



Asia/Pacific Group  
on Money Laundering

# **The Asia/Pacific Group on Money Laundering (APG)**

## **APG YEARLY TYPOLOGIES REPORT 2002**

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# Contents

<b>Purpose .....</b>	<b>1</b>
<b>Background.....</b>	<b>1</b>
<b>Section 1: Overview report on money laundering trends and techniques in the region .....</b>	<b>2</b>
<b>Synopsis of regional money laundering methods and trends 1998 – 2001 .....</b>	<b>2</b>
<b>Synopsis of regional money laundering methods and trends 2001 – 02.....</b>	<b>7</b>
<b>Section 2: Report on the 2002 APG Typologies Workshop .....</b>	<b>8</b>
<b>Section 3: Progress Report on the APG Working Group Alternative Remittance and Underground Banking Systems.....</b>	<b>10</b>

## PURPOSE

This report is the initial APG Yearly Typologies Report. It is intended to give an overview of anti-money laundering and counter-terrorist financing (AML/CFT) typologies activities in the region. It also outlines the proposed approach to the production of similar future reports.

## BACKGROUND

The APG's Strategic Plan 2001-04 sets out the APG's mandate in relation its 'typologies' work. Goal 1 of the Strategic Plan requires the APG to 'Develop a better understanding of the nature, extent and impact of money laundering in the region'. There are five strategies listed under this Goal, as follows:

- 1.1 *Conduct an annual Typologies Workshop in which members and observers are required to:*
  - *report on trends and methods of money laundering in their jurisdiction;*
  - *analyse particular sources and methods of money laundering;*
  - *determine any emerging money laundering trends or patterns within and between jurisdictions in the Asia/Pacific region; and*
  - *identify effective money laundering countermeasures.*
- 1.2 *As appropriate, establish Working Groups to examine and report on particular aspects of money laundering.*
- 1.3 ***Synthesise information gathered in Typologies Workshops, APG mutual evaluations, APG self-assessment exercises, Working Groups and other sources to produce a yearly report on money laundering trends and techniques in the region.***
- 1.4 *Undertake, encourage, contribute to and/or sponsor studies to measure the extent and impact – both economic and social – of money laundering in the region.*
- 1.5 *Using a range of communication tools, exchange information concerning the nature, extent and impact of money laundering with anti-money laundering bodies and other sources and disseminate such information to APG members.*

This Typologies Report includes the following sections:

- (i) *Section 1: Overview of trends and techniques in the region*
- (ii) *Section 2: Report on the annual APG Typologies Workshop.*
- (iii) *Section 3: Progress Report on the work of specialist APG Working Groups.*
- (iv) *Section 4: Other relevant typologies work (eg specialist studies, other initiatives, work of the FATF and other FATF-style regional bodies);*
- (v) *Section 5: Future APG Yearly Typologies Reports.*

Because this is the first document of this type, as well as discussing a number of issues of principle, a brief synopsis of money laundering trends identified over the first few years of the APG's existence has also been included.

## **SECTION 1: OVERVIEW REPORT ON MONEY LAUNDERING TRENDS AND TECHNIQUES IN THE REGION**

### **Synopsis of regional money laundering methods and trends 1998 – 2001**

- 1.1 As noted above, because this is the first report of this type prepared by the APG, as well as providing a synopsis of regional money laundering methods and trends in 2001 – 02, this document also provides a brief synopsis of money laundering methods and trends identified over the past few years, based primarily on the reports of previous APG Typologies Workshops.
- 1.2 The APG has held five Typologies Workshops since its establishment:
  - in Wellington, New Zealand, in October 1998;
  - in Tokyo, Japan in March 1999;
  - in Bangkok, Thailand in March 2000;
  - in Singapore in October 2001; and
  - in Vancouver, Canada in October 2002.
- 1.3 These workshops are briefly described before some general conclusions concerning money laundering methods and trends are outlined.

