

Money Laundering Typologies in the Republic of Serbia



Organization for Security and
Co-operation in Europe
Mission to Serbia



REPUBLIC OF SERBIA
MINISTRY OF FINANCE ADMINISTRATION
FOR THE PREVENTION OF MONEY LAUNDERING

Money laundering typologies in the republic of Serbia

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in the Republic of Serbia

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Foreword

Since its establishment in 2002, Serbian Administration for the Prevention of Money Laundering (APML) has been working on the development of the anti-money laundering and counter-terrorist financing (AML/CFT) system in Serbia.

Even though it has a leading role in the AML/CFT system, the APML constitutes only a link in the AML/CFT regime that is made up of a whole panoply of diverse players, including the law enforcement, judiciary, supervisors, and reporting entities. The APML has invested much of its energy to enhancing its internal processes and analytical resources by creating an advanced Case and Document Management System, establishing an improved Transaction Management Information System, and introducing some landmark state-of-the-art analytical tools such as I2 which help our analysts produce better financial-intelligence reports.

The fight against the money laundering and terrorist financing phenomena is not feasible without a comprehensive international and cross-border cooperation, with counterpart financial-intelligence units and various international organizations. APML's international cooperation to date has yielded invaluable benefit both in terms of its specific ML cases and capacity improvement.

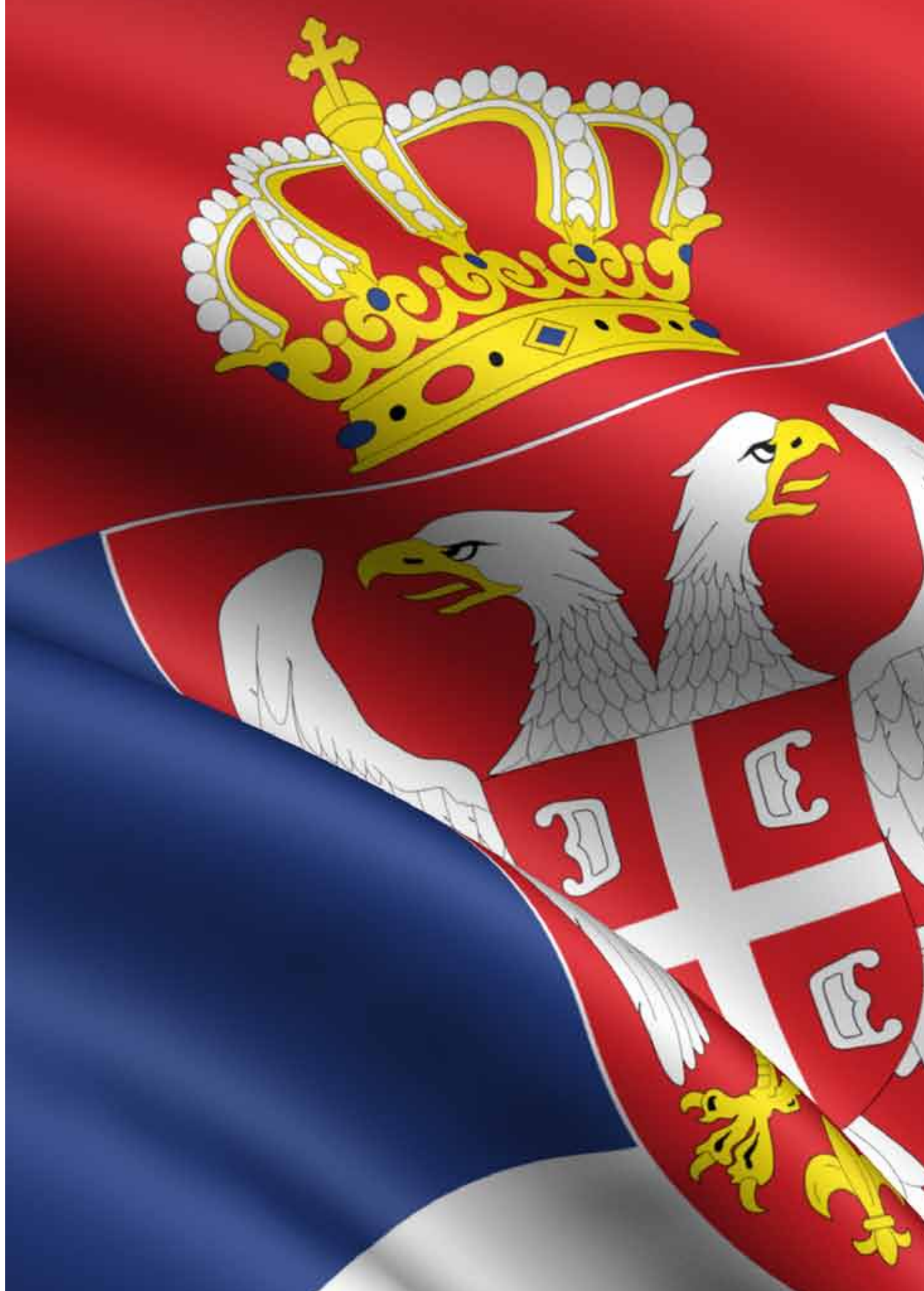
Our cooperation with the Organisation for Security and Cooperation in Europe (OSCE), which has stepped up its AML/CFT efforts over the past few years, stands as an

example of our synergy towards achieving our common objectives in Serbia, namely fighting the scourge of money laundering as it constitutes a direct threat to both national and international security. The cooperation has materialised through a number of successful projects, the most recent and amongst the most significant being the present Money Laundering Typologies in the Republic of Serbia.

This collection of typical money laundering methods in Serbia is a pioneer work, even in a regional context, given that such a comprehensive document covering typical money launderers' behaviour in various business sectors in Serbia has not existed before. The Money Laundering Typologies in the Republic of Serbia brings the notion of money laundering and its complex manifestations closer to the wider public in Serbia in an informative and reader-friendly manner.

We are convinced that this important document will reach out to all those concerned with money laundering, whether they are investigators, members of the judiciary, researchers, journalists, students, or our international partners seeking some practical information about the money laundering crime in Serbia, and that it will contribute to a better understanding of the money laundering phenomenon in general and specifically its manifestations in Serbia.

Aleksandar Vujičić, director



Money Laundering Typologies in the Republic of Serbia



Money Laundering Typologies in the Republic of Serbia

There are many definitions of money laundering, but regardless of differences among these definitions, whether they are simple as: legalization of illegal capital, or complex, such as the one stipulated by the Warsaw Convention¹ and which was implemented in the Criminal Code of the Republic of Serbia, the entire professional community agrees that:

Money laundering is the process of disguising assets, money or property, of an illegal origin acquired by criminal acts.

In case this property is obtained by committing a crime, the perpetrator tries to find a way to use the money without attracting the attention of relevant investigative or oversight authorities. Therefore, he/she performs a series of transactions in order to make it appear as though the money was legally earned. Money laundering consists of three basic phases:

¹ Conversion or transfer of assets, knowing that those assets are gained from a crime, for the purpose of hiding or disguising of the illegal origin of the assets or assisting a persons involved in crime to avoid legal consequences of his actions; hiding or disguising the real nature, source, location, disposal, movement, property rights or other ownership rights over property, knowing that those assets are acquired through crime.

1

The first phase: the phase of placement is an interruption of the direct link between the money and the illegal activity used to acquire that money. Money is placed on bank accounts, usually in the form of some legal activity where the payment is done in cash. One of the common methods of this is the founding of a fictitious company which does not have business activities, but is used for placement of dirty money through dividing large sums of money and depositing it on accounts in amounts that are not suspicious or do not have to be reported to the relevant authorities.

2

The second phase: the phase of layering or disguising. After the money enters the legal financial system, it is transferred from the account where it was depositing to other accounts of companies in order to show some fictitious business activity or to perform some legal business (trade or service) with a company that operates legally. The main goal of these transactions is to disassociate the money from the crime it originates from.

3

The third phase: the phase of integration, in which dirty money is assimilated into money that originates from permissible activities. Frequent methods for the integration of dirty money into the legal financial system are the purchase of real-estate or the purchase of control packages of shares of joint-stock companies. This is an example of the concentration of dirty capital in large amounts; ultimately the goal of money launderers. Integration concentrates on market values, i.e. whatever can be purchased and sold. Providing real-estate under lease is legal, and income from rent is not suspicious. Money is often invested in companies experiencing financial difficulties, and which afterwards start to work successfully. The results of these activities are considered as legal revenue. Once the money enters this phase it is difficult to discover its illegal origin.

Illegal gain of assets is the main, if not the only, motive for committing a crime. In order to enjoy gain from a crime this property needs to be falsely presented as being legal.

The consequences of money laundering are: undermining the stability, transparency and efficiency of the financial system of a country, financial disorder and instability, threatening reform programs, reduced investment, deterioration of a country's reputation and jeopardizing national security.

Money laundering is a global phenomenon, and very often a cross border problem. Namely, there is data showing that approximately 1 trillion US dollars are laundered every year, and only 1% of the total amount is seized.

The Administration for the Prevention of Money Laundering (hereinafter referred to as the: "Administration") is the Financial Intelligence Unit of the Republic of Serbia, and the central body for the prevention of money laundering and financing of terrorism. Pursuant to the Law on the Prevention of Money Laundering and Financing of Terrorism, obligors (or reporting entities) submit reports to the Administration on all suspicious transactions and entities.

The Administration then analyses these reports, gathers additional information, and in case there is a reasonable doubt that someone is engaged in money laundering in a specific case, such information is forwarded to the relevant institutions, primarily, the competent prosecutor's office and the police. The Administration may, without a previous report of suspicious transactions, notice that there is a doubt that a certain person or organized group are engaged in money laundering, and request information from obligors and other state institutions. Furthermore, the Administration may also establish a "suspicious case" based on the initiative of another state institution, such as: courts, prosecution, Security-Information Agency, Privatization Agency, Securities Commission, etc.

Although the Administration for the Prevention of Money Laundering is the only institution with the specific words "prevention of money laundering" in its title, it is not the only institution engaged in the fight against money laundering in Serbia. Apart from the Administration for the Prevention of Money Laundering, the entire system for prevention of money laundering consists of:

- Obligor, i.e. all those representatives of the financial and non-financial sector obliged to apply the regulations for the prevention of money laundering. Their goal is to, through the application of legally prescribed actions and measures create an unfavorable climate for money laundering. Pursuant to Article 4 of the Law on the Prevention of Money Laundering and Financing of Terrorism the obligors are:
 1. Banks;
 2. Licensed exchanges offices;
 3. Investment fund management companies;
 4. Voluntary pension fund management companies;
 5. Financial leasing providers;
 6. Insurance companies, insurance brokerage companies, insurance agency companies and insurance agents with a license to perform life insurance business;
 7. Persons dealing with postal communications;
 8. Broker-dealer companies;
 9. Organizers of special games of chance in casinos;
 10. Organizers of games of chance operated on the Internet, by telephone, or in any other manner using telecommunication networks;
 11. Auditing companies;
 12. Licensed auditors.

<p>The obligors include both the entrepreneurs and legal entities exercising the following professional activities: intermediation in real-estate transactions; provision of accounting services; tax advising; intermediation in credit transactions and provision of loans; factoring and forfeiting; provision of guarantees; provision of money transfer services.</p> <p>Despite the fact that they are not named as obligors, attorneys are also obliged to apply actions and measures prescribed by the Law on the Prevention of Money Laundering and Financing of Terrorism.</p> <ul style="list-style-type: none"> • Bodies competent for supervision, which supervise the application of the provisions on the prevention of money laundering and financing of terrorism by the obligors, thus ensuring proper application of the regulations and functioning of this part of the system. Bodies competent for supervision are: National Bank of Serbia, Securities Commission, Foreign Currency Inspectorate, Administration for the Prevention of Money Laundering, Ministry of Trade and Service, etc. • Police, prosecution and courts, are repressive bodies in the system for the prevention of money laundering, since they prosecute the perpetrators of the criminal act of money laundering. Proper functioning of this part of the system is of crucial importance: prosecution of money "launderers", their severe punishment and seizure of the property influence a general prevention, i.e. the message is sent to society that money laundering does not pay off in Serbia, and possible money launderers are deterred from committing such actions. 	<p>In the past, there were frequent cases of so called "self-laundering", i.e. when a certain person performs an illegal activity, e.g. tax embezzlement, and tries to hide the tracks of such money and falsely represents it as legally obtained.</p> <p>The situation has slightly changed recently both in Serbia and in the world. There is a tendency for criminal organizations to hire a professional money launderer, usually an attorney or an accountant, or both, to design a number of complex activities in order to disguise the illegal origin of money. The available data shows that some of the most talented financial experts are recruited for that (especially young people with an ambition to get rich quickly) by organized crime groups, in order to cover the tracks of the cash flow and origin. There is a tendency towards association among national and regional groups that "professionally" perform money laundering. Money laundering has thus become an international business; much more sophisticated and more difficult to detect and prove.</p> <p>It can be expected that the abuse of off-shore destinations will continue. The reasons are already well known: a simple procedure for the founding of companies, without an obligation to identify the founder, placement of money without the obligation to</p>	<p>determine its origin are definitely advantages that will continue to be used by launderers in the future.</p> <p>There are some predictions that the insurance industry, which was in the past not especially interesting for launderers will now become important due to new products in this sector that are about to be introduced. In addition to this, a risk of money laundering in the insurance industry is already evident by disputable identification required, payment of premiums of third entities, etc.</p> <p>The process of privatization in Serbia is coming to an end. For this reason, in the future, privatization will not be the primary channel for dirty money. However, we should not forget the fact that these are enormous amounts of money of undetermined origin.</p> <p>The main goal of these typologies is educational: they should demonstrate to obligors, starting from banks, exchange offices, and other representatives of the financial sector, and the intermediaries in real-estate transactions, accountants, auditors and attorneys, what are the possibilities for money laundering in different sectors; what are the weak points of each sector; and to which type of legal activities they should pay particular attention.</p>
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Money Laundering Typologies in the Banking Sector

During the last ten years the banking sector in the Republic of Serbia has undergone significant changes. Four big state banks have been shut down, and the Service of Social Accounting was closed due to a comprehensive transformation of the financial and commercial system. When the Administration started work there were many financial institutions. At one time there were over sixty banks operating, and they significantly differed from one another not only in size, but also on the background of their founders and types of clients.

Money Laundering Typologies in the Banking Sector

From the moment the Administration started working until now, the number of banks has halved. Some of the banks went into bankruptcy and some of them were purchased by foreign banks. In entering our market, foreign banks have introduced their procedures related to the prevention of money laundering and financing of terrorism. Before 2009, the year when the Law on the Prevention of Money Laundering and Financing of Terrorism was adopted, banks with majority foreign capital applied the rules and procedures of their group, which were stricter than what the current Law stipulates. Supervision of banks by the National Bank of Serbia has led to the creation of the organized sector which we have today in preventing money laundering and the financing of terrorism.

Due to the fact that banks are an important factor of economic and financial stability, it is important for them to prevent the inflow of dirty capital which could jeopardize their reputation. During the last few years, the banking sector has been experiencing major turbulences. In order to overcome the financial crisis, banks offer many new products and services that could potentially be used to place illegally

gained money in financial flows. Criminals have tendencies to attempt to invest illegally gained assets in the banking sector by purchasing shares of the banks, and, thus directly or indirectly, take part in the management of a bank and the design of its business policy. Such activities should be prevented by strict application of legal prescriptions related to the ownership of banks and participation in the management structure.

Money laundering always means that, in one of the phases, the assets must go through a bank account. Therefore, the increased offer of banking services and various payment instruments provides many different options for their abuse.

So far, based on the experiences of the Administration, the most frequent ways to use legally defined banking services and codes based on which transfers are performed, in order to integrate dirty money in the banking system are:

- Loans with 100 % deposit as security or prepayment of loans,
- High cash payments without real grounds or payments which are unusual for the client (very often

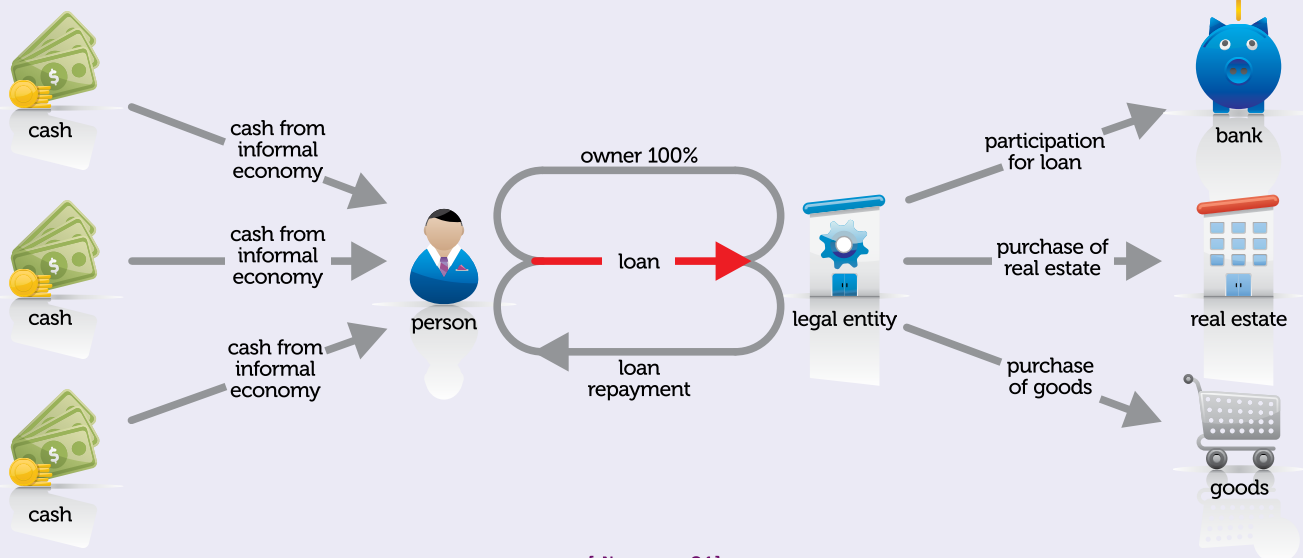
“other transactions” is stated as the basis for the payment, or different transactions for “placement” of illegally gained money),

- Payments based on the turnover of goods, especially services with off-shore companies (frequent successive payments based on providing of services of market research, consulting, marketing, attorney's fees or accounting fees, purchase of real-estate etc.),
- Payment based on services to newly founded domestic companies,
- Cash payments as a loan of the founder for solvency of a company (the founders of legal entities abuse this legally allowed basis for payment for integration of dirty money, since the origin of the assets is not questioned, there are no limits in regards to the amounts of cash payments and these amounts are not a subject to tax payment).

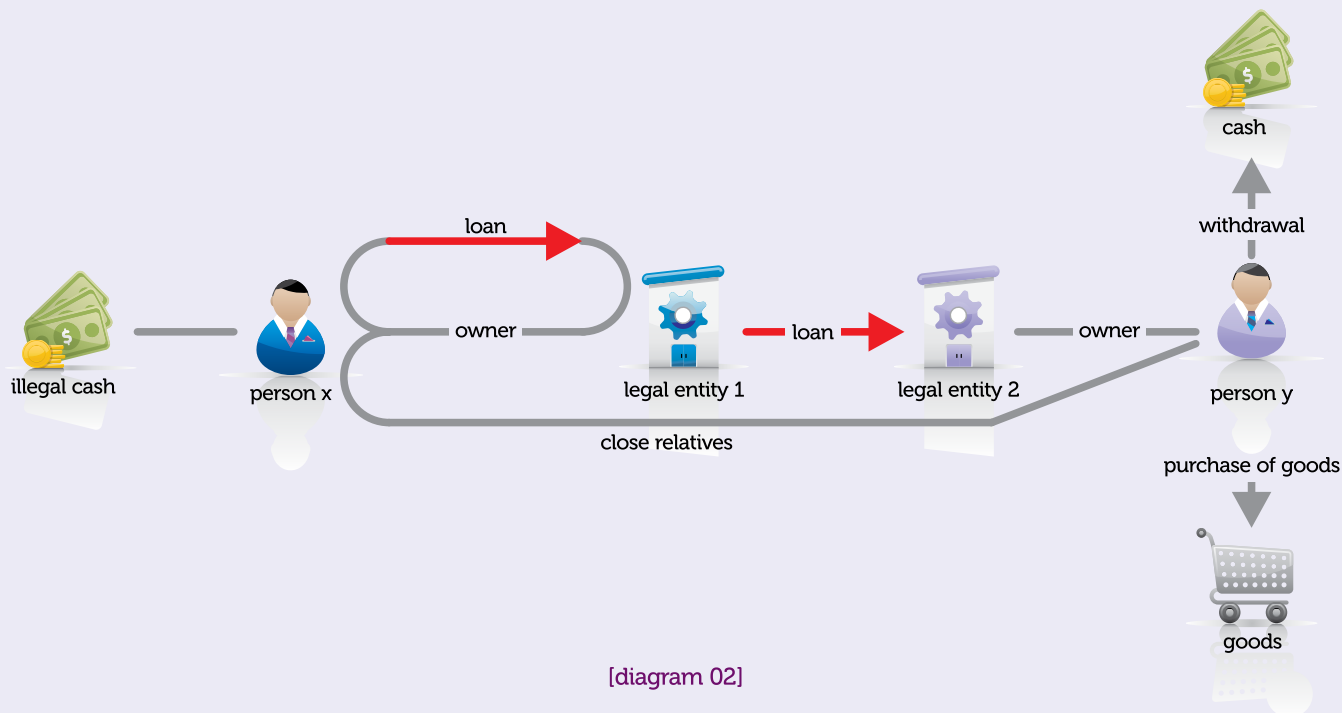
Typologies

When it comes to money laundering typologies, here are some of the most significant risk factors:

- Risk of transactions (fictitious, withdrawal of money on different grounds, deposits, loans, mortgage transactions, different placements, service transactions, liens etc.)
- Risk of offered bank products (cards, mortgages, loans for different purposes, certificates of deposit, custody services, safe deposit boxes ...),
- Risk of clients (relations, knowing, identification, discovery of real owner)
- Risk of the bank as a financial institution (persons who could influence the bank policy related with the application of legal standards on the prevention of money laundering and financing of terrorism are included in the ownership structure of the bank, through off-shore companies, custody accounts or investment funds).



[diagram 01]



[diagram 02]

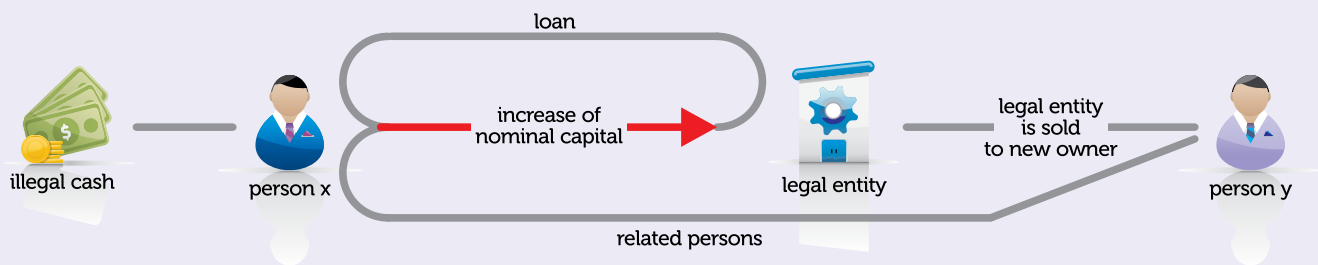
Considering the above stated aspects and the experience so far, these are some of the most important typologies:

Cash payments of an illegal origin as a loan of the founder for liquidity for the expansion of business activities.

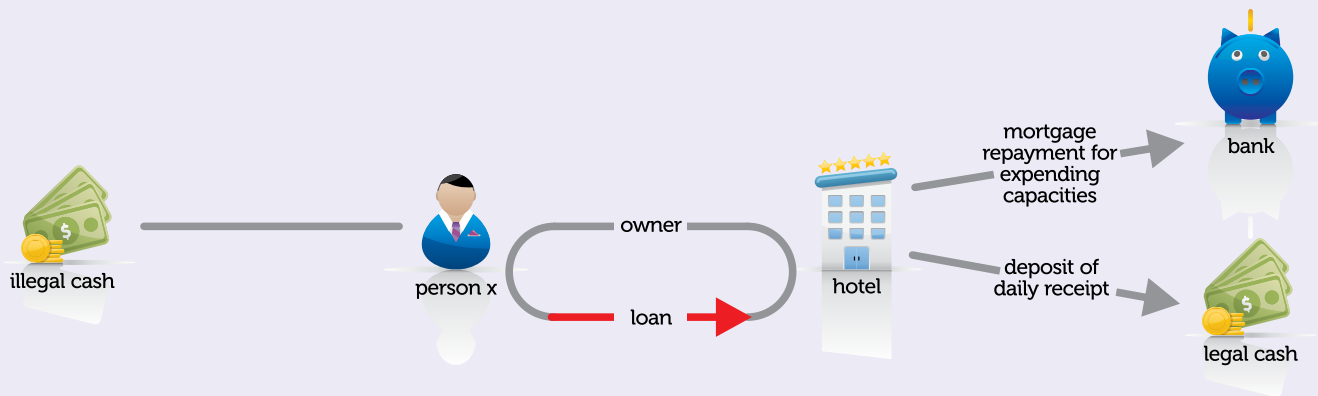
Natural persons deposit larger amounts of cash as a loan of the founder in favor of a legal entity. Money which is thus invested in a legal business, and is exempt from tax, may be from the selling of goods and services for which this legal entity is registered but on the black market. The amount of the loan may be returned to a bank account of a natural person or may be permanently invested in business as a security deposit for obtaining loans, repayment of loans, purchase of goods, real-estate, securities etc. [\[diagram 1\]](#)

Cash payments of an illegal origin as a loan of the founder for liquidity are transferred to other legal entities.

