FGN

GLOBAL THREAT ASSESSMENT

LEADING CRIMINAL MARKETS/COUNTRIES/METHODS/GROUPS

forgery
money laundering
scam
CASH
exploitation
theft
fraud
CARGO
trafficking
GAS
cybercriminals
gambling
GOODS
tax evasion
MARINE
terrorism
organized crime
ART
OIL
LIFE
ransom
logging
WILDLIFE
piracy
bribery
corruption
HUMAN BEINGS
extortion
kidnap
corrupt officials
counterfeiting
smuggling
VIRTUAL CURRENCY

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by JOHN CUSACK

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Preface by Sir Iain Lobban

I came across the following description of Intelligence recently: "*Intelligence is the ability to unravel knowledge, but it is also the knowledge itself.*" I might go further and say that unless intelligence is actionable, it does not deserve that label.

And this is one thing that a keen reader might take away from this Global Threat Assessment. This is a highly impressive compendium of information from multiple sources, harvesting a wide range of studies by reputable authorities, generating a comprehensive view of the threats and trends, of the potential scale and ingenious variety of financial crime around the world today. This is truly a case of the whole being greater than the sum of its parts: an eagle eye's view of the transnationality, of the poly-criminality, of the tsunami of activity that our colleagues in law enforcement and in the investigative functions of financial institutions worldwide are grappling with heroically.

I have worked for over four years with John Cusack, the principal author of this Report. Those who know him will attest to his experience and expertise, his authority and his restless quest to make a difference. It is hard to escape his view that not enough is being done, that insufficient focus is being brought to bear on our strategic and operational counters to this global, ever morphing phenomenon of financial crime.

Intelligence, by definition, takes information - perhaps what we describe as data these days - and forms some judgement around its accuracy, its completeness, even its veracity. Analytic processes, rigorous assessment and judgement need to be brought to bear before treating raw intelligence as evidence. Not all information should be treated equally and not all intelligence is reliable.

This study provides a basis for understanding but is based only on what is currently available. Nevertheless this accumulation of the available information unfortunately illuminates some unpalatable truths: that what we know is not yet enough; that we both gather and report information in a sub-optimal way; and that the actions we take are not consistently based on clear thinking, on high-quality intelligence, on evidence.

Meanwhile the information presented raises as many questions as it seems to answer. Are criminals really generating revenues of almost US$6 trillion a year? Is money laundering in fact a US$4 trillion plus industry? Is organised crime actually collecting more than US$2 trillion a year? The publicly available sources tell us these conclusions are indeed possible, although arguments may be made that these figures are too high. Whatever the size, there seems to be no serious disagreement that the size is huge and growing, that billions of US dollars are being spent in response, but that the response is having at best only limited success.

So whatever the numbers, we need to acknowledge that intelligence gap, a gap not just in information but more critically in challenging analysis and hard-edged judgement, both of which need to be applied so as to offer a capacity for vigorous and focused action in response. For my part, I commend my takeaways:

- that we need to apply more resources to converting information into intelligence, with the aim of generating reliable evidence supporting action;
- that we therefore have to move beyond focussing on inputs and processes;
- that we need to acknowledge that positive outcomes are the collective policy goal and need to be measured rigorously; and
- that we recognise an effective response requires a step-change in leadership in each of the public and the private sectors, but more fundamentally between the two.

We are perhaps at an inflexion point: the fight against financial crime has not failed, but the status quo is insufficient. The data and sources are certainly imperfect, but not so inaccurate as to warrant their disregard. We have what we have and we have choices to make until new or better evidence emerges. A greater collective understanding should give rise to a refreshed resolve for concerted action to capitalise on this knowledge, seeking new models of partnership in order to defend, to disrupt and where possible to defeat the scale and variety of financial criminal activity laid bare in this Report. Generating and leveraging intelligence lies at the heart of this fundamental advance in capacity and action.

Sir Iain Lobban, a career intelligence officer, led the UK's GCHQ from 2008-2014, and is an expert member of the Board Financial Crime Risk Committee at Standard Chartered. These views are his own.

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Introduction

No-one can dispute the existence of large criminal markets generating huge profits for those involved, but which Criminal markets are the largest, which are the fastest growing and which markets are emerging?

Which Countries generate the most in Criminal proceeds and which Countries are likeliest to launder most, from domestic and foreign financial crime proceeds?

Which money laundering methods are the most popular, and which groups benefit the most?

In this Report, estimates are provided to answer all of these questions and more. The last major study that sought to value the amount generated from financial crime dates back to 2011, and was published by the UNODC[1] which reported US$2.1 trillion as criminal proceeds, based on 2019 data, but only estimated a piece of the puzzle.

That followed estimates from 1998 from the IMF which had estimated that the aggregate size of money laundering in the world could be somewhere between 2% and 5% of Global GDP. Using 1998 statistics, these percentages would indicate that money laundering ranged then between US$590 billion and US$1.5 trillion.

This Report ten years on, presents a comprehensive picture of available values, which can be estimated across activities, countries, methods and groups presenting for the first time a more complete picture of the size and composition of financial crime and how it is evolving.

This Report relies on more than 100 separately published studies and reports and values that have been established to produce a first ever ranking of the largest criminal markets, and by extension likely Country exposures, methods employed and those benefiting the most, with all values representing 2018 values.

By its very nature, crime operates in the shadows and in so doing avoids accurate empirical assessment, in particular on the size and composition of criminal activity where that activity is being carried out, the laundering of that activity and who benefits. The purpose of the activity, or the motivation is largely financial gain and those involved willingly flout the law, will not limit themselves to one criminal activity if another can be taken advantage of and will partner with others to collaborate across borders.

Despite the limitations presented in estimating criminal activity designed to be hidden, the results present a bleak picture. Criminal markets are generating more illicit funds than at any other time in our history, with ever more harmful effects inflicted against every country, against billions of people and against our increasingly fragile environment.

It is necessary to therefore ask and try to answer some fundamental questions:

- Are we doing enough?
- Is what we are doing working? and
- Could we do better?

Find the answers in Observations and Recommendations at Pages 55 - 59.