#### ***Wellington Workshop, 1998***

- 1.4 The Wellington Workshop focused on the following topics:
  - the vulnerability of and the special problems encountered by offshore financial centres; and
  - Financial Havens, Banking Secrecy and Money Laundering.
- 1.5 Workshop participants were called upon to submit written reports prior to the commencement of the Workshop. At the Workshop, participants were asked to highlight the most significant money laundering related issues specific to their particular jurisdictions, as well as to the Asia/Pacific region as a whole.
- 1.6 As well as discussing overall methods and trends of money laundering, participants in the Workshop agreed that regional factors must be recognised and addressed, especially the widespread use of cash in daily commerce in the region and agreed to consider the problems raised by alternative remittance services and, in conjunction with Interpol, prepare a paper on this subject.

#### ***Tokyo Workshop, 1999***

- 1.7 The primary focus of the Tokyo Typologies Workshop was underground banking and alternative remittance systems and, in particular, the following issues:
  - how Underground Banking and Alternative Remittance Systems are being used for money laundering;

- how money laundering through Underground Banking and Alternative Remittance Systems can be investigated;
- what information is needed by investigators and prosecutors when conducting money laundering investigations involving Underground Banking and Alternative Remittance Systems; and
- what technical assistance and training skills are needed in order to detect, investigate and prosecute money laundering cases involving Underground Banking and Alternative Remittance Systems.

1.8 Written reports were supplemented by presentations and discussions highlighting:

- the ease, efficiency and therefore attractiveness of trust based (Hawala) alternative remittance systems;
- the fact that these systems provide an effective means to transmit funds outside conventional financial institutions with minimal or no record keeping and with little risk of detection by the authorities; and
- the types of transmission of funds by these systems, including hawala swap, invoice manipulation, and gold smuggling.

1.9 A key conclusion was the widespread nature of alternative remittance systems and underground banking, both within and between jurisdictions. There was also a consensus that significant portions of the funds remitted overseas by alternative remittance dealers are derived from serious criminal activity.

1.10 The workshop heard of a variety of cases where Hawala has been used including cases involving alien smuggling, insider trading, customs and tax violations and narcotics trafficking, terrorism, welfare fraud and gambling.

1.11 The workshop concluded that the use of alternative remittance systems is widespread in the majority of jurisdictions. However, it was agreed that an estimate of the extent of money laundering through alternative remittance systems would be very difficult to determine because such systems are also widely used for legitimate transactions, and minimal records are kept.

### ***Bangkok Workshop, 2000***

1.12 The four stated purposes of the Workshop were:

- to receive a report from the Typologies Working Group on Alternative Remittance and Underground Banking Systems and to discuss the future work and direction of that Working Group;
- to bring together knowledgeable law enforcement officers and other specialists concerned with the use of false identities for money laundering purposes, with special emphasis on financial institutions, electronic/internet transactions, and offshore financial centres;
- to gain a better understanding of how false identities are used for money laundering purposes and what countermeasures are available;

- to determine any emerging money laundering trends or patterns within and between jurisdictions in the region and to consider appropriate countermeasures.
- 1.13 The findings of the Working Group on Alternative Remittance and Underground Banking Systems have been summarised in detail in the various reports prepared by the Working Group over the last few years, and are not repeated here.
- 1.14 The subject matter of special emphasis at the Bangkok Typologies Workshop was the use of false identities for money laundering purposes. The Workshop received special presentations from two bank industry representatives. During the Workshop, participants were asked to discuss jurisdictional experiences in this area. Several of the participants submitted reports detailing their own experiences.
- 1.15 The Workshop concentrated on the following issues:
- understanding what constitutes the use of false identities, especially as it relates to the conduct of financial transactions; and, in particular, money laundering.
  - comparing the experiences of jurisdictions that have identified illicit activities that, at least in part, made use of false identities to assist in the movement of funds.
  - discussing various countermeasures that are, or should be, available to address the issue of money laundering through the use of false identities, with an emphasis on issues specific to regulatory, investigative and financial institution sectors.
  - discussing how money laundering through the use of false identities can be investigated.
  - determining what information is needed by investigators, regulators, supervisors and prosecutors, when conducting money-laundering investigations involving the use of false identities.
  - determining what technical assistance and training skills are needed in order to detect, investigate and prosecute money-laundering cases involving the use of false identities.
- 1.16 The presentation of the case studies, as well as the Workshop discussion identified the continued existence of significant criminal activity, especially as it relates to drug trafficking, fraud and tax evasion, that generates substantial amounts of criminally derived funds that move through legitimate, as well as illegitimate, financial systems.