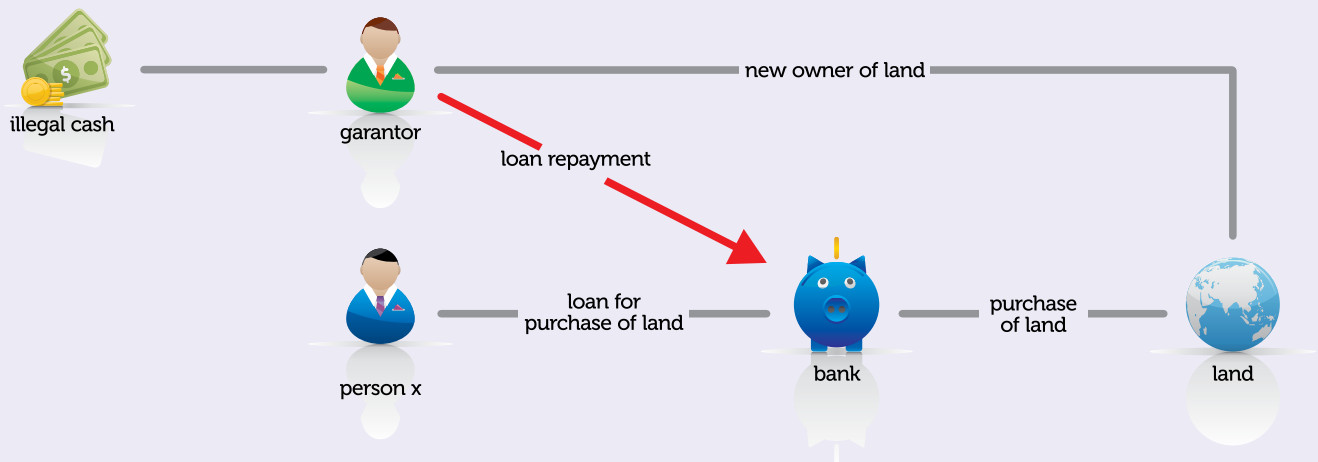
Natural persons successively place cash of illegal origin in smaller amounts, as a loan of the founder, in favor of a legal entity, which then transfers the total amount also as a loan to the account of another close relative. The assets can be withdrawn in cash or can be invested in goods. [\[diagram 2\]](#)



[diagram 03]



[diagram 04]



[diagram 05]

Cash payments for the purpose of increase of nominal capital before selling of the legal entity

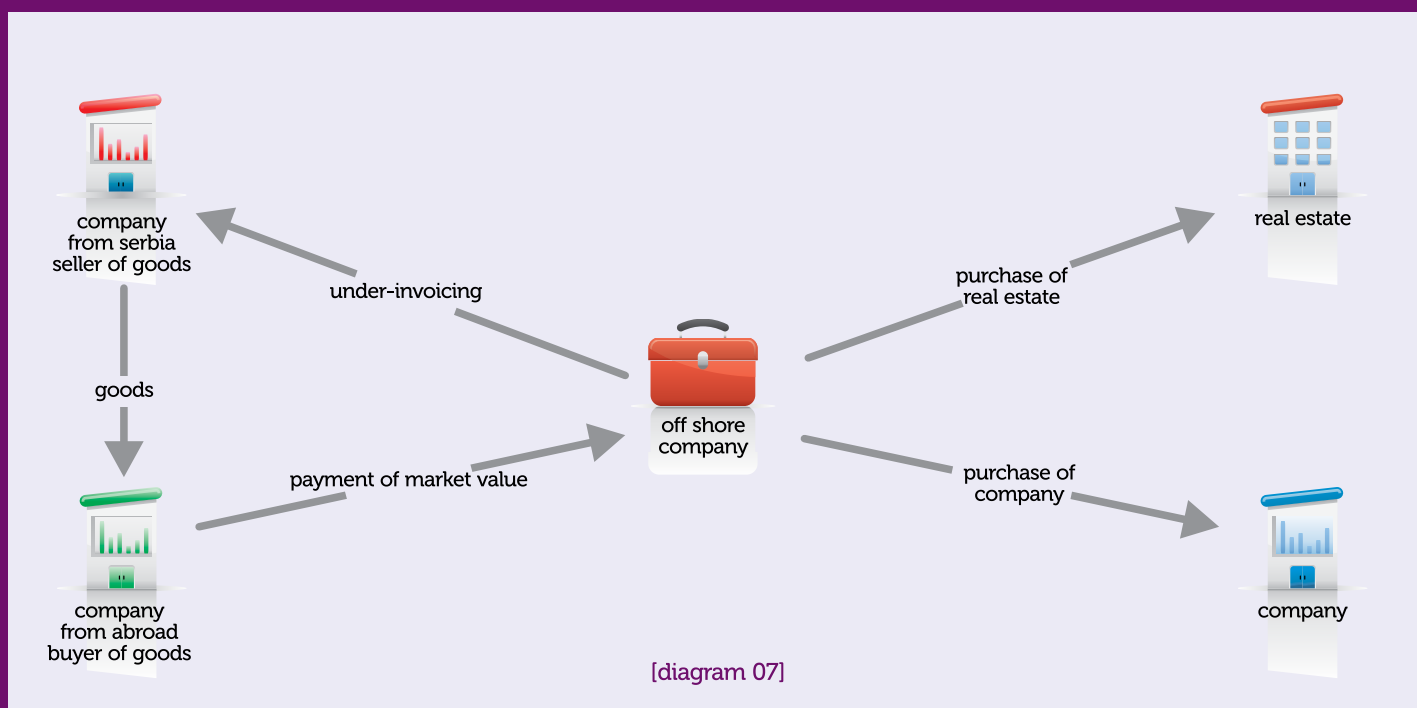
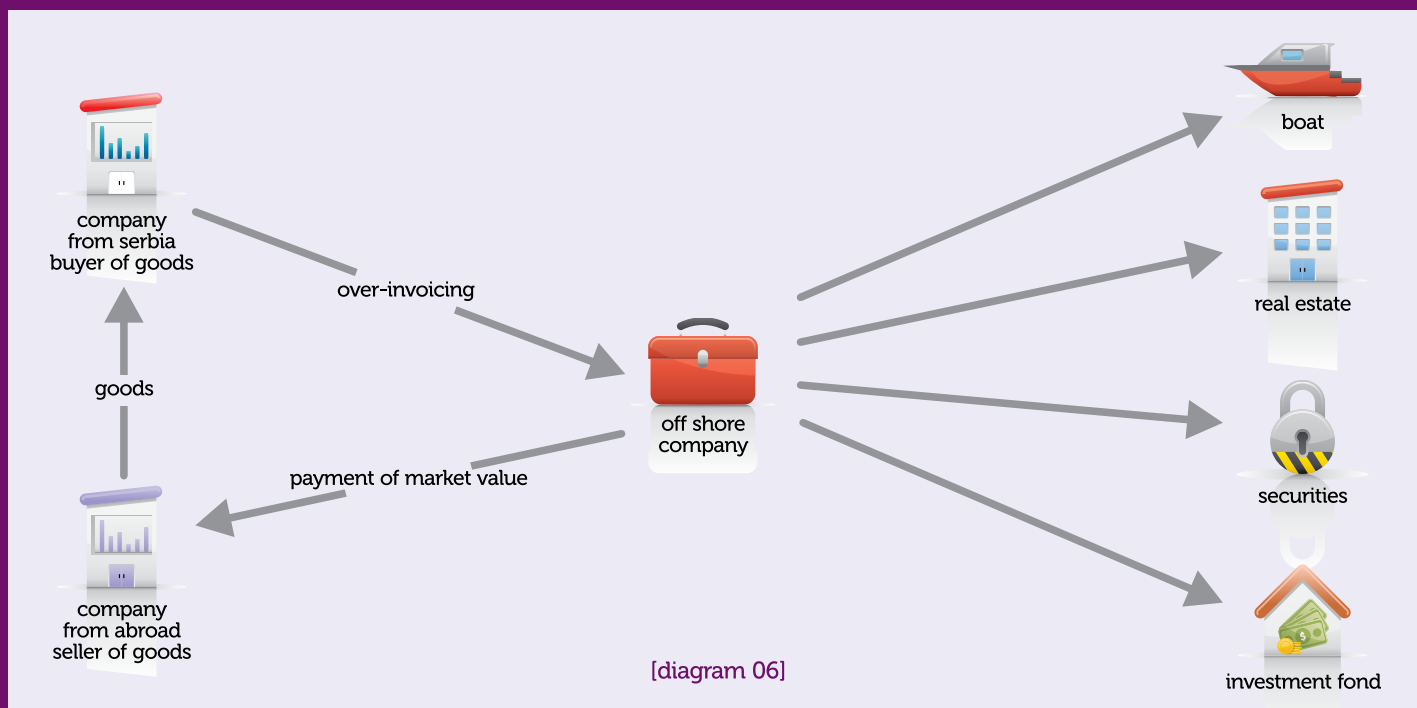
Natural persons place illegal cash in smaller amounts, as an increase of nominal capital, in favor of the legal entity which is later sold to the known owner. [diagram 3]

Cash payments of an illegal origin as a loan of the founder for liquidity for payment of mortgage loans.

Persons involved in organized crime who own a hotel-hospitality facility make cash loan payments to the account of their own company. The funds from the account are used for mortgage repayment, which is used for expansion of capacities and purchase of new facilities. By showing the greater extent of hotel or hospitality related activities, it is possible to introduce illegal cash in legal operations of a legal entity. [diagram 4]

Loan repayment by the guarantor using illegal cash payments

A person involved in organized crime is designated as a guarantor by the loan agreement. In case a loan beneficiary does not fulfill the obligations stipulated by the agreement, the repayment of the loan shall be a responsibility of the guarantor, who shall make cash payments of due installments. The loan was used for the purchase of land, therefore, the loan beneficiary, based on the debt, shall transfer the ownership of the land to the person who repays the loan. [diagram 5]

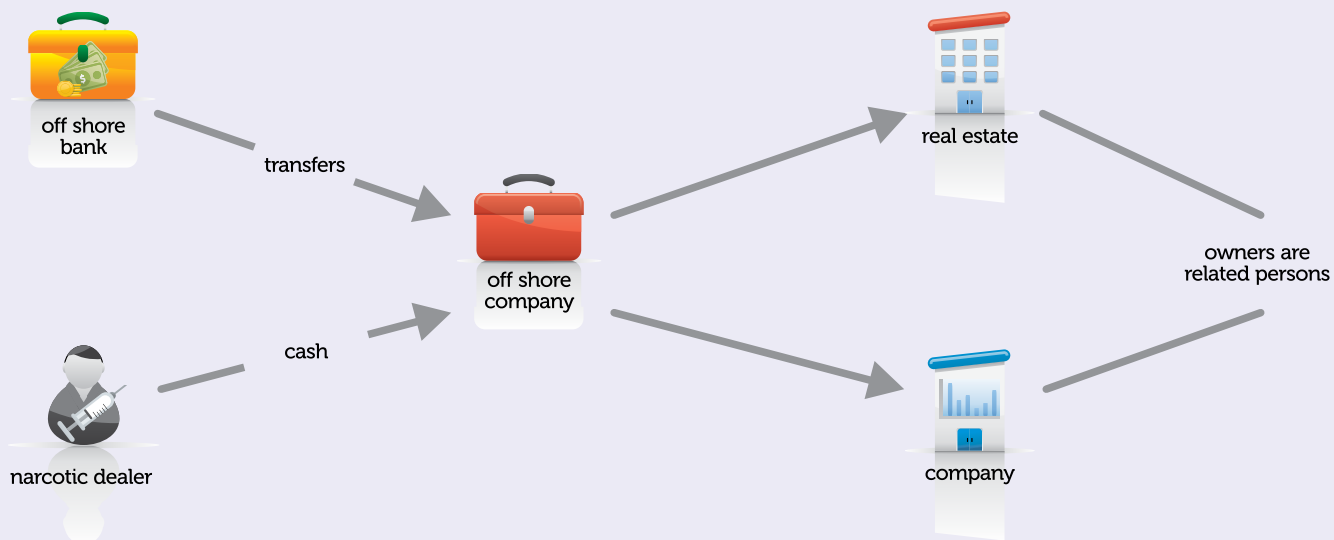


Transferring of assets in favor of off-shore companies based on over-invoicing

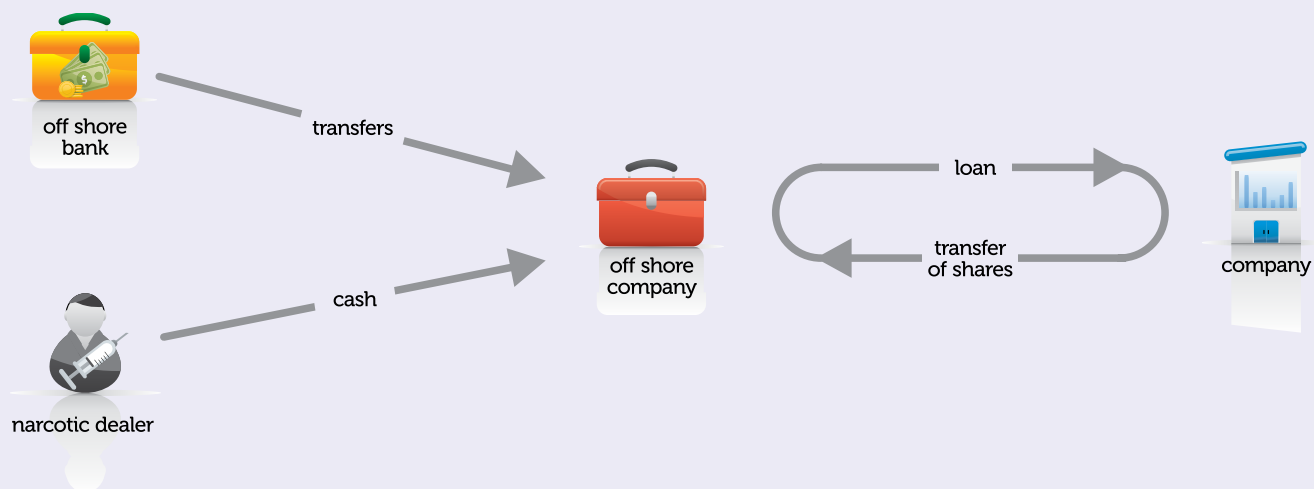
In order to avoid payment of value added tax (VAT), legal entities from the Republic of Serbia issue orders to transfer assets for the increased invoices, either in quantity or value of the imported goods, in favor of the off-shore companies of the same real owners, which then sell the goods for market prices to the real seller. Afterwards the off-shore companies dispose of the acquired difference in prices, from the non-resident accounts opened in neighboring countries, by investing the money in real-estate, securities, investment funds, antiques, yachts and goods. [diagram 6]

Transferring of assets based on the order of off-shore companies based on under-invoicing

Off-shore companies, which originate from Serbia, charge foreign buyers with real market prices, transfer the assets in favor of Serbian export companies based on under-invoicing. The same real owner of the legal entity in Serbia and the off-shore company uses the difference in price from the off-shore company's account, which is not subject to tax payment, for the purchase of production facilities and real-estate in Serbia and abroad. [diagram 7]



[diagram 08]



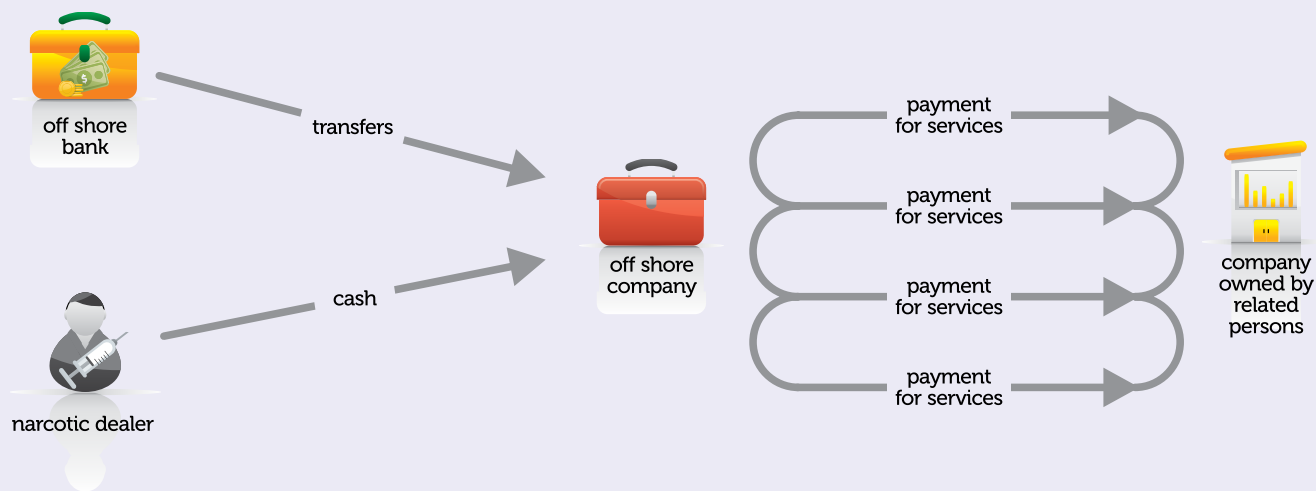
[diagram 09]

Transfers ordered by off-shore companies for the purchase of companies and real-estate

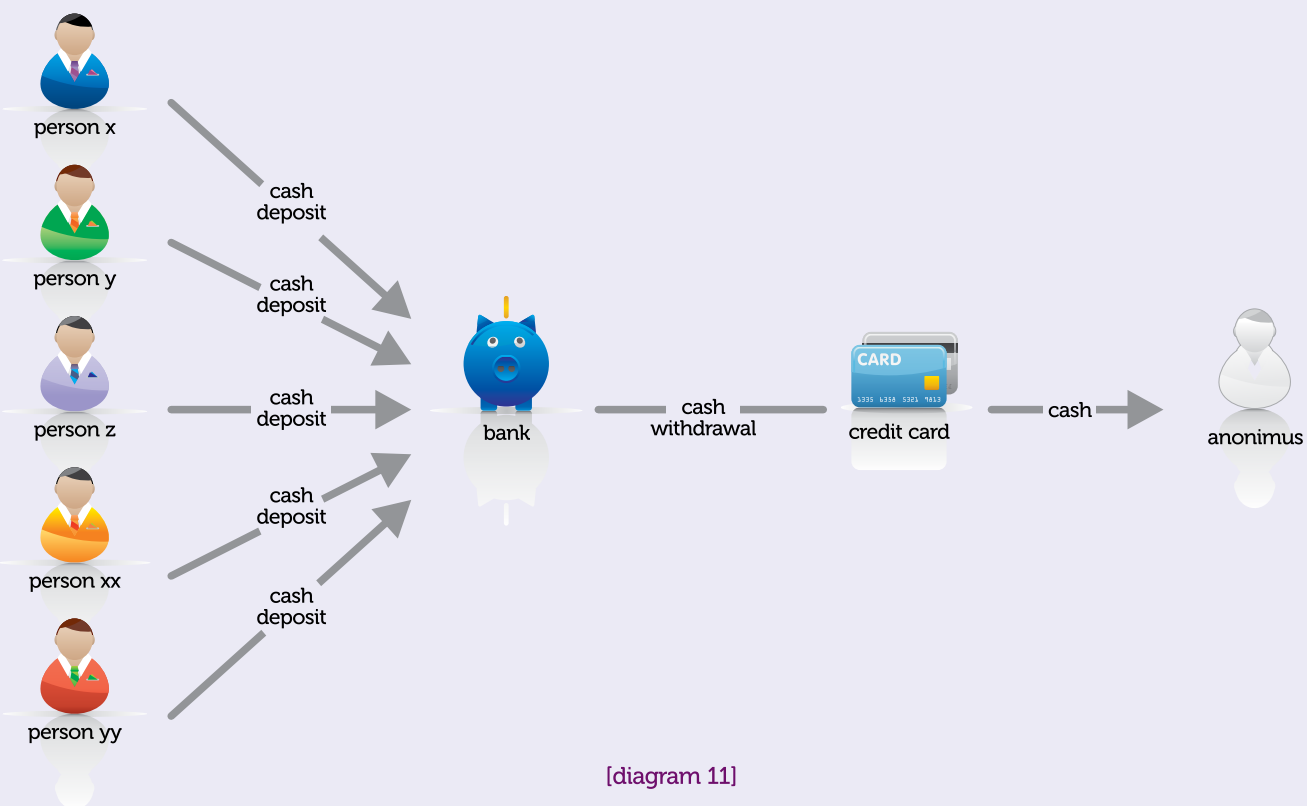
Persons involved in organized crime own several off-shore companies whose accounts are used to transfer illegally obtained assets based on the purchase of newly founded companies and real-estate in Serbia which are, partially, owned by members of the family or business associates. [diagram 8]

Transfers ordered by off-shore companies in favor of legal entities based on loans

An off-shore company owned by a person involved in organized crime transfers illegal cash based on the loan from its account in favor of a legal entity in Serbia, and the contract regulates that the security will be a pledge on shares of the loan beneficiary. The loan is not paid and an off-shore company takes over majority ownership of the company in Serbia. [diagram 9]



[diagram 10]



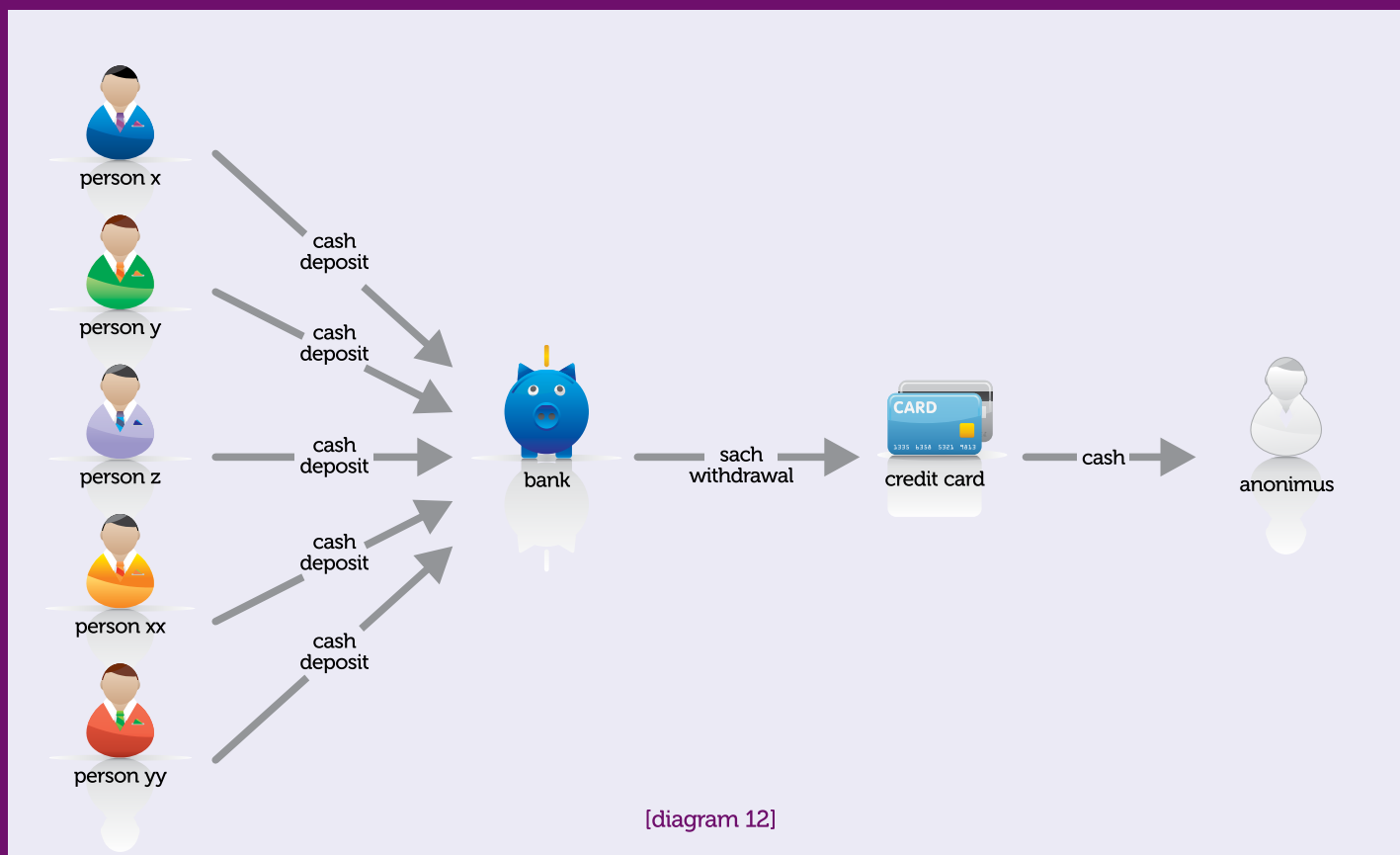
[diagram 11]

Transfers ordered by off-shore companies in favor of legal entities based on services

Off-shore companies whose real owners are involved in organized crime, transfer small amounts of illegal cash from their accounts, based on providing services of market research, consulting, marketing, attorneys' and accounting fees, in favor of companies in Serbia owned by business associates or relatives. [diagram 10]

Investments of off-shore companies through loans of foreign banks granted to legal entities in Serbia.

An off-shore company owned by a person involved in organized crime owns an investment account with a foreign bank, where the assets gained by selling of narcotics are placed or transferred. The bank uses such assets to establish funds for investments of higher risk to purchase state securities, shares of other banks, legal entities or for placing of loans such as project financing. Project financing is granted to newly founded companies, for instance to SPV – Special Purpose Vehicle, for building residential and commercial buildings, and as security for the repayment of loans, mortgage on buildings and pledge on the shares of the company are envisaged. In case the loan is not repaid, the bank activates the mortgage and becomes the owner of the bigger part of the building, and by selling this building a large profit is gained by the loan beneficiary (SPV), bank, and all the owners of investment accounts in proportion to their participation in the financing. [diagram 11]



Cash transactions of natural persons in higher amounts

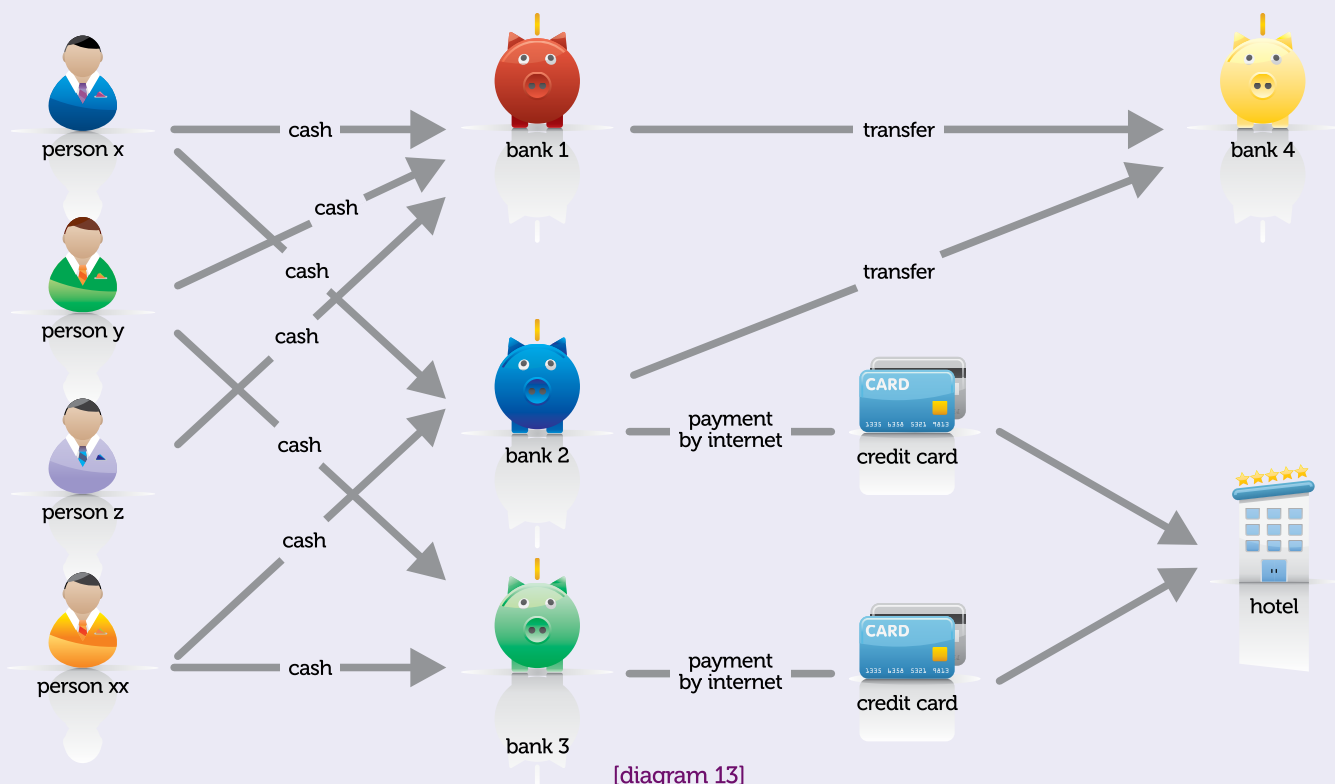
Natural persons who acquired financial gain by abuse of their professional position or through corruption place or pay larger amounts of money differing significantly from their usual transactions and that are not in accordance with the revenue and status of the client.

Transfers from abroad in favor of natural persons without clear grounds

A natural person, who acquired financial gain by abuse of their professional position or through corruption, receives payments from abroad from natural persons or legal entities with whom they do not have a business relationship.

