



Financial
Intelligence Centre

TYPOLOGIES AND CASE STUDIES

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INTRODUCTION

The Financial Intelligence Centre (FIC) is South Africa's national centre for receiving transaction and other data from financial and non-financial institutions.

The FIC assesses, analyses and interprets the information it receives from accountable and reporting institutions, with a view to preparing financial intelligence reports. In turn, the financial intelligence reports are disseminated to investigative authorities, law enforcement agencies, and other competent authorities for their follow up actions and investigations.

The Financial Intelligence Centre Act, 2001 (Act 38 of 2001) lists 16 financial and non-financial sectors as accountable and reporting institutions. These include the gambling industry, estate agents, estate agents, practicing attorneys, the banking industry, and Kruger rand and motor vehicle dealers.

The FIC's purpose is to protect the integrity of South Africa financial system and contribute to the administration of justice.

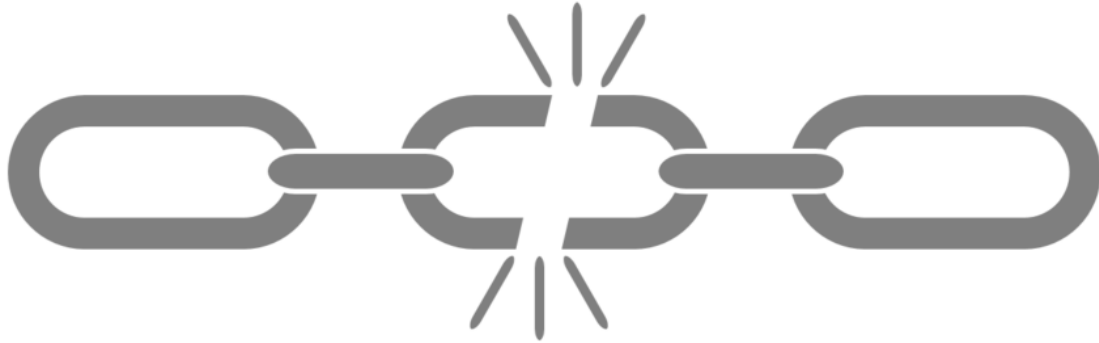
The FIC produces reports on the various ways in which criminals launder their money and/or raise funds for the financing of terrorism and related activities. When a series of suspected money laundering or terror financing activities are observed using the same methods, they are generally classified as a 'typology'.

These reports are intended to assist government, the identified sectors and other stakeholders better understand existing and emerging money laundering and terror financing threats, and assist with developing effective strategies to address those threats.

Typologies assist the FIC to implement effective strategies in providing the law enforcement agencies with information to investigate and prosecute ML and TF cases, as well as design and implement effective preventative measures. These observations are intended to assist with identifying instances of suspicious and unusual transactions activity.

It is hoped that the case studies and indicators featured will assist the identified sectors and all other business implement preventive measures including customer due diligence and submission of suspicious and unusual transaction reports to the FIC.

TYPOLOGIES AND VULNERABILITIES



Criminals are adept at identifying and exploiting vulnerabilities in financial products and/or industry sectors to facilitate financial crime and to launder the proceeds of their illicit activity. Most high-threat criminal enterprises actively seek to insulate their criminal activities by intermingling legitimate and illegal interests.

Organised crime often relies on money laundering for legitimising or hiding proceeds or instruments of crime.

Financial products or sectors that are perceived to be more lightly regulated are consistently targeted by criminals and they easily adapt in response changes in regulatory controls. While individual and groups of criminals may not all be sophisticated in their methods, they are able to purchase specialist advice, exploit corporate structures and conceal this activity within legitimate financial transactions.

This report shows criminal typologies and vulnerabilities involving the gambling and casinos sector and the estate agencies sector. Gambling establishments and casinos are primarily used for placement activity, as it is common for cash to circulate here freely and in fairly large quantities. Therefore, criminals may not find it too difficult to introduce the proceeds of their illegal activities into circulation in this environment.

Estate agencies, on the other hand, can be used by criminals to integrate illicit funds into the legitimate economy by camouflaging the true nature of their source of funds with a veneer of respectability, legitimacy, and normality.

The people involved in money laundering often obscure the identities of the true owners of the property or the origin and destination of the funds. The property sector is an attractive destination for illicit funds. A number of jurisdiction across the globe report significant increases in property prices. The fast rising prices are attractive to criminal investment for money laundering. In South Africa the property environment, including renovation and improvements, is often associated with criminal proceeds related to corruption and narcotics as well as a variety of other predicate offences.