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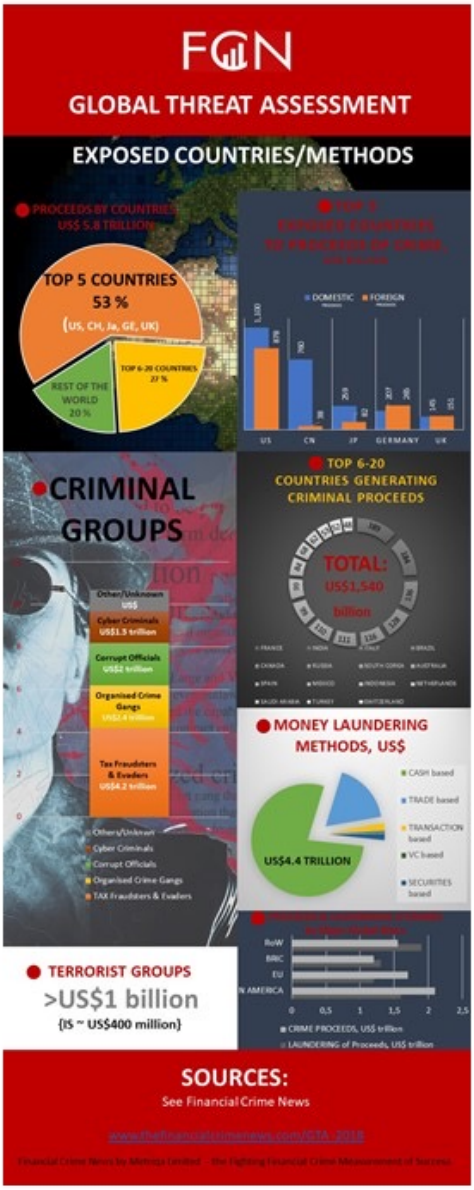
ANALYSIS – UNDERSTANDING – AWARENESS - ACTION

GLOBAL THREAT ASSESSMENT



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Highlights

This "Global Threat Assessment" published by Financial Crime News, estimates that:

- the business of financial crime (for 2018):is valued at **US$5.8 trillion** (6.7% of Global GDP); which is:
  - nearly 3 times the size of the previous estimate of US$2.1 trillion published by the UNODC in 2011 (3.4% of Global GDP - 2009).
  - greater than 3 times the value of all US$ currency currently in circulation (2019).
  - larger than the combined GDP of the UK, & France.
- of which **US$4.4 trillion** is estimated as available for laundering, (compared with US$1.6 trillion in 2009), and
- that organised crime is estimated as representing **US$2.4 trillion** (compared with US$870 billion in 2009).
- the top 5 Countries, based on economic size are the US, China, Japan, Germany & the U.K. representing more than 50% of total criminal proceeds generated, in line with the size of their economies,
- the US, Japan, Germany, the UK as well as the Eurozone more generally are additionally exposed to the laundering of substantial foreign criminal proceeds in addition to homegrown funds, as homes to major international financial centres and or as issuers and clearers of major currencies overwhelmingly used in international payments as well as being a desired destination for funds.
- the top 20 largest economies of the world represent 80% of total criminal proceeds.
- the top 3 Criminal Markets generating more than 90% of all Criminal funds, are Fraud, Counterfeit & Piracy and Drugs Trafficking.
- Human Trafficking, Goods Piracy and Identity Theft have grown fast over the last decade.
- Cash based ML, is by far the most significant ML method, followed by Trade Based ML.
- Methods with increased Concern are Securities, Transaction and Virtual Currency (VC) based ML.
- VC ML is relatively insignificant in comparison to either Cash or Trade based ML, though not unimportant.
- Largest beneficiaries from increasing illicit funds are: Organised Crime Gangs, Corrupt Officials, Cybercriminals, Tax Evaders/Tax Fraudsters and Terrorist Groups.

Key Recommendations include:

- urgent improvements to National & International Risk (Threat) Assessments and prioritising risk based targeting of the biggest threats, namely crimes,countries, methods and groups.
- improving Country actions (assessed by FATF) to focus on measures that will boost effectiveness, including by renewing commitments, reviewing funding, better international co operation and considering changes to existing laws regulations and approaches including, FI assessments, support for information sharing, utilities & use of new technology.

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CRIMINAL MARKETS

Part 1

TOP 10 CRIMINAL MARKETS:

(From 50+ Individual Sub Markets)

Generating > than 98 % of all Criminal Funds

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Part 1 - Criminal Markets

In this Part 1 the largest criminal markets are described in terms of their value in US$ terms, based on the best available public information from reputable sources. For details on the Methodology which includes the calculations for the estimates provided see Appendix 1 Methodology.

The Highlights from this Part 1 are as follows:

- the business of financial crime (for 2018) is valued at least **US$5.8 trillion** (6.7% of Global GDP); which is:
  - nearly 3 times the size of the previous estimate of US$2.1 trillion published by the UNODC in 2011 (3.4% Global GDP - 2009)
  - greater than the value of all currencies currently in circulation
  - larger than the combined GDP of the UK, & France.
- of which **US$4.4 trillion** is available for laundering, (compared with US$1.6 trillion in 2009), and.
- the top 3 Criminal Markets generating more than 90% of all Criminal funds, are Fraud (**US$2.6 trillion**), Counterfeit & Piracy (**US$1.9 trillion**) and Drugs Trafficking (**US$580 billion**), followed then by:
- Theft/Trafficking of Stolen goods at **US$270 billion**
- Environmental Crimes at **US$200 billion**
- Human Trafficking at **US$160 billion**
- Smuggling at **US$90 billion**
- Arms Trafficking, Kidnap & Ransom & Currency Counterfeiting at **US$5 billion**.
- Human Trafficking, Goods Piracy and Identity Theft (within Theft/Trafficking Stolen Goods) have grown fast over the last decade.
- Overall approx 60 Individual criminal markets have been identified, each over US$1 billion that have been aggregated into categories representing the top 10 Criminal Markets described in Part 1.
- Cybercrime is not included as a Top Market despite a valuation of **US$1.5 trillion** which would have placed it 3rd ahead of Drug Trafficking, because it's rather a technique, and the underlying crime is usually Fraud or Theft. See Part 4 Section 3 for more on Cybercrime.
- Organised Crime is also not included as a Top Market and is also in Part 4 along with Tax (Fraudsters) and Bribery (Corrupt Officials) and Terrorists.
- Trade based ML is also not included as a Top Market as like Cybercrime the underlying crimes are likely Fraud and or Theft. This ML method is described in Part 3 with other methods including Cash based ML, Securities or Markets based ML, Transaction based ML and VC based ML.
- Top Crimes where insufficient reliable data is available, to warrant inclusion, include Illegal Gambling (possibly up to US$150 billion) and Oil Theft (possibly up to US$170 billion).

