# Strengthen Compliance Oversight with a Risk- Based Approach & Dealing with Cyber Crime
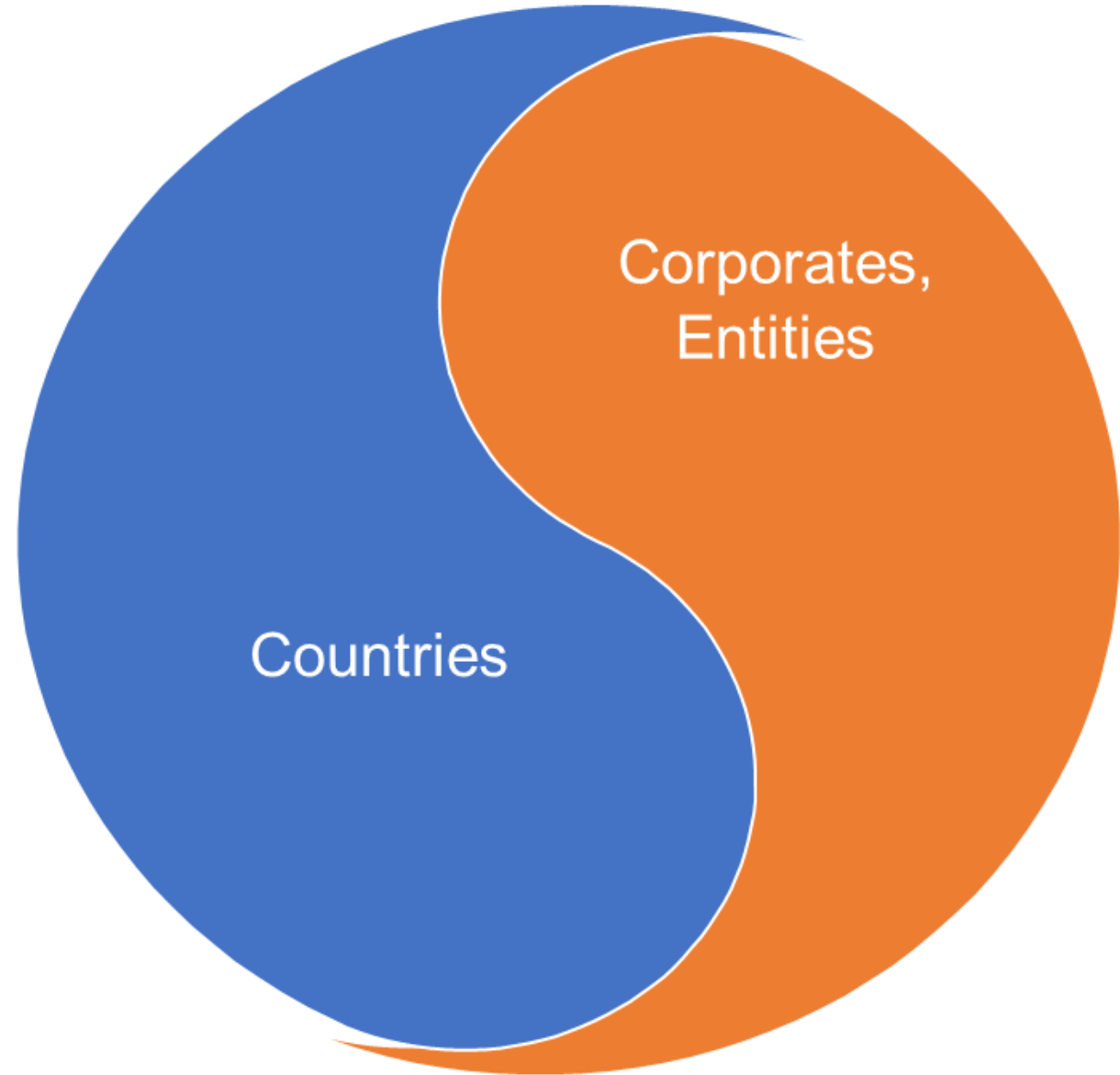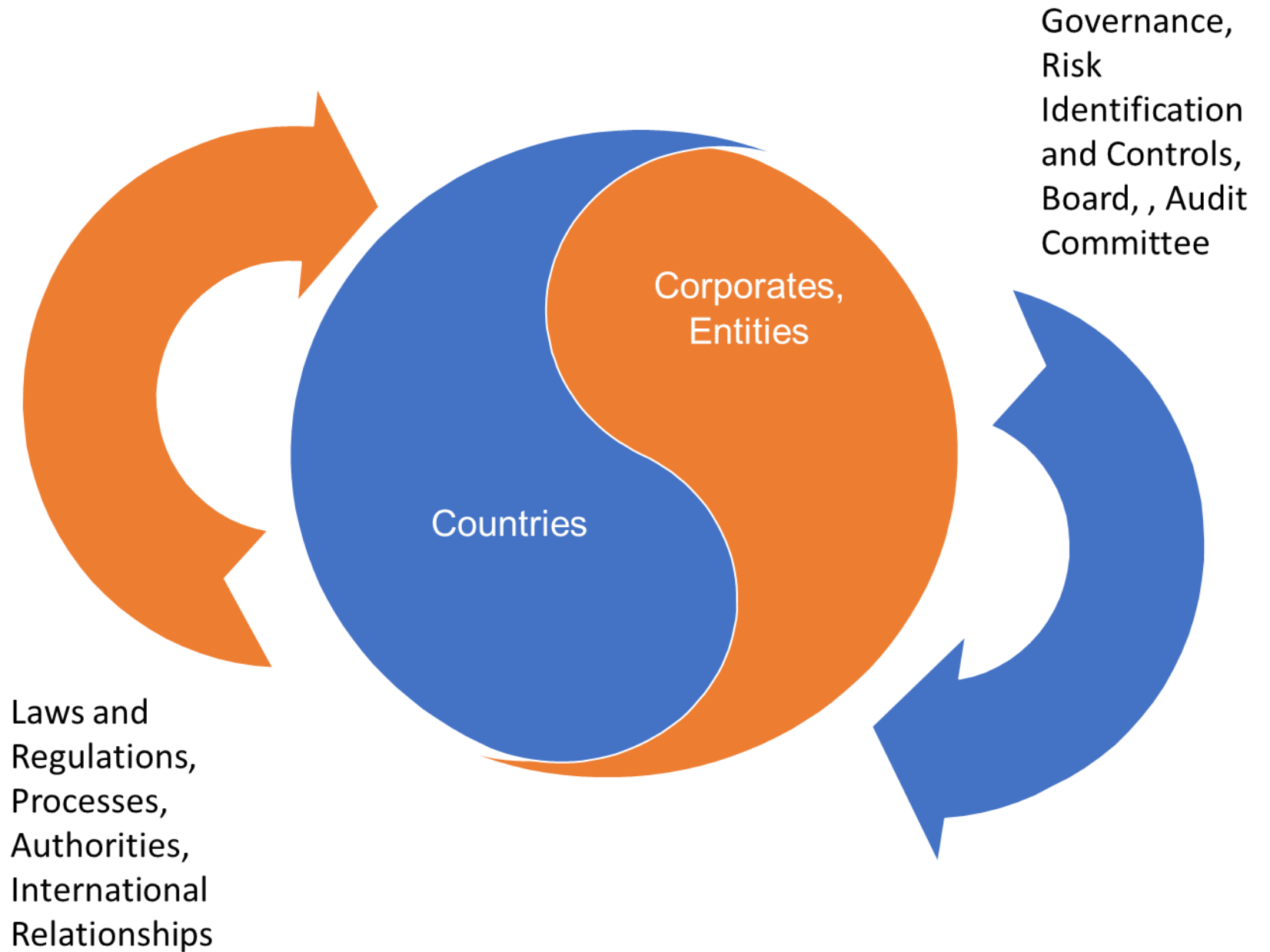
Seminar on PMLA