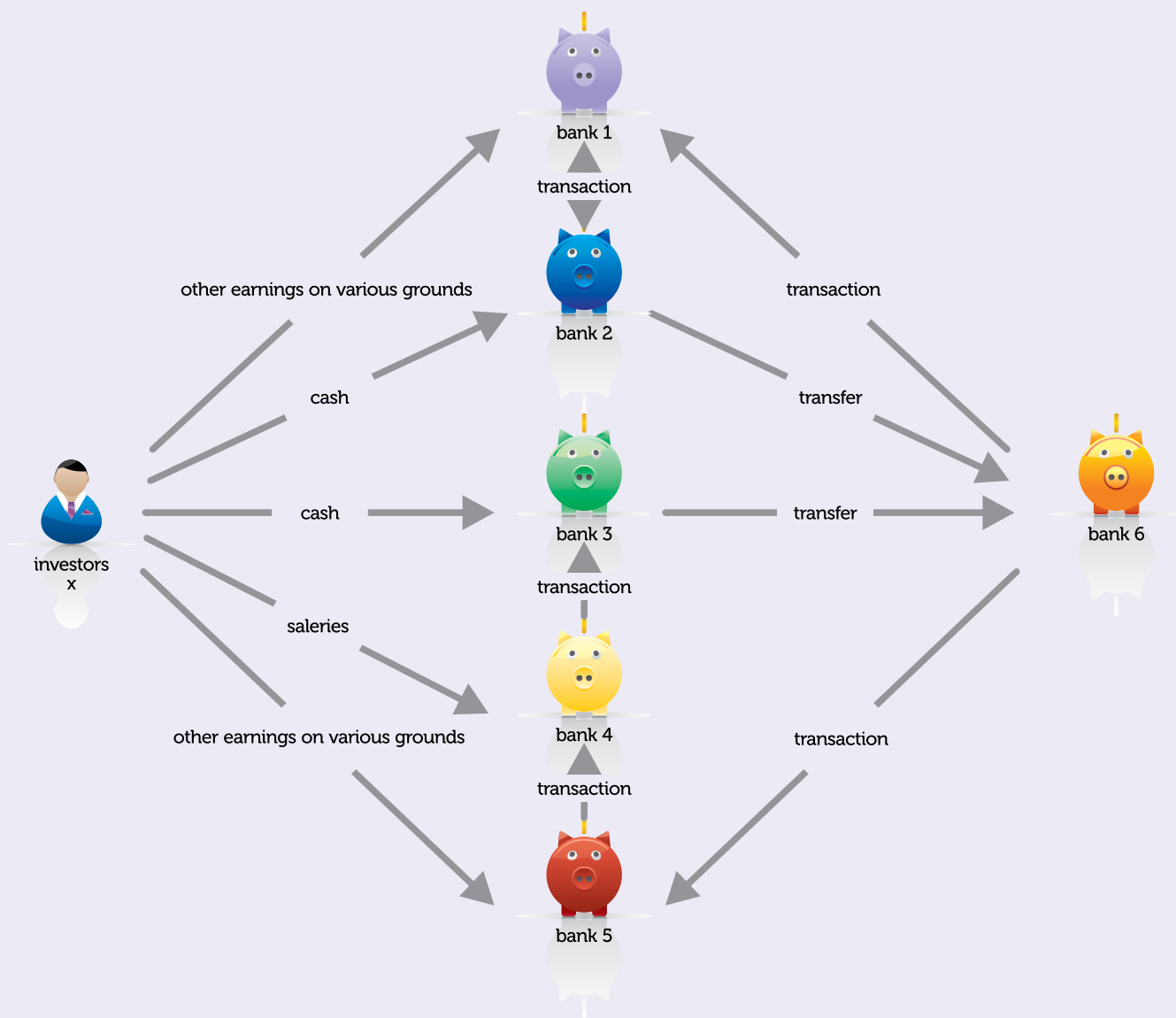
Numerous cash deposits by several natural persons on the account of one natural person

Numerous cash deposits within a short period of time, done in accordance with an order of several persons, all below the legal minimum for reporting financial transactions, to the account of one natural person. Cash is withdrawn from this account within a short period of time and transferred abroad through cash withdrawals from ATMs abroad. [diagram 12]



One person is authorized to dispose of assets on the accounts of several persons with frequent cash deposits

Numerous cash deposits by several persons all below the legal minimum for reporting are made within a short period of time. These deposits are placed on the accounts of several persons for which the same person is authorized to dispose of the assets on these accounts. The assets are directed or transferred abroad through the purchase of goods and services via Internet on an electronic payment card. [diagram 13]



[diagram 14]

Owning more accounts in different banks

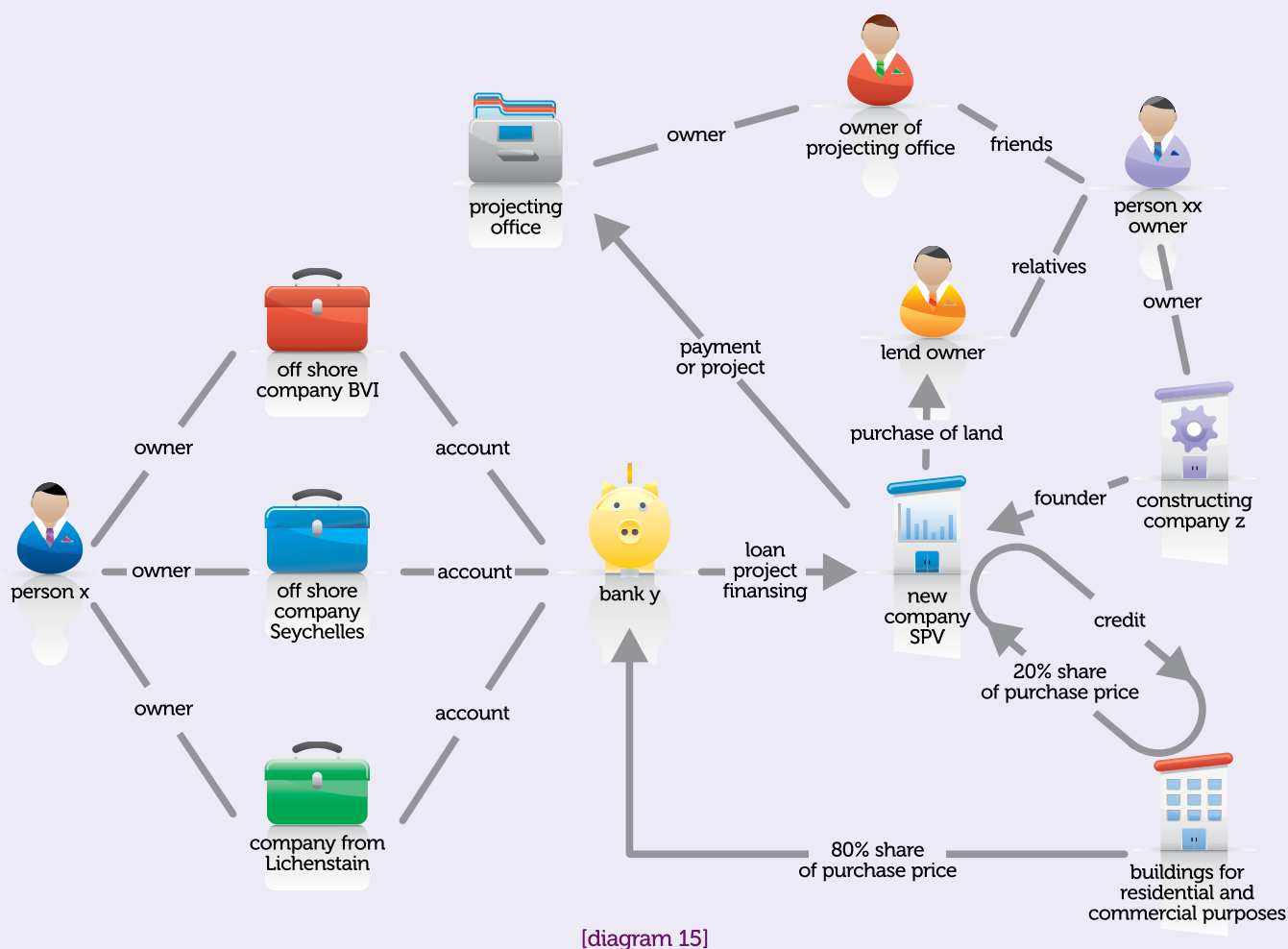
A natural person opens more dinar or foreign currency accounts, special purpose accounts and savings accounts in different banks and makes frequent transfers from one account to another. [diagram 14]

Example

Person X was depositing his illegally acquired assets on the account of his off-shore companies in the British Virgin Islands and the Seychelles, which founded a business in Liechtenstein. All three companies opened investment accounts with the Foreign Bank Y. The funds from the clients' investment accounts were used by the Foreign Bank Y, in accordance with the cost-effectiveness assessment, for the project financing of commercial and residential buildings in Novi Sad. The contract anticipated mortgage on an object under construction as a loan guarantee. The loan beneficiary -investor is the Construction Company Z owned by Person XX who, in order to get the loan, founded a new company – SPV, whose sole commercial activity was the construction of a specific object, with an obligation to participate with a minimum of 20% in the entire investment.

For the purpose of founding and operating, Construction Company Z transferred to the new Company SPV funds from cash deposits through a loan from the founder, which originate from apartment sales on the black market. The new Company SPV, which was obliged to secure property ownership of the building site, the project documents and the construction permit, purchased the land from Person XX's relative and paid close business associates for drafting the project, by over-invoicing, which calculates in the obligatory participation of 20% of the investment. The loan was used for the purchase of the required building material and paying for services of multiple sub-contractors, also owned by relatives and friends.

The loan beneficiary was not paying installments, so the Bank activated the mortgage and became the owner of a larger part of the residential and commercial building, while the funds remaining from the sale were divided according to participation in financing, between the loan beneficiary and



Bank Y, which includes owners of the investment accounts abroad.

Indicators by which transactions may be characterized as suspicious:

- Client performs cash deposits on the account of his own company with the purpose of payment designated as "loan from founder", and the assets are then transferred to a newly founded company.
- Significant increase in the amounts of deposits into the account of a company whose main activity

is providing of architectural and engineering services.

- Client withdraws large sums of money from an account into which significant amounts have been transferred on the basis of a loan approved abroad.
- Transactions which include multiple intermediaries or a larger number of accounts, particularly if the participants of such complex transactions are from the countries where standards in the field of the prevention of money laundering and financing of

terrorism are not applied, or from countries with strict regulations in force regarding confidentiality and secrecy of banking and business data. [diagram 15]

Trends

An increasing offer of services and products provided by banks will change this sector in the future. The development of infrastructure and technology will result in prioritizing e-banking over conventional modes of banking. E-banking is a package of modern services that enables simple use of banking services by clients, using the most common channels of communication – Internet, mobile phone, land phone. Major advantages of these services are their lower cost, significant savings of time and the possibility of performing transactions at any time of day or night. However, it is these very characteristics in which the client is spatially remote from the bank that hinder the identification procedure and offer new possibilities for money laundering that should be anticipated, prevented or recognized.

With the M-commerce service, the client will be able to use his/her mobile phone at any time to give an order to his bank to transfer funds in a small amount, from his/her account to a different one, from which the funds can be further transferred or withdrawn in cash or with a bank card.

A question that now also arises is how banks will fight against alternative modes of payment via the Internet, which already exist, such as “cyber cash”. A card with a chip contains cash which can be withdrawn by phone or from ATMs, and the cash can also be transferred from one card to another. There is no way to track down these card transactions, because there is no registry of transactions, as there is with Visa or MasterCard credit cards. There are two key reasons why banks are interested in Internet banking:

- Internet users are mostly young people with a higher degree of education and higher income than the average client.
- Internet is a very efficient and cheap distribution channel.

Competing for clients, banks will expand their services and offer products that rely more on the Internet. They will increase their offer of services over so-called virtual as we see today with the ability to apply for a loan online.

The PayPal payment system, already in use in the region, is expected soon in Serbia. The PayPal system enables transactions, via Internet or by using bank cards, directly from a PayPal account. PayPal accounts are not subject to strict procedures for client identification and for determining the origin of fund. These accounts enable sending money to anyone with an e-mail address.

It is anticipated that financial institutions in Serbia will, by expanding their offer, follow existing trends in economically developed countries in regard to the investment of assets through investment funds and trading new financial products, making it harder to determine the ownership and legality of the origin of assets of the final investor.

It should also be mentioned that the global economic crisis, which brought a dramatic drop in the value of shares worldwide, led to an increased demand for gold and other precious metals, which are currently very interesting for investments and trade.

There is also an opinion, advocated by large banks, that the future belongs to huge financial institutions that will provide investors with various services ranging from insurance, car loans, to airplane tickets. On the other hand, those advocates, led by software companies, believe that the future belongs to the companies that will, with the development and application of new technologies, offer investors maximum control over their finances, through sophisticated products that balance risk and profit. The idea behind the revolution in technology of banking is that technology and finances have become one and that

the difference between software and money is disappearing.

The Administration for the Prevention of Money Laundering, as part of supervising the application of regulations in force regarding domestic banks, and related to the prevention of money laundering, particularly insists on the importance of constant improvement and specialization of employees and structural and technological equipment, which certainly affects the quality of analytics and recognizing potential risks. This secures handling quality and precise information about suspicious transactions, which is one of the preconditions for the establishing of a comprehensive system that would efficiently deal with the prevention of money laundering and financing of terrorism.

The Administration will continue to actively follow new trends in bank offers, as well as the misuse of financial instruments of banks worldwide and in Serbia, and will continue to exchange experiences with other financial and intelligence services at international seminars and conferences.





Money Laundering Typologies Through Currency Exchange Transactions

One of the ways to place dirty money into legal financial flows is through currency exchange transactions.

However, money is not laundered directly through currency exchange offices, instead they are used for disseminating dirty money, which is only a part of the road to its legalization and entry into a country's financial system.

**Money Laundering
Typologies Through
Currency Exchange
Transactions**

This dirty money may originate from corruption, narcotics trade, prostitution, human trafficking, arms trade, sale of goods in the black market, and many other criminal acts.

A thriving black market existed in Serbia in the 90s, as it was very fertile grounds for all kinds of illegal activities. At that time, currency exchange transactions were conducted by street dealers who had large amounts of cash, without any proof of its origin. Namely, in that period, the foreign currency exchange rates on the streets were different than those in the banks, and the dealers made large profits based on the difference between those two rates.

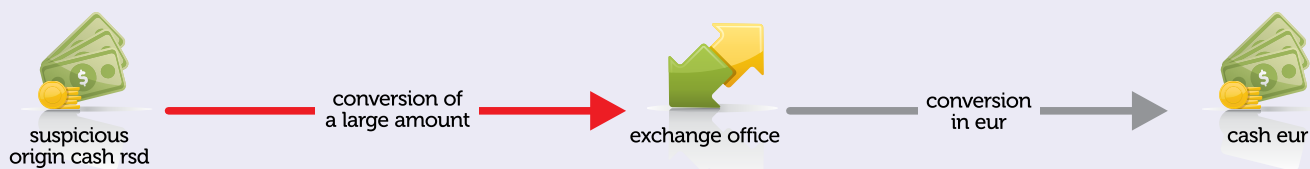
The first years of the 21st century started with the introduction of the regulations for this part of the financial market, by adopting large numbers of regulations and laws. Exchange transactions can be performed by banks and licensed exchange offices, and the license for performing these operations in the Republic of Serbia are issued by the National Bank of Serbia. Until the

adoption of the new Law on Foreign Currency Transactions, the National Bank of Serbia performed supervision over the work of the exchange offices.

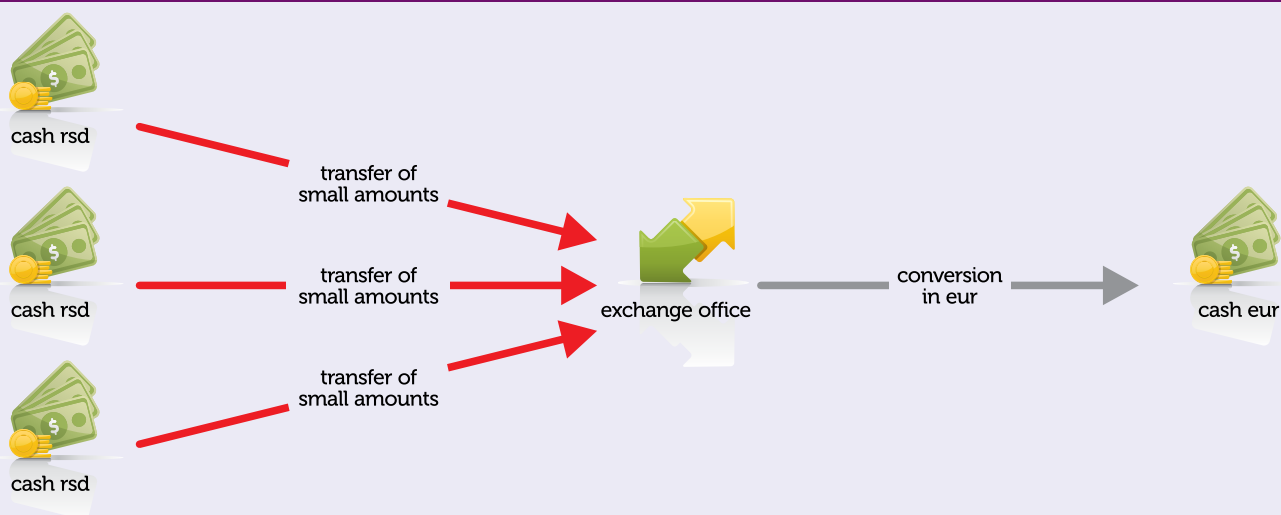
In accordance with the existing legal regulations in Serbia, the exchange offices may only do business with natural persons, in cash exclusively. Also, exchange offices may perform payment transactions, domestic as well as foreign. For these reasons the risk of money laundering by means of the exchange offices is smaller than with other financial institutions, which does not mean that an exchange office cannot be used for the purpose of money laundering.

According to data from the National Bank of Serbia, there are 3,017 licensed exchange offices registered in Serbia today. A large majority of them are former street dealers who have legalized their business. It is not rare that the exchange offices are opened in order to facilitate the covering of the real origin of dirty money. Namely, an exchange transaction begins by depositing

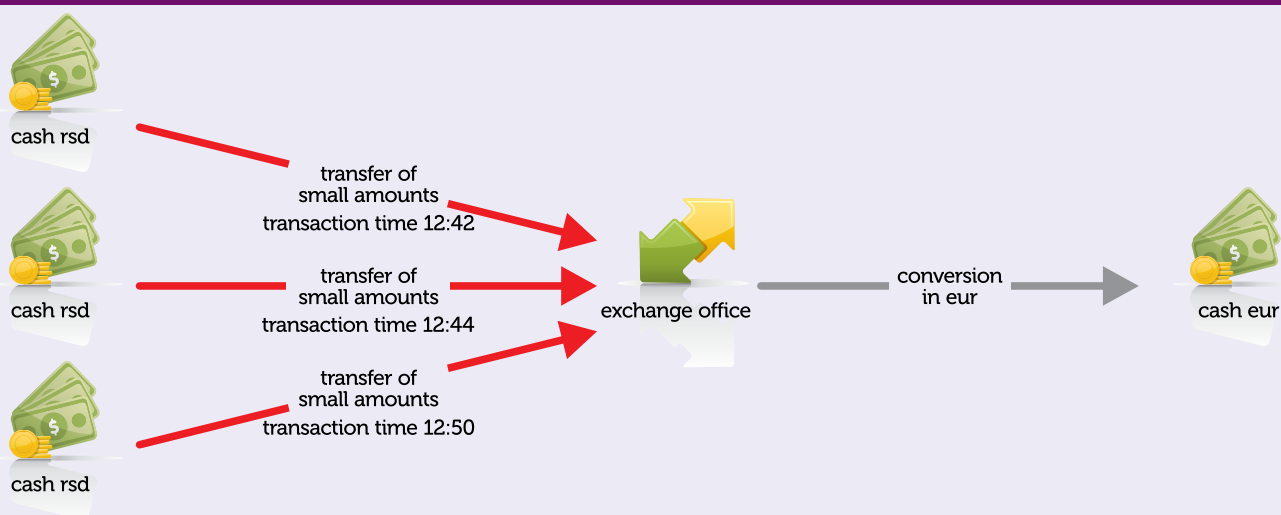
cash into the register of an exchange post, which is done exclusively by withdrawing cash from a current account of a licensed exchange office with a commercial bank. Depositing effective foreign currency into the cash register can be done solely by buying that money from a commercial bank. At the end of the working day, the money bought from the natural persons has to be returned to the exchange office's current account with the bank. If there is a disproportion in the amount of money withdrawn at the beginning of day and deposited at the end of day, it is one of the signals that may indicate that the exchange office is doing illegal activities.



[diagram 01]



[diagram 02]



[diagram 03]

Typologies

Based on the experience of the Administration, several typologies of dissemination of dirty money through currency exchange offices can be identified:

Conversion of large amounts of money

There is a possibility that the money being converted originates from organized crime. Namely, a natural person having a large amount of cash, originating from a certain criminal activity, will not go to a bank to deposit it, instead, the simplest way is to take the money into an exchange office and convert it into another currency. It is common that a person working in an exchange office does not even identify such clients as suspicious. [diagram 1]

Conversion through several small cash transactions

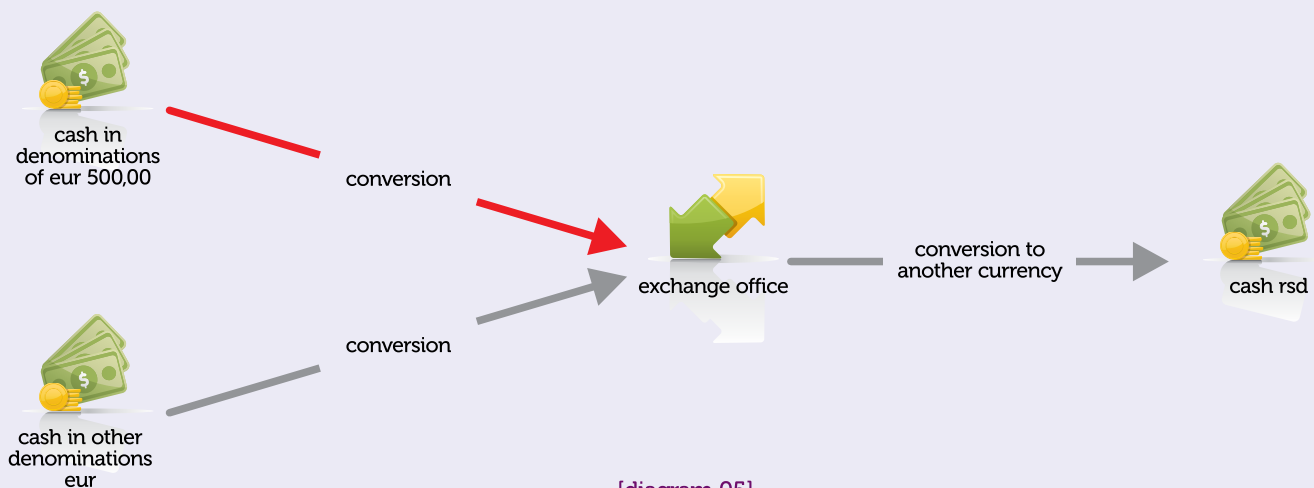
It has been noted that the exchange transactions of large amounts usually take place through several small transactions. The purpose of these transactions is to avoid reporting to the Administration for the Prevention of Money Laundering, and that is why the participants in these activities are careful not to pass the amount of EUR 5,000.00 per transaction (the limit for reporting). A large number of individuals are often hired to perform transactions like these, accepting minimum provision from a person possessing money with suspicious origin. This process is known as "smurfing". [diagram 2]

Several transactions within a very short time period

Some exchange offices will report that they have performed a large number of transactions in a very short time period, even if it is clear that this is technically impossible. The purpose of this is to cover up the conversion of a large amount, showing it through a larger number of small transactions, however, the exact time reported for each transaction makes it impossible that separate transactions were performed. [diagram 3]



[diagram 04]



[diagram 05]



[diagram 06]

Conversion of funds from one foreign currency into another

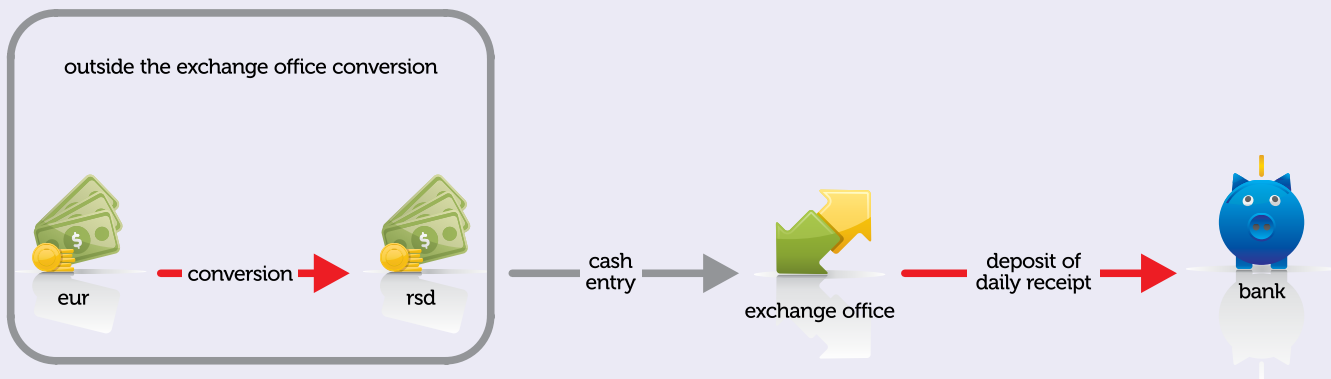
In order to perform this transaction in Serbia, assets are first converted into dinars, and these dinars are then converted into a different foreign currency. These transactions are not economically justifiable, as the owner of the assets most often loses a certain amount, but for money launderers this is an acceptable cost as their only goal is to hide the real origin of the assets by any means possible. [diagram 4]

Conversion of currency denominations linked with criminal acts

Some states recommend to exchange offices not to sell bank notes of EUR 500.00, as their usage is helpful for organized crime. This bank note is a favourite among criminals, because large sums of money can be easily laundered through relatively small transactions, and large denominations make large sums of money convenient and simpler for transport, unlike small bank notes. [diagram 5]

Conversion of marked bank notes

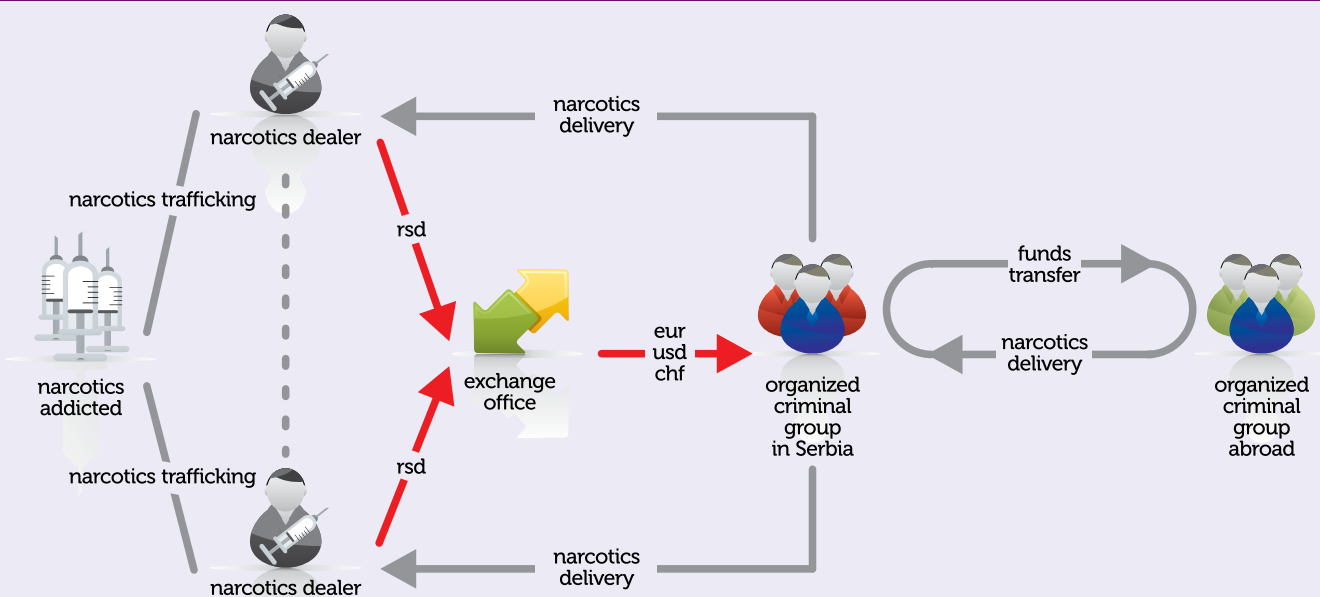
When handling foreign bank notes, special attention should be given to marked bank notes, which may indicate a connection to persons involved in money laundering and financing of terrorism. These markings may not be always seen with the naked eye, as they are often inscribed using substances visible only under ultraviolet light. [diagram 6]



[diagram 07]



[diagram 08]



[diagram 09]

Performing currency exchange transactions outside the exchange office

Some exchange office owners, or their employees, work in the field, i.e. outside their office, and these assets are later turned over to the bank as legally converted assets from the exchange office. [diagram 7]

Conversion of damaged bank notes

When being converted, the type and means of damage to bank notes must be watched out for, as they may come from a criminal activity. It may be that the bank notes have been deliberately damaged. Although these bank notes are exchanged by paying large commissions, the important thing is to hide their true origin. [diagram 8]

Example

An organized criminal group in Serbia deals in the narcotics trade. Through several dealers, they sell narcotics to natural persons throughout the country. The amount of money received from each individual sale of narcotics is not large, but it is frequent. In order to avoid rigorous control in the banks, alternative ways are sought to convert money into a different currency and deliver it to its final destination, i.e. narcotics producers. Funds received from the narcotics sale are taken to an exchange office and converted into foreign currency (EUR, USD, and CHF). Money is then transferred through different channels into another country, where narcotics are bought for further distribution in Serbia.

Note: As can be seen from the said example, an exchange transaction, i.e. conversion of funds from one currency to another, can play only one small part in the process of integration of illegally acquired money into legal flows of money. In this case, an exchange operation only makes it possible to hide the true origin of money through several small transactions, being one of the main indicators for recognizing suspicious transactions in currency exchange activities. [diagram 9]

Trends

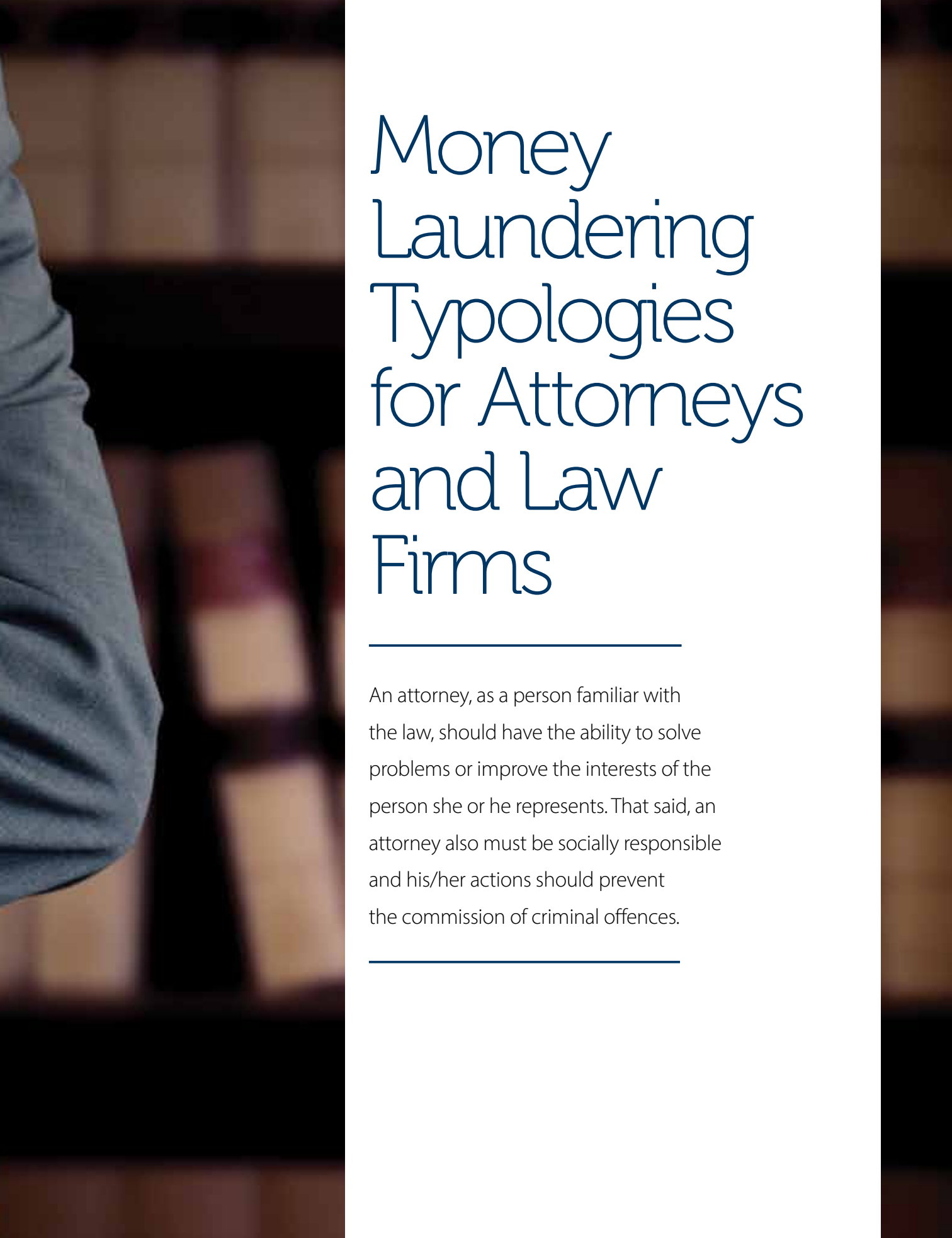
We may expect in the future that certain owners of exchange offices that serve for the conversion of dirty money will open several branches in order to achieve greater layering of transactions of such cash.