Proceeds (2018)	US5.8 trillion

1. Fraud

Research published in 2018 from Crowe Clark Whitehill, together with the UK's University of Portsmouth's Centre for Counter Fraud Studies (CCFS), reported fraud is estimated at a minimum of 3%, probably 6% and possibly more than 10% of Global GDP. Taking the most conservative amount, (i.e. 3% - 2018) values Fraud at **US$2.6 trillion**[2] The UK is estimated to lose approx £190 billion[3] (**US$247 billion**), due to Fraud.

> Crowe found that an organisation, "should expect a minimum of 3% [of expenditures as fraud losses], probably almost 6% and possibly more than 10%
>
> **Crowe Clark Whitehill - 2018**

In the US AML Risk Assessment published in December 2018[4] it cited, "*the many varieties of fraud, including bank fraud, consumer fraud, healthcare fraud, securities fraud, and tax refund fraud, are believed to generate the largest share of illicit proceeds... [with] Healthcare fraud alone generating proceeds of approximately* ***US$100 billion*** *annually [from an estimated total of domestic proceeds of approx US$300 billion].*"

No sector is immune, even touching the NPO sectors. Particular Frauds to note include an estimated **US$12.5 billion**[5] according to the US FBI from Business E-Mail Compromise (BEC) and E-mail Account Compromise (EAC), and according to Lexis Nexis and Javelin **US$16.8** billion[6] in global Bank Card Fraud in 2017, and **US$7.4 billion** for Fraud in Bank accounts (**US$4 billion** in losses for account takeovers and **US$3.4 billion** in new account fraud (2018)).

Trade based ML (TBML) is a money laundering method but it is worthy of inclusion with it qualifying as a Fraud typology, also usually a Tax Fraud, (or even Theft). Global Financial Integrity[7] (GFI), reported in 2015 that GFI, reported in 2015 that Trade misinvoicing, which involves the deliberate falsification of the value or volume of an international commercial transaction, is the largest component of illicit financial flows they measured, which was close to **US$1 trillion** for developing countries. GFI estimated that on average over 80% or (**US$800 billion**) of such illicit financial outflows were due to the fraudulent mis-invoicing of trade.[8] For more details on TBML see Part 3, Section 3.2 below.

Excluded from this assessment are:

- Bribery and Corruption, albeit improper appropriation of state assets for example is defrauding the State and is estimated at **US$2 trillion**. See Part 4, Section 4.2.
- Cybercrime, which involves the use of computers which are both targeted and used in all matter of crimes, though many of the most lucrative are Frauds, estimated at **US$1.5 trillion.** See Part 4, Section 4.3.
- Tax Fraud which is estimated at **US$4.3 trillion**. See Part 4, Section 4.4.

Proceeds (2018)	**US2.6 trillion**

2. Counterfeit & Piracy of Goods

The OECD/EUIPO estimated in 2016 that international trade in counterfeit and pirated products in 2013 accounted for as much as 2.5% of the value of all international trade, or US$461 billion.[9] Notably, this figure represents an increase of more than 80% over the OECD's findings in 2008.

2.5% of international trade values estimated as counterfeit

OECD/EUIPO - 2016

A 2017 Report, commissioned by the International Chamber of Commerce together with the International Trademark Association (the "Frontier[10]" Report), valued the total amount (domestic and international) counterfeit and pirated goods in 2013 at between **US$923 billion - US$1.13 trillion**, with:

- domestic trade at between **US$249 - 456 billion,**
- international trade at **US$461 billion**, and
- digital piracy covering, music film and software at **US$213 billion**.

Frontier forecasted at current growth rates that by 2022 the counterfeit and piracy market would be valued at **US$1.9 trillion** to **US$2.8 trillion**. Based on these figures and the forecast, the value of the counterfeit and piracy market in 2018 should be approx US$1.86 trillion, or rounded up to **US$1.9 trillion.**

This Report also estimated net job losses in 2013 to be globally, between 2 and 2.6 million, projected 4.2 to 5.4 million by 2022.

A 2019 IP Crime Threat Assessment[11] prepared by Europol and the European Union's Intellectual Property Office (EUIPO), issued in 2019 highlights how intellectual property (IP) crime has further evolved and covers nearly every product sector, is online, including using social media, amounting to €60 billion (**US$67 billion**) a year in lost sales. In many cases, increasingly sophisticated organised crime groups are behind the counterfeiting and piracy activities, illustrating the growing threat arising from this type of crime.

The largest piracy of goods markets are estimated as:

- Digitally Pirated Goods - a market of **US$213 billion,**[12] made up from:
  - Film - **US$160 billion**
  - Music - **US$29 billion**
  - Software - **US$24 billion**
- Counterfeit Drugs - **US$200 billion,**[13] Counterfeit Electronics - **US$ 169 billion,**[14] Counterfeit Auto Parts - **USD45 billion,**[15] Counterfeit Foods - **US$49 billion,**[16] and Counterfeit Toys - **US$34 billion**[17]

Of these counterfeit and pirated goods, based on counterfeits seized in the US and at European borders in 2009, it is estimated that up to 79% and 55% came from mainland China respectively and cost the US economy between **US$225 - US$600 billion** in 2016.

Proceeds (2018)	US1.9 trillion

3. Drug Trafficking

The UNODC World Drug Report 2005[18] estimated the size of the global illicit drug market at US$321.6 billion for 2003, which meant the illegal drug trade at that time could be estimated at nearly 1% of then total global trade.

Global Financial Integrity ("GFI") have since taken these numbers and in their Report, published in 2017 re-valued the illegal drug trade at approximately **US$426 - US$652 billion.**[19] The main drug segments are:

- Cannabis valued at **US$183-287 billion**,
- Cocaine valued at **US$94-143 billion**,
- Opiates valued at **US$75-142 billion**; and
- ATS valued at **US$74 -90 billion**.