### ***Singapore Workshop, 2001***

- 1.17 The Workshop was held in the context of an increased global focus on money laundering and its implications. This resulted in an open and frank exchange of information and expertise and a shared commitment to improved practical cooperation in the region. Highlights of the Workshop included:

- development of a clearer picture of current money laundering methods and trends in the region;
- a discussion of drug trafficking, financial crime and corrupt activities which generate significant proceeds of crime. Based on the presentations and plenary discussion, it was generally agreed that the money laundering methods in each of these areas tend to be similar, regardless of the source of illegal funds;
- establishment of a Working Group to examine ways to improve information sharing in money laundering investigations;
- there was extensive discussion and endorsement of a report on underground banking and its use in money laundering and agreement to conduct further intensive work in this area. It was agreed that the report and any further recommendations should be provided to other appropriate bodies, including the FATF in its review of the 40 Recommendations.

### ***Vancouver Workshop, 2002***

- 1.18 The Workshop was held in the context of a very strong global focus on money laundering and terrorist financing issues. This resulted in a topical, open and wide ranging exchange of information and expertise and a shared commitment to improved practical cooperation in the region. Special attention was given to:
- the use of underground banking and alternative remittance systems to launder money;
  - tracing the proceeds of crime and terrorist financing; and
  - information sharing issues.
- 1.19 Highlights of the Workshop included:
- special presentations on underground banking and alternative remittance systems by representatives of the Royal Canadian Mounted Police (RCMP), the US Financial Crimes Enforcement Network (FINCEN) and The World Bank;
  - special presentations on information sharing by representatives of Interpol, The Egmont Group of Financial Intelligence Units and the Anti-Money Laundering Office of Thailand;
  - breakout sessions to discuss in depth issues relating to alternative remittance systems and information sharing as they relate to money laundering and terrorist financing;
  - special presentations on tracing the proceeds of terrorist financing and money laundering by representatives of the Financial Action Task Force (FATF) Secretariat, the RCMP, and the US Federal Bureau of Investigation; and
  - development of a clearer picture of current money laundering methods and trends in the region.
- 1.20 The Workshop concluded with agreement on the need for a continuing and increased understanding of money laundering methods in the region and renewed commitment to effectively counteracting these methods. This will

include the preparation of a Yearly Report on Typologies by the APG summarising money laundering and terrorist financing methods and trends and APG typologies work being done by the APG and others.

### ***Summary of method and trends 1998 - 2001***

1.21 Drawing on the outcomes of the APG's four Typologies Workshops and the jurisdiction reports submitted for those Workshops, the significant sources of proceeds of crime, methods used by criminals to launder the proceeds of crime and the trends in the Asia/Pacific region include:

#### Sources of funds

- major sources of proceeds of crime include those derived from the activities of traffickers, in both people and illicit drugs, gambling operations, organised criminal groups and fraud;
- money laundering as a means of disguising and hiding the proceeds of violent and serious crimes such as kidnapping, arms smuggling, hijacking, extortion, public corruption and crimes by terrorist groups;
- money laundering as a consequence of tax evasion.