24th March 2018
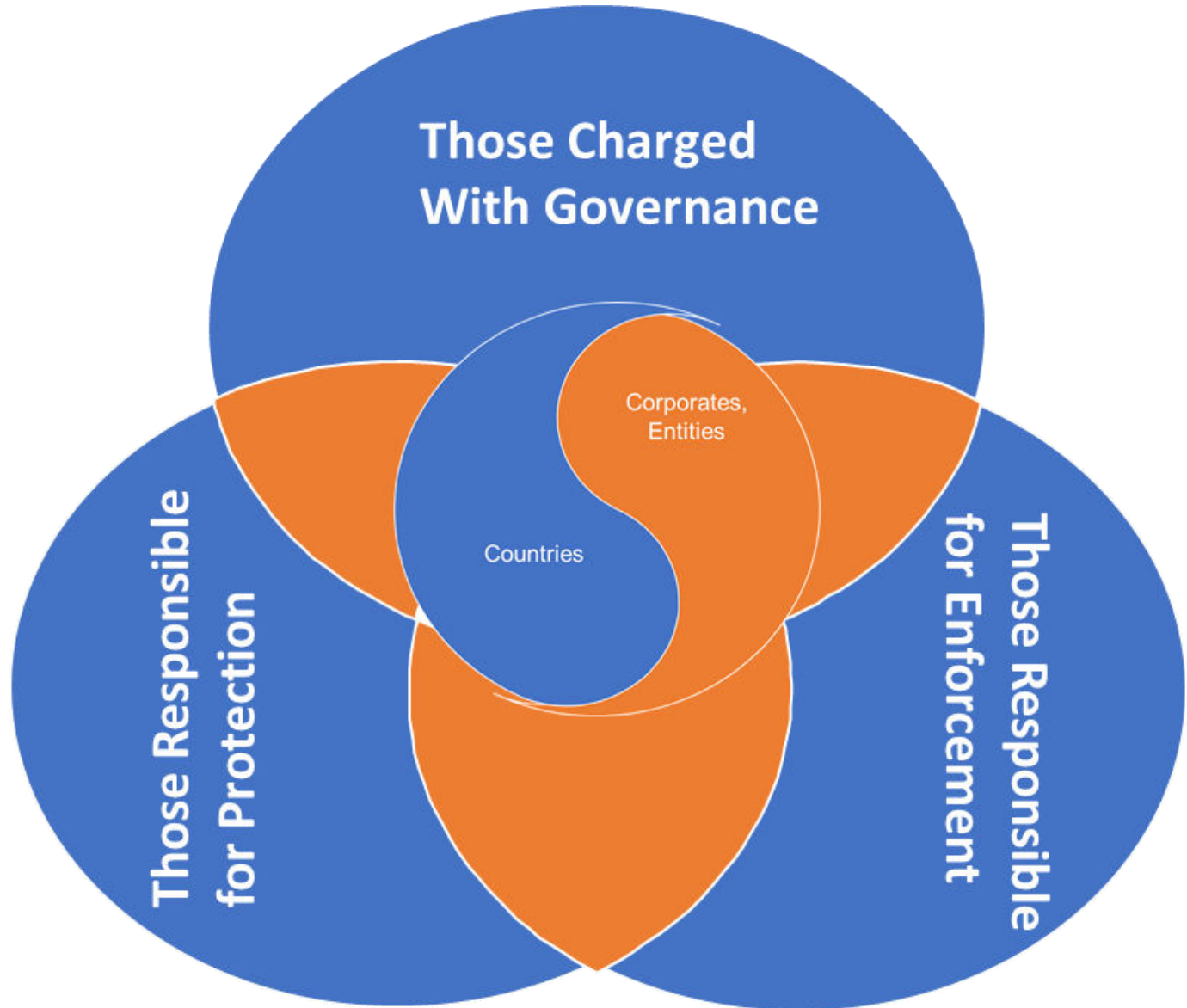
Compliance Oversight

Corporates, Entities

Countries

Compliance Oversight – Risk Based Approach

Corporates, Entities

Countries

Governance, Risk Identification and Controls, Board, , Audit Committee

Laws and Regulations, Processes, Authorities, International Relationships

Compliance Oversight, Risk-Based Approach & Cyber Crime

Those Charged With Governance

Those Responsible for Protection

Those Responsible for Enforcement

Corporates, Entities

Countries

# How Money Laundering Evolved to Cybercrime

Liberty Reserve

**Illegal Money**
acquired through clic fraud, carding, etc

→

**Exchanger -**
Verified exchanger or peers
will change $ or any e-currency into LR currency

→

**LR account**

→

**Cash out**
Money is laundered through VCC, prepaid cards or exchanger (LR to Western Union)
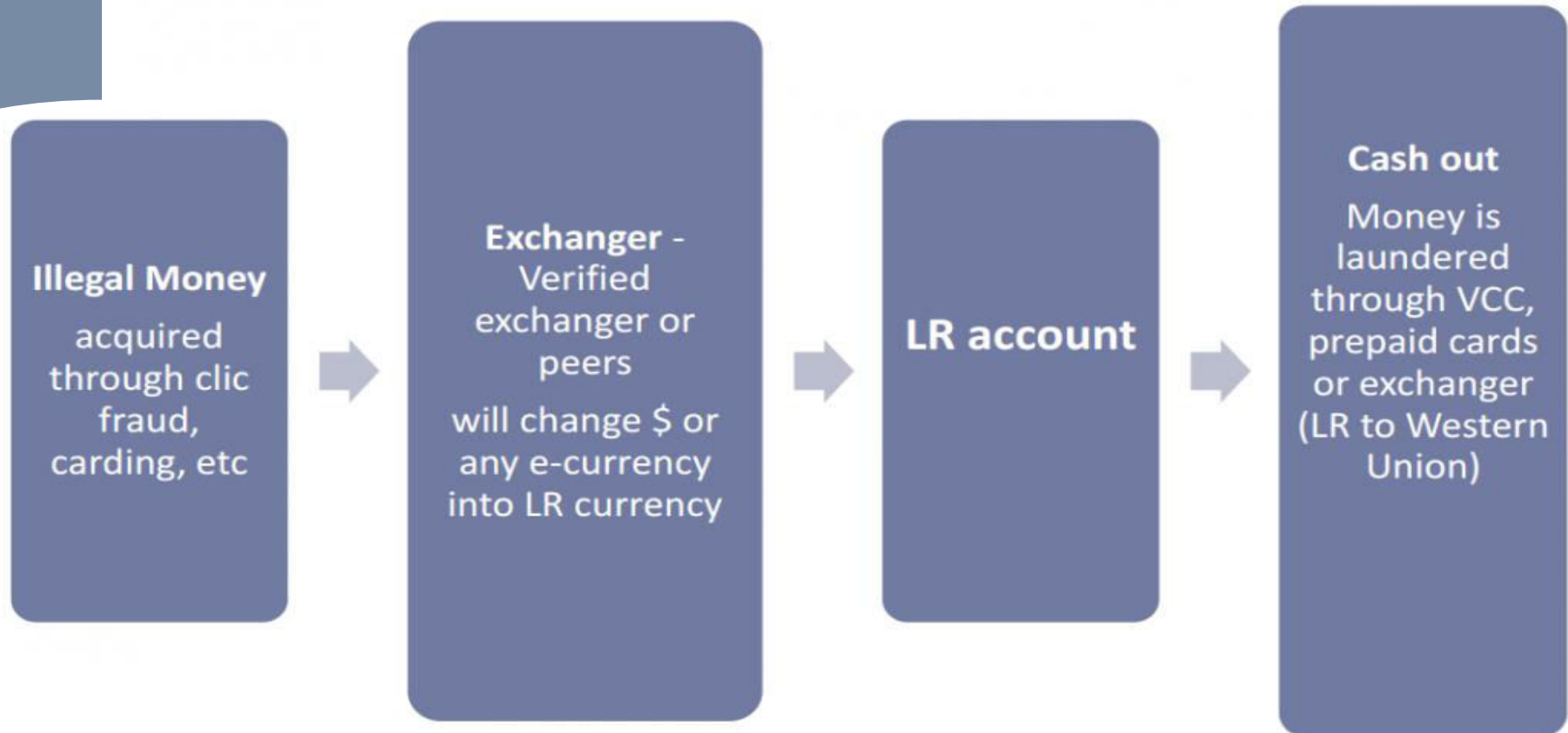
# Black Market Peso Exchange



1. Colombian drugs traffickers sell US$3 million in drugs in US

2. Broker in Colombia pays US$3 million in pesos to traffickers in Colombia

3. Broker takes orders from Colombian businessmen who pay in pesos

4. Broker arranges for goods to be bought with Colombian drugs money stored in US

5. Goods brought back or smuggled back to Colombia

6. Money has been laundered. Neither the traffickers nor the US$3 million have been physically relocated

*Source: Australian Institute of Criminology*

# Methods

These include WebMoney, Bitcoins, Paymer, PerfectMoney and so on

In a growing number of online games, it is possible to convert money from the real world into virtual goods services or cash that can later be converted back into the real thing. "Popular games for this type of scam include Second Life and World of Warcraft

In a growing number of cases, however, the criminals do actually transfer large amounts of money into your account and then ask you to forward it. However, since this involves stolen funds that are being laundered, you are accountable for the crime..