CASINOS AND THE GAMBLING INDUSTRY

Casinos and the gambling industry are made vulnerable to money laundering due to the variety, frequency and volumes of transactions that take place in these establishments.

MONEY LAUNDERING VULNERABILITIES

Use of casinos value instruments

Casinos use value instruments such as chips and machine credits to facilitate gambling and gaming activities. The value instruments may be bought with cash payments or on account. Repayment is then requested by cheque or any other traceable method of payment. The audit trail on payments for instruments if the value instrument is transferred to another jurisdiction where the casino chain has a branch, or where the credit is then converted into a cheque or bank draft.

Money launderers may also purchase value instruments from other casinos' customers who are not directly or indirectly associated to them, at a price higher than the face value of the chips so as to make the deal beneficial for both parties.

Chips, casino gift certificates or casino rewards may also be used as currency in illegal cross border transactions. This offers considerable advantage to those involved in the transaction as they would not be subject to the limitations applicable to the use and movement of cash.¹

Casino employees and managers should pay attention to certain transactions as they may point to money being laundered through casino value instruments. These transactions may include the purchase of casino chips followed by immediate cashing in of those funds with little or no gaming activity; customers' gaming history in the context of their financial situation and profiles, and/or the clear absence of any intention to win.

Structuring of transactions

This requires the distribution of a large amount of money into several smaller transactions under the threshold that would trigger reporting requirements. This practice is known as smurfing.

The technique may involve regular deposits of cash below the threshold value, the use of third parties to undertake several smaller transactions, and/or the switching of gaming tables, gaming rooms or even casinos when the wagering amounts are approaching the threshold. Money launderers may also request dividing winnings into cash and chips payment components that are below the threshold.

Refining of banknotes

This involves the practice of exchanging large amounts of low denomination banknotes for high denomination ones. Banknotes may be refined at the cashier's desk, through gaming machines that accept cash or through the use of individual casino accounts. Money launderers may feed low denomination banknotes into the machine to accumulate credit on the individual account with little or no play, before redeeming the credits for high denomination banknotes. Possible indicators of money laundering schemes are usually connected to the customer's profile and gaming activity, also with respect to the reporting threshold.

Use of individual accounts and safety deposit boxes

Casinos offer a variety of services that are similar to those available at financial institutions such as banks. The services on offer at casinos, however, require less scrutiny and fewer customer due diligence requirements. VIP and so called 'high roller' casino customers are able to open deposit accounts, receive lines of credit, or even use safety deposit boxes. Money launderers may exploit

¹ FATF Recommendation 32

these services by depositing their casino account cash and various types of cheques. They are able to then use the balance of their account, or the funds in their casino accounts to purchase casino value instruments across jurisdictions. Safety deposit boxes held with casinos are often not regulated and may be used by third parties with a total lack of transparency.

Conspiracy of fixed games

The techniques explained thus far do not require money launderers engage in any casino gaming activity, even though failing to do so may jeopardise their efforts. By fixing games, money launderers are able to attain a desirable outcome of the game. Usually requiring two or more persons, the most common technique is to play a fixed game with an associate. Players place opposite equivalent bets on even money wagers in the same game. The intention here is not to increase the winnings, but rather to create the appearance of gaming, without taking on the risk of losing money to the casino.

Purchases of large numbers of casino gift certificates

Money launderers may purchase casino gift certificates which can be redeemed by third parties. The certificates are then sold or given to other persons distancing the money launderer from the illicit funds.

Purchases of casino rewards cards

Money launderers use illicit funds to purchase casino reward cards from legitimate customers paying them a premium amount, usually above the value of the reward.

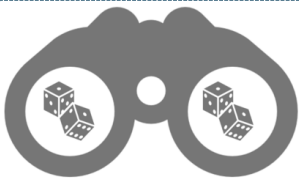
Gaming activities

The intention of buying winning tickets from legitimate winners for more than they are worth seeks to create the impression that the funds were derived from a legitimate source.

