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# DETECT AND REPORT CUCKOO SMURFING

## FINANCIAL CRIME GUIDE

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## ATTRIBUTION

Material obtained from this publication is to be attributed to: AUSTRAC for the Commonwealth of Australia 2021.

## ACKNOWLEDGMENTS

This financial crime guide was developed by AUSTRAC's private-public partnership the Fintel Alliance.

Thank you to all of our partners who contributed to this financial crime guide.

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## HOW TO USE THIS FINANCIAL CRIME GUIDE

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Organised criminals use ‘cuckoo smurfing’ as a method of laundering money to disguise and integrate their funds across borders to profit from and further enable their illegal activities. Financial institutions have a crucial role to play in protecting Australia’s financial system against exploitation by understanding, targeting and reporting suspicious financial activity.

This financial crime guide has been developed to help remittance service providers, banking and financial services businesses understand and identify cuckoo smurfing and report suspicious financial activity. These businesses can use the indicators and behaviours in this guide to review their profiling and transaction monitoring programs to target, identify and stop financial transactions associated with cuckoo smurfing.

No single financial indicator will be a definitive way to identify if an account is being used for cuckoo smurfing. Rather, financial institutions should use a combination of indicators in this report and business knowledge to conduct further monitoring and identify if a suspicious matter report (SMR) needs to be submitted to AUSTRAC.

The financial intelligence and information shared by the financial services sector is critical in helping AUSTRAC and government partners identify and dismantle criminal networks moving the proceeds of crime through Australian bank accounts.

## ABOUT FINANCIAL CRIME GUIDES

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Financial crime guides provide information about the financial aspects of different crime types. They include case studies and indicators that can be used to identify if this offending could be occurring.

They are developed in partnership by AUSTRAC’s Fintel Alliance, relevant government agencies, and our industry partners. This guide was developed by Fintel Alliance partners in partnership with the Australian Federal Police.

**If you identify indicators of potential fraudulent activity involving cuckoo smurfing, please submit SMRs to AUSTRAC. To assist AUSTRAC to target this crime type, include key words in your report such as cuckoo smurfing.**

# INTRODUCTION

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Cuckoo smurfing is a method of money laundering used by criminals to move funds across borders and make money generated by their illegal activities appear to have come from a legitimate source.

Cuckoo smurfing is facilitated by professional money laundering syndicates who work with a corrupt remitter based overseas. The corrupt remitter:

- accepts an instruction from a customer to make a payment to an Australian-based beneficiary customer
- hijacks the money transfer coming into Australia in order to place funds in the Australian-based beneficiary account which are sourced from criminal activity.

Generally, the beneficiary customer receiving the funds is expecting legitimate funds to be deposited into their account, and is not aware the funds transferred are the proceeds of crime.

However, there have been some instances where the Australian beneficiary customer was aware of the suspicious activity occurring on their account and wilfully ignored the activity. There have been other instances where a person overseas has intentionally engaged a corrupt remittance service provider to send funds to their own accounts in Australia to avoid capital controls or tax laws in a foreign jurisdiction.

## ABOUT FINTEL ALLIANCE

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Fintel Alliance is a public-private partnership led by AUSTRAC that brings together government, law enforcement, private sector and academic organisations who work together to:

- support law enforcement investigations into serious crime and national security matters
- increase the resilience of the financial sector to prevent criminal exploitation
- protect the community from criminal exploitation.

## CUCKOO SMURFING METHOD

The cuckoo smurfing methodology typically involves the following elements:

- **Offsetting:** the international transfer of value without the physical movement of funds.
- **Structuring:** the deliberate division of a large amount of cash into a number of smaller deposits to avoid a single larger transaction and fall below the reporting threshold.
- **Smurf or third party agent:** individuals conducting cash deposits into Australian bank accounts on behalf of a money laundering syndicate controller.
- **Ordering customer:** transferring money to an Australian account.
- **Australian beneficiary customer:** expecting payment from overseas.
- **Proceeds of crime:** cash derived from illegal activity.



### CUCKOO SMURFING: A DISTINCT BREED OF MONEY LAUNDERING

The term 'cuckoo smurfing' is used because of similarities between this money laundering method and the activities of the cuckoo bird. Cuckoos lay their eggs in the nests of other species of birds which then unknowingly take care of the eggs believing them to be their own.

Similarly, the Australian beneficiary customer may be unaware the funds transferred into their account are the proceeds of crime and these funds have been deposited into their account through a criminal process.

Using the cuckoo smurfing method, the following steps are undertaken to transfer the proceeds of crime overseas:

#### OVERSEAS

1. A customer deposits legitimate funds with a remitter to send to an Australian beneficiary customer.
2. The remitter is corrupt and facilitating money laundering on behalf of a criminal syndicate. The corrupt remittance business does not send the money to the Australian beneficiary.
3. The corrupt remittance business gives details of the transfers, including the amount of funds and the Australian beneficiary's account details, to the professional money laundering syndicate.