#### Methods and trends

- the use and abuse of the services offered by offshore financial centers for the purposes of money laundering;
- movement of currency and other forms of funds by means of non-traditional banking services, such as underground or alternative banks, currency exchange houses and remittance facilities;
- the problems caused by the widespread use of cash in the region ('the cash economy');
- the use of false identities and use of the names of relatives/friends for opening and operating bank accounts;
- the increasing use of professionals, including lawyers and accountants, for the purposes of money laundering;
- structuring, or deliberately breaking down, currency transactions so as to avoid legal reporting requirements and detection;
- purchasing of bank drafts and bank cheques, as a substitute for currency, and transporting the drafts and cheques via couriers or through the postal service;
- physical removal of currency from jurisdictions by the making of false declarations or by the smuggling of large amounts through cargo containers or international courier services;
- traditional electronic movement of funds by means of bank transfers or transfers through financial advisors and insurance or securities brokers;
- changes and innovations in technology that allow for undetected electronic movement of funds, such as transfers of funds over the Internet, the purchase of goods and services over the internet with illegally derived funds and the use of emerging technologies such as stored-value cards;



- the use of company formation agencies to form “shell” companies and the use of “shell” companies to disguise the true ownership and source of illicit funds and to facilitate transfers of those funds;
- transfers of proceeds of crime outside the jurisdiction for the purpose of investment, including the purchase of real estate;
- the use of the gambling industry, including casinos, to transfer and disguise the proceeds of crime;
- the use of negotiable instruments and credit and debit cards to transfer and disguise the proceeds of crime;
- it was noted that laundering of proceeds by perpetrators of predicate crimes is also a common practice.

### **Synopsis of regional money laundering methods and trends 2001 – 02**

- 1.22 This analysis is based primarily on the reports provided by APG member and observer jurisdictions for the 2002 APG Typologies Workshop. Jurisdiction reports were received from: Australia; Cambodia; Chinese Taipei; Cook Islands; Fiji Islands; Hong Kong,China; Indonesia; Japan; Korea, Republic Of; Macau,China; Malaysia; New Zealand; Philippines; and Sri Lanka. A copy of these jurisdiction reports has been provided to APG member and observer contact points and was provided to Typologies Workshop participants.
- 1.23 An analysis of the jurisdiction reports (not all of which contained specific information concerning money laundering methods and trends) reveals the following methods and trends:
- most jurisdictions reported a continuing or increasing use of alternative remittance systems/underground banking;
  - many jurisdictions mentioned the use of false identities/relatives/stolen identities. One jurisdiction (Hong Kong,China) mentioned the use of powers of attorney to disguise the owner/beneficiary of illicit funds;
  - several jurisdictions reported the use of the Internet/automatic teller machines (ATMS);
  - several jurisdictions reported the use of gambling/casinos;
  - several jurisdictions reported the use of professional and/or financial intermediaries (eg lawyers, securities and foreign exchange traders);
  - several jurisdictions reported the use of *structuring* of transactions to avoid detection;
  - there were isolated reports of physical removal of currency, the cash economy, shell companies and investment firms.
- 1.24 Virtually all the methods and trends reported by jurisdictions were consistent with previously reported methods/trends, though there was a strong and possibly increasing emphasis on *underground banking/alternative remittance* (already a strong focus of the APG’s typologies work) and *false identities* (also the subject of the APG’s focus at its 2000 Typologies Workshop).

## **SECTION 2: REPORT ON THE 2002 APG TYPOLOGIES WORKSHOP**

- 2.1 The Fifth Typologies Workshop of the Asia/Pacific Group on Money Laundering (APG) was held on 29 – 30 October 2001 in Vancouver, Canada, hosted by the Royal Canadian Mounted Police.
- 2.2 The Workshop was attended by more than 120 law enforcement and regulatory experts from 28 jurisdictions<sup>1</sup> and seven international and regional organisations<sup>2</sup>. The Workshop was chaired by Superintendent Garry W. G. Clement, Royal Canadian Mounted Police and Mr Rick McDonell, Head of the APG Secretariat.
- 2.3 The Workshop participants were honoured to have an opening address delivered by Deputy Commissioner Bev Busson of the Royal Canadian Mounted Police gave the Opening Address.
- 2.4 A detailed report of the discussions, presentations, conclusions and recommendations of the Workshop was prepared by the APG Secretariat and sent to each of the delegations.