INDICATORS

Methods associated with laundering illicit proceeds into the casino sector

- ✓ Patrons who are unable or unwilling to provide identification when purchasing chips or cashing in their chips
- ✓ Patrons whose chip purchases consistently do not match their gambling, i.e. purchases in very large quantities, of which the patron then only plays a very small proportion, before cashing them all in again
- ✓ Patrons whose appearance and apparent status appear to be inconsistent with the values of their chip purchases (may also indicate that they are acting as an intermediary for an unknown third party)
- ✓ Instructions to forward the cash-in value of leftover chips to someone other than the patron (may also indicate that they are acting as an intermediary for an unknown third party)
- ✓ Frequent deposits of cash, cheques, bank cheques or wire transfers into casino accounts
- ✓ Casino account transactions conducted by persons other than the account holder
- ✓ Funds transferred from casino account to a charity fund
- ✓ Use of casino account as a saving account
- ✓ Use of false and stolen identities to open and operate casino accounts
- ✓ Customer name and name of account do not match
- ✓ U-turn transactions occurring with funds being transferred out of country and then portions of those funds being returned
- ✓ Customer due diligence challenges, e.g. refusal, false documents, once-off gambling, tourists gamblers passing trade
- ✓ Requests of casino accounts from politically influential persons (PIPs).



CASE STUDIES

CASINOS AND THE GAMBLING INDUSTRY

CASE ONE: Seizure of millions following bust at border post

A law enforcement investigation led to the arrest of the two subjects who were suspected of smuggling illicit bulk cash in and through South Africa and out of the country. Both subjects were part of an international syndicate that smuggles bulk cash that represents the proceeds of unlawful activities.

Subsequently approximately R76 million was seized at Lebombo border post. FIC analysis revealed that the subjects travelled very frequently through the border post in the morning, gambled at the casino, then travelled to Dubai the following day, returned two days later and then gambled again shortly thereafter.

The FIC identified that the subjects were spending the proceeds at the casino and acted as cross border cash couriers. The cash was seized on this basis, and the suspects were convicted of contraventions of the exchange control regulations, Customs and Excise Act, fraud and money laundering. The cash with a total value of R76 million and a Toyota Hilux were forfeited to the state.

CASE TWO: Drug trafficker caught after suspicious casino behaviour reported

The FIC alerted a law enforcement agency to a series of suspicious transactions at a casino, sparking an investigation that led to the arrest of a police officer. The subject placed large amounts of cash at the casino, thereby distancing himself from the illicit origins of the funds. He also gambled at the casino in the hope of winning, thereby legitimising his funds.

The subject's gambling activities prompted the submission of a large number of cash transactions reports. The FIC also received a large number of suspicious and unusual transaction reports detailing the suspect's continual purchases of bank cheques. Other suspicious and unusual transaction reports detailed the suspect's significant cash buy-ins at the casino.

The FIC used the information submitted to it to develop financial intelligence reports which assisted authorities to identify the money laundering methods used by the police officer. It was established that the subject was spending more money than his monthly South African Police Service salary as a constable.

The subject was arrested and charged with fraud, theft and money laundering.

CASE THREE: Following the money to find drug syndicate

A member of a syndicate who was identified as the head responsible for the supply of drugs was reported to the FIC by a casino. A financial intelligence report was compiled and disseminated to the relevant law enforcement agency. The subject was identified as a regular poker player at a casino.

This led to the FIC assisting the South African Police Service in its investigations. The FIC provided financial intelligence on the syndicate members, and was able to identify how the drug trafficking proceeds were being laundered. The head of the syndicate used the money to buy cars and then immediately change ownership of the vehicles. The FIC analysed the finances of the subject and provided law enforcement with an intelligence report.

The subject was charged with racketeering, kidnapping, assault, narcotics possession, distribution and money laundering. ■



PROPERTY SECTOR

The property sector has many attributes that makes it an attractive destination for illicit funds.

It provides a home in which offenders can live and work (homes and rural properties are often used for the cultivation of marijuana and the manufacture of hydroponic drugs).

As a money laundering vehicle, a host of mechanisms commonly used in property transactions can frustrate efforts to unearth the criminal source of funds, such as nominees, fake mortgages and property lawyers who make their trust accounts available for the facilitation of proceeds derived from unlawful activities. Criminal proceeds can be funnelled to the property market through a number of legitimate transactions, such as deposits, down payments, mortgages, or construction and renovations expenses.

Investments property can also be used to create the perception of a legitimate revenue stream. The purchase of rental property allows criminal entrepreneurs to deposit the proceeds of crime into bank accounts under the guise of rental income.

Laundering money in the property sector ranges from the simple to the sophisticated. At one end of the scale, the launderer buys property and registers it in his or her name. At the other end of the spectrum more sophisticated approaches the use of complicated techniques to disguise the source and use of proceeds.