#### IN AUSTRALIA

4. The professional money laundering syndicate employs people in Australia ('smurfs'), who meet up with criminals to collect the equivalent transfer amount in cash.
5. The smurfs deposit the cash into the Australian beneficiary's bank account (the 'cuckoo's nest').
6. The deposits are often made by smurfs in amounts less than \$10,000, in an attempt to fall below the reporting threshold; this is known as structuring.

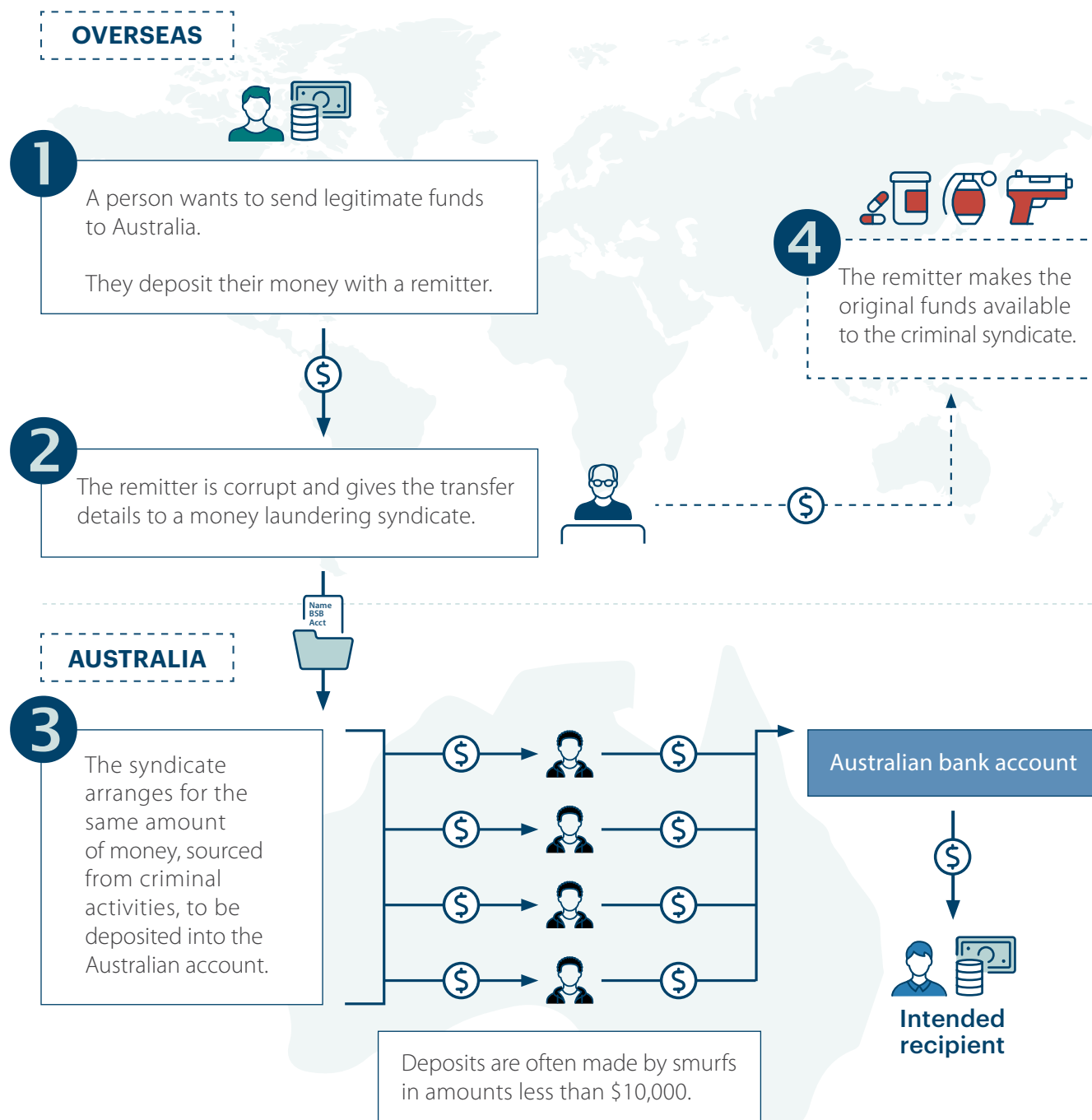
#### OVERSEAS

7. Once funds have been deposited in the Australian beneficiary's account, the corrupt remittance business gives the legitimate funds received from the customer to the criminal syndicate.

The cuckoo smurfing method can follow different paths, including the involvement of banking institutions and movement of funds through multiple countries.



## EXAMPLE OF A CUCKOO SMURFING OPERATION



It is a criminal offence to deliberately structure financial transactions to avoid financial reporting requirements. Remittance service providers and financial institutions have a separate responsibility to monitor and consider if multiple transactions conducted by a customer have a reasonable explanation or could form the grounds for suspicion. Where you suspect on reasonable grounds that multiple transactions have been structured in order to prevent them from being reported in a Threshold Transaction Report (TTR), you must submit a SMR to AUSTRAC.

