) to Sally. Again, no documents may be involved.

'Alternative remittance' refers to funds transfer services usually provided within ethnic community groups and known by names particular to each culture. Generally such services accept cash, cheques or monetary instruments in one location and pay an equivalent amount to a beneficiary in another location. In some communities this form of money transfer is commonly known as hawala, hundi, chuyen tien, yok song geum, or pera padala. These are mostly person-to-person transfer systems that involve minimal documentation, if any.

Alternative remittance is also known as underground or parallel banking. There are large networks of these systems in operation around the world. The larger networks are prevalent in South East Asia, Latin America, North America and the Middle East. Alternative remittance systems predate the mainstream banking system and have been used in China and India for centuries. After the terrorist attacks of 11 September 2001, these systems have come under intense scrutiny as avenues for the transfer of money by terrorist groups.

These services are used to transfer both legal and illegal money. In many countries, the Western-style banking systems are under developed. Alternative remittance services have been called upon to ordinary people, workers, travellers and immigrants to transfer legal funds to their families and business counterparts. However, these alternative systems can also be used by tax evaders, terrorists, money launderers and other criminals.

In Australia, remittance service providers have obligations as regulated entities under the FTR Act and AML/CTF Act. From December 2006 they have also been required under the AML/CTF Act to register with AUSTRAC (see Remittance Providers Registration for further information).

Although alternative remittance systems enable the successful transfer of funds across countries or regions, this is just the first step in placing the money. The recipients of the funds have to find ways of placing these funds in financial institutions at their end.

Electronic transfer

Electronic transfer is a common placement technique.

1. Larry Launder takes cash to an electronic funds transfer agency such as Xpress Transfers and requests a transfer of funds to Sally Simple in the United Apple.
2. Sally Simple goes to the Xpress Transfers branch in the United Apple, presents her identification and collects the funds.

In the money laundering context, this technique involves the transfer of money through electronic payment systems that do not require sending funds through formal bank accounts. This method is also known as wire transfer.

Electronic transfers can be compared to alternative remittances in that both are person-to-person transfers that do not require sending funds through the formal banking system.

Criminals make use of the electronic financial system because it enables the transfer of large denominations of money instantly to offshore jurisdictions. This speedy disbursement of funds to and between foreign jurisdictions makes the transactions difficult to investigate and trace back to the source.

Asset conversion

Asset conversion is a common placement technique.

1. Karl Krook gives cash from his illegal operations to a trusted friend.
2. The friend uses the cash to purchase diamonds from his friendly jeweller and hands these diamonds over to Karl.

Asset conversion simply involves the purchase of goods. Illegal money is converted into other assets, such as real estate, diamonds, gold and vehicles, which can then be sold.

Generally, money launderers prefer to purchase high-value items that are small and easy to sell or transport to another country. Often these assets will be purchased in the name of a friend to avert suspicion.

An example of asset conversion is the use of the international gold trade to launder illegal funds. Gold has become a particularly important money laundering tool because it is a readily acceptable medium of exchange, it offers anonymity and the market for gold is liquid and active globally. Gold is one of the few commodities which act very much like currency.

Bulk movement

Bulk movement is a common placement technique.

1. Karl Krook generates a large amount of cash from his illegal business in the Republic of Watermelon. He boxes a large stack of cash among the watermelons.
2. The cash and watermelons are transported across to the United Apple as part of a larger export shipment of watermelons.

Bulk movement involves the physical transportation and smuggling of cash and monetary instruments, such as money orders and cheques.

Often money launderers use their cash to purchase less bulky items such as diamonds, gold or even collector's stamps and other expensive goods. The criterion is that the items must be of high value and small, making them physically easy to smuggle as well as relatively easy to reconvert into cash at the point of destination.

Bulk shipments of illegally obtained funds (or goods acquired with the funds) are smuggled across borders concealed in private vehicles, commercial trucks and air and maritime cargo. They may also be carried by couriers travelling on commercial airlines, trains and buses. Further, they can also be sent through parcel delivery and express mail services.

The simplest bulk movement method is to smuggle the cash out of one country into another country that does not have currency regulations or where the regulations are not enforced.

Note that, like alternative remittance, bulk shipment is the first step in placing the money. Once the funds or assets have been successfully transported, they still need to be placed into the financial system.

Gambling

Gambling is a common placement technique.

1. Fraudulent Freddie and friends make periodic visits to a local club where they insert illegal money into gaming machines.
2. After spending an evening enjoying the local band and night life, they cash out their money. This money can now be justified as 'winnings' from the local club.