The UNODC valued the Ecstasy market at **US$16.07 billion**[20] (2011).

Whilst many criminal markets harm people, animals and the environment, these drug markets inflict harms on a different level.

For example, the US Drug Enforcement agency reported in its 2018 National Drug Threat Assessment[21], that in the US (2016), "*approximately 174 people died every day from drug poisoning, outnumbering deaths by firearms, motor vehicle crashes, suicide and homicide....*"and... *"In 2017, synthetic opioids such as fentanyl were involved in nearly 30,000 deaths, and from 2016-2017, Mexican heroin production grew by 37 percent. Mexican cartels continue to make large quantities of cheap methamphetamine and deliver it to the United States through the Southern border. Seizures at the border increased from 8,900 pounds in 2010 to nearly 82,000 pounds thus far in 2018.*"

Illegal drug markets elsewhere for example in the EU where drugs remain the largest criminal market and attractive to organised criminal gangs are estimated to be valued between €21- 31 billion[22] (**US$24 - 35 billion**), according to the European Monitoring Centre for Drugs and Drug Addiction and Europol.

> 275 million people (5.6% of the global population, aged 15-64 years), used drugs at least once during 2016
>
> **World Drug Report 2018**

According to the World Drug Report 2018,[23] some 31 million people who use drugs suffer from drug use disorders, meaning that their drug use is harmful to the point where they may need treatment.

Initial estimations suggest that, globally, 13.8 million young people aged 15-16 years used cannabis in 2017, equivalent to a rate of 5.6 %. Roughly 450,000 people died as a result of drug use in 2015, according to the WHO.[24]

Opioids continued to cause the most harm, accounting for 76 per cent of deaths where drug use disorders were implicated.

Proceeds	US539
Proceeds (2018)	US$580 billion

4. Theft/Trafficking of Stolen Goods

There are many criminal markets that involve the theft and trafficking of stolen goods.

Identity Theft - According to "Web of Profit" by Dr Michael Maguire and commissioned by Bromium, one of the largest cybercrime markets is data trading (largely from stolen personal information) which represents approx 10% of all cybercrime proceeds at **US$160 billion**[25].

> Identity Theft has in just a few years grown to become the largest type of theft, and is still set to grow much larger.
>
> **Web of Profit 2018**

Stolen Cargo - According to The National Cargo Security Council, Cargo Freight losses are estimated as exceeding **US$50 billion**[26] annually (2014), with the US FBI suggesting US figures alone are in excess of US$30 billion[27]. Freight Watch International reports[28] Mexico, Brazil, South Africa, the US and Russia are the Countries most at risk for cargo theft.

Organised Retail Theft - According to the US FBI, based on industry experts the estimate for organised retail crimes in the U.S. is valued at between approximately **US$30-37 billion**[29] (2007). This estimate includes other crimes like credit card fraud, gift card fraud, and price tag switching.

Crude Oil Theft - According to GFI, "*the theft of crude oil robs governments and enriches criminals, insurgents, and terrorists*." Thefts in Colombia, Indonesia, Mexico, Syria, Russia, and Nigeria are equal to less than one percent of global annual production, yet the stolen oil provides significant revenues of at least **US$5.2 billion to $11.9 billion** annually.

Virtual Currency Theft - In 2017 US$266 million of VC was estimated as stolen, rising to an estimated **US$1.5 billion** in 2018. By the first half of 2019 this figure had risen to US$4.26 billion.

Antiquities Trafficking - The UNODC has reported that art and cultural property theft may amount to between **US$3.4 and US$6.3 billion.**[30]

Vehicle Theft - According to the US FBI, reported vehicle thefts averaged just under 773,000 per year in 2017, with industry experts estimating that vehicle thefts account for US$6 billion[31] in losses annually, though after recoveries of approximately 50-60%, makes the average annual realised loss approx **US$2-3 billion.**

Jewellery and Gem Thefts - Targeting high value goods such as jewellery and precious gems is often committed by organised criminal enterprises consisting of sophisticated thieves and organised intermediary fences for the stolen property. According to the US FBI, the jewellery and gem industry sustains estimated annual losses in excess of **US$1.5 billion.**

Proceeds	US270 billion

5. Environmental Crimes

According to United Nations Environmental Programme ("UNEP") & Interpol in their Report: The rise of Environmental Crime, A growing threat to natural resources, development and security,[32] published in 2016, "*The world is being dredged of it's natural resources with much of what we rely on for our livelihoods at risk from a new Crime, Environmental Crime".*

> We are facing mass extinctions and Countries are losing iconic wildlife.....and ....Criminals now include in their trafficking portfolios waste, chemicals, ozone depleting substances, illegally caught seafood, timber and other forest products as well as conflict minerals, including gold and diamonds.
>
> **UNEP/Interpol - 2016**

Taken in aggregate crimes covering timber, animals, mining, fishing and waste dumping amounted, according to UNEP & Interpol to around US$70-213 billion pre 2014 and updated to an estimated **US91-259 billion**[33] for 2016, or US$84.5 - 253.3 billion[34] by GFI whose numbers unlike UNEP Interpol do not include waste disposal.

Both UNEP/Interpol[35] and GFI[36] reviewed the available sources and both concluded the size of the following markets as follows:

1. **Illegal Timber Trade** is considered the largest of these markets according to UNEP/Interpol at approximately **US$30-100 billion** (2014) and **US$50.7-152 billion** (2016) and according to GFI at **US$52 - 157 billion** (2016);

2. **Illegal Unreported and Unregulated Fishing** - is a major market which according to UNEP/Interpol is valued at **US$11-30** (2014) & at **US$11 - 23.5 billion** in (2016), and by GFI at **US$15.5 - 36.4 (**2016);

3. **Illegal Mining** is a market estimated at **US$12-48 billion** by UNEP/Interpol (both in 2014 & 2016), and by GFI at **US$12-48 billion** (2016);

4. **Illegal Wildlife Trafficking** is a market estimated by UNEP/Interpol at between **US$7 - 23 billion** (2015/ 2016), and by GFI at **US$5 - 23 billion** (2013-2015); and

5. **Waste Dumping** is a market estimated by UNEP/Interpol at **US$10 -12 billion** (2014 & 2016).