MONEY LAUNDERING VULNERABILITIES

Concealing criminal ownership: The use of nominees and fronts

The most prevalent technique used to facilitate money laundering in the property sector is to register a property and/or a bond in the name of a nominee, such as relatives, friends, business associates, lawyers, and shell or registered companies. This is then used to obscure the criminal ownership and source of financing for the property.

While it is not unusual for a purchaser to register property in the name of a family member or a company, criminal entrepreneurs appear to have taken advantage of this practice to achieve a primary objective of laundering money through hiding ownership of assets derived from illegal activity.

Property related companies

Criminal organisations launder money through estate agencies, bond brokerage firms, and development or construction companies, to facilitate access to the property sector. In one such example a launderer incorporated a number of

shell companies and trust accounts, through which illicit proceeds had been funnelled to purchase property. This made it difficult to trace the funds. To further legitimise their property transactions, launderers can incorporate construction and development companies. These companies would then purchase properties, financed in part by bonds provided by other shell companies established by the launderer.

Financing property through bonds

In instances where property was purchased with the proceeds of crime, bonds were used to facilitate the laundering process. While many criminal entrepreneurs have been found to have no shortage of cash to invest in property, some of them nonetheless apply for bonds, to avoid attracting attention with large personal financing. It has also been found that offenders seek out a bond to limit their equity in a property. This is to minimise their personal financial loss in the event that the property is forfeited to the state.

Specific money laundering techniques are used in conjunction with bonds, with the primary goal of concealing the true source of criminal financing. It has been found in some instances, that the bond

(as well as title to the property) was registered in the name of a nominee to help hide the criminal ownership of the property. In another, a criminal entrepreneur personally financed a bond for a property that he controlled, but registered (the property or the bond) in the name of a nominee. These laundering techniques provides the nominee with a seemingly legitimate source of funds to purchase the home, while hiding the true criminal ownership of the property.

Purchase of income property

Another technique used to further the laundering process in the property market is to purchase income-generating property and co-mingle legitimate rental income with criminal revenue.

Both sets of funds are deposited into a bank account. This technique is used primarily to provide a seemingly legitimate source of revenue for a criminal entrepreneur.

Flipping property

In some instances, a nominee or a criminal entrepreneur will purchase property with criminal revenue and then quickly sell it, thereby claiming a legitimate source of revenue. In other cases, the criminal entrepreneur will pay for the construction and/or renovation of a house with the proceeds of crime, before selling the property at an increased value. The criminal entrepreneur can also engage in a bogus sale whereby the property is sold to nominees, allowing the offender to claim legitimate revenue, while still maintaining ultimate control over the property. The benefits of these techniques are that they take advantage of the sizeable underground, cash-based home renovation industry. Cash is paid covertly to contractors, thereby benefiting both parties.

Under-invoicing

This involves a property seller agreeing to a purchase price below the actual value and then accepting the difference outside of the formal transaction.

This technique requires the collusion of the seller, including the completion of legal land title transfer documents that list the price of the property as less than what it was actually sold for. This technique allows the money launderer to conceal the actual

amount that was spent. The benefit of this type of transaction is that official records show a criminal entrepreneur has spent less money, making it easier to hide illegally-derived and non-reported revenue. For example, a criminal would purchase property with a true value of R2 million for a stated purchase price of only R1 million. The difference between the true value and the purchase price is then secretly given to the accomplice vendor. After holding the property for a period of time, and perhaps investing a further R1 million in improvements, the property is sold for its new real value of R3 million. The launderer is quite willing to pay the taxes on his 'windfall' profit, since it makes the profit appear to be the result of a legitimate property transaction.

Property attorneys, trust accounts, and attorney-client privilege

Lawyers could come into contact with the proceeds of crime through their role in facilitating a property transaction for an individual engaged in criminal activity or an accomplice of the offender. In conducting these transactions, lawyers physically handle the cash proceeds of crime or monetary instruments provided by an offender or nominee, deposit the funds into bank accounts in trusts for clients, and issue cheques on behalf of clients for the purchase of property.