Money launderers will tend to distance themselves from banks, as these became the most organized sector when it comes to the prevention of money laundering and financing of terrorism, and turn towards non-bank financial institutions such as exchange offices and the companies for electronic money transfers.

Having in mind that this sector of the financial market is ever more legally regulated and given increased attention through rigorous controls of currency exchange offices, and that currency exchange office employees are increasingly being educated on detecting suspicious activity, it should be anticipated that suspicious transactions connected with money laundering and the financing of terrorism will be recognized to the greatest possible extent. This greater detection will lead to the prevention of laundering of certain portions of dirty money, which circulates in large amounts in every country and presents a serious threat to any national economy.

The trend of money laundering, originating from organized crime through currency exchange offices will continue. In what scope it will affect exchange rates and demand for the most popular foreign currencies in Serbia (EUR, USD, and CHF) will depend on the monetary policy of the National Bank of Serbia, but also on the global economic crisis, which has influence on the economic and financial situation in the country.





Money Laundering Typologies for Attorneys and Law Firms

An attorney, as a person familiar with the law, should have the ability to solve problems or improve the interests of the person she or he represents. That said, an attorney also must be socially responsible and his/her actions should prevent the commission of criminal offences.

Money Laundering Typologies for Attorneys and Law Firms

Nevertheless, some attorneys when doing business with criminals use gaps in the law to make criminal activities appear legal. Money launderers often use attorneys who have no criminal history which makes the detection of money laundering in this sector difficult.

Ever more frequently one hears in the media news stories such as the following: by the order of the Prosecutor's Office for organized crime several people have been arrested under suspicion that they were directly connected with drug dealers. Among those who were arrested was an attorney, suspected to be a member of an organized crime group, whose task was to invest the money obtained from criminal activities through purchasing companies in the process of privatization. Not a single member of the organized crime group owns real-estate or a company in their own name; all of these assets are owned by their relatives and attorneys.

How can attorneys jeopardize the system for the prevention of money laundering and financing of terrorism? Is the code of ethics sufficient to prevent some attorneys from assisting criminals in laundering of millions of dinars, dollars, and euros obtained from drug trafficking, arms trade or human

trafficking? Each country must develop its own mechanism in order to disable abuse by attorneys in assisting the laundering of illegally acquired assets.

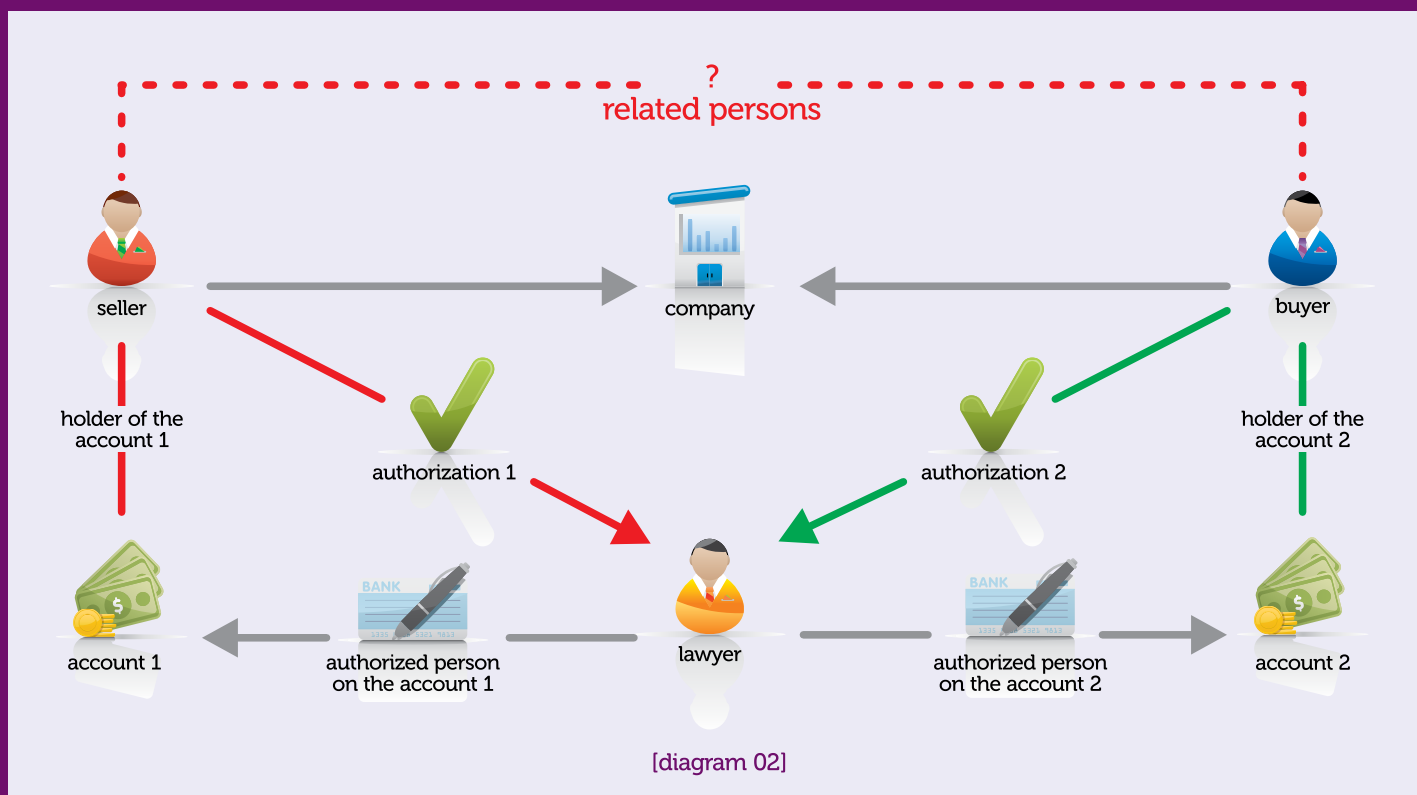
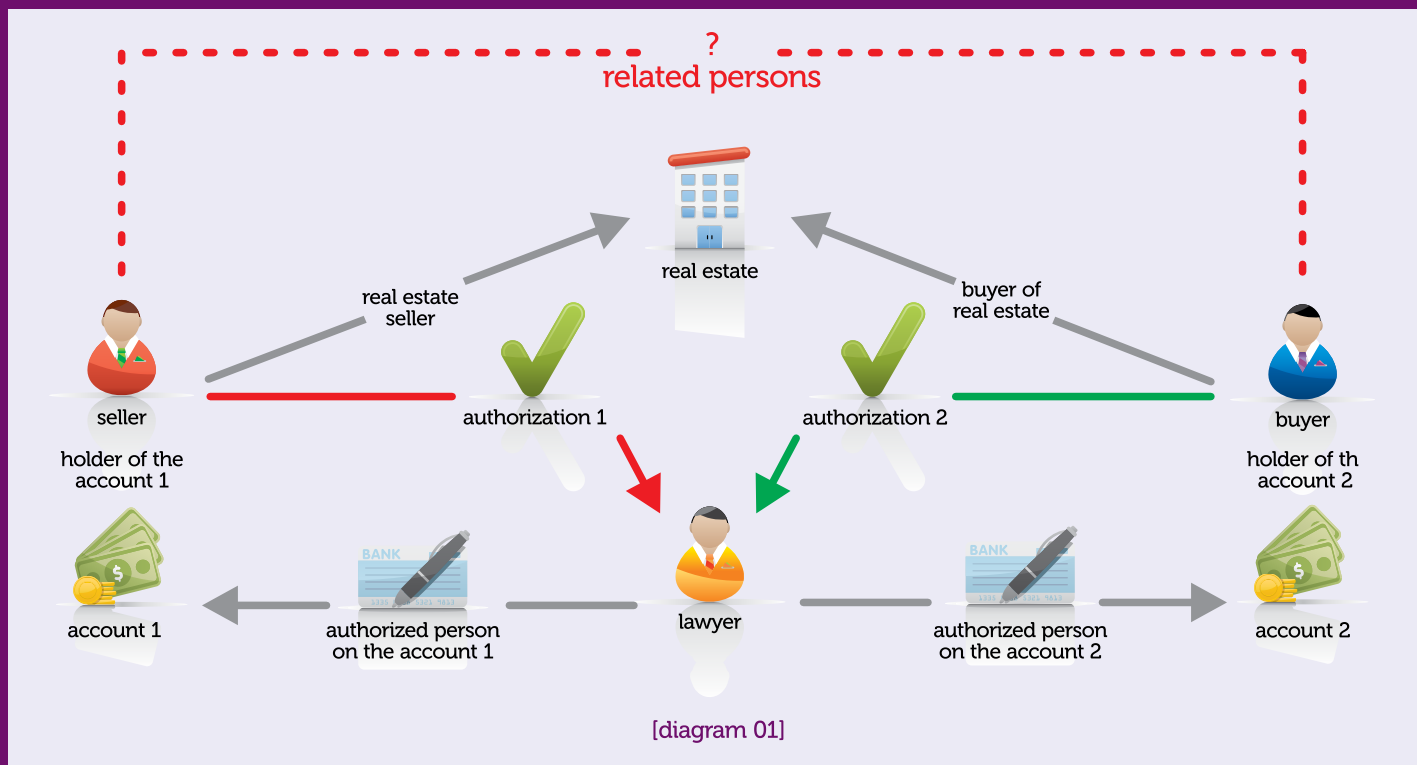
In Serbia, as well as in the rest of the world, attorneys and law firms provide complete documentation necessary for founding and registering companies, transfer of ownership title, opening of resident and non-resident accounts with commercial banks and they are also authorized to dispose of assets on these accounts. Attorneys appear as participants in the transactions: as persons authorized to dispose of assets on the accounts of persons with a criminal background or who are associated with drug trafficking, or as persons who give orders to banks to transfer the assets abroad. Transferring assets abroad usually entails payment to off-shore companies which are generally done based on fictitious documentation. Attorneys develop payment schemes for the purpose of founding several off-shore companies, usually in countries with strict banking secrecy policies, whereby the attorneys and the law firms provide complete documentation for founding these companies, as well as contracts based on which the payments are made. In the privatization process, attorneys were involved in the acquisition of companies

by hiding the real owners of the capital. Despite the NBS (National Bank of Serbia) conditions for residents which does not allow them to open personal accounts abroad, large amounts are transferred from attorneys' overseas accounts to their local accounts from which they withdraw cash.

The development of information technology has enabled founding companies and controlling businesses from a "virtual office" via the Internet. Moreover, one can found companies around the world online, a task which is especially simplified for off-shore zones. There is a saying that every money launderer's dream is to pay taxes, but the journey from "dirty money" to paying taxes is not easy or cheap. There is also a widespread belief that money cannot be "laundered" without the advice of attorneys and accountants. A legal adviser who participates in money laundering or financing of terrorism undermines the very foundations of our society. On the other hand, if an attorney is aware that a client is seeking legal advice for the purpose of money laundering or financing of terrorism and that the flow of "dirty money" would endanger the stability and the reputation of the financial sector and threaten the single market, the application of the

Criminal Code is the best way to protect the financial system. If attorneys provide timely warning of their clients' irregular or suspicious transactions and activities to the Administration for the Prevention of money laundering, that is the first step in the process of the prevention of money laundering activities. In this phase there lacks actual money but there is documentation (e.g., authorization given to an attorney to dispose of the assets on an account; contracts for purchase of real-estate or companies; Contract on foundation of a company in an off-shore destination; Contract on transfer of shares etc.) on the basis of which financial transactions are to be made.

Prevention of money laundering is not just about fighting the crime, but it is also an effort to preserve the integrity of financial institutions and the financial system in general. The application of procedures, training of attorneys and adequate supervision of attorneys by the Bar Association can improve the system that is aimed to prevent money laundering and financing of terrorism.



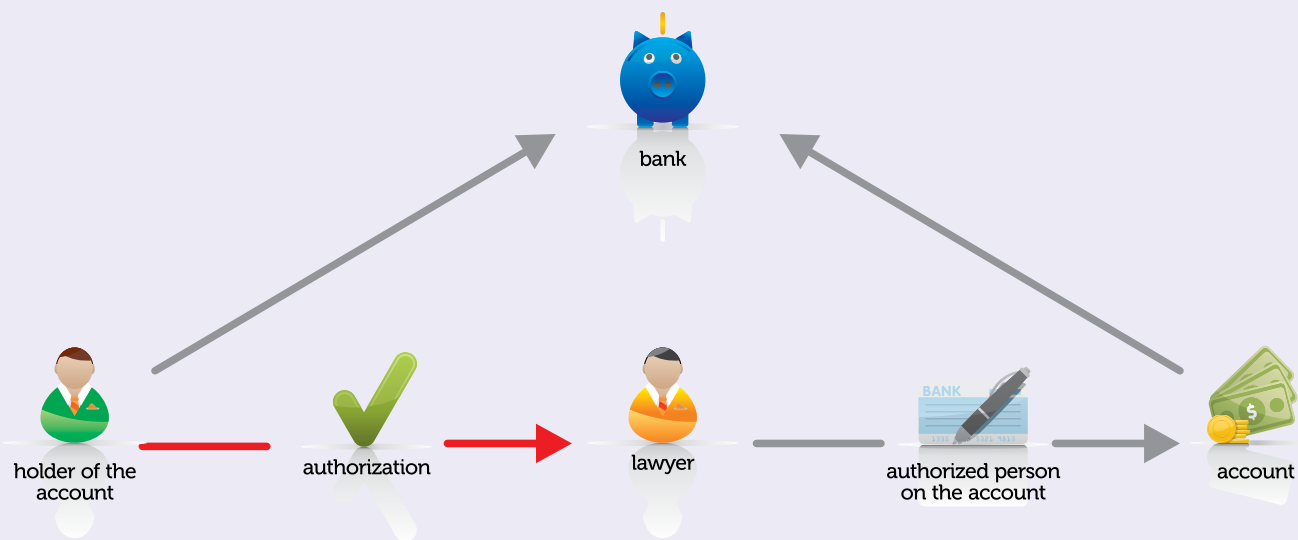
Typologies

Purchase or sale of real-estate

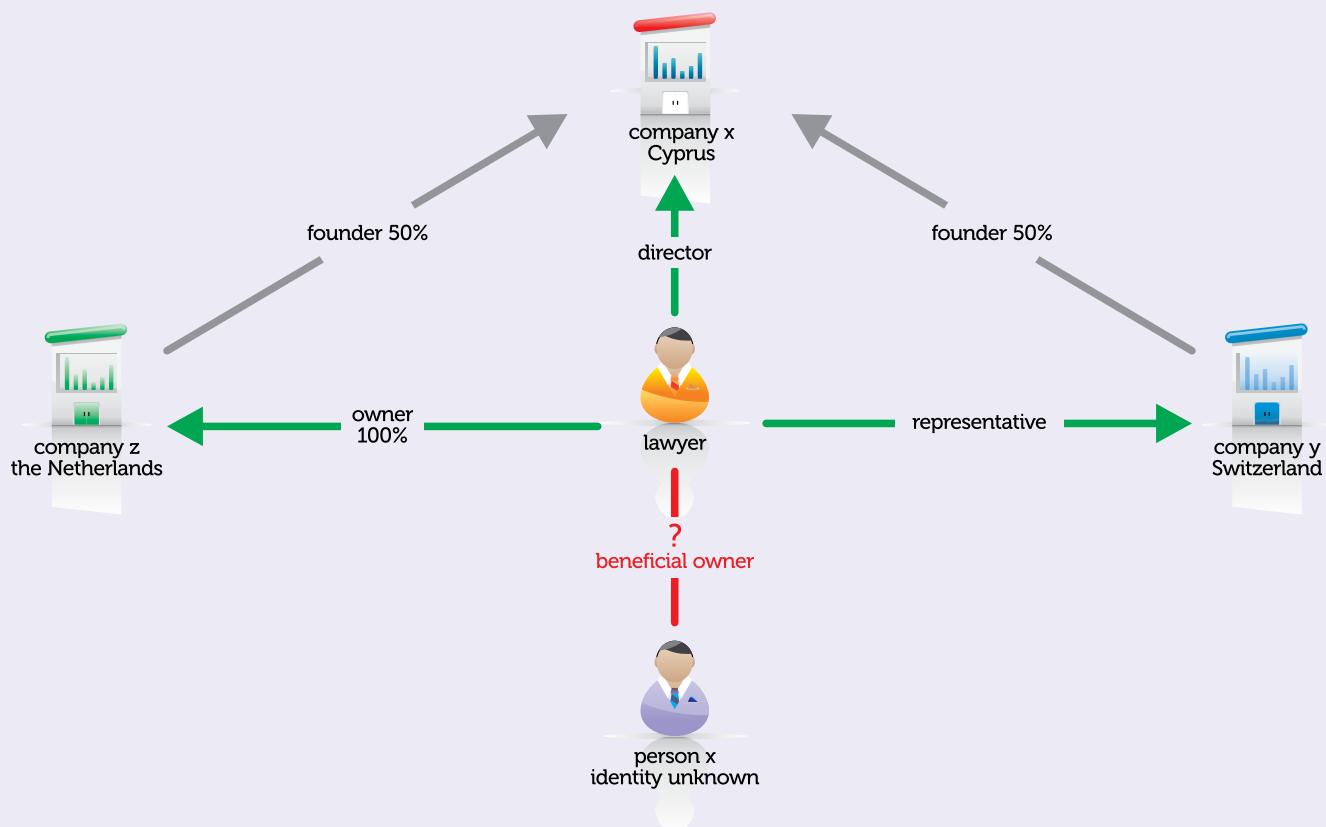
An attorney assists his client in the matter of purchasing or selling real-estate – the same attorney acts as a representative and a person authorized to dispose of the assets on the accounts of both sides, both the buyer and the seller of that real estate. [diagram 1]

Sale or purchase of a company

An attorney assists his client in the matter of purchasing or selling of a company – the same attorney acts as a representative and a person authorized to dispose of the assets on the accounts of both sides, both the buyer and the seller of that company. [diagram 2]



[diagram 03]



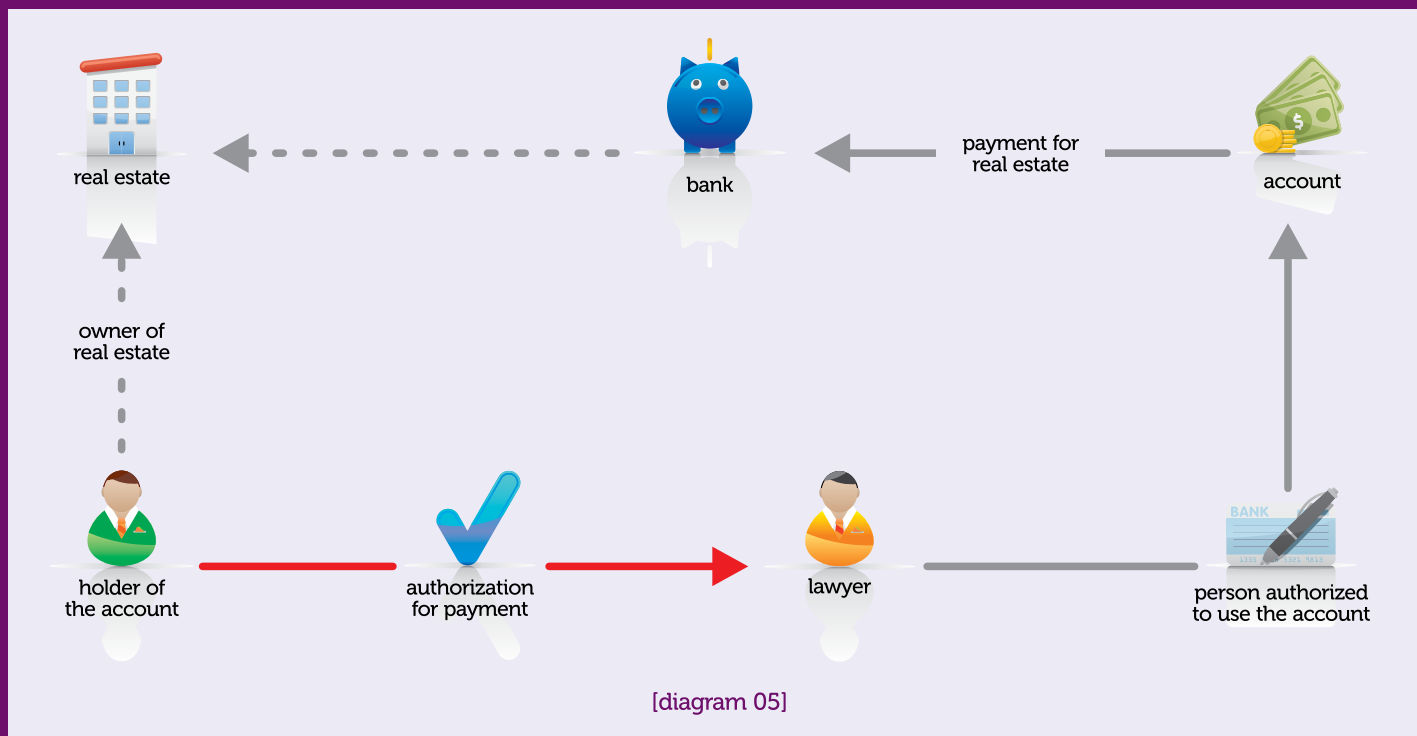
[diagram 04]

Planning and execution of the transactions by an attorney

An attorney assists a client in planning and executing transactions regarding the opening or disposing of a bank account (bank account, savings deposit or account for operations with securities) – the attorney appears as an authorized person for the account of a criminal group member and the attorney makes all the transactions on his behalf. [diagram 3]

Assisting in business or management

An attorney assists in business and management of a foreign company – the same attorney appears on different positions in different companies established worldwide (owner, agent or director). [diagram 4]



Performing financial transactions

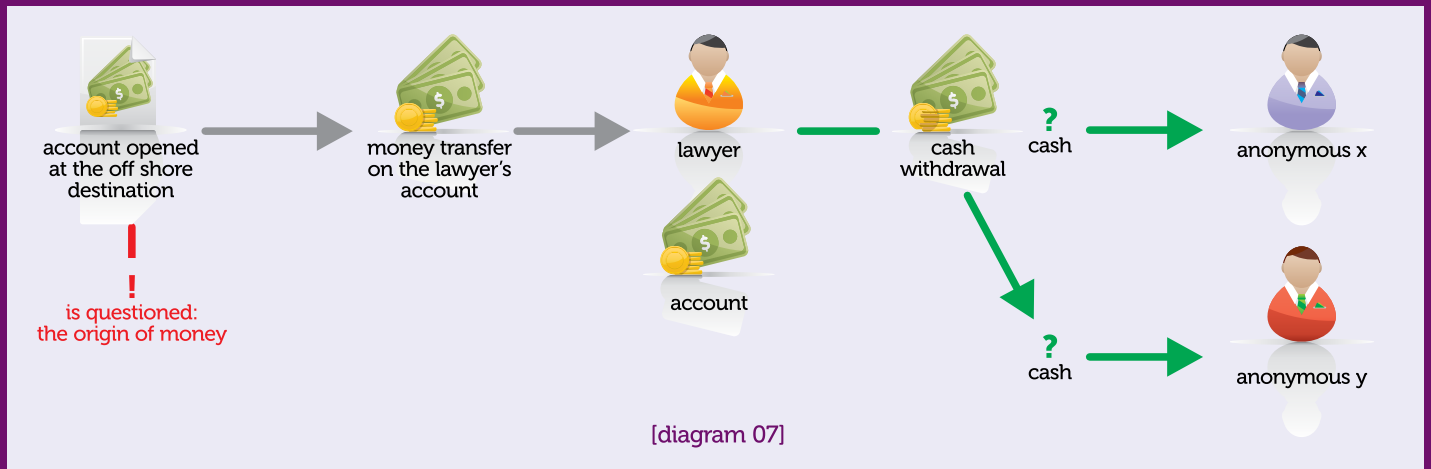
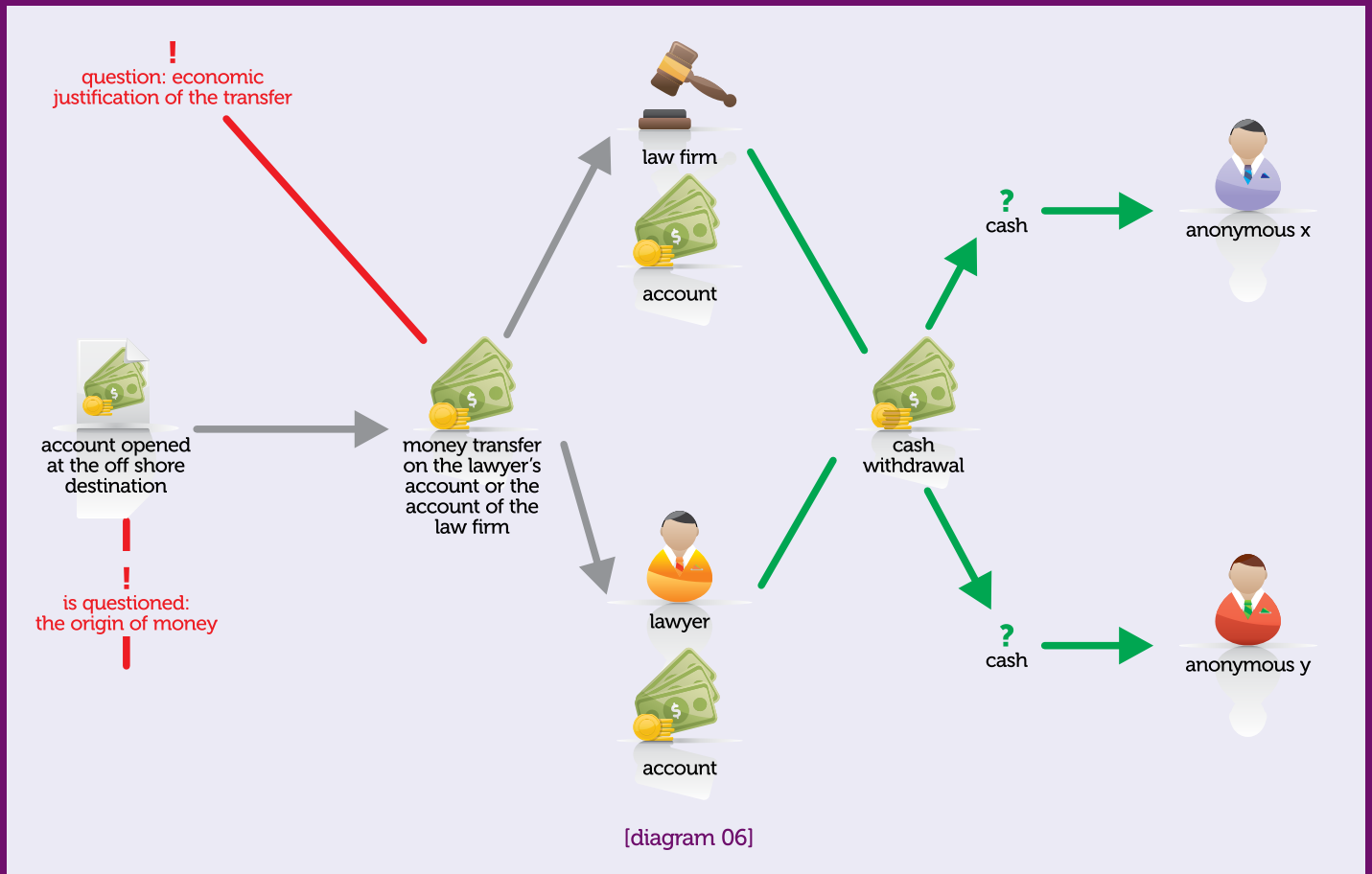
On behalf of a client, an attorney makes financial transactions related to real-estate – based on a power of attorney issued by a person associated with an organized criminal group. [diagram 5]

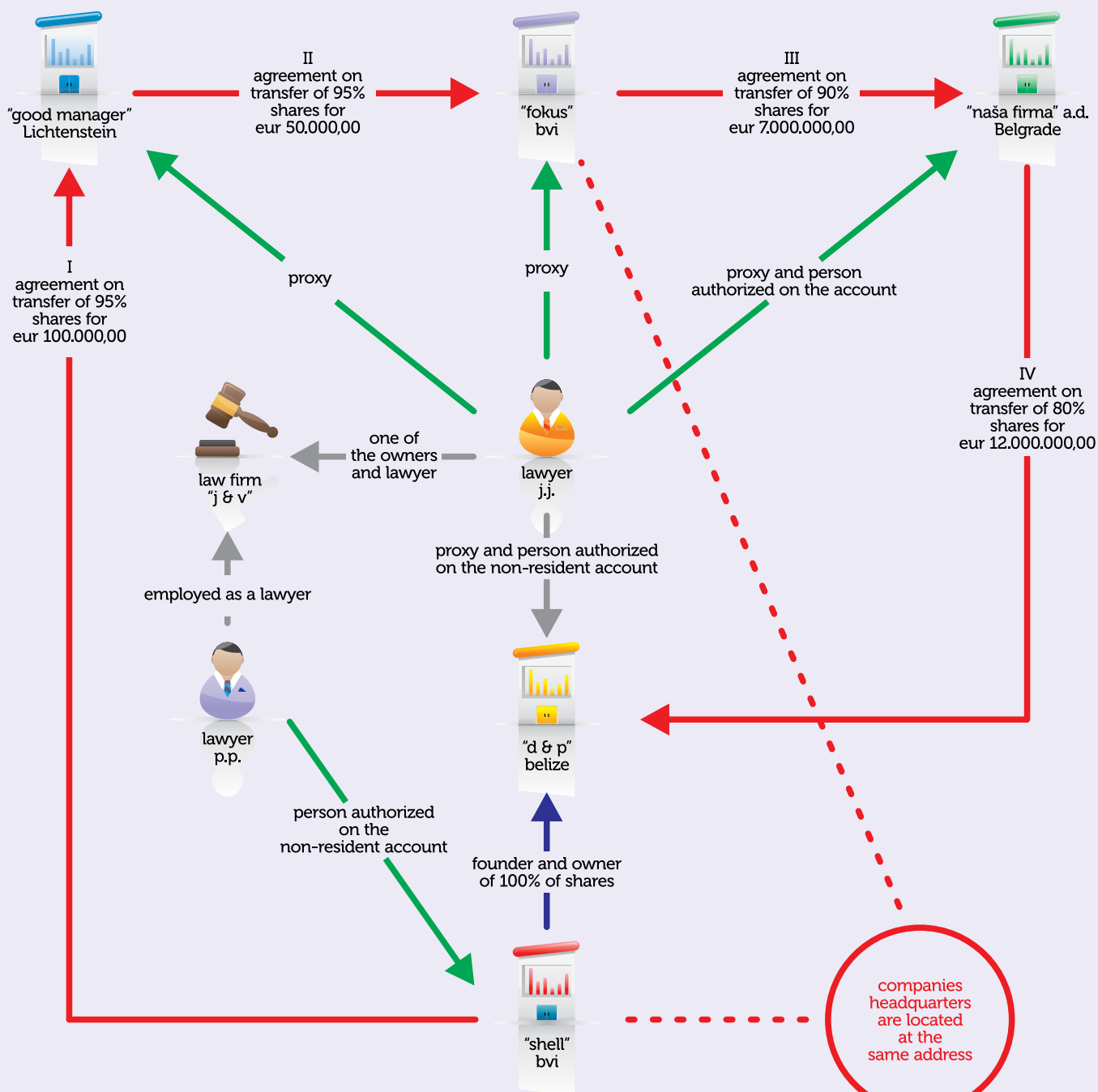
Using of attorney's account or his firm's account

Using of attorney's account or of his firm's account to transfer assets without a clear economic basis – money transfer made to the attorney's or firm's accounts are suspected to come from organized crime groups, without a clear economic basis (based on marketing or architectural services, inheritance, etc.) [diagram 6]

Use of attorney's personal accounts opened abroad

Use of attorney's personal accounts, opened in resident country and abroad, for money transfers which do not have clear economic logic – transfer of funds goes from the personal accounts of the attorneys, opened in off-shore destinations, or in countries with strict bank secrecy policy, to a personal account opened in a bank in Serbia. An attorney withdraws the assets in cash and hands it to its rightful owners. [diagram 7]





[diagram 08]

Example

Off-shore companies are established in order to transfer illegally acquired assets to Serbia, and they serve to disguise and integrate these resources into the payment system of the country. Within a short period of time of only a few months, a fictitious sale of the company is done to associated entities at prices which have no economic logic. Persons who appear as the representatives of all the participants in the transfer of shares in the companies, are also associated because they are employed by the same law firm.