Forex Cards, Prepaid Cards, Foreign Exchange Brokers, Money Transfer Agencies, Global Market Places

# Case Study

**Money Laundering through Hospitals**

- ✓ **Listing overseas** and it being oversubscribed
- ✓ **Medical Groups** in India being entangled in ED probes
- ✓ **Promoter integrity:** Doctors are mere instruments in the hands of non medical management. I am sure everyone is aware, the managements of such hospitals are "HIGH" risk category customers and many a times PEP's. EDD measures have to be substantive and consistent at all times.
- ✓ **Cashless medical facility:** "Medi-claims", which can used to dwindle money. Misuse of populist Govt schemes of low cost health insurance wherein unrelated charges are levied by hospitals to collect higher amounts of claims; with a portion of kick-backs to the approving authorities have come to light. Insured patients are not even aware.
- ✓ **Doctor-Pharma nexus:** Evidently, pharma companies incentivize the medical care sector. On fulfilment of targets, compensations for the same are routed through different accounts to make it appear genuine. Complex structures are created to hide the real transactions.
- ✓ **Donations & Charity received:** The charity amounts received in cash defeats trails and whereabouts of donors are clandestine. The tax benefits some hospitals offer to donors, makes this arrangements plough back amounts to original donors misusing the benefits given
- ✓ **Capacity Utilization:** The number of beds x revenue per patient/bed x number of days can be used a general indicator of revenues along with other peripheral services provided. In some cases, the credit turnover in accounts doesn't seem to match with this logic. Evading the risk of tipping off, closer scrutiny is required in such cases.
- ✓ **Staff & Consultant Accounts**: Most of these hospitals credit salaries to their staff in the same bank for convenience. In some cases, the amounts are transferred to unrelated persons, who are merely used as a front to book expenses. The concept of "Ghost" employees/consultants is prevalent in medical care institutions.
- ✓ **Medical tourism:** Cost effective for foreigners to get medical attention in India; medical tourism can be an area that would be explored by launderers. Medical tourism would be the perfect disguise to receive funds back to India legitimately by using patients and almost avoiding any attention at all.

# The Virtual Future of Money Laundering

➢ Bit Coin Money Laundering

➢ eCache - eCache doesn't link a person to their transactions; it works like a Digital Bearer Certificate (DBC) that can be transferred to another party just like any other data on the internet

➢ TOR - Onion routing hides online activity by sending securely encrypted messages through a distributed network of randomly selected proxy servers before they are delivered to their final destination

➢ Dark Wallet - This bitcoin application boosts virtual currency to another level by making it practically impossible to follow the trail of virtual currency via encrypting and mixing all user payments. "Dark Wallet," effectively makes bitcoin transactions totally untraceable

➢ BTC Jam -BTC Jam aim to connect lenders with borrowers globally using bitcoin as the currency. BTC Jam, which bills itself as the world's largest bitcoin peer-to-peer lending marketplace, also offers crowd-funding through this system, which opens the door to myriad possibilities for placement or layering of criminal funds.

# The Virtual Future of Money Laundering

➢ Swarm - Swarm, a crowdfunding startup, is similar to mainstream crowdfunding sites like Kickstarter or Indiegogo, but it uses bitcoin as its currency. It's an innovative concept, but fraudsters could potentially abuse it for money laundering and other criminal activities

➢ BitPay, Coinbase, Braintree and Circle –

➢ A virtual capital market –

➢ Virtual money service businesses

➢ BitGold, GoldMoney

➢ MMORPGs - Massively Multiplayer Online Role-Playing Games

# Key Challenges

- ✓ Limited standardization of Know-Your-Customer (KYC) processes across business units and geographies, which results in disjointed and inefficient AML operations

- ✓ Lack of a single view of customer due to several lines of business, which limits understanding of overall customer risk

- ✓ Highly variable volume of exceptions or false positives requiring manual screening, which adversely impact staffing and ongoing training

- ✓ Multiple legal and regulatory requirements, languages, IT systems, variable data quality and cultural differences, which make multi-country operations very complex

# Thank You