INDICATORS

Methods associated with laundering illicit proceeds in the property sector

- ☑ Purchases of property using large cash amounts
- ☑ Use of third parties and gate keepers such as attorneys and conveyancers to purchase and lease immovable property
- ☑ Buying of building material which can be purchased in cash or through successive deposits in the accounts of the construction material stores
- ☑ Acquiring of bonds and settlement of the bonds using large cash amounts
- ☑ Purposely defaulting payment of bond instalments and later settling the bond using lump sum payments (cash, wire transfers, using other property, series of transactions)
- ☑ Foreign PIPs and nationals investing in property
- ☑ The use of corporate structures for buying and/or owning companies or corporations which own property
- ☑ Use of third parties (minors, spouses, other family members, companies, trusts etc.) to register property, mainly for tax evasion
- ☑ The use of unregistered estate agents, who are not accountable to the regulators
- ☑ Indicators of money laundering and terror financing – property sector
- ☑ Unnecessary use of third parties during property transactions
- ☑ Unusual methods used for payment
- ☑ Complicated structures involving multiple jurisdictions for no apparent reason
- ☑ Use of unregistered estate agents
- ☑ Use of shell companies to buy property
- ☑ Foreign nationals using locals to make large investments directly in property
- ☑ Early liquidation of bonds using lump sum of payments
- ☑ Payments of long leases by a tenant who has an unsound economic background
- ☑ Establishment of legal persons to hold properties with the sole purpose of placing a front man between the property and the true owner
- ☑ Transactions entered into at a value significantly higher or much lower than the true value of the property or differing remarkably from market values
- ☑ Transactions performed through intermediaries, when they act on behalf of groups of potentially associated individuals (for example, through family or business ties.)
- ☑ Transactions involving payments in cash or in negotiable instruments which do not state the true payer (for example, bank drafts), where the accumulated amount is considered to be significant in relation to the total value of the transaction
- ☑ Transactions in which a loan was granted, or an attempt was made to obtain a loan, using cash collateral or where this collateral is deposited abroad.



CASE STUDIES

PROPERTY SECTOR

CASE ONE: Prominent influential person

The FIC was requested by a domestic law enforcement agency to assist in identifying properties and entities linked to a foreign prominent influential person (PIP). The case related to a money laundering investigation into the foreign PIP's alleged involvement in embezzling large amounts of money from the state coffers of his jurisdiction. The investigations spanned three jurisdictions, namely South Africa, the foreign PIP's jurisdiction of origin and a third jurisdiction where the money laundering crimes were initially discovered.

The information received revealed that the PIP owned a property, worth approximately R2 million, in a residential area in South Africa. Further investigations revealed that the PIP whilst in the third jurisdiction, contacted his South African lawyer to assist in purchasing the property. To transfer the required funds the foreign PIP utilised a shell company registered in another jurisdiction as a conduit to ensure that his identity is not revealed. The attorney's trust account in South Africa received the funds, duly purchased the property and registered it under another company's name. The FIC's financial analysis that this trust account was controlled by the PIP. The FIC compiled and disseminated a financial intelligence report, leading to a joint application by the three investigating agencies for restraining and forfeiture of the property to the original jurisdiction of the PIP where the funds were misappropriated.

CASE TWO: International drug trafficking

The FIC received a request for information from a domestic law enforcement agency on a person who was known to be a kingpin in an international drug trafficking syndicate. The information required included bank accounts and properties under the subject's name, including those of his immediate family members and possible close associates.

The FIC requested financial information from accountable institutions and accessed statutory and paid subscription databases to source more information regarding the subject and his associates. The information received and analysis revealed that the subject had transferred large sums of money into South Africa to purchase, among other assets, such as property and a game farm. It was also revealed that outbound funds transfers were effected to his home country and the funds were deposited into different bank accounts. Some of the funds were transferred into his spouse's account. The information was consolidated into a financial intelligence report and forwarded to the relevant authorities. Ultimately properties and funds to the value of R3 million were seized by the state.

CASE THREE: Armed robberies

An investigation by domestic law enforcement agencies into a spate of armed robberies led to a request for assistance from the FIC. The investigative authorities required financial intelligence on an individual suspected of being involved in these criminal activities.

Upon receiving the request, the FIC used various databases to ascertain information such ownership of property and directorship in companies. The FIC's information revealed the subject's involvement with an entertainment establishment, that he owned multiple high value properties, various motorbikes and other motor vehicles. A financial intelligence report was compiled and forwarded to the relevant authorities. The investigative authorities were able to link the subject's transactions to the purchasing of the above-mentioned properties and assets. The subject was arrested and sentenced to a lengthy prison term. A restraining order was also obtained to ensure that the assets were forfeited to the state. ■

Making South Africa's Financial System Intolerant to Abuse

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