### **Workshop Highlights**

- 2.5 The Workshop was held in the context of a very strong global focus on money laundering and terrorist financing issues. This resulted in a topical, open and wide ranging exchange of information and expertise and a shared commitment to improved practical cooperation in the region. Special attention was given to:
  - the use of underground banking and alternative remittance systems to launder money;
  - tracing the proceeds of crime and terrorist financing; and
  - information sharing issues.
- 2.6 Highlights of the Workshop included:
  - special presentations on underground banking and alternative remittance systems by representatives of the Royal Canadian Mounted Police (RCMP), the US Financial Crimes Enforcement Network (FINCEN) and The World Bank;
  - special presentations on information sharing by representatives of Interpol, The Egmont Group of Financial Intelligence Units and the Anti-Money Laundering Office of Thailand;

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<sup>1</sup> Australia; Cambodia; Canada; Chinese Taipei; Cook Islands; Fiji Islands; France; Hong Kong,China; India; Indonesia; Japan; Korea, Republic of; Lao PDR; Macau,China; Malaysia; Myanmar; Nepal; New Zealand; Niue; Pakistan; Philippines; Samoa; Singapore; Thailand; United Arab Emirates; United States of America; Vanuatu; Vietnam.

<sup>2</sup> Commonwealth Secretariat; Egmont Group of FIUs; Financial Action Task Force of Money Laundering Secretariat; International Monetary Fund; Interpol; Pacific Islands Forum Secretariat; The World Bank

- breakout sessions to discuss in depth issues relating to alternative remittance systems and information sharing as they relate to money laundering and terrorist financing;
- special presentations on tracing the proceeds of terrorist financing and money laundering by representatives of the Financial Action Task Force (FATF) Secretariat, the RCMP, the US Federal Bureau of Investigation and Citigroup;
- development of a clearer picture of current money laundering methods and trends in the region; and
- discussion of future typologies workshops.

2.7 The Workshop concluded with agreement on the need for a continuing and increased understanding of money laundering methods in the region and renewed commitment to effectively counteracting these methods. This will include the preparation of a Yearly Report on Typologies by the APG summarising money laundering and terrorist financing methods and trends and APG typologies work being done by the APG and others.

2.8 The participants in the Workshop extended their gratitude to Canada, and in particular to the Royal Canadian Mounted Police, for the arrangements they made in hosting the Workshop.

### **SECTION 3: PROGRESS REPORT ON THE APG WORKING GROUP ALTERNATIVE REMITTANCE AND UNDERGROUND BANKING SYSTEMS**

- 3.1 At present, the APG has one specialist typologies working group: the APG Working Group on Alternative Remittance and Underground Banking Systems.
- 3.2 This section of the report provides a short summary report only on the current status of this work. The Working Group has prepared separate, substantive reports on its work which should be read for a full account of the Working Group's activities.
- 3.3 The APG Working Group on Alternative Remittance and Underground Banking Systems ('the APG Working Group') was established at the second APG workshop on money laundering typologies in early 1999.<sup>3</sup> The mission of the Working Group has been to conduct "a co-ordinated and intensive examination of money laundering through underground banking and alternative remittance systems". The Working Group has also assisted in the development of law enforcement's understanding of methods of alternative remittance and underground banking.
- 3.4 There have been three principal phases of the UB/ARS WG's work.
- 3.5 During 1999 and 2000, the Working Group focused on developing law enforcement's knowledge and understanding of methods of alternative remittance and underground banking. This was facilitated via the sharing of case studies between jurisdictions. In February 2000, the Working Group produced a collection of 62 case studies from member jurisdictions from which a number of conclusions were drawn regarding ARS in the Asia/Pacific region.
- 3.6 Building on the typologies work and other initiatives, in October 2001 the Working Group provided a report to the 4th APG Money Laundering Methods and Typologies Workshop. That report consolidated the available information and made twelve recommendations to the APG focusing on the implementation of regulatory and enforcement strategies relating to alternative remittance and underground banking. Following those recommendations, it was agreed that the Working Group would undertake further work to formulate detailed strategies to implement each recommendation.
- 3.7 In 2002 the Working Group examined strategies to implement the recommendations made in the October 2001 Working Group Report. This took on added urgency and importance in the light of the expansion of both the FATF's and the APG's mandates to combat terrorist financing.
- 3.8 The work resulted in the creation of the APG Alternative Remittance Regulation Implementation Package ('the Implementation Package'), which built on previous experience and typologies work to provide practical

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<sup>3</sup> Second APG Workshop on Money Laundering Typologies, 2 & 3 March 1999, Tokyo.

information and strategies to aid countries in implementing measures to regulate alternative remittance and underground banking systems.