## CASE STUDY

An individual pled guilty to four counts of property laundering under section 563A *Criminal Code Compilation Act 1913* (WA) under charges laid by the Western Australia Police Force's (WAPF) Money Laundering Squad.

Earlier, in July 2020 the Fintel Alliance and WAPF commenced a joint intelligence operation into suspected cuckoo smurfing activity in WA.

Between September 2019 and September 2020, AUSTRAC financial intelligence identified the individual making multiple, low-value, cash deposits operating across the Perth region.

Investigations established an estimated \$430,000 had been laundered by the individual on behalf of an overseas money laundering syndicate. The individual was provided with cash by a domestic member of the money laundering syndicate. The overseas syndicate sent directions to the individual via a secure messaging service. This included instructions to deposit specified cash amounts into nominated third party accounts at various locations across Perth.

Deposits were made with a bankcard issued in the individual's name into third party accounts via Intelligent Deposit Machines (IDMs) and in branch services. It is likely that in branch services were used as a result of the IDM limits which prevented the individual conducting larger deposits in the relevant location.

## WHO IS A TARGET?

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An individual or company expecting to receive funds from overseas can be targeted. However, the following customers are particularly vulnerable:

- Australian expatriates
- Australian exporters
- international students studying in Australia
- international investors
- migrants wishing to settle in Australia.



# FINANCIAL INDICATORS

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No single financial indicator will be a definitive way to identify if an account is being used for cuckoo smurfing. Rather, financial institutions should use a combination of indicators in this report and business knowledge to conduct further monitoring and identify if a SMR needs to be submitted to AUSTRAC.

## DEMOGRAPHIC INDICATORS

- Cash deposits conducted on the same day across multiple branches and Automatic Teller Machines (ATMs).
- Cash deposits conducted in a different state from where the account is held.
- Multiple cash deposits at the same location conducted over a short period of time.
- Cash deposits made at both the branch (in branch) and associated ATMs.
- Cash deposits at ATMs with low levels of surveillance.

## ACCOUNT INDICATORS

- The account holder is listed as unemployed, retired or a student.
- Cash deposits received in quick succession from different locations.
- The same account receiving deposits from multiple third parties.
- Multiple cash deposits predominantly in amounts under \$10,000.
- Cash deposits appearing inconsistent with expected transaction activity of the account holder.
- Cash deposits via ATMs across multiple accounts using a single card (issued by a domestic or international financial institution) or mobile number.

- Cash deposits matching an incoming international funds transfer instruction (IFTI) report. Note: If no incoming IFTIs are identified this may be indicative of unregistered remittance activity.

## DEPOSITOR INDICATORS

- An individual conducting cash deposits into multiple customer accounts.
- The same depositor conducting multiple deposits into third party accounts (third party cash deposits) across the same or multiple suburbs. The depositor may also favour one ATM repeatedly.
- Cash deposit activity occurring in a state or suburb that is remote to the account holder.
- Indicators that multiple depositors may be using the same customer details, such as reusing names and phone numbers to conduct multiple or frequent deposits.
- Depositor details such as names or initials appear fictitious.

## DETECTING CUCKOO SMURFING

Where you identify indicators of potential fraudulent activity involving cuckoo smurfing, a comprehensive assessment should be undertaken to:

- identify if there is no apparent relationship between the third party and the account holder
- investigate if deposits received are related to remittance and if the account holder is aware of the overseas and/or Australian remittance business details
- where possible, engage with overseas counterparts to identify further information in relation to the source of overseas funds
- retain video footage or images of third party depositors to identify patterns and support law enforcement.

## WHAT TO DO IF YOU SEE SOMETHING SUSPICIOUS

On its own, one of these indicators may not suggest illegal activity. However, if you notice a combination of these indicators or observe other activity that raises suspicion, please alert your manager or compliance officer and submit an SMR to AUSTRAC.

High-quality, accurate and timely SMRs give us the best chance to detect, deter and disrupt cuckoo smurfing and other criminal activity.

To find out more visit: [austrac.gov.au/smr](https://austrac.gov.au/smr)

## HOW CONSUMERS CAN PROTECT THEMSELVES

Consumers should only deal with or request funds be sent through legitimate financial institutions or remittance service providers.

If a consumer is expecting to receive funds from overseas, they should review their bank account activity and report any suspicious transactions to their bank in the first instance, and notify or call Crime Stoppers on 1800 333 000.

## FOR MORE INFORMATION

If you have questions about your AUSTRAC compliance obligations, please email [contact@austrac.gov.au](mailto:contact@austrac.gov.au) or phone 1300 021 037.

For more information for your customers visit [afp.gov.au/proceeds-crime](https://afp.gov.au/proceeds-crime)





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