In addition to these criminal physical markets, new markets created to try to offset and regulate both the generation of carbon and the maintenance of forestry, exist and evidence suggests these are also targets of criminals.

For example so called, white collar criminals are known to be targeting carbon trading markets (enabling polluters to offset carbon emissions) and forestry certificates (enabling landowners to offset their restoration obligations elsewhere).

Proceeds (2018)	**US$200 billion**

6. Human Trafficking

The International Labour Organisation (ILO) estimates that 40 million people are effectively enslaved,[37]with criminals profiting from the control and exploitation, with many victims of human trafficking forced to work in the sex industry, as well as other forms of labour exploitation, such as forced labour; domestic work, restaurant work, janitorial work, sweatshop factory work and migrant agricultural work. In the ILO's definition of modern slavery they also include organ trafficking and forced marriages.

> With 40 million people enslaved, victims are forced to work in the sex industry or other forms of labour exploitation, including domestic servitude and includes forced marriages.
>
> **ILO - 2018**

Human Trafficking is also one of the fastest growing criminal enterprises with revenues of $32 billion in 2011 leaping 5 times to **$150.2 billion**[38] by 2018, according to the ILO.

Of the 40 million victims, ILO estimates are that 24.9 million are trapped in forced labour and15.4 million in forced marriage. Out of the 24.9 million trapped in forced labour, 16 million are exploited in the private sector such as domestic work, construction or agriculture; 4.8 million in forced sexual exploitation, and 4 million in state sponsored forced labour.

Of the US$150.2 billion it is estimated that:

- **US$99 billion** is from commercial sex
- **US$34 billion** is from construction, manufacturing, mining and utilities,
- **US$9 billion** is from agriculture, including forestry and fi shing,
- **US$8 billion** is saved annually by private households that employ domestic workers under conditions of forced labor
- **US$840 million - US$1.7 billion** is from Illegal Organ Traffi cking, including kidneys, livers, hearts, lungs and pancreas.

Human Trafficking in the form of state sponsored forced labour, enslaves 4 million people. North Korea is thought to generate **US$2.3 billion** in foreign currency, as part of a state sponsored migrant worker scheme, where more than 50,000 North Koreans are forced to work abroad in conditions considered akin to slavery. Human Trafficking in the commercial sex industry accounts for approx 4.8 million victims overwhelmingly women and girls (99%), with the rise of the internet increasingly used to facilitate child sexual exploitation.

Of the 24.9 million people trapped in forced labour, 15.4 million (62%) are in APAC and 5.7 million (23%) in Africa. Europe and Central Asia have 2.2 million (9%), the Americas 1.2 million (5%) and the Arab States 1%. For Migrant Smuggling see Part 1 S.7 Smuggling.

Proceeds	US$150 billion
Proceeds (2018)	US$160 billion

7. Smuggling

Free movement of goods and people is the norm in the EU, but elsewhere, restrictions and controls are more the norm, which provides incentives for criminal smugglers to operate. Goods are smuggled across borders, to avoid taxes or tariffs, and people to avoid border and immigration controls.

The largest markets involve migrant smuggling, and highly taxed goods, such as cigarettes, alcohol, oil and gold. The illicit smuggling markets in aggregate in 2018 could be as much as **US$89.2 billion**[39] each year.

> Two major destinations for migrants who are willing to pay smugglers for transit is into the EU via its Southern borders, mainly from Africa, many fleeing conflict and from Central America into the United States
>
> **UNODC - 2010**

The largest market is the smuggling of cigarettes which is estimated at between **US$40 - US$50 billion,**[40] which is followed by people smuggling estimated at **US$35 billion**[41] from the ILO in 2013, though the UNODC estimate is between **US$5.5 - US$7 billion**[42] (2016).

According to the UNODC[43] in 2010, the two most prominent flows for smuggling migrants are from Africa to Europe and from Latin America to the US. Around 2.5-3 million migrants are smuggled from Latin America to the US every year, generating **US$6.6 billion** for smugglers.

In their 2018 Study, UNODC describe 30 major smuggling routes, with the North America via the Southern border the most lucrative at **US$3.7-US$4.2 billion** (2016).

According to Europol, migrant smuggling has emerged as one of the most profitable and widespread criminal activities for organised crime in the EU. The migrant smuggling business is now a large, profitable and sophisticated criminal market, comparable to the European drug markets.

Additional notable smuggling markets also include:

- Alcohol Smuggling which in the UK alone (2012) was valued at approx **US$1.5 billion.**[44]
- Metals & Minerals Smuggling including Gold smuggled out of Africa (2016) valued at **US$3.9 billion.**[45]
- Oil Smuggling where for example, the EU estimates a loss in 2012 at €4billion[46] (**US$4.4 billion**). Other large oil smuggling operations include, for example out of Iran, which according to reports in 2019 amounted to **US$3.3 billion**[47] annually (based on a 50 cent oil price), meaning at least **US$7.7 billion** in aggregate. (For Oil Theft see Part 1 S.4 Theft/Trafficking of Stolen Goods.

Proceeds	**US$81 billion**
Proceeds (2018)	**US$90 billion**

8. Arms Trafficking

According to GFI the legal trade in small arms and light weapons is worth approx US$17.3 billion with illicit arms trafficking estimated to represent 10 to 20 percent of the legal arms trade and estimated in 2014 to be worth **US$1.7 billion to US$3.5 billion**. According to UNEP/Interpol the market is estimated at **US$1.5 billion to US$3 billion**, (based on 2012/2013 data). The value of the legal arms trade is likely underestimated, so it is probable that the illegal arms trade is too.

Proceeds	US$2.4 billion
Proceeds (2018)	US$2.7 billion

9. Kidnap & Ransom

At the end of 2010, an estimated £1 billion[48] (**US$1.3 billion**) was estimated to have been paid out in ransom to kidnappers around the world. The estimated market value of kidnapping was higher than the US$500 million previously reported, though may have declined substantially since then, as governments have taken a stand against sanctioning ransom payments, particularly to terrorist groups. Whilst it is traditionally people that have been kidnapped and ransom demanded, there is probably more in ransom's paid as a result of Cybercrime today, with an estimated **US$1 billion** in annual proceeds generated, though Cybersecurity Ventures expects ransomware costs will rise to **US$11.5 billion** in 2019.[49]

Proceeds	US$1.5 billion
Proceeds (2018)	US$1.9 billion

10. Counterfeit Currency

The estimate for Counterfeit currencies is **US$350 million** (2018). Currencies in circulation around the world are estimated in 2015 at around US$5 trillion,[50] with the largest 18 currencies representing US$4.7 trillion.