Gambling is used to launder money by inserting illegal money into gaming machines. The money inserted can be cashed out and treated as proceeds from gambling. Funds that appear to be winnings can easily be used to justify unusual spikes in income. This income can then be deposited into a legitimate bank account.

Like smurfing, gambling is a popular placement technique because amounts less than AUD10,000 are not subject to mandatory reporting requirements in

Australia. The FTR Act does require 'cash dealers' to lodge a suspect transaction report should a client's behaviour raise suspicion. However, these reporting requirements do not apply at all in many foreign jurisdictions.

Other types of gambling techniques include:

- claiming gaming machine prizes/payouts whilst not being the legitimate prize-winner (that is, not the player who has accumulated the subject credits or turnover)
- exchanging cash for or purchased gaming prizes/payouts from legitimate prize winners
- exchanging cash for prize-winning cheques. This may be coordinated by 'spotters' who look for winners. They target problem gamblers who may want their winnings straight away and are willing to receive 95% of the face value of the ticket
- exchanging cash for prize-winning gaming machine tickets
- negotiating cash loans to other members/patrons for the purposes of gambling
- engaging in activity that may otherwise be considered illegal or contrary to responsible gambling activities. For example, some machines pay a 98% return. Patrons may work in groups on networked machines, cover as many betting options as possible and win as a group

Note: many Australian casinos have implemented anti-money laundering strategies to prevent them from being used as a conduit. For example, when patrons convert chips to 'winnings' they are provided with a cheque endorsed with a stamp declaring whether the chips were 'winnings' or 'non-winnings'.

Under the FTR and AML/CTF Acts regulated entities such as casinos, pubs and clubs, bookmakers and TABS (both on-course and off-course) have obligations such as:

- customer identification
- completing a threshold transaction report, using forms tailored to the gambling industry

Customer identification

Under the AML/CTF Act reporting entities must identify customers where an individual bets or receives AUD10,000 or more (including gambling chips, tokens).

Threshold transaction report (TTR)

Under the AML/CTF Act, threshold transactions need to be reported by casinos, TABs, Totes, and bookmakers for betting transactions involving AUD10,000 cash and/or e-currency or more (or the foreign equivalent).

Insurance purchase

Insurance purchase is a common placement technique.

1. Watermelon Life Insurance sells life insurance products through a large number of independent agents including Twisted Spoon Insurance Brokers. Larry Launder buys life insurance policies from Twisted Spoon Insurance Brokers.
2. Larry Launder later redeems these policies and requests that the funds be transferred to a bank account.

Illegal money is used to buy insurance policies and instruments, which can be 'cashed in' at a later date. The end result is that the illegal funds have been legitimised by being 'washed' through a legitimate insurance business.

'Single premium' insurance products can be particularly vulnerable. They involve a single payment 'up-front' and the ability to immediately purchase a fully paid instrument. To a money launderer, these products are attractive because they:

- involve a one-time payment
- have a cash surrender value
- may be transferable

Insurance is sold through many channels. Any of these channels may be tapped by money launderers to place illegal funds.

Summary

This is the first stage of money laundering. At this stage, illegal funds or assets are first brought into the financial system. This 'placement' makes the funds more liquid. For example, if cash is converted into a bank deposit, it becomes easier to transfer and manipulate. Money launderers place illegal funds using a variety of techniques, which include depositing cash into bank accounts and using cash to purchase assets.

Placement techniques quiz

This quiz will test your understanding of placement techniques.

Question 1 – Placement techniques

Select the single correct response.

At the placement stage:

- a) illegal funds are brought into the financial system.
- b) funds are made available for activities such as investment in businesses.
- c) funds in the financial system are moved and dispersed to disguise their origin.

Question 2 – Placement techniques

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

A drug dealer provides cash to an informal transfer agent in Central NSW. The agent's counterpart makes a corresponding cash payment to the dealer's accomplice in Asia.

This placement technique is known as:

- a) smurfing
- b) alternative remittance
- c) electronic transfer
- d) bulk movement

Question 3 – Placement techniques

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

An accountant goes to a casino in Macau with illegal money and converts it into chips. He then later emerges with a large amount of 'winnings'.

This placement technique is known as:

- a) assets conversion
- b) insurance purchase
- c) alternative remittance
- d) gambling

Question 4 – Placement techniques

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

The manager of an illegal gambling operation in South Australia deposits cash amounts in the range \$5,000 to \$8,000 into various bank accounts.