- 3.9 The purpose of the Implementation Package is to provide practical guidance, information and examples for jurisdictions to draw upon in implementing regulatory systems for alternative remittance providers.
- 3.10 The Implementation Package is designed to answer questions including;
- What does 'regulation' of alternative remittance and underground banking providers mean in practice?
  - What does 'licensing' of alternative remittance and underground banking providers mean in practice?
  - What legislation is in place in Working Group countries to deal with registration/licensing of and reporting by alternative remittance providers?
  - What models can be implemented for registration and licensing of alternative remittance providers?
  - How can alternative remittances providers be identified?
  - What reporting and record keeping by alternative remittance providers is needed?
  - How can reporting by alternative remittance providers be ensured?
- 3.11 The recommended courses of action it contains have been developed with the following objectives in mind:
- Provide strategies for effective monitoring and control of alternative remittance systems.
  - Outline a standard which, if applied by all countries, would make our systems collectively more resistant to abuse by international money launderers and financiers of terrorism.
  - Provide an approach which is highly effective but still within the capacity of most jurisdictions to implement.
  - Recognising that in most jurisdictions alternative remittance systems have legitimate uses, limit as far as possible the burden placed on alternative remittance operators in introducing and complying with these strategies.
- 3.12 A preliminary draft version of the Implementation Package was produced for detailed consideration by participants at the APG's 2002 Typologies Workshop. At that Workshop its approach was considered and participants provided options and insights from their own experiences. It has been refined by the Working Group since that time and a final version produced.
- 3.13 It is intended that the final Implementation Package will be a useful resource for all APG members and observers for consideration when developing or

strengthening anti-money laundering and counter-terrorist financing initiatives relating to underground banking and alternative remittance.

- 3.14 Copies of the Implementation Package have recently been distributed by the APG Secretariat.
- 3.15 Through development and release of the Implementation Package, the APG Working Group has made significant progress in assisting in developing law enforcement's knowledge and understanding of methods of alternative remittance and underground banking. The FATF and other international bodies such as World Bank and ASEAN concentrated on the issue of alternative remittance.
- 3.16 The APG Working Group has actively participated in the FATF's Working Group on Terrorist Financing over the past year. The co-chairs attended three of the FATF Working Group on Terrorist Financing meetings, contributing to the development of the Interpretative Note and the Best Practices Paper for FATF Special Recommendation VI which specifically deals with alternative remittance<sup>4</sup>. The Best Practices Paper acknowledges that it draws heavily on the work of the APG Working Group and on the (draft) Implementation Package.
- 3.17 Contribution was also made to the FATF Working Group on Terrorist Financing's development of interpretative notes and best practices papers on other Special Recommendations.
- 3.18 Various presentations at seminars and training courses have also been made by members of the APG Working Group, to raise awareness of alternative remittance systems and of various strategies being implemented to limit their abuse by money launderers and the financiers of terrorism.
- 3.19 Given that the UB&ARS Working Group has largely completed its substantive task, it is now an appropriate time to refocus the APG Working Group's activities. The value of case studies and typologies work is well recognised. It is thus proposed that APG efforts be put into broader typologies work, with the creation of a standing APG Typologies Working Group. Within its broader ambit, the Typologies Working Group will however maintain an interest and expertise in underground banking and alternative remittance systems.

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These documents can be found at [www1.oecd.org/fatf/TerFinance\\_en.htm](http://www1.oecd.org/fatf/TerFinance_en.htm)