For the US$ there were approx US$1.2 trillion in circulation (2015), of which at least **US$147 million** was estimated as counterfeit and in circulation globally, according to data provided by the US Secret Service. About 60 percent of that is in the US$20 bill in the US itself, while the US$100 bill is the most common overseas.[51] By 2019 the total amount of US currency in circulation had grown to US$1.7 trillion.[52]

According to the European Central Bank, (2019), 22 billion euro banknotes are in circulation, with a total value of around €1.2 trillion[53] (US$1.34 trillion).

Based on confiscated counterfeit banknotes seized, the market for counterfeit Euros in 2018 was approx €28 million (**US$31 million**).

According to the Bank of England in 2018, around 461,000 counterfeit banknotes with a face value of £10 million[54] (**US$13 million**) were taken out of circulation in 2018. At any one time, there is an average of 3.8 billion genuine £ banknotes in circulation, with a face value of around £73 billion (US$95 billion) 2018, with around 461,000 likely counterfeit.

Proceeds (2018)	US$350 million

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EXPOSED COUNTRIES

Part 2

US$5.8 trillion Proceeds:
6.7 % Global GDP

2018

=>US$4.4 trillion:
laundered

TOP 20 COUNTRIES

Generating > than 80 %
of Criminal Proceeds
& Laundered Funds

TOP 5 COUNTRIES

Generating > than 50 %
of Criminal Proceeds
& Laundered Funds

www.thefinancialcrimenews.com

Part 2 - Country Exposures

In this Part 2 the Countries with the largest likely exposures are identified with estimates for both the generation of the proceeds of Crime and the the amounts potentially laundered from domestically generated funds and from overseas, being laundered internationally. For details on the calculations of the estimates see Appendix 1 Methodology for more details.

The Highlights from this Part 2 are as follows:

- the top 5 Countries, based on economic size, are the US, China, Japan, Germany & the UK representing approx 50% of the total criminal proceeds generated, with:
  - the US the largest in terms of proceeds estimated at US$1.4 trillion and available for laundering at US$2 trillion
  - China with estimated proceeds at US$900 billion and available for laundering at US$800 billion.
  - Japan with estimated proceeds at US$340 billion and available for laundering at US$340 billion
  - Germany with estimated proceeds at US$275 billion and available for laundering at US$470 billion
  - the UK with estimated proceeds at US$190 and available for laundering at US$295 billion.
- Countries ranked 6 -10 by largest proceeds are estimated at:
  - France US$189 billion (proceeds) and US$346 billion (laundering),
  - India US$184 billion (proceeds) and US$160 billion (laundering),
  - Italy US$136 billion (proceeds) and US$239 billion (laundering),
  - Brazil US$128 billion (proceeds) and US$110 billion (laundering),
  - Canada US$116 billion (proceeds) and US$100 billion (laundering),
- Countries ranked 11 - 20 by largest Proceeds (for laundering estimates see Appendix 1 Methodology - Table 3) are estimated at:
  - Russia US$111 billion (proceeds)
  - South Korea US$110 billion (proceeds)
  - Spain US$99 billion (proceeds)
  - Australia US$99 billion (proceeds)
  - Mexico US$84 billion (proceeds)
  - Indonesia US$68 billion (proceeds)
  - Netherlands US$62 billion (proceeds)
  - Saudi Arabia US$53 billion (proceeds)
  - Turkey US$52 billion (proceeds)
  - Switzerland US$48 billion (proceeds)
- the top 20 economies represent at least 80% of total proceeds.
- Excluding the top 20 economies the “Rest of the World” represents US$1.13 trillion (20%) of proceeds and possibly US$860 (15%) laundered.
- the EU represents US$1.13 trillion of the total criminal proceeds generated and at least US$860 billion laundered.

2.1 - United States of America

FATF: According to the FATF Country Evaluation Report[55], "*the global dominance of the US$ generates trillions of dollars of daily transaction volume through US banks, which creates significant exposure to potential ML activity (generated out of both domestic and foreign predicate offences) and risks of cross-border illicit flows. The US also faces significant risks from TF and is vulnerable to such abuse because of the unique scope, openness and reach of its financial system globally, and the direct threat posed by terrorist groups to US interests*." Compared to 75 Countries (as at May 2019) with completed and published FATF evaluation reports, the US was placed 42/75 on technical compliance and equal 2nd for effectiveness. The US is the only Country to have a higher score for effectiveness than for technical compliance.[56]

US INCSR: According to the Annual US Department of State Money Laundering assessment (INCSR) (2018) published in March 2019, the US categorises itself as a "Major Money Laundering Country" along with 80 other Countries.

NRA: According to the US National Risk Assessment (NRA),[57] published in 2018, domestic financial crime generates an estimated **US$300 billion**, with the crimes that generate the bulk of illicit proceeds for laundering being fraud, drug trafficking, human smuggling, human trafficking, organised crime, and corruption.

Fraud: There are many varieties of fraud, including bank, consumer, health care, identity theft, mortgage and tax fraud, retail, consumer and securities fraud. These are believed to generate the largest share of illicit US proceeds. Health care fraud alone generates proceeds of **US$100 billion**.

Drugs: The Office of National Drug Control Policy estimated that **US$100 billion**[58] worth of illegal drugs were sold in the US in 2013, whilst the figure of **US$64 billion**[59] has also been suggested. The US Drug Enforcement agency reported in its 2018 National Drug Threat Assessment,[60] that in the US (2016), "*approximately 174 people died every day from drug poisoning, outnumbering deaths by firearms, motor vehicle crashes, suicide and homicide....*"and... *"in 2017, synthetic opioids such as fentanyl were involved in nearly 30,000 deaths, and from 2016-2017, Mexican heroin production grew by 37 percent. Mexican cartels continue to make large quantities of cheap methamphetamine and deliver it to the United States through the Southern border. Seizures at the border increased from 8,900 pounds in 2010 to nearly 82,000 pounds thus far in 2018*."