An off-shore Company "Shell" BVI purchases a 95% stake in the company "Good Manager" from Liechtenstein for 100.000,00 EUR. A few days later the company "Shell" BVI transfers its 95% stake in company "Good Manager" from Liechtenstein to company "Fokus" BVI for the amount of 50.000,00 EUR, which after some time sells a 90% stake in the company "Good Manager" for 7.000.000 EUR to a domestic company "Nasa firma". The domestic company "Nasa firma" transfers an 85% stake to company "D&P" from Belize for 12.000.000.00 EUR. This way we can see that the increase in share value, which increased several times in a short period of time, was not conditioned by the market and it was not economically realistic. In fact, it is illegally acquired money inserted through off-shore companies into the payment system of the foreign countries, and then finally embedded in the payment system of our country.

The founder of the off-shore company "D&P" from Belize is another off-shore company "Shell", BVI with a 100% stake. In all of these transactions, the transfer of shares is done by local attorneys J.J. and P.P. who appear as the representatives, agents and persons authorized to dispose of the assets on the non-resident accounts. Attorney J.J. is one of the owners of a local law firm "J&V". Companies "Focus" BVI and "Shell" BVI are registered at the same address. It is clear that these companies are associated by

the ownership structure, as well as by individuals or attorneys who are authorized to dispose of the assets on the accounts of the companies incorporated at an off-shore destination, which also applies to the company "Nasa firma" a.d. Indicators that raise a suspicion of money laundering:

- A client signs or verifies contracts which are unusual and make no economic or business sense and for which the background of the business does not justify this kind of contracting.
- A client makes real-estate transactions for natural persons and legal entities, residents and/or non-residents from off-shore destinations or on behalf of off-shore companies.
- Selling price of real-estate set by a client is not in accordance with market prices.
- Business relationship is not in compliance with client's financial situation, i.e. his regular business operations. [\[diagram 8\]](#)

Trends

The trend of purchasing of the companies, real-estate and land by attorneys, law firms and persons without criminal records, with the real owners of the assets hiding behind them, will continue. In these transactions, some attorneys will endeavor to introduce as many entities, natural persons or legal entities, which are usually established in off-shore destinations, with accounts opened in countries with a strict bank policy of secrecy, and certain law firms which operate in a few countries will act as the intermediaries. These attorneys will also be involved in the implementation of activities related to the purchase of property of bankrupt companies.

If we do not do something on a global level, which we certainly cannot be expected in the near

future, then the trend of founding of companies in tax havens, opening non-resident accounts in the region and "managing dirty" funds from certain law firms, will continue. Due to new technological developments launderers will spend more time designing money laundering schemes and then apply it through the transfers of newly established companies.

Loans will become more expensive, however, it is likely that the trend of taking out loans with a 100% deposit and their early prepayment for the purchase of real-estate or companies will continue. Attorneys will continue to appear as persons who participate in such transactions.

The transfer of assets to personal accounts of the attorneys or law firms, for various reasons, will continue in the future. This way, after cash withdrawal from the account, an attorney gives the money to the rightful owners, thus hiding the identity of the owner of the capital.

The completion of the privatization process will contribute to the reduction of criminal offences of money laundering, due to the reduction of opportunities to invest dirty money for purchasing companies that are privatized. There will still be a tendency of investing dirty money in the purchase of agricultural land.

Liberalization of foreign trade and foreign exchange operations will also increase the risk of money laundering. As it becomes more difficult to integrate the assets acquired by criminal activities in regular financial flows, attorneys will have to come up with complete documentation covering the most complex transactions, which will include companies founded in so-called "tax heavens", local companies, money transfer in or from countries with strict bank secrecy policies, natural persons and transfers on various grounds (loans that companies take from companies abroad, marketing services, advance payment for goods and services, etc.).

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Money Laundering Typologies in the Accounting Sector

All legal entities and entrepreneurs must keep accounting books, evaluate the value of the assets, revenues, expenditures, and prepare financial statements in accordance with legal regulations and international accounting standards. The financial statements must conform to the principles of completeness, including all accounting categories (assets, liabilities, own sources of revenue and expenditures).

**Money Laundering
Typologies in the
Accounting Sector**

Management and accountants are responsible for the preparation of financial statements. Accountants employed in legal entities for which they prepare financial statements, are not the obligors pursuant to the Law on the Prevention of Money Laundering and Financing of Terrorism.

In case the legal entities or entrepreneurs hire other legal entities and entrepreneurs registered for the provision of accounting services and bookkeeping, they become obligors and are obliged to take measures and actions in accordance with the Law.

The accounting sector is very unique because it is present in all areas and sectors of the economy. All changes related to the company's business are recorded through its accounting. The task of the accounting sector is to record these changes on the basis of accounting documents such as contracts, decisions, invoices. The accounting sector is highly sensitive because any manipulation and any attempt to conceal or distort the items in the accounts can result in serious consequences for the operation of that legal entity. All forms of commercial crime, including money laundering, corruption, tax evasion, investment fraud, etc., contain counterfeit documentation and fabricated false financial statements. It is very difficult for an accountant to assess whether all the business documentation, which was submitted for entry, is false or

regular, whether all the documents are submitted for entry, which is a basic requirement of international accounting standards. This includes general and integrated involvement of all elements of accounting categories in accounting management in order to prevent various abuse.

Engaging in the accounting sector is very attractive for potential money launderers because each accounting document that is given for entry, if formally valid, will be cleared regardless of whether the transaction took place or not.

Abuses in accounting actually present a risk for objective financial reporting. Entry of false documents can be made through accounting (fraudulent income, false expenses, covering liabilities and expenses) which will lead to false financial statements. All of these crimes may precede money laundering, which can have consequences for the overall socio-economic system of a country.

The experiences of the Administration in dealing with cases of other governmental authorities (prosecutors and inspection bodies) show that the accounting sector was one of the key levers of criminal structures in some cases of money laundering, because after committing a fraud, it was necessary to make the accounting appear legal for the particular transaction.

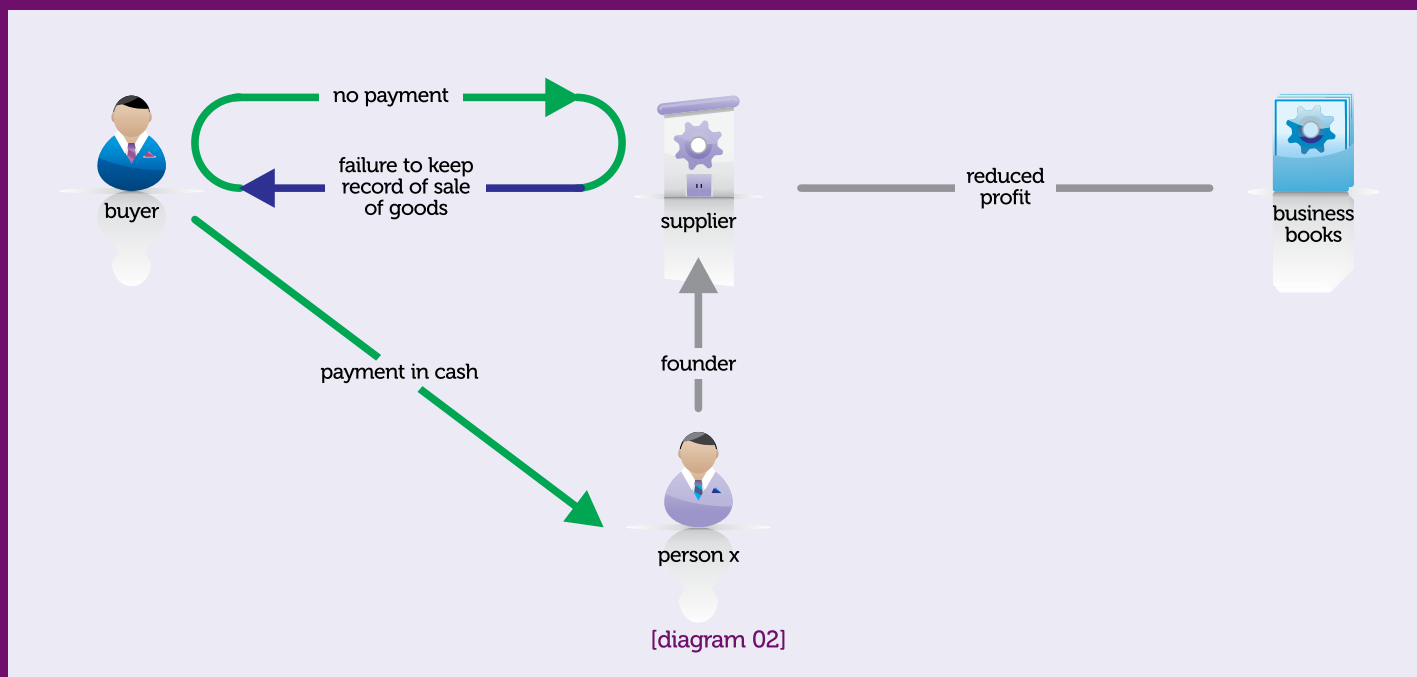
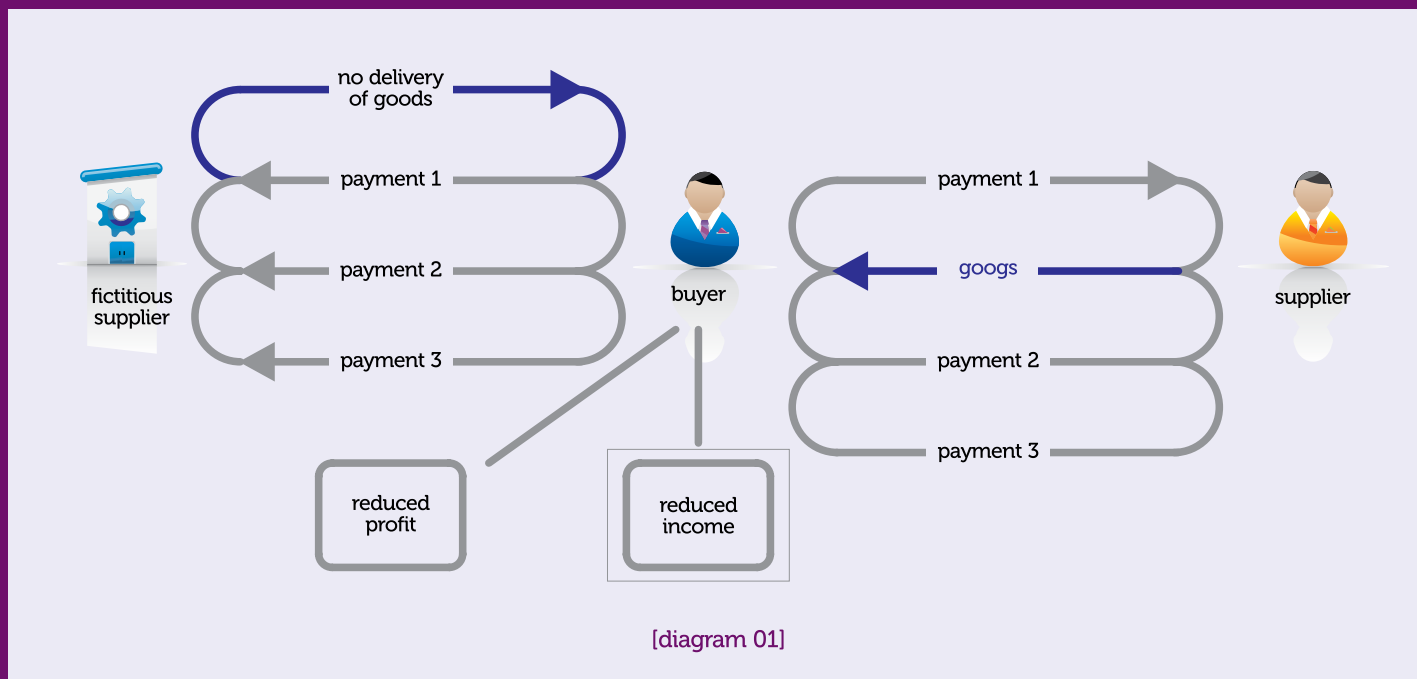
Typologies

Fictitious revenue

Fictitious revenue implies a lack of actual customers. Fictitious accounts are created for trade of goods and services, making their entry without inflow of assets on the account of that client. This way, the revenue is increased, which then results in an increase in profit not covered in the cash flows. The financial statements show the claims known to be uncollectible and that will be written-off in the future.

Selling of products and services to affiliate entities at prices significantly higher than the market prices and calculation of unrealistically high interest

Invoices are issued to affiliate entities for products and services at unrealistically high prices, which are significantly higher than the market prices, thus creating a false image of success of business entities. Increased revenue and profits are reported for all affiliates, which creates a false image of business success in financial statements. This also opens a possibility for participation in tenders for certain jobs or taking loans from commercial banks. This typology is most often used for loans



from the Development Fund, because it has the most favorable credit terms. As a rule, these firms, after taking a loan from the account in cash, quickly disappear or move to other legal jurisdictions (mostly in Kosovo) and the loans are never repaid.

Overestimation or decrease of net assets

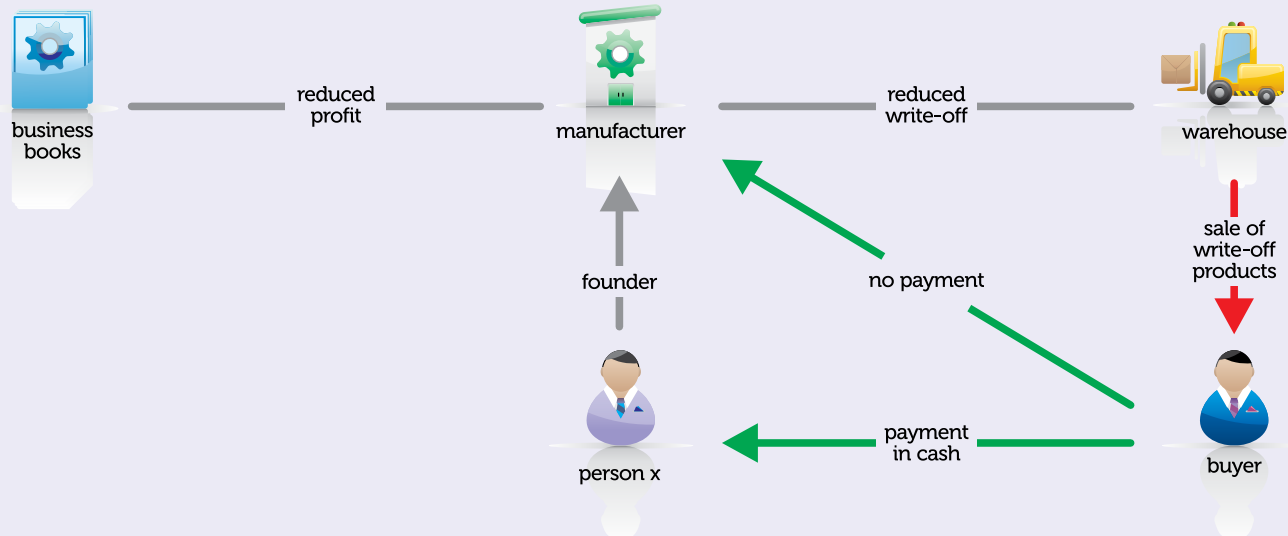
Depending on the needs and interests, it is often the case that companies overestimate or underestimate the net assets and operating results. In fact, they show false revenues, expenses, claims, and assets.

Multiple payments for the same product or service

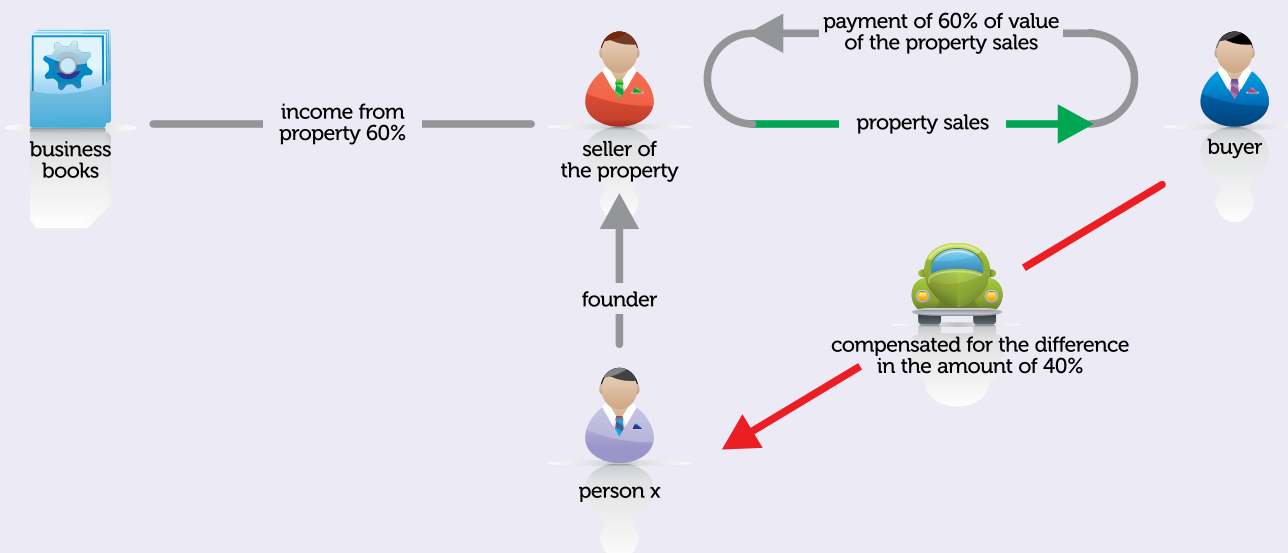
Payments are made several times for the same purchased product or performed service to the same or different vendor. In this case, cash flows do not coincide with the movement of goods and services. There are only fictitious documentation. [\[diagram 1\]](#)

Failure to log business transactions

In such cases, there is a trade of goods and services, but these transactions are not logged in the books and there are no cash flows that accompany the transaction. This is how the cash is received, which is used for various illegal purposes. [\[diagram 2\]](#)



[diagram 03]



[diagram 04]

Write-off of products

Due to a fictitious increase in expenditures by writing off products as a result of various factors such as: force majeure, shortages which are the result of stealing, deterioration of products due to weather conditions, failure due to inadequate storage, breaking, causes an increase of expenditures, and reduction of revenue and profits. Goods that are written-off are sold for cash. [diagram 3]

Sale of assets at prices substantially lower compared to market prices

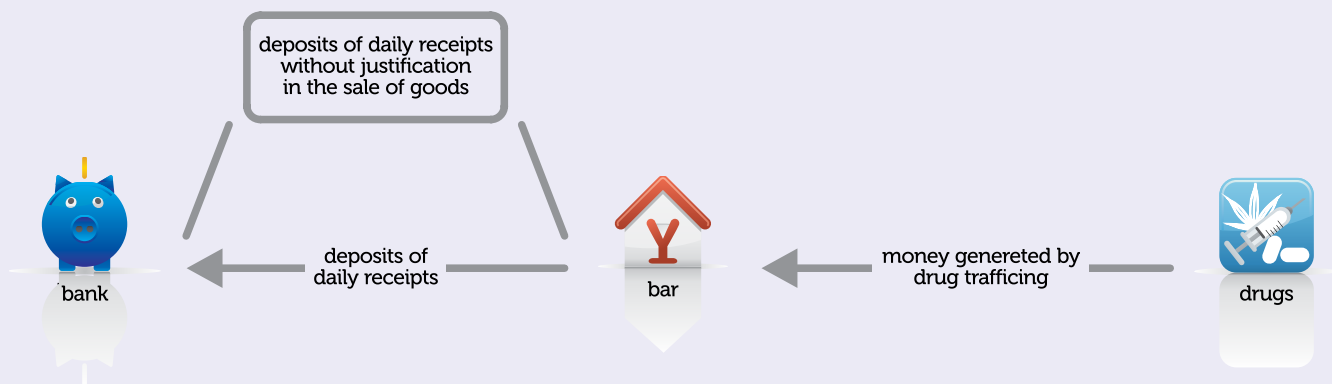
In these cases the difference is paid in cash or compensated by certain material goods such as consumable goods, artwork, jewelry, etc. [diagram 4]

Increased invoices in foreign trade

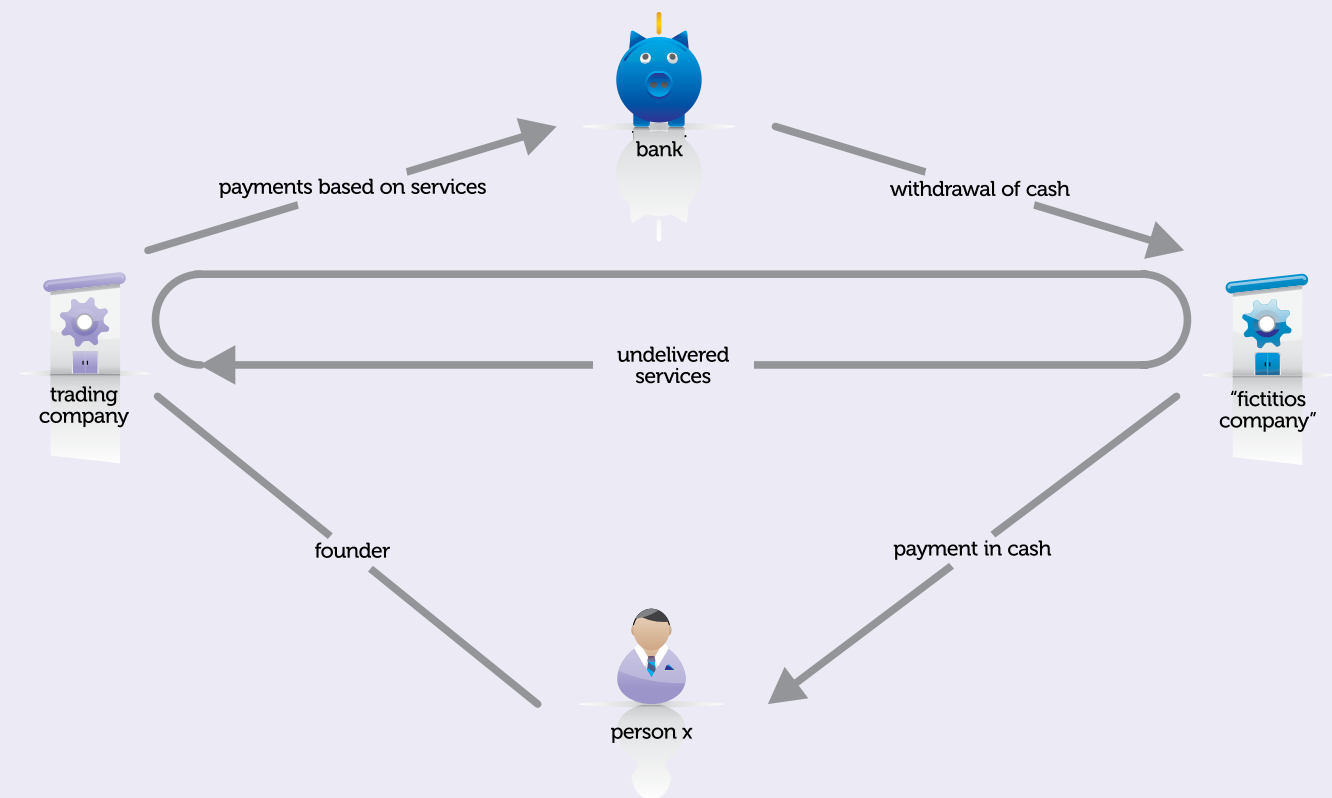
Import: Goods from foreign producers come directly to the customer in the country, but the invoice is issued by another firm, often from off-shore destinations, and then increased for a certain amount. Usually an off-shore company is owned by local companies that are importers or the founders of both companies. Later on, the off-shore company appears as an investor in our country, investing the money paid based on over-invoicing, using the benefits offered by the State to foreign investors.

Exports: Invoices with increased prices are issued for goods exported to foreign countries, with an intention to insert illegally obtained assets into the payment system of the country. Illegal assets are legalized by mixing them with legal assets.

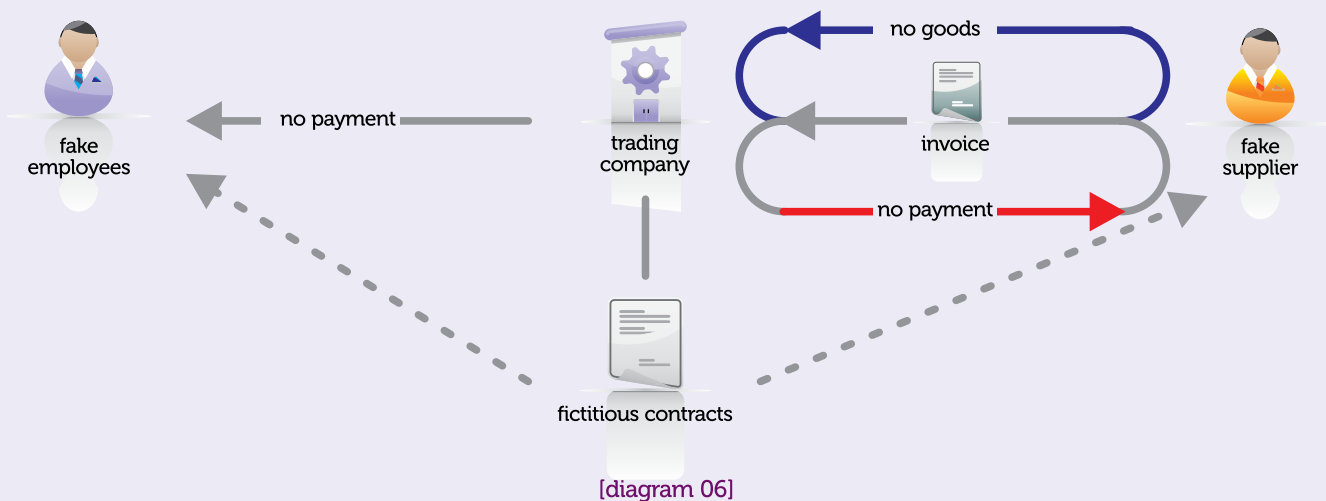
Services: Services which were not performed are paid in accordance with invoices, usually issued by off-shore companies, to the non-resident



[diagram 05]



[diagram 07]



accounts of those companies opened in neighboring countries. The cash is withdrawn in an amount that is reduced for the commission that is returned to the owners of local companies which paid this amount based on unperformed services.

Investing cash through the purchase of raw materials

Cash coming from some illegal activity is not entered as cash input, but it is mixed with legal capital in order to purchase raw materials used for production. This method of mixing capital is particularly frequent in the construction industry where certain services are paid by illegally obtained cash.