This placement technique is known as:

- a) bulk movement
- b) asset conversion
- c) structuring
- d) gambling

Question 5 – Placement techniques

Identify the scenario that uses the placement technique of electronic transfers.

- a) A drug smuggler in Western Sydney purchases diamonds using cash.
- b) The owner of a 'front' business buys single-premium, redeemable insurance policies for a number of 'key' employees.
- c) The manager of an employment agency regularly transfers money from Tasmania to the Philippines via a money transfer company.
- d) A drug dealer in Western Australia exchanges cash for the prize-winning gaming machine tickets of players in a large gaming venue.

Question 6 – Placement techniques

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

An airline passenger smuggles a large batch of traveller's cheques into England in his checked luggage.

This placement technique is known as:

- a) smurfing
- b) bulk movement
- c) asset conversion
- d) insurance purchase

Question 7 – Placement techniques

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

A foreigner makes a down payment in cash to purchase an apartment in Monaco. The rest of the payment is made through financing arranged by his offshore company.

This placement technique is known as:

- a) asset conversion
- b) gambling
- c) alternative remittance
- d) insurance purchases

Question 8 – Placement techniques

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

A gardener uses illegal money to buy insurance policies that can be later cashed out.

This placement technique is known as:

- a) asset conversion
- b) alternative remittance
- c) insurance purchase
- d) gambling

Answers – Placement techniques quiz

1. a) Correct. At the placement stage, illegal funds are brought into the financial system.
2. b) Correct
3. d) Correct
4. c) Correct
5. c) Correct
6. b) Correct
7. a) Correct
8. c) Correct

AUSTRAC intends to maintain its Introduction to AML/CTF e-learning application as an evolving resource to reflect changing patterns of behaviour, legislative development and the broader Anti-Money Laundering environment. Should you require further information on the e-learning application, AUSTRAC's operations, the *Financial Transaction Reports Act 1988* (FTR Act) or the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act), please contact:

AUSTRAC Help Desk via:

help_desk@austrac.gov.au or Telephone 1300 021 037.

© 2007, Commonwealth of Australia

Each cash dealer, reporting entity or other stakeholder may use this material internally as an educational tool. It may view and use this application solely in the usual operation of its web browser in visiting the AUSTRAC Site ("the Site"). Except for this purpose, the material may not otherwise be used, copied, reproduced, published, altered or transmitted in any form or by any means in whole or part (except where such use constitutes fair dealing under the *Copyright Act 1968* (Cth)) without the prior written approval of the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Attorney-General's Department, Robert Garran Offices, National Circuit, Barton ACT 2600 or posted at <http://www.ag.gov.au/cca>, with a copy to AUSTRAC.

The Commonwealth accepts no liability in regard to any loss or damage suffered by you resulting from a loss of service, malfunction, computer viruses, or any other cause connected with your use of the Site.

The information contained in this application is intended only to provide a summary and general overview on these matters. The Introduction to AML/CTF e-learning course is not intended to be comprehensive nor does it constitute legal advice. AUSTRAC may from time to time amend legislative instruments under the legislation it administers and this may impact on the form and content of the Introduction to AML/CTF e-learning course. The Introduction to AML/CTF e-learning course contains statements of policy that reflect AUSTRAC's administration of the legislation in performing its statutory functions. The Commonwealth accepts no liability for any loss suffered as a result of reliance on it. AUSTRAC recommends that cash dealers, reporting entities and other stakeholders should obtain their own legal and/or technical advice on matters arising from the AML/CTF Act, the FTR Act, regulations and/or the published Anti-Money Laundering/Counter-Terrorism Financing Rules (AML/CTF Rules) tailored to the cash dealer, reporting entity or other stakeholder's specific circumstances, prior to making any decisions. The information contained in the Introduction to AML/CTF e-learning course is current as at the version date.

Your use of this application does not relieve you of any obligations you may have under any legislation, subordinate legislation, rules, requirements or standards, including but not limited to the AML/CTF Act and the FTR Act.

Cash dealers, reporting entities and other stakeholders using this application should be aware of any obligations they may have under the *Privacy Act 1988* (Cth). These obligations could include a duty of confidentiality to their customers and not using personal information for an improper purpose. Further information regarding privacy obligations can be obtained from the Privacy Commission via www.privacy.gov.au or telephone **1300 363 992**. [Click here for AUSTRAC's privacy statement.](#)