Organised Crime/Gangs: There are approx 33,000 violent street gangs, motorcycle gangs, and prison gangs criminally active in the US, according to the FBI.[61] Their money-making activities, include robbery, drug and gun trafficking, human trafficking, and fraud. Transnational Organised Crime (TOC's) Groups identified by the FBI as active and significant include TOC's from all corners of

the World, from Africa, the Balkans, Middle Eastern, Asian, Eurasian, Italian & so called Western Hemisphere Gangs (from Colombia, Peru, Bolivia, Central America & Mexico). A notable domestic crime that the FBI links to organised crime is cargo theft estimated at in excess of **US$30 billion.**[62]

Counterfeit & Piracy: Based on counterfeits seized at US borders in 2009, 79% came from mainland China. Estimates of the cost to the US is between **US$225 - US$600 billion** in 2016.

Human Trafficking: Of an estimated 42 million commercial sex workers globally[63] (2010), the US has the third highest at approx 1 million, after Russia and China. It is estimated that this raises approx **US$14.6 billion**[64] a year.

Human Smuggling: According to the UNODC[65] in 2010, one of the two most prominent flows for smuggling migrants are from Latin America to the US. Around 2.5-3 million migrants are smuggled from Latin America to the US every year, generating **US$6.6 billion** for smugglers.

Corruption: According to TI reports, the US dropped 4 points in the CPI 2018, from 75 to 71, and failed to rank within the top 20 nations for the first time in eight years, which is a concern as the US holds a symbolic position as a leading advocate tackling corruption.

Tax: Estimates from the US Internal Revenue Service in 2016 indicate that tax evasion cost the US Government **US$458 billion**[66] a year (from 2008-2010).

Emerging Threats: Emerging illicit finance risks include an increase in cybercrime and cyber-enabled crime, which encompass a variety of illicit activity, with cyber criminals' use of money mules flagged as a notable risk in the US NRA. See Cybercriminals in Part 4 Section 4.3 for more details.

Terrorism and Extremism: According to the US Treasury's National Terrorism Finance Risk Assessment,[67] the most common type of terrorism finance activity in the US involves individuals donating to groups such as the Islamic State (IS) and its regional affiliates, Al-Qaida (AQ) and its regional affiliates, Al-Nusrah Front, Al-Shabaab, Hizballah, and Hamas. These groups and their supporters target individuals sympathetic to humanitarian causes or vulnerable to violent messaging and aggressively use social media to identify potential followers, recruit, and solicit financial or other forms of material support. Beyond the Islamist terrorist threat, with ready access to funds and weapons are so called home grown white supremacists. This form of domestic terrorism is active and growing, for example with the shooting dead of 9 people at a church in South Carolina in 2015, 11 killed in a mass shooting at a synagogue in Pittsburgh in 2018 and 20 killed in El Passo in 2019.

Estimating Proceeds and Laundering: See below and for details on how these numbers were arrived at see Appendix 1 Methodology.

Proceeds	US$1.4 trillion
Laundering	US$2 trillion

2.2 - China

FATF/NRA: According to the FATF Country Report, referring to the Chinese National Risk Assessment (NRA);

- the main proceeds-generating predicate crimes in China are illegal fundraising, fraud, trafficking in illicit drugs, bribery and corruption, tax crimes, counterfeiting of products, and illegal gambling.
- also large amounts of illicit proceeds flow out of China annually. As noted in the NRA, between 2014 and 2016, illicit proceeds totalling RMB864 billion (US$126 billion or **US$42 billion a year**) were repatriated to China from over 90 countries. China indicates that illicit proceeds also flow out of the country through underground banking operations;

The FATF Country Evaluation scores for China[68] place it 60th (as at May 2019) for Technical Compliance and 42nd equal for Effectiveness in each case (out of 75).

US INCSR: According to the Annual US Department of State Money Laundering assessment (INCSR) (2018) published in March 2019,[69] China is categorised by the US State Department as a "Major Money Laundering Country", along with 80 other Countries including many other large advanced industrial countries. The primary sources of criminal proceeds according to the INCSR are: "*corruption, drug and human trafficking, smuggling, economic crimes, intellectual property theft, counterfeit goods, property crimes, and tax evasion*," whilst also quoting Chinese authority sources that "*identify illegal fundraising; cross-border telecommunications fraud; weapons of mass destruction, proliferation finance, and other illicit finance activity linked to North Korea; and corruption in the banking, securities, and transportation sectors as ongoing money laundering challenges*." *Also that "criminal proceeds often are laundered via bulk cash smuggling; TBML; shell companies; purchasing valuable assets, such as real estate and gold; investing illicit funds in lawful sectors; gaming; and exploiting formal and underground financial systems and third-party payment systems."* And *"corruption often involves state-owned companies, including those in the financial sector."*

Corruption: According to Transparency International (TI) results, China has seen its score improve only slightly from 35 in 2010 to still only 39 in 2018. The persistence and prevalence of corruption remains high despite President Xi's anti-corruption campaign launched in 2012. Since then, about 37 officials with the rank of deputy government minister or above have been convicted of corruption. Together, their cases account for 3 billion yuan's (**US$420 million**). Xi's campaign targeting both "tigers and flies" – powerful leaders and lowly bureaucrats – has hit thousands of officials, but whilst exact figures are hard to come by,

an official from the Communist Party revealed a total of 20 billion yuan,[70] (**US$2.8 billion**) seized. According to a recent TI Survey, nearly three-quarters of Chinese surveyed said they believed corruption had grown worse recently. China's Belt and Road Initiative (BRI). which aims to build infrastructure in other countries, has been criticised as offering some foreign leaders an array of opportunities to sustain themselves and to benefit from these huge projects. Most BRI Countries are towards the worst end of Countries already plagued with high levels of corruption.

Counterfeit & Piracy: Based on counterfeits seized in the US and at European borders in 2009, it is estimated that up to 79% and 55% came from mainland China respectively and that it cost the US between **US$225 - US$600 billion** in 2016.