Recording cash payments that are not covered by goods sold and services performed

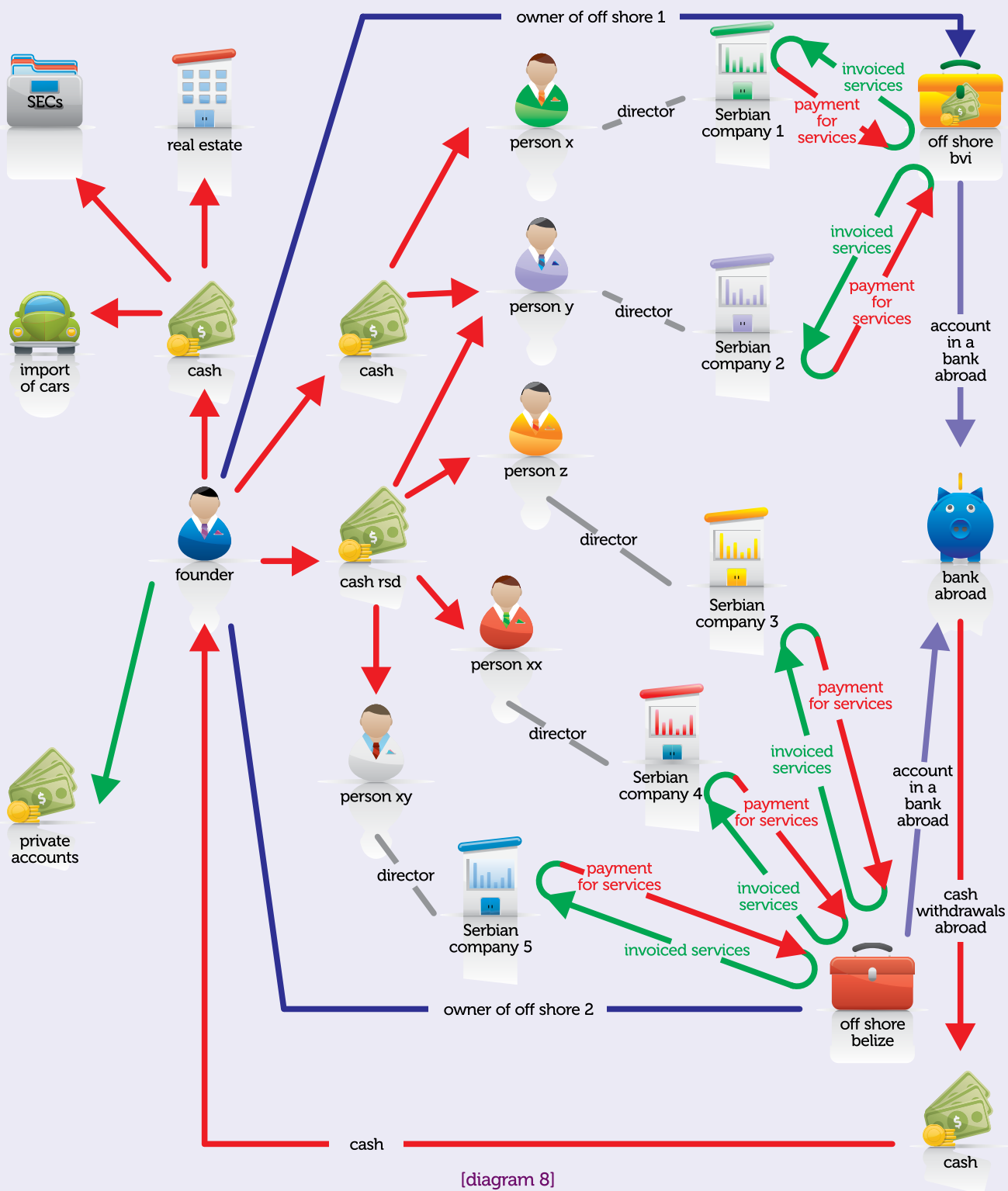
Illegal cash is paid through the retail market, restaurants, organizers of games of chance, casinos, businesses that pay flat taxes, without ever having the goods or services sold. [diagram 5]

Creating false liabilities

False liabilities are created by fraudulent procurement of goods, services and fictitious hiring of employees, which are not followed by cash payments, but they are reported as false financial results through financial statements. This is how the expenditures and operating costs are increased and the profit and liabilities towards the State are decreased. [diagram 6]

Cash withdrawals from companies' accounts for fraudulent purchase of agricultural products and raw materials

Some legal entities make payments based on invoiced services that were never performed on the accounts of the companies that were founded in order to operate for a short period of time. The money from these companies' accounts is withdrawn for the purchase of agricultural products and recyclable materials. False purchasing blocks are then established as proof that the purchase was made. The cash, withdrawn for the purpose of repurchase, is returned to business owners who made payments for the services, reduced for the amount of commission. [diagram 7]



Example

The founder of off-shore companies contacts the owners and directors of certain legal entities that are in need of cash for private purposes (purchase of real-estate, cars, securities, etc.). They agree that, based on the invoices which will be issued by off-shore companies, payments will be made on their accounts for the services which will never be performed. The money from the companies' off-shore accounts is withdrawn in cash, in the amount reduced for the amount of commission, and it is paid to the companies' owners and managers.

Indicators leading to the suspicion:

- Procurement of services that have never been a part of a company's business activities, without clear economic justification;
- Invoiced services, without a proof of execution. [diagram 8]

Trends

Recent experience shows that many "phantom" and regular companies were creating with the help of some accountants' false documentation in a wide range of operations from mowing grass to the development of software and chips used in the airplane industry. This is why the accountants' expertise and knowledge will be used by a potential launderer for the fabrication of false documentation, which is recorded in the transactions and creates a false image of the performance of that legal entity, expressed through financial statements.

Due to real possibilities to use the accounting sector in order to cover the traces of dirty money, this sector will continue to be attractive to potential money launderers. Some accountants will continue to perform the most useful tasks on behalf of their clients launderers such as the investment of illegally gained money, sheltering those assets out of reach to avoid future liabilities, conducting financial transactions on behalf of a client in the field of payment transactions in the country and abroad, performing a currency conversion and conversion of property, purchase or selling of shares, advise to clients on

how to avoid tax liabilities, and how to create fake revenue and expenditure.

Some accountants will be key designers for covering the traces of dirty money by multiple transfers of the money from one account to another in order to detach it from its sources and to make it appear legal.

One of the ways to create a favorable ethical and professional climate within a legal entity is the adoption and controlled application of an ethical code of conduct and licensing for accountants. Licensing of accountants is a necessity, since only a licensed accountant can be liable for false entries.

The increase in the number of abuses within the accounting sector is caused by a small number of detected criminal acts, mild punishment policy and unclear legislation, which is subject to frequent change. Thus, in the period from 2001 to 2009, the Excise Tax Act was amended thirty-nine times. Only certain criminal acts are prosecuted, and even when cases reach the courts, the proceedings are drawn out, and for a considerable number of criminal cases, a statute of limitation applies.





Money Laundering Typology in the Auditing Sector

Legal entities that have the status of medium size and large enterprises are under obligation to have their financial statements audited at least once a year, in order to provide objective evidence that the financial statements impartially represent the results of the legal entity's operations in all significant aspects.

**Money Laundering
Typology in the
Auditing Sector**

Financial statements are prepared by the client, and not the auditor, who on behalf of a client gives an opinion. Therefore financial statements are the responsibility of the management, not the auditors. The auditor bears a legal responsibility for his auditing and opinion.

Since the audit is expected to become an instrument for increasing the security of information used by decision makers, the audit becomes one of the indispensable tools to detect and prevent errors and frauds.

Modern financial flows are characterized by a large number of transactions, rapidly performed using computer technology and the reduced use of cash and paper documents. It is the responsibility of auditors to detect criminal offences in auditing. Given that the independent auditing is done based on a sample, one cannot expect auditors to detect all cases of non-compliance. Their professionalism, knowledge, experience and awareness of their client's business can provide a good basis for identifying specific actions and activities that are inconsistent with the Law.

The auditor has a legal responsibility to detect non-compliance of legal entities and accountants in preparing financial statements and is accountable for incorrect opinions expressed in the financial statements.

Money laundering typologies associated with auditing and accounting are exactly the same (see accountants), with the difference that the accounting sector is used to cover up criminal activities and attempt to validate those actions through financial statements, and the task of auditing is to detect the cases of manipulation of accounts in order to show better or worse business results, which are the result of criminal activity.

A criminal offence is rarely immediately and fully disclosed as a single unit composed of connected transactions, supported by the documentation. It is hidden and its detection and understanding, in most cases is hard . It can be compared with a mosaic or a puzzle of certain images.

The role of the auditing process is to detect abuse. Its effectiveness is diminished because of the possibility of canceling the audit, and hiring a different independent auditing firm, paid by the client. Since the client pays the auditor, and conducting of an audit of financial statements requires close cooperation with management, it is clear that complete independence of the auditors is not feasible. The connection between an auditor and a client is therefore sensitive and complicated, so unlike the audit, other service industries are almost exclusively in obligation only toward the clients. The situation of auditing is further complicated by the existence of three

opposing parties: (1) auditors (auditing firm), (2) managers and (3) the owners of capital as the users of auditors' opinions.

In the practice of auditing certain influence is possible, so it is possible to doubt the objectivity of the auditor's opinion.

This influence may include:

Pressure

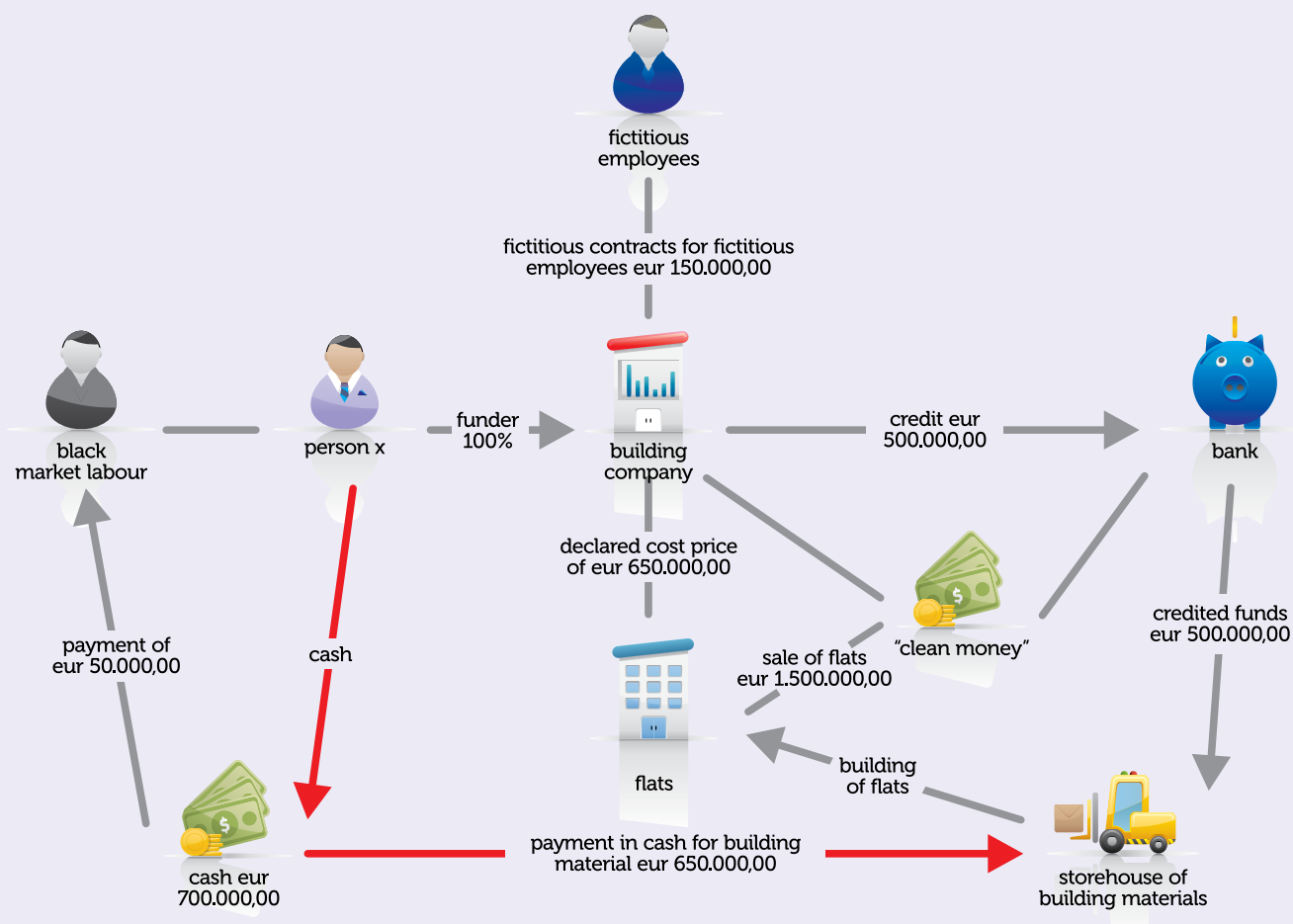
Pressure that may affect an auditor's independent position come from various activities, relationships and circumstances that may affect the impartiality of the audit.

Qualifications of the auditors

Incompetent or a less competent auditor is willing to accept others' opinions.

Conflict of interest

The auditor may be in a position to review the financial statements of a client, which he also assists in the management of financial activities.



[diagram 01]

Non-audit revenues

Recently there has been an increase of participation of not-audit revenues from non-audit services in the revenue structure of auditing firms. It cannot be expected from an auditor to disclose the errors and irregularities that have occurred during the performance of his non-audit services.

The existence of close relationships from the previous period

An auditor's transition to a position in the company he was performing an audit for may have a negative impact on the independence of the future audits.

Family and personal relations

When a close relative, spouse, children, parents work in the accounting and financial sectors, it can be expected that the auditor's report and opinion will not be impartial.

The client has a significant share in the revenue structure of an auditing firm

If the auditor has its share in the revenue structure of an audit firm, direct or indirect blackmails could be expected that might compromise the independence of the audit.

The auditor has a financial interest in the company where he performs an audit

The auditor who owns shares (joint stock company), has no interest in expressing an objective view of the financial position of the company.

Intimidation

Threats made by the management and the employees of the client of an audit, may affect the auditor's report and opinion.

Example

Owner of a construction company has a certain amount of illegally obtained cash. In order to, at least ostensibly, legalize that money, he is procuring building materials, paying one part in cash from illegally acquired assets, and the other part he pays with the money from the loan, which he took from a commercial bank. The loan was secured with a 100% deposit, also by illegally acquired assets. In the bookkeeping reports, the owner of the company justifies his obligations to fictitious employees based on the employees' salaries, taxes and contributions. Essentially, salaries are paid from illegally acquired cash, without taxes and contributions. He registers the cost of procurement of construction materials in the accounting books only in part of non-cash transactions, which were paid from the loan proceeds. Built residential units are sold at market prices, and thus, the illegal assets are legalized.

- Indicators leading to a suspicion:
- Entry of changes on the basis of non-credible documentation
- Confirmations of receipt of raw materials are kept separate and are not connected with incoming invoices
- Great fluctuation of the workforce [diagram 1]



A close-up of a person's hand, wearing a gold ring on the ring finger, pointing towards the right. The background is a blurred image of a financial market display with red and green numbers.

Money Laundering Typologies on the Capital Market

The capital market in the Republic of Serbia is relatively young since serious trade, based on recognized standards for securities trading, started in 2001.

At this time new legal provisions were introduced that included new rules that did not apply before that time. Thus, the intermediaries (broker- dealer companies) got a new and more important role in securities trading on the stock market and on the over the counter market.

Money Laundering Typologies on the Capital Market

The main characteristic of the Serbian capital market is that securities' trading is performed in a shallow and undeveloped market, under the conditions of asymmetry of available information and a low level of corporate culture. Proof of this is the fact that there are few companies listed on Belgrade stock-exchange, and many of these companies are only listed because they are forced to by the law as these are companies that were privatized in the recent period.

The success previously achieved by the capital market, namely the continuous increase of turnover at the Belgrade Stock Exchange and rapid increase of the value of shares up to mid 2007 is behind us due to the global financial crisis which started in the second half of the same year. The crisis caused a rapid and significant decrease of the scope of trading on the Stock Exchange, which caused the decrease of the value of shares index.

The capital market has been decreasing the last four years and there are no signs of fast recovery. The market is not solvent and there is no significant interest in securities trading by domestic and foreign investors.

Although it is undeveloped and relatively inactive, the capital market has not been immune to money laundering and attempts of money laundering, and the Administration recorded certain examples of cash flow

on the capital market that indicate money laundering or at least the attempts of money laundering.

Sensitivity and vulnerability of the capital market to the threats of money laundering

Before we describe experiences in fighting against money laundering and the trends which were noticeable on the capital market, we can give a brief explanation as to why the capital market in Serbia was a channel and provided great potentials for the attempts of money laundering.

These are some of the main reasons for the vulnerability of the capital market:

- A new developing sector for investing free capital has been provided, and it has been eagerly accepted by the owners of illegally acquired capital who use it to place it in legal flows;
- Money launderers like complex techniques and numerous opportunities for placement of capital, and investment in securities has provided layered hiding and more difficult identification of the cash flow;
- The development of the capital market was, and still is, accompanied by the fact that

broad public is mainly uneducated on relation to the participation in the ownership of companies as shareholders. The development of a culture of investing in the capital market and the rising awareness are continuing, and the first signs of progress are noticeable. However, until it is fully developed the current environment and atmosphere are suitable for criminals, since it provides them with wider space to maneuver because a limited number of people understand what they do and how they launder the money;

- If we observe the history of the development of the capital market in the Republic of Serbia, we can conclude that our shareholding was voluntary and unplanned (distribution of free shares to employees starting from 2001). Later on, in most cases, those same small insolvent shareholders were recruited and manipulated to sell their shares for (almost always) cash reimbursements. Very quickly, the dirty capital recognized its target group.
- The level of knowledge of investigative bodies that fight against organized crime on the capital market is not sufficient. There is still an issue of the quality of their education, as well as their capabilities to fight quickly and efficiently against criminals and

money launderers. Criminals are aware of this and that has encouraged them to use the capital market as one of the sectors in their money laundering strategy.

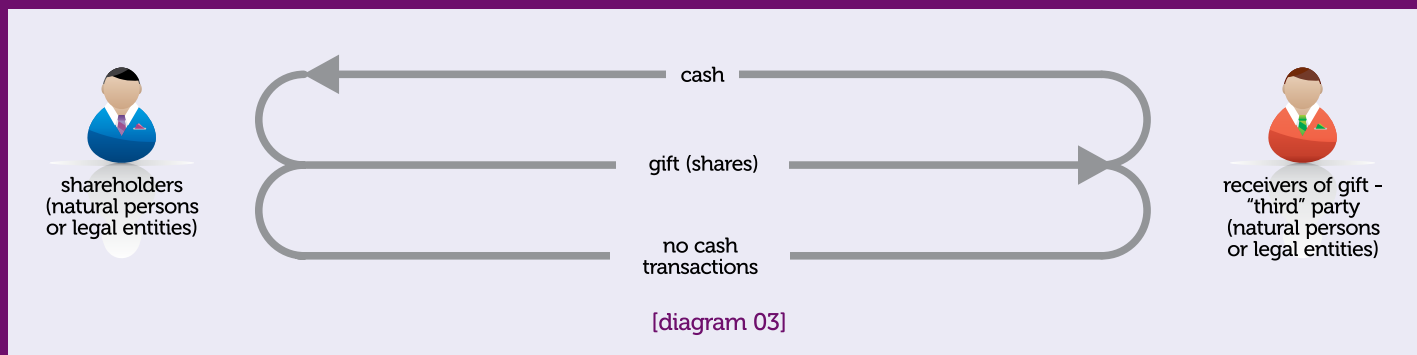
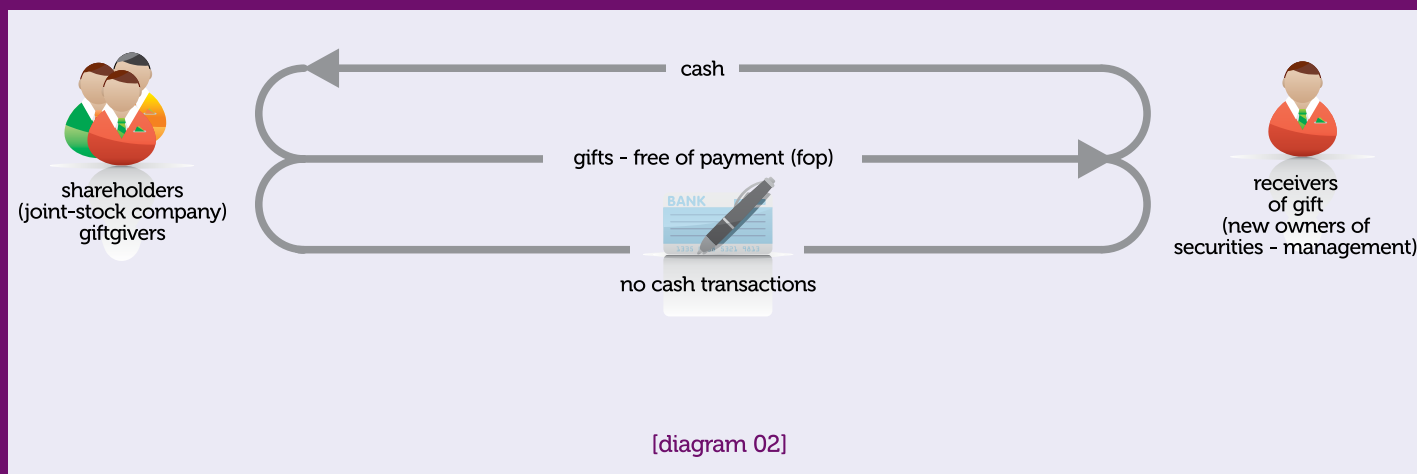
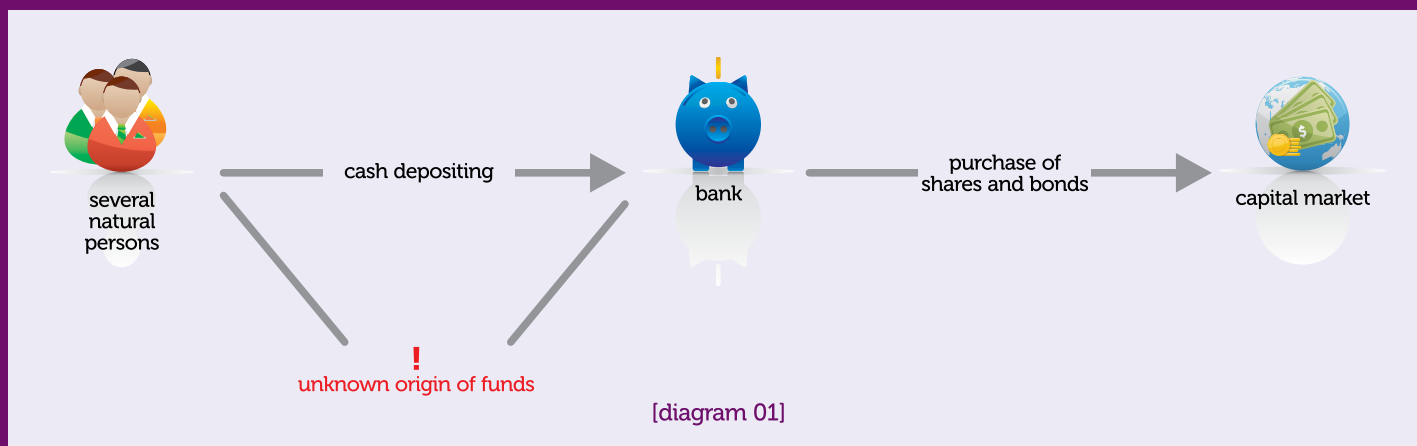
- It is also important to note that the Securities Commission, as a regulatory body for the capital market, has not had adequate legal independence, and efficient monitoring (control) which would give it an automatic right of efficient action in the prevention of irregular and unpermitted actions.
- Money launderers have recognized the capital market as an excellent and complex channel to efficiently integrate dirty money and thus legalize their activities by purchasing and obtaining solvent and healthy market joint stock companies, as one of the most significant motives for the placement of illegal cash. The legal provisions directed them to the capital market (Law on Takeover of Joint Stock Companies).

The experiences of the Administration in the period from 2002 to 2010, in relation to the attempts of money laundering can be grouped as the following suspicious activities on the capital market:

- Dematerialization of bonds on behalf of the bearers (bonds for the development of the Republic

of Serbia – initial owners of the bonds were paid in cash by the following bearers and future owners of electronic bonds);

- Purchase of old foreign currency savings bonds for cash placed on special purpose accounts in banks. Apart from the revenue, another advantage of this purchase was the possibility to take part in the auctions for the purchase of the companies pursuant to the Law on Privatization;
- Over the counter trade (purchase) of the old foreign currency savings for cash payments to the clients by the investors;
- Purchase of securities for cash placed on the current accounts and savings accounts without interest, opened in the banks (layering on the special purpose accounts);
- Purchase of shares by authorized persons (attorneys) by small shareholders for cash and processing of the shares through the stock market in favor of the issuers of authorizations (real investors) – transfer of securities;
- Issuing shares as lien for short-term borrowing paid in cash, and then “sliding” it through the Stock Exchange and purchasing the same shares in a Block



trade (transfer in favor of the issuers of the borrowing);

- Disposal of shares of small shareholders by giving shares as a present to the directors “saviors” of the companies without any type of official reimbursement, although in reality the money is given directly to small shareholders;
- Purchase and selling of highly ranked shares by very young investors within a short period of time, but in large amounts;
- Purchase and selling of highly ranked shares by natural persons who frequently and quickly change banks for opening of special purpose accounts, where they place the cash for the purchase of the securities, and afterwards they withdraw quickly from the market;
- Investors – off-shore companies with an unknown ownership structure and capital who take part in the takeover of Serbian companies by purchasing control packages of shares;
- “front persons” – purchase of control package of shares by insolvent investor in favor of other natural persons – real investors with criminal records. (so called “selling of one’s identity for financial gain”)¹
- Purchase of securities and portfolio formation by persons who are prosecuted for different

¹ A young investor with a university degree, respected and without criminal background, acts on behalf of persons involved in criminal activities when the trading procedure requires fulfillment of certain legal prerequisites (e.g. when one of the prerequisites is that the participant does not have a criminal record within the previous six months). The investor accepts this type of substitute for an agreed upon financial reimbursement or commission. This activity is known in practice as “selling of one’s biography”.

crimes in the field of commercial and organized crime;

- Offers for takeover of the companies (control package of shares) by newly founded (just registered companies) or natural persons who are not solvent for such undertakings (cover persons for the real investors)
- Specific trading – FOP transactions (transfer of securities), money launderers are particularly drawn to gifts in form of securities, lien and share in joint stock companies for the foundation of new limited liability companies (LTD) in order to, subsequently, sell the same shares (stake in LTD) without firm business reasons.