Human Trafficking: According to the Global Slavery Index,[71] China has the second highest number of modern day slaves at 2.9 million. China is a Tier 3 rated Country (1-3 with 3 the worst), according to the 2019 US Trafficking in Persons Report.[72] Of an estimated 42 million commercial sex workers globally[73] (2010), China has the most with 4.5 million. It is estimated that proceeds of approx **US$70 billion**[74] a year are generated.

Environmental Crimes: China plays an outsized role in Environmental Crimes, which is overall the 5th largest criminal market estimated to be valued at almost US$200 billion overall. China is a major importer of Illegal timber and Illegal wildlife products as well as a major facilitator and importer of illegal unreported and unregulated fishing, via its huge deep sea fishing fleet, heavily subsidised by the Chinese Government.

Terrorism: China believes it faces a serious threat from terrorism. From 2011 to 2016, China registered 75 terrorist incidents that killed 545 people. The main conflict area and focus for the authorities is the northwest province of Xinjiang, from where the "Eastern Turkistan Islamic Movement" (ETIM) operates. China published details of action taken against domestic terrorists, claiming it had "destroyed 1,588 terror gangs, arrested 12,995. terrorists and punished 30,645 people for illegal religious activities, in the far western region of Xinjiang, since 2014. Human rights groups say about 1 million people in Xinjiang, mostly Muslim Uighurs have been locked up for signs of extremism.[75]

Tax: Estimates from the Tax Justice Network suggest China may be losing up to **US$134 billion**[76] (2010) annually in tax revenue, although most developed economies struggle to accurately calculate their "tax gap". The tax gap is the difference between what is and should be collected, and such a figure usually includes both evasion and avoidance, but also fraud and errors made by taxpayers or by the tax authorities.

Estimating Proceeds and Laundering: See below & Appendix 1 Methodology for details on how these numbers were arrived at.

Proceeds	US$1 trillion
Laundering	US$800 billion

2.3 - Japan

Japan has exceptionally low crime rates, regularly placed in the top 10 safest Countries in the world, and with recorded crime rates falling for the last 2 decades.

US INCSR: Japan is not named as a Major Money Laundering Jurisdiction for 2018.[77]

FATF/NRA: The FATF Country Evaluation is underway in 2019, with the Report expected in 2020. According to Japan's National Risk Assessment[78] (2014), theft, fraud, illegal money lending, prostitution and distribution of obscene material as well as illegal drugs were highlighted.

Organised Crime: The most serious ML threat is from Yakuza organised crime gangs. As of 2016, 22 groups were designated as "gangsters," with total members of 39,100. Some Yakuza are involved in drugs, human trafficking, illegal gambling and a form of business extortion (sokaiya). Yakuza are thought to launder criminal proceeds by investing in legitimate businesses. In 2010, Japan's then 83,000 gangsters controlled an economy worth an estimated US$242 billion[79] a year, making estimated profits of **US$21 billion**[80] a year. The latest data according to Japan's National Police suggests the focus of organised crime groups may be shifting to cybercrime and types of fraud that randomly target people via phone or email.

Drug Trafficking: Japan produces virtually no illegal drugs itself and thus almost everything is smuggled in from abroad, mostly from China, North Korea, Taiwan or elsewhere in Southeast Asia. Most drugs have traditionally been smuggled in on sea routes, either hidden in freight or picked up at sea by local boats from mother ships. Drugs have traditionally been sold by people with links to organised crime. Much of the drugs available on the streets of Japan is sold by directly by the Yakuza or by members of motorcycle gangs or immigrants.

Human Trafficking: It is estimated that proceeds of sex trafficking in Japan is approx **US$24 billion**[81] a year. According to the US State Department, "*Japan is a major destination, source, and transit country for men and women subjected to forced labor and sex trafficking,*" though listed now as a so called Tier 1 Country (with Tier 1 the best and Tier 3 the worst based on responses). The Global Slavery Index 2018 estimates that in 2016 there were 37,000 people living in conditions of modern slavery in Japan. Forced labour in Japan has been reported among migrants working under the government-run Technical Intern Training Program (TITP). The TITP has faced international criticism, with opponents arguing that, rather than providing professional development opportunities for "interns," the program's main purpose is to address labour shortages in low-skilled sectors and that it does so in ways that involve exploitation and human rights

abuses. As of 2017, the TITP employed almost 260,000 workers, accounting for about 20 percent of all migrant workers in the country. Of these, Vietnamese migrants accounted for nearly 44% and Chinese migrants made up nearly 23%. Other significant groups of workers come from the Philippines and Indonesia. Workers are sent to 70 plus industries, including food processing, construction, machinery, fishing, agriculture, and textiles, with nursing added to the program in 2017.

Corruption: Despite Japan ranking as among the least corrupt countries in the world, a corruption scandal has engulfed Prime Minister Abe amid allegations that a company with links to his wife had purchased public land at an 85% discount. Abe announced he would resign if the allegations are proved to be true.

Environmental Crimes: Japan has a long-standing global reputation as a major market for exotic pets, expensive seafood and high demand for elephant ivory, where the domestic market remains open, for pre 1990 Ivory, which to many creates conditions that still put elephants at risk. Recently, smuggling of the small-clawed Otter from Southeast Asia to Japan has surfaced, in response to an unprecedented boom in demand for otters, with so called "otter cafés" appearing in major cities and the possible amplification of the demand in the mass media, with the otter regularly described by celebrates as "adorable."

Cybercrime: Cybercrime is probably the fastest growing financial crime in Japan, which includes internet frauds, unauthorised computer access and illegal or harmful content, in particular child pornography, which is estimated in aggregate at **US$2.1 billion**[82] a year, for 2017. Due to the popularity of virtual currency in Japan, it's perhaps no surprise that VC theft is a particular concern, with hacking of cryptocurrency estimated in 2018 to be around **US$610 million**. Bank account Fraud in 2018 (via internet compromise) involved **US4.3 million,** of which 60% went to bank accounts under Vietnamese names. A notable Fraud type in Japan is known as "*ore-ore*," which means "it's me, it's me" in Japanese. The fraud involves random phone calls initiating a conversation by saying "It's me," before posing as an acquaintance to ask for money, often targeted at the elderly.

Tax: according to