Typologies

Unknown origin of money on special purpose accounts

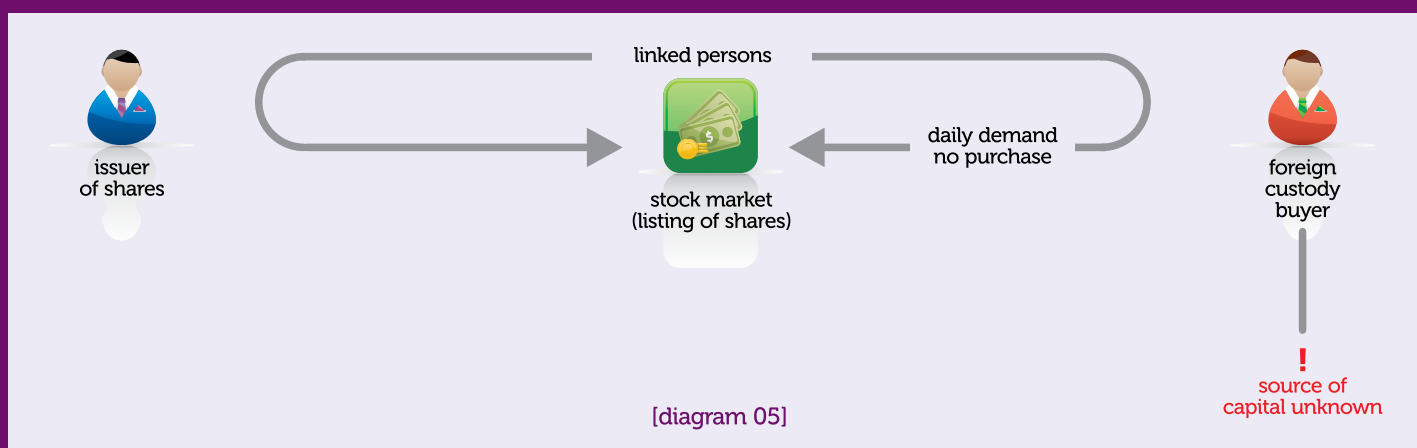
Depositing money of unknown origin to special purpose (financial) accounts for the purchase of securities; [diagram 1]

Transfer of securities to the benefit of managers

Gifts in securities from small shareholders to the benefit of their managers, with suspicion that they are being paid in cash (transfer of securities); [diagram 2]

Transfer of securities to the benefit of third parties

Transfer of securities in the form of gifts, where securities are given to third parties or legal entities; [diagram 3]



Custody accounts

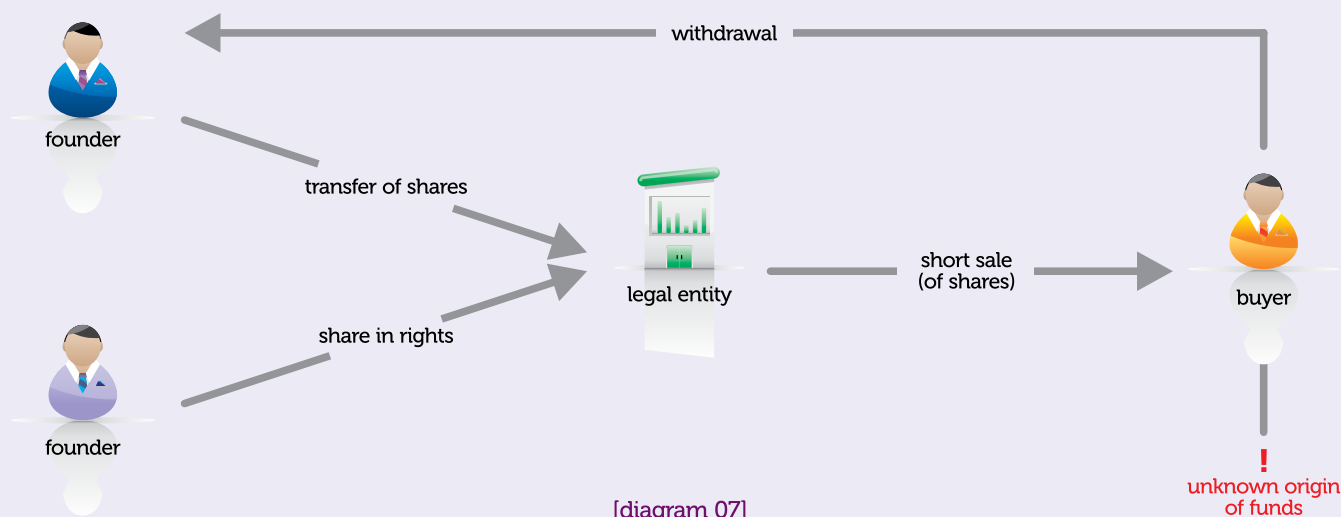
Trading securities through custody accounts for which it is hard to determine and identify the actual client, especially relating to clients hiding behind foreign custody banks and accounts; [diagram 4]

Raising the indicative price

Simulated (i.e. through linked persons) and frequent (everyday) raising of the indicative price of shares (fictitious demand) by the custody buyers, which takes place without trade (purchase), with the intention to enormously increase the share price, in order to introduce capital with suspicious origin; [diagram 5]



[diagram 06]



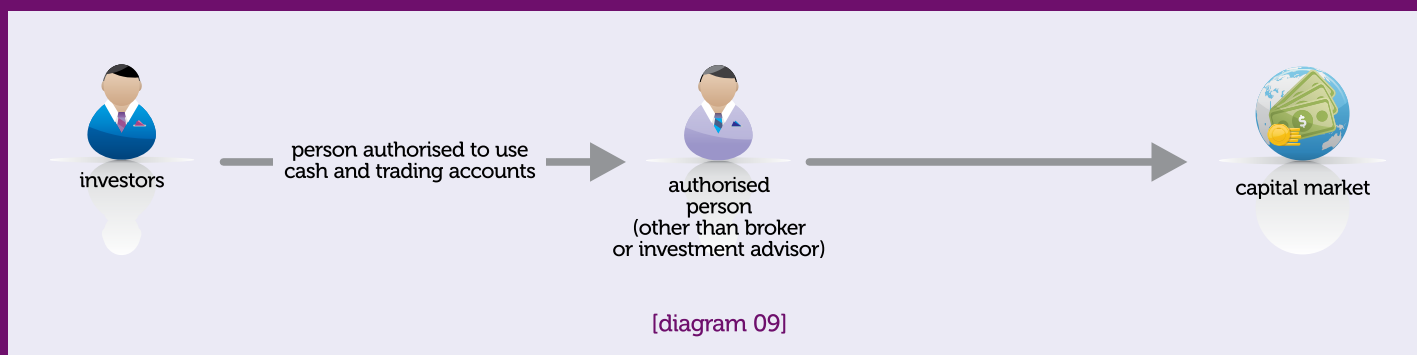
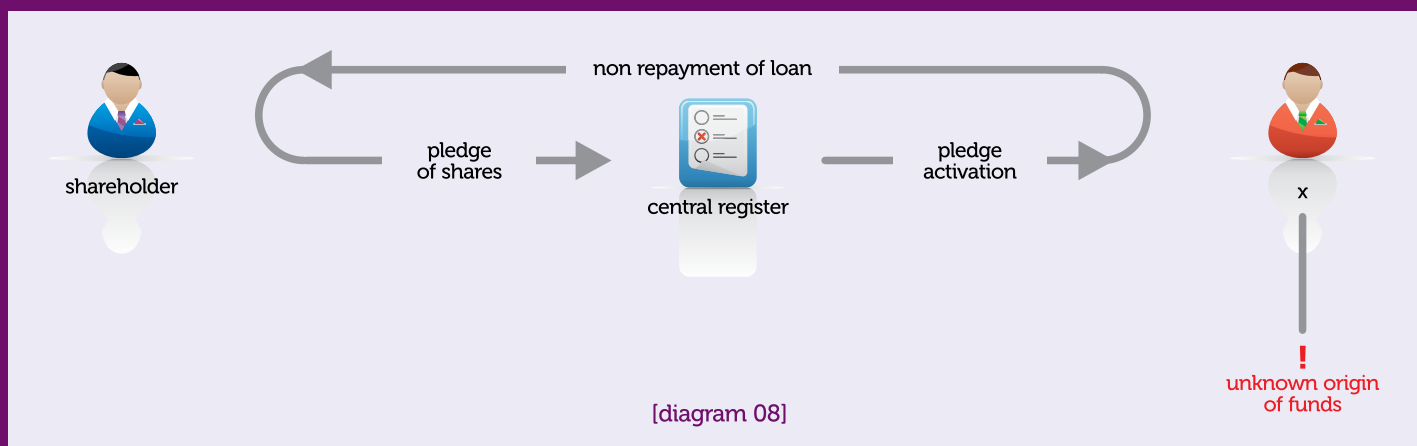
[diagram 07]

Taking over companies

Taking over companies (joint stock companies) – bids for buying shares submitted by recently registered companies or companies that do not have financial capacity (solvency); [diagram 6]

Founding capital in the form of shares

Introduction of shares as founding capital in rights in a newly registered legal entity, followed by swift sale of shares (stock) to legal entities and natural persons, suspected to be performing illegal business activities. [diagram 7]

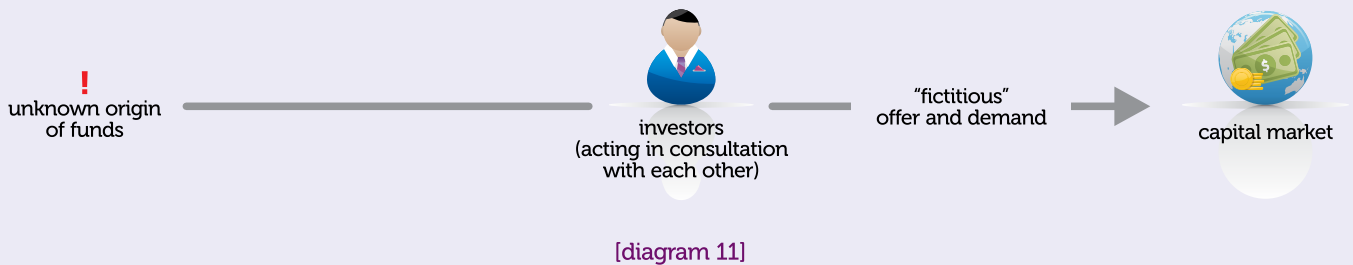
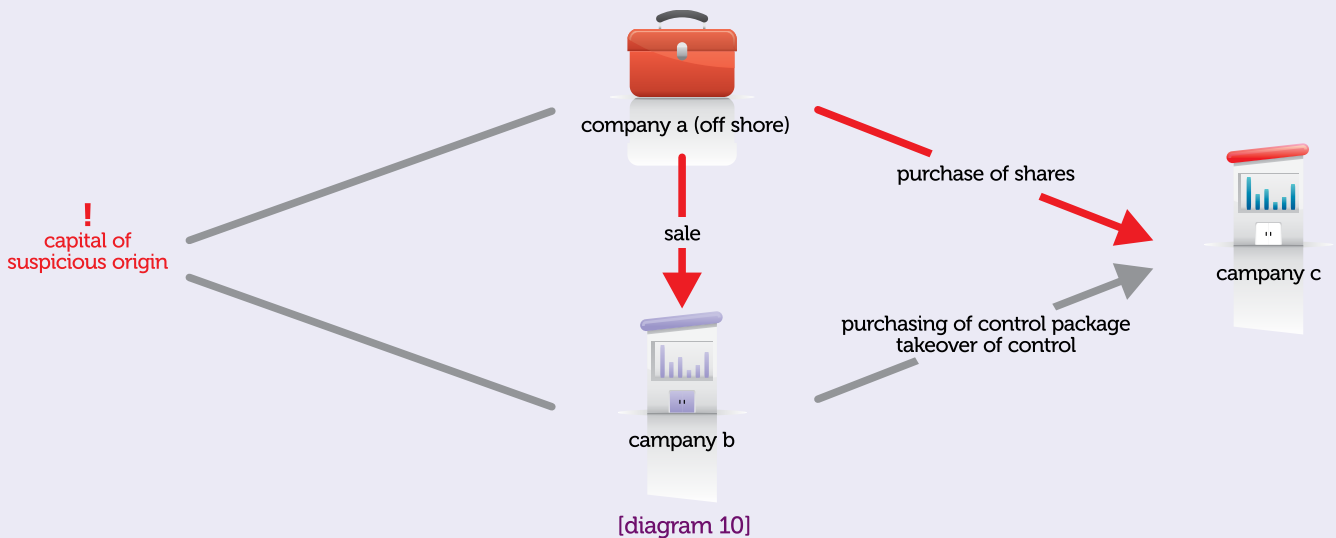


Pledged shares

Transfer of shares that were pledged as security on the basis of approved short-term cash loans, for which it is hard to determine the origin of money. [diagram 8]

Trade by unknown investors through authorized persons

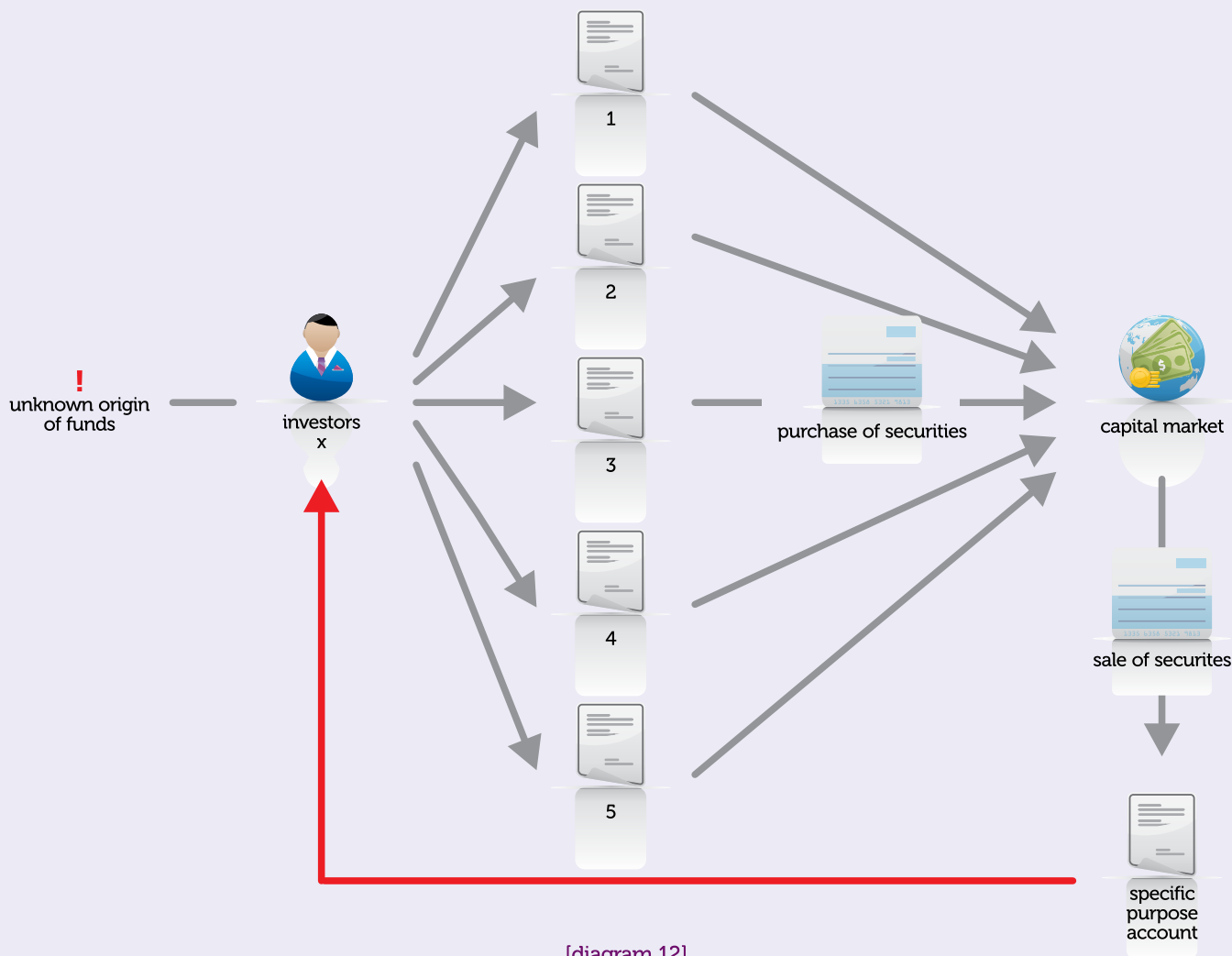
Unknown investors trading securities through authorized persons (usually not qualified brokers or investment advisors), who are given broad powers in managing of the portfolio and trusted funds, and whose origin is difficult to identify. [diagram 9]



Manipulations in the capital market

Attempts by the investors, whose money is suspected to be coming from illegal activities, to place, layer and integrate dirty money through different illicit activities – manipulations – in the capital market, where special attention should be turned to the following occurrences:

- simulated and connected activity of multiple investors with disputable personal and business reputations (connected persons, where it is hard to identify the real owners of legal entities) in forming an unrealistic market price of a share of the targeted joint stock company, with the obvious intention to later take over that targeted joint stock company; [diagram 10]
- “occurrences in the form of deceivin” the capital market – transactions or trading orders using fictitious procedures, as well as any other forms of deceit or fraud where a person, or more persons acting together, maintain the price of securities on an unrealistic or artificial level, especially relating to the persons reputed as suspicious investors or suspicion in the origin of the investment capital. [diagram 11]



Example

Case description: Natural Person X deposits assets on special purpose accounts for the purchase of securities with five different banks in a short period of time. Investor X is relatively young, age 28, without permanent employment and regular income. He deposits money on special purpose accounts in a calculated manner, below the legal minimum for reporting, in

amounts ranging from EUR 10,000 to EUR 14,000. Within one month the investor has made a total of 32 cash deposits. Immediately after these deposits, through an agent – a broker-dealer company – investor X purchases very liquid shares (shares subject to constant offer and demand), day after day. Very shortly after the purchase, the investor sells the portfolio of these

shares, although their price keeps growing day by day, on the capital market, making a significant profit. The profit from selling shares is then transferred by X to his newly opened special purpose account, from which he then successively withdraws the assets.

The Administration has examined these actions and measures according

to authority, and after gathering additional documentation, it has forwarded the case to the relevant law enforcement authorities. It was then determined that the person was associated with criminal groups.

Numerous indicators of suspected money laundering can be recognized in this case:

- relatively young investor without permanent employment and regular income (a “front” person),
- quick sale of shares immediately after purchase, although the share value keeps rising,
- transactions that are interconnected (32 transactions in the period of one month),
- successive cash deposits on accounts below the legal maximum,
- each special purpose account opened with a different bank. **[diagram 12]**

Trends

Based on the present analysis of the capital market, we cannot foresee an increased offer of additional emissions of shares or the creation of joint stock companies through public emission of shares.

What can be expected in the following period is a dominance of foreign investors. They have already dominated in the domestic capital market in the past period, and have had significant influence on the index value of the Belgrade Stock Exchange. From the money laundering aspect, various investment funds seated in off-shore destinations will be of particular significance, and their activities will be regularly followed.

In case of an attempt of reviving the market through the emission of corporate (company) bonds and local administration bonds, as well as emission of securities issued by the state, we may expect increased investor activity, together with the introduction of suspicious capital.

In the context of the fight against money laundering, as a new feature, it is important to stress that, in accordance with the new Law on the Capital Market, obligors – broker-dealer companies may handle their clients' money on their accounts with a credit institution (bank). This will additionally oblige them to get to know and follow their clients and their sources of assets better.

It remains to be seen in the following period whether new financial instruments (financial derivatives – futures, options) will make their way into the Serbian capital market. They will surely lead to the increased interest of money launderers to enter new markets. This will be the case even more so if those markets are poorly regulated. Regulatory authorities, as well as good preventive actions, can contribute to averting the introduction of dirty capital, and their role will increase.

Based on previous experience on the one hand and global trends on the other, the increase of the following activities may be expected in the future:

- **introduction of shares as a stake for the foundation of new companies, and sale of this stake (shares) to persons whose capital has suspicious origin:**

Takeover of joint stock companies and introduction of shares for the purpose of founding new companies (foundation stake in limited liability companies) which are later sold, mostly at much higher prices, to the buyers with capital of suspicious origin. In this way the transparency of the market is skillfully avoided, and the regularity of shares trading on an organized market (on and off the stock exchange) is avoided.

- **massive gifts in shares of the employees of the mother company to their managers or third persons, for compensation in cash:**

The existing trend – transfer of securities as gifts from small shareholders to their managers, for compensation in cash, should decrease. This form of transfer of shares has mostly been completed, but it will surely not be eradicated completely.

- **high-value shares as gifts to third persons:**

On the other hand, gifts in shares between unrelated persons, where there are no payment transactions (debt settlement, transfer on the basis of bank guarantees, fictitious transfers for the purpose of money laundering through cash payments to the benefit of former owners of securities) are expected to increase in the future.

- **Investors on the capital market whose coverage of the assets on the accounts originates from cash (cash deposits):**

What has always been and will remain a trend is the problem with investors in securities – natural persons, with suspicion in the origin of their money that has been deposited in cash to their accounts.

- **off-shore investors (off-shore funds, in particular), whose ultimate owner is difficult to identify:**

Doubts will remain in the following period regarding investors from the off-shore zones, because of impeded and, in certain cases, impossible identification of the real owners and the origin of money. Special threat is posed by the investors coming from the areas with data protection (banking secrecy and tax deductions)

- **investors hiding behind custody accounts, whose identity is unknown:**

One form of skilled and hidden money laundering which will remain is the case of active trade in securities through custody accounts, with a special emphasis on the group of clients standing behind accounts with foreign custody banks that strictly apply the principle of professional secrecy.

Various techniques of manipulating the capital market can still be expected, with the goal to activate dirty capital, like, for example, connected activities of multiple investors in order to acquire or transfer certain target shares, or counterfeit fictitious trade in shares for the purpose of "playing the market".²

In case of innovations on the capital market, in the form of new financial instruments, introduction of dirty capital may also be expected, as it creates a new opportunity for money launderers to transfer their illegally acquired money. For these reasons it is important to uphold regulations in the sense of protection of the capital market and investors.

² In situations when the recorded volume of trade in securities on the market is not large, without big changes and oscillations, as is the case in Serbia, for the purpose of facilitating the placement of dirty money, multiple connected investors give day-by-day orders for trading of shares, thus creating fictitious demand and an appearance of activity on the market. This situation is known in practice as "playing the market".



A close-up photograph of two hands, one holding a small, light-colored object (possibly a coin or a small piece of paper) between the fingers. The lighting is warm and focused on the hands, with a dark background.

Typologies of Money Laundering in the Insurance Sector

Generally speaking, the insurance market in the Republic of Serbia has not been afflicted by money laundering, i.e. placing illegally acquired money for the purchase of life insurance policies.

Typologies of Money Laundering in the Insurance Sector

The insurance industry is a branch of the financial industry, which has been increasingly developing in Serbia, and will probably attract more and more new clients in the future with the development of new products and diverse offer of services.

It should be noted that we are primarily concerned with business activities related to life insurance, because this form of insurance is under the constant eye of the Administration for the Prevention of Money Laundering in the fight against money laundering.

During the 1990s, insurance as a commercial activity and life insurance in particular almost completely faded. Only after 2004, upon the adoption of the new law (and its subsequent amendments in the following year) was this area regulated in accordance with developed countries of Western Europe. Accordingly, foreign insurance companies recognized their opportunity in the new market and have, along with a few domestic companies, significantly induced the development of life insurance.

It has to be stressed that foreign insurers significantly dominate the market in Serbia. Also, the state strongly supports this branch of the financial industry,

not surprisingly, since it deals with collection of important free assets of citizens and securing their future.

By comparing the participation of life insurance in the country's GDP, Serbia with 0.3% is significantly behind the developed countries (with participation of up to 10%). According to the capital value, the total insurance premium in Serbia for the year 2010 equaled 536 million EUR, putting insurance by capital value of its portfolio behind leasing, banks and the capital market. Out of 536 million EUR only 16.5% related to life insurance premiums, which contrasts drastically with developed countries where the life insurance premium participates with over 50% in comparison to non-life premiums.

When discussing past experience in the work of the Administration relating to life insurance business activities, it has been noticed that life insurance policies are mostly sold for a longer time period and with an average yearly premium below 1,000.00 EUR. The presence of one-piece premium deposits is not significant.

With such structure of issued policies, it may be concluded that money launderers do not have big interest in depositing

money by purchasing policies and “disseminating” that money for years.

However, that does not exclude the possibility for the industry to become an attractive sector for dirty money and money laundering channels.

The insurance sector is traditionally viewed as a low risk industry in regard to money laundering compared to the banking sector which is the primary path for money laundering.

It must be particularly noted that life insurance is not the primary channel for money laundering, but reports and statements from insurance companies (as obligors) are very important, because they have directly led to persons connected with criminal offences and have indicated, through further analysis, criminal offence of money laundering.

The analyses and performed surveys of the Administration show far larger danger of money being laundered through the sector of non-life insurance, as the risks the insurers are exposed to when it comes to fraud are larger, and there is a big probability of dirty money being behind it (fictitious insurance and deliberate arson, fake car crashes etc.) The value of deposited premiums in non-life insurance by

far surpasses the value of deposited premiums in life insurance.

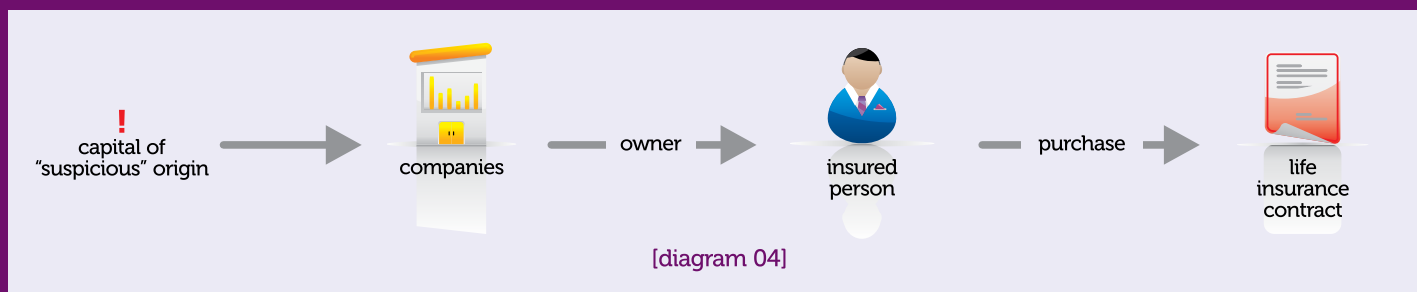
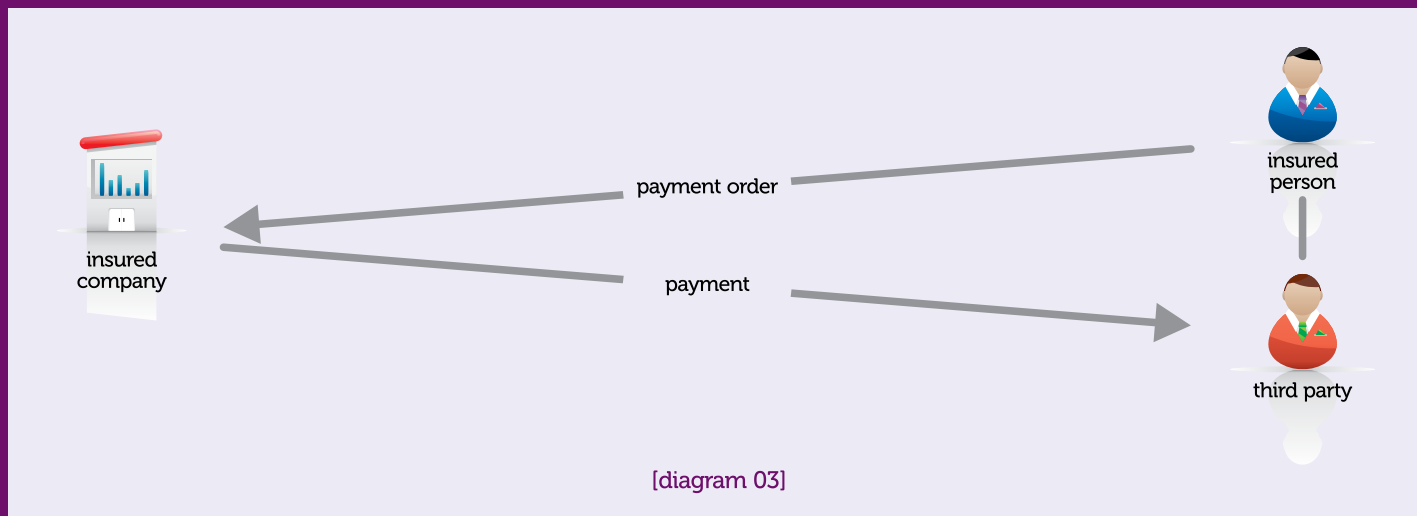
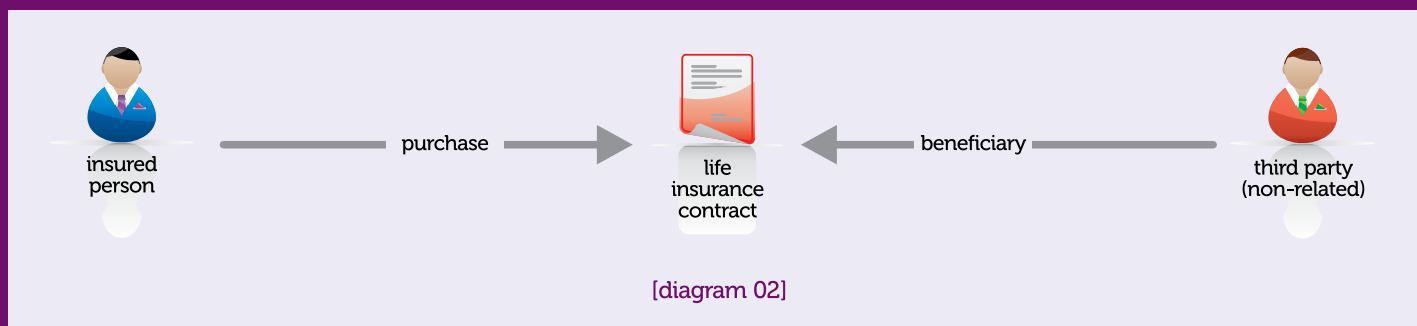
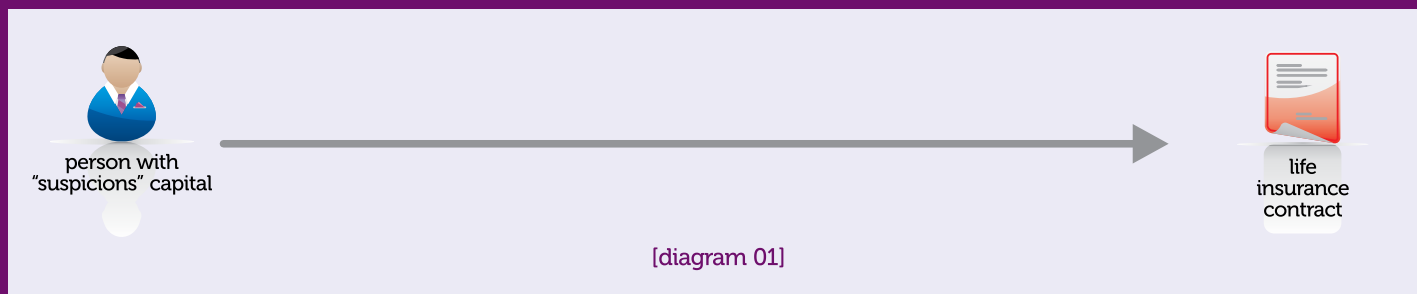
There are certain characteristics of the insurance industry making it attractive to criminals, and those are:

- representatives and agent, not recognizing which insurance products are especially interesting for money laundering, as well as failing to identify transactions that lead to money laundering. These are the result of poor knowledge of obligors about money laundering through insurance;
- a prevalent focus of insurance companies on fraud and compensation paid on the basis of acts of fraud (arson, theft, etc.);
- possibility of investments and savings (many products with elements of both investments and savings – policies with depository possibilities (collateral) – are used as guarantees for obtaining loans and purchasing real -estate);
- cash deposits that are especially encouraged in situations when the premiums are used as savings or pension stimulus;

- role of intermediaries (brokers, agents, representatives).

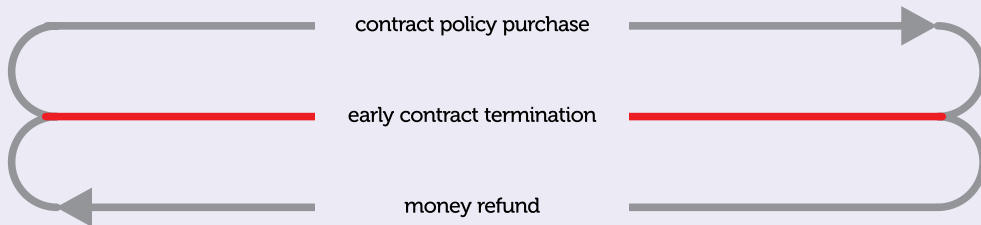
Taking into account the experience in the work of the Administration in the period from 2002-2011, and subliming the situation in the life insurance market along with the business policies of insurance companies designed to attract clients, the following activities may be distinguished as particularly significant:

- depositing large premiums of life insurance, at once or in installments, by natural persons for whom it is hard to determine professional occupation. It is noted that these persons do not have permanent employment, and are suspected to be performing illegal activities;
- policy buyer – an insured person lists a third person as beneficiary (a common case is that these are non-related natural persons);
- payment of policy (compensation, damages, etc.) is referred to a third person;
- purchasing life insurance policies with securities (old savings bonds), for which it is hard to determine the mode of acquisition of the bonds.





insured person



insured company

[diagram 05]

Typologies

Large insurance premiums

Depositing large insurance premiums, at once or in installments, by natural persons without permanent occupation, who are suspected to be performing illegal business activities; [diagram 1]

Policy beneficiary – non-related natural person

Policy buyer – an insured person lists a non-related natural person as beneficiary in the policy; [diagram 2]

Payment of policy to the benefit of a third party

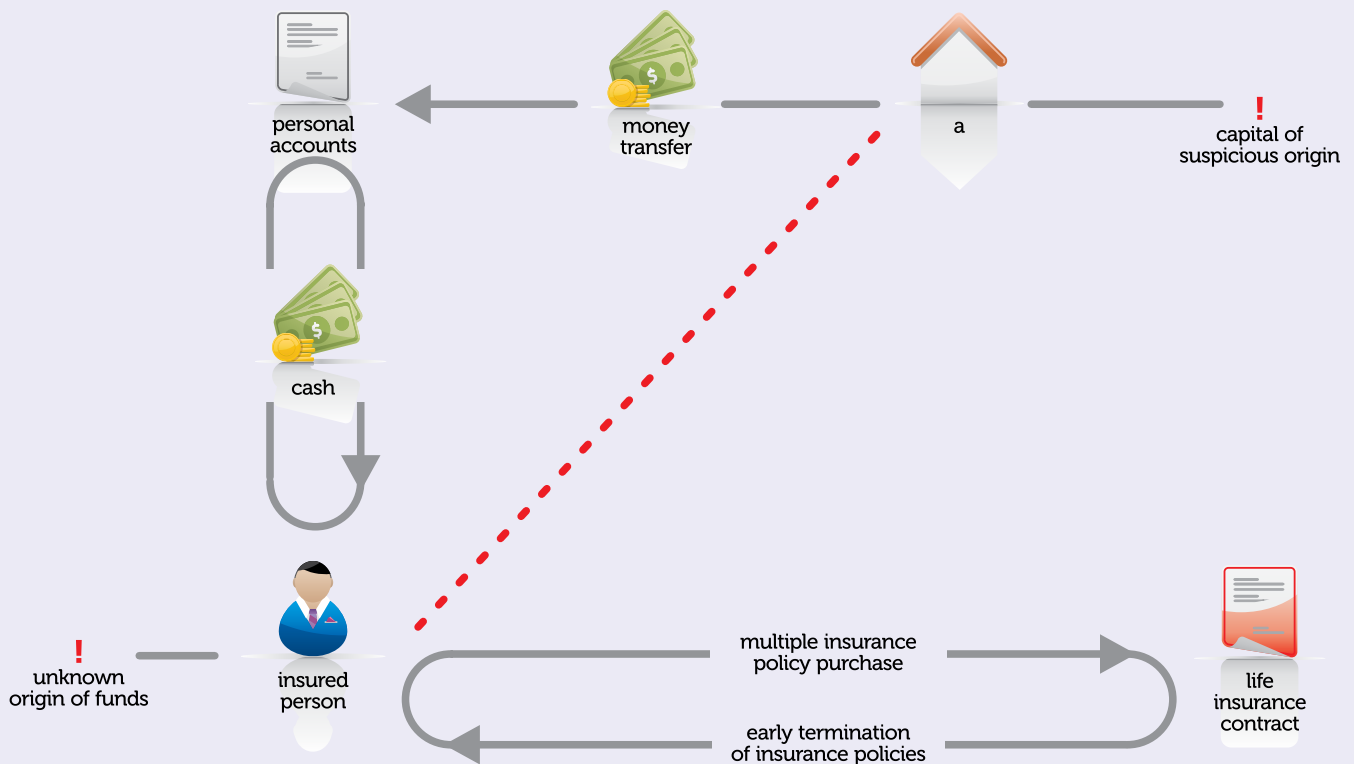
Payment of policy (compensation, damages, and expiry) is referred to a third party (natural person or legal entity); [diagram 3]

Capital of suspicious origin

Purchase of a life insurance policy for the purpose of layering and integrating money of suspicious origin; [diagram 4]

Short termination period

Purchase of policies with one-time premium deposit, to a larger amount, with a short termination period [diagram 5]



[diagram 06]

Example

Description of the situation: A natural person – insured persons bought several life insurance policies from an insurance company for an unusually high amount of money (it is well known that average payments of policies by the insured individuals in the Republic of Serbia are low). Some of the policies have short termination notice, and payments of the insurance premiums were made in cash successively and regularly. In the same period, except for the purchase of policies, the insured person paid significant amounts of money to personal accounts.

The origin of financial assets of the insured persons is unknown.

The Administration gathered all additional information for the insured person and discovered, by analyzing numerous unusual transactions with company “A”, that there was a link between the above mentioned company and the insured person. Namely, in only three months, a great number of transfers of substantial amounts were performed on behalf of company “A” on the account of the insured person. The trade of goods and services was stated as the basis for transfer. Right after the completion of payments by company “A”, the insured person would withdraw the money from his personal account. Based on further analysis, it was determined that

the real owners of company “A” were persons involved in organized crime.

Based on the report of a suspicion transaction by the insurance company, tracking the cash flow, it was discovered that the origin of the cash which was used for the purchase of life insurance policies was irregular and illegal. The insured person attempted to integrate part of that dirty money in legal flows, through the purchase of life insurance policies, with an intention to buy back the policies within a relatively short period of time.

This case was directed to competent institutions.



There are numerous indicators which led to a suspicion that there was money laundering in the above described case:

- Unusual and high payment of life insurance policies (if it is known that average payments of policies per insured person are approximately EUR 1,000),
- Some of the policies had a short termination notice,
- There were numerous high cash placements to personal accounts of the insured person,
- It is difficult to identify real owners of company "A". **[diagram 6]**

Trends

The assumption is that, when it comes to insurance, doubt will be related to disputable identification of the clients (unemployed persons, suspicious activities, concealed sources of cash for high premium payments), policies in the names of different insured persons and payments of premiums by third persons in favor of the insured persons.

Special attention should be paid to the development of new investment products which become very interesting to money launderers. This primarily refers to the fact that life insurance policies could be used as stimulative savings or collateral for getting a loan.

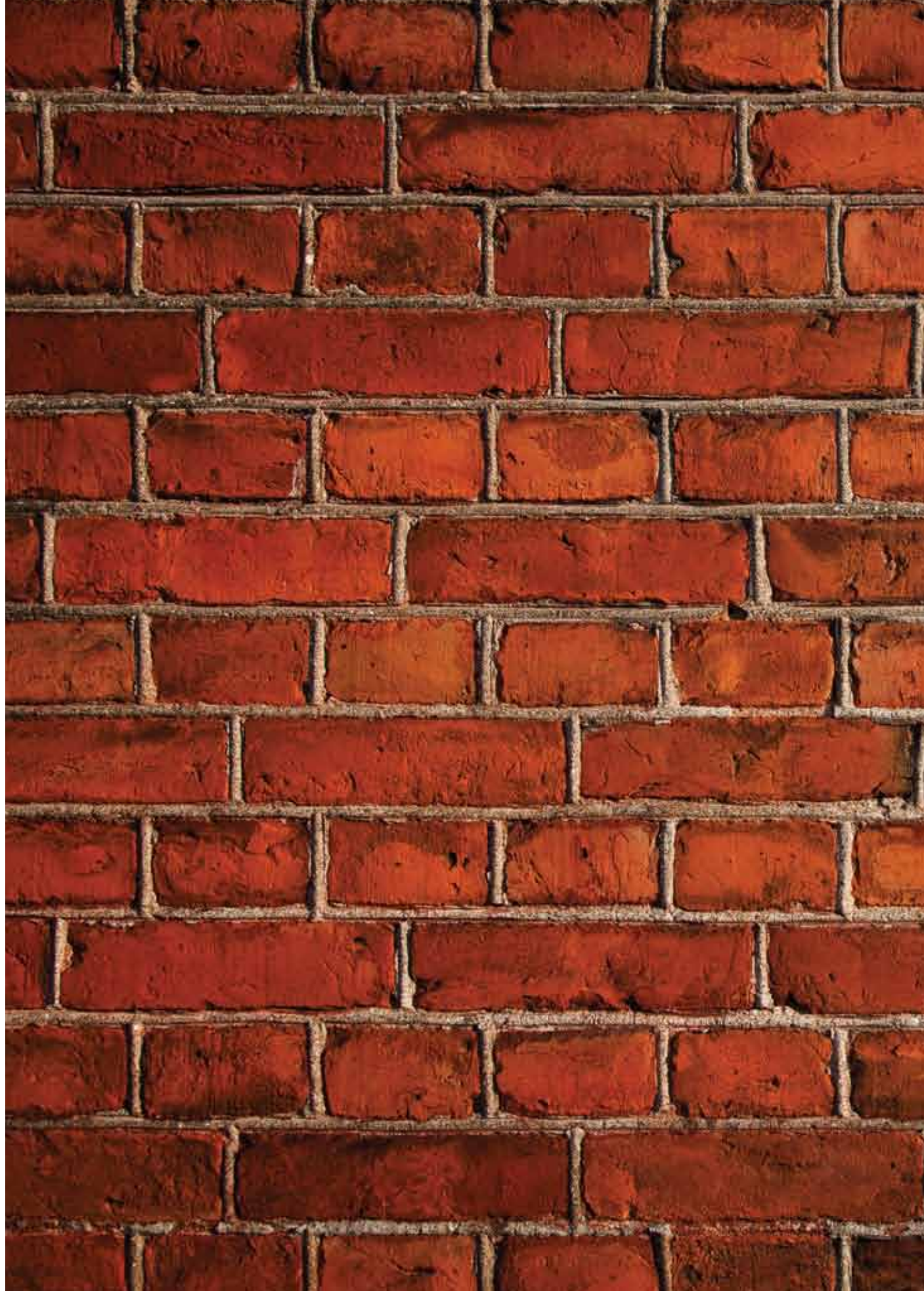
The development of the life insurance industry in Serbia depends on the introduction of new products, the purchase of life insurance policies which offer investment possibilities – investment policies (mortgage and other loans) and the purchase of the policies which have elements of savings (offer profit which is higher than average for the other policies).

In case this increasing trend of the insurance industry continues, we could expect that the following characteristics will be a new motive for introduction of dirty capital:

- Purchase of life insurance policies and investment products (life insurance with investment risk refers to indirect investment in investment funds and entrance to the capital market with the goal of achieving higher value of the policy etc.)

- Purchase of life insurance policies with deposits-savings characteristics or purchase of different types of life insurance – so called "grouping of policies" (life insurance, rent insurance, additional insurance, voluntary pension insurance, risk life insurance). The characteristics of this type of insurance stimulate the placement of "dirty" money;
- Committing fraudulent actions in insurance supported by money laundering such as: insurance of risky population who frequently change addresses or conceals real identity and place of residence, close relations between the representatives and insured persons, or management and the insured persons, and all with the goal to aggravate the identification of dirty money which is placed for purchase of the policies.

We would like to emphasize once again that insurance is not the primary channel for money laundering. However the experience of other countries show that money launderers have been focusing on insurance companies who offer products for investment, such as savings or investments in the capital market, that enable money launderers to use numerous legal and new products to launder quickly and efficiently and in larger amounts. This was previously not the case with the purchase of regular life insurance policies.



A close-up photograph of a red brick wall with visible mortar joints, serving as a background for the document.

Money Laundering Typologies in the Real- Estate Sector

Both in the Republic of Serbia and the world, the real-estate sector is largely used in order to integrate the “dirty” money. The facts that support this claim show that the extent of laundering in the world is so high, that it was discovered that the entire complexes worth hundreds of millions of dollars are built using this “dirty” capital. The experiences show that Serbia has not been spared from money laundering on the real-estate market.

Money Laundering Typologies in the Real-Estate Sector

"Dirty" money obtained in the nineties, when the commercial crime was strengthened, was massively used at the beginning of the twenty first century, due to the economic recovery of Serbia and sudden increase of demand for the apartments.

In the period after 2000, there was a trend of rapid growth of residential construction. Each individual could obtain land, building permit and build business or residential facilities. On the other hand, it was obvious that high amounts of money in the real-estate sector had suspicious origin. Investment in building of the real-estate and later disposal of the real-estate was very interesting for the individuals involved in organized crime, as well as to organized criminal groups. The link between crime and political structures is very important for this process. In order to obtain the permits for attractive locations, "dirty" money i.e. those who had it, used extremely corruptive methods.

Each person for whose needs a facility is built and in whose name the construction permit is issued can be an investor in Serbia. That practically means that each natural person can very easily be in construction business.

In the previous periods, the Administration intensively worked on its own, as well as in coordination with other state institutions on the cases where there was a suspicion of money laundering. In the real-

estate sector, transactions of high amounts were especially interesting, and they were used for purchase of the land (location for construction) or construction material. It is not rare that the "launderers" used several related transactions in order to conceal the real origin of money.

The aggravating circumstances which make the real-estate sector vulnerable for money laundering are obvious connections between the organized crime and the politics, especially in relation to the purchase of attractive locations for construction of buildings, and in the segment of issuing of construction permits. All this makes the fight against organized crime and money laundering, as its integral part, more difficult.

It is safe to say that money laundering through real estate is significant. Money, i.e. assets are often laundered through purchase of real-estate. The fact which contributes to this situation is, as it was previously stated, the real-estate market which is not regulated.

The experiences so far show us that:

- "Dirty" money is integrated in the real-estate sector through purchase of land, building of apartments, houses and business premises;
- Numerous construction companies are founded by the criminals;

- High amounts of cash are placed through banks and other financial institutions (postal services) for purchase of real-estate and construction materials;
- In order to conceal “dirty” money, it is layered through several companies in order to conceal criminal origin of that money;
- Also, high amounts of cash are paid on the accounts of the institutions that deal with construction land;

The experience tells us that some very powerful and suspicious investors have appeared, which could be categorized as follows:

- Off-shore companies which provide money for construction of real-estate, and their real origin, or real owners cannot be determined;
- Individuals (natural persons) with criminal records;
- “Start up” – newly formed “target” companies with primary goal of placement of “dirty money” in real-estate and construction sector;
- Cover persons – i.e. persons with “clean” past, who work in the name and on behalf of criminal investors.

Typologies

Iz svega rečenog, može se doći do tipologija pranja novca kroz sektor nekretnina:

Investor – natural person

Placement of high amounts of cash of unknown origin to the personal bank accounts of the investors (natural persons) for the purchase of real-estate – cash which is suspected to be illegal is placed on the account of the investor – seller of the real-estate, and thus, his “dirty” money is “turned into” the property –house or apartment. The real-estate can further be sold and the money received from selling is invested in the securities, or it is simply used to purchase a new real-estate. The goal of this series of transactions is concealing of illegal origin of money;

High amounts of cash

Payments of high amounts of cash of unknown origin by foreign investors (natural persons) to the institutions authorized to sell the locations and land;

Investor pays with cash

A natural person appears as an investor, who uses the cash of unknown origin to pay for the construction works, sells newly built apartments and thus obtains clean money;

Use of third persons

Payments through “third” entities – an authorized person with no criminal background, respected citizen, with low income or without regular income purchases a real-estate on behalf of a money “launderer”;

Cashless transactions

Cashless transaction through legal entities for which there is a doubt that the money originates from illegally obtained assets or it is difficult to identify a real owner;

Off-shore investment assets

Purchase by investment assets from the off-shore destination, but their origin is unknown;

Subcontractors

An investor uses “dirty” money to pay the contractor for the services in the amounts which are higher than the real ones, and then the contractor layers the money once again based on the service to several legal entities (subcontractors), which are then issued fictitious invoices, and that is how he receives laundered money. [diagram 01]

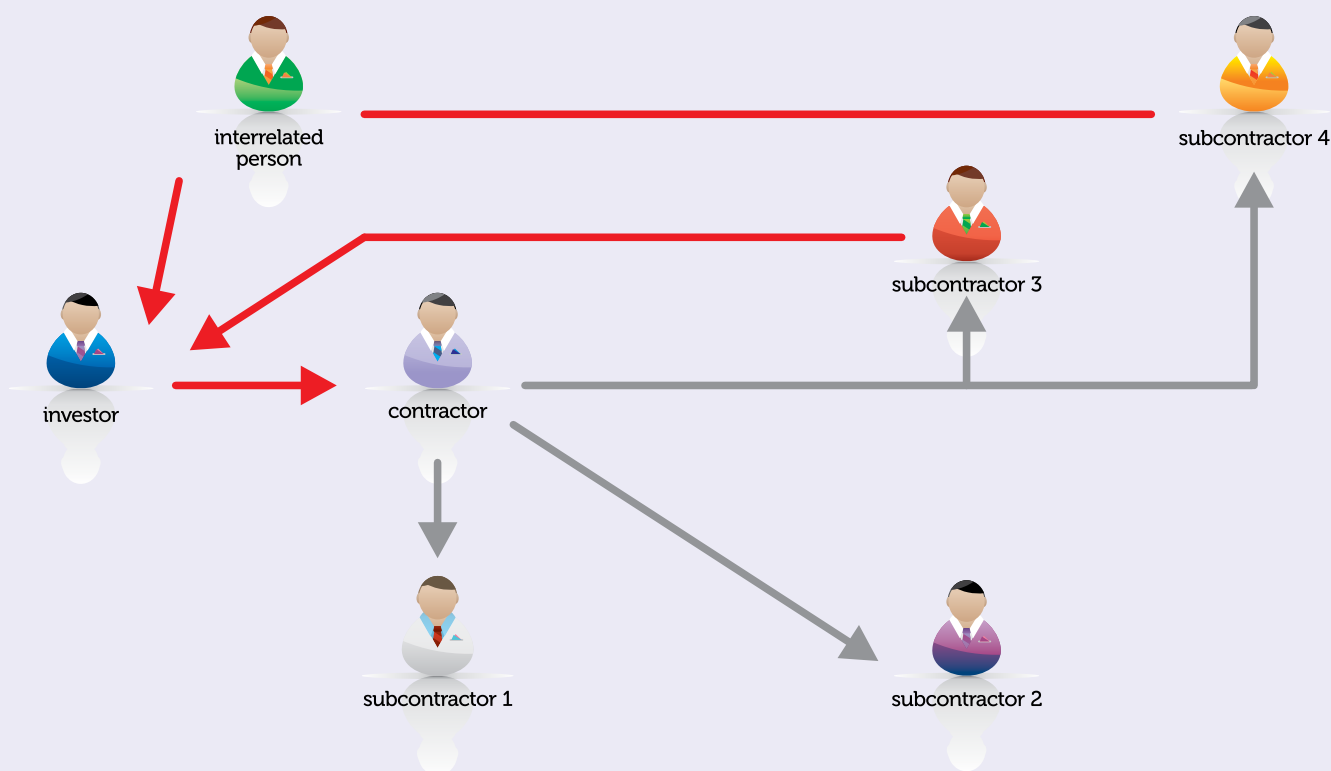
Example

Based on the information received from the Customs Administration, the Administration discovered that, within a short period of time during a few months, natural person X brought cash in the amount of EUR 1.400.000 to the Republic of Serbia. The origin of the money is unknown, but it is suspected that it was received from illegal arms trade. Natural person X is a non-resident, working in construction and selling of the houses, he is not the owner of the company, nor is he registered as an entrepreneur. Cash brought in the Republic of Serbia was then placed on several accounts opened in different banks. The bases for the placements were different: sale and purchase agreement, placement of the account,

term deposits of RSD amounts, foreign currency savings etc. An agreement was concluded with a bank on special purpose loan without deposit in the amount of almost 1.000.000 EUR. The purpose of the loan was completion of the construction works on a real-estate on an attractive location. A mortgage on another real-estate was registered as a security of the loan. The loan was repaid immediately after it was granted, and a lot before the expiration of the deadline for repayment.

The indicators which bring to the conclusion that this was a case of money laundering: [diagram 02]:

- Placement of the high amount of cash as a deposit for receiving a loan, and then, unexpected



[diagram 01]

request of the client to repay the loan before deadline;

- Frequent transfers of high and rounded amounts by the client.

Trends

In the last few years, due to the influence of the world economic crisis on the economy in Serbia, construction business has been slowing down.

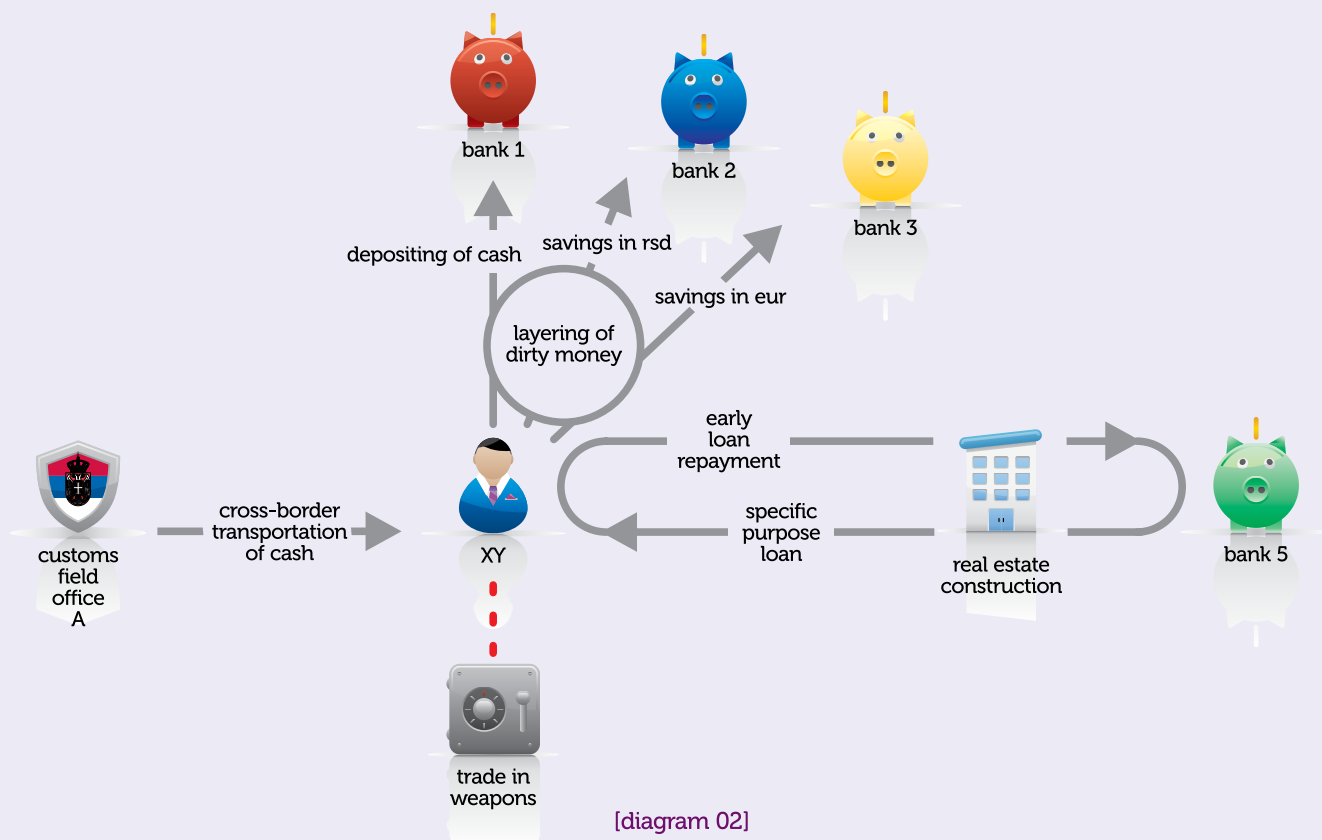
In the upcoming period, it is expected that the trend of money laundering through real-estate will decrease, due to the world financial crisis, on one side, and more attentive "public eye"

focused on the current events, on the other side. The criminals tend to find more sophisticated methods for money laundering, such as securities trading, insurance, which require better knowledge and skills, but also provide better guarantee that "dirty" origin of money will not be discovered.

However, regardless of all that, if the real-estate market recovers, the flow of "dirty" money will start again, because this sector is always very attractive, and especially when it comes to integration, the third phase of money laundering, when illegally obtained money is presented as legal, and it is the most difficult to prove its origin. The inflow of foreign capital is expected, which originates from the off-shore zones, and it will be very difficult to

determine who the real owner is. It is expected that the attractive locations will be the target for this capital. Furthermore, elements of corruption are expected to remain as before.

On the other hand, implementation of the Law on Confiscation of Property Gained by Crime, will contribute to the decrease, and during a year and a half since its implementation started (in force since March 2009) it has given good results.



Glossary

CyberCash is a payment system that provides secure transactions over the Internet by payment cards.

Dematerialization of securities – conversion of securities from material form (paper) into electronic records kept with the “Central registry, depository and clearing of securities”

E-Banking is a service offered by banks that provides online disposal of assets from all accounts. In Serbia, by using E-banking, natural persons may dispose of their assets only from their RSD accounts, and legal entities both from RSD and foreign currency accounts.

Futures are a financial derivative presenting an obligation to purchase or sell certain goods or financial assets such as wheat, gold, and securities on a certain day in the future based on a previously agreed price.

Grouping of policies – The insured persons purchase various insurance policies, such as long term life insurance with termination, life insurance with short termination notices, policies for insurance of third persons for higher amounts with a termination clause, investment policies, pension and health insurance policies, etc. This practically means that an insured person makes a portfolio of policies.

Indicative price of shares – Price of securities for real trading.

Investment policies – Policies which enable the owner of the policy to select an investment fund where the insurance company will invest his/her money. For this reason these insurance policies have an investment character.

Custody account – Securities account opened and kept with custody banks with the Central Securities Registry, and may be individual or group.

Conversion of property – Conversion of one type of property into another one.

Listed companies – Companies that fulfilled the condition and criteria for their securities to be listed on the Stock Exchange.

Mobile Commerce – Money transaction done through the mobile telecommunication network.

Non-auditing services includes all the services except for the auditing services.

Non-resident account – Bank account opened in the country whose owner is a natural person or legal entity who is a non-resident of that country.

Off-shore legal entity – Means legal entity which does not or may not have production or trade activities in the country where it is registered.

Option is a financial derivative which includes a right, but not the obligation, to purchase or sell certain assets, on a certain day, based on a previously agreed price.

Cover person – Person without criminal file who acts in the name and on behalf of another person – a criminal.

PayPal is a company that provides intermediation services for payments, thus the money transfers are completely done via the Internet, i.e. everyone who has an e-mail address can send money to another person who has an e-mail address. This process includes opening of the user's account to which the assets from the current account are transferred or via a payment card.

Payment cards are the instruments of non-cash payments that enable the users to pay the goods or withdraw the cash without going to the bank.

Insurance policy – A basic written document which accompanies insurance activity, which defines the duties and obligations of the parties. In certain cases the policy is a form of insurance agreement.

Tax haven – Countries where financial investment is made easier, lower taxes exist and strict rules on banking secrecy apply.

Transfer of shares – shares are transferred without compensation, based on a contract of gift.

Transfer of shares based on contract of gift – Transfer of the ownership of shares from one person (initial owner) to another person (new owner) without financial compensation (financial transaction). This type of transactions is also defined as FOP transaction (engl. free of payment).

Insurance premium – Cash amount the user of the insurance, i.e. insured person is obliged to pay as compensation for securing insurance.

Dirty money – Money obtained by committing crimes.

Identity sale – Natural persons without a criminal history who represent business interests of persons involved in criminal activities. A natural person accepts this type of substitute for financial compensation or a commission.

Project financing is a type of loan which is, under certain circumstances, granted to newly founded companies for construction of residential and business premises, and mortgage on the facility being built is seen as security for repayment of the loan, as well as lien on company shares.

Accounting documents – All the documents that prove business activities.

Accounting statement – means written presentation of financial conditions of a legal entity. The basic financial reports comprise of a balance sheet, income statement, statement of cash flow, statement of changes in equity and notes to financial statements.

Warming up the market – An attempt to activate the market i.e. to use “artificial approach” to create offer and demand for certain securities.

SPV – Special Purpose Vehicle are newly founded companies that are granted project financing.

Medium size enterprises – medium size companies include those legal entities that on the day financial statements are made fulfill at least two of the following criteria:

- annual revenue of 2,500,000 EUR to 10,000,000 EUR in RSD;
- that the average number of employees in a year for which the statement is made is from 50 to 250;
- that an average value of the business property (at the beginning and end of a business year) is between 1,000,000 EUR to 5,000,000 EUR in RSD.

Smurfing – conversion of a great amount of financial assets through numerous transactions of smaller amounts in order to avoid reporting to the Administration for the Prevention of Money Laundering.

Currency conversion – conversion of one currency to another one.

Large enterprises – large companies include legal entities that are larger than the highest values in the indicators of medium size enterprises for at least two of the listed criteria for medium sized enterprises.

SWIFT is the system for communication between financial institutions for exchange of the following data:
103 MT 103 Single Customer Credit Transfer
Correspondent Input Reference
Sender : bank of the order issuer or correspondent bank
Receiver : bank of the beneficiary or correspondent bank Date:

STP
:20: Sender's Reference:
:23B: Bank Operation Code:
CRED
:32A: Value Date/Currency/Interbank Settled Amount ...
Date: | Currency: | Amount:
:50K: Ordering Customer:
Order issuer
:52A: Ordering Institution:
Bank of the order issuer
:53A: Sender's Correspondent:
Correspondent bank, bank of the order issuer
:57A: Account with institution
Bank of the payment beneficiary
:59: Beneficiary Customer:
Payment beneficiary
:70: Remittance Information:
Based on which the transaction was done
:71A: Details of Charges:
Who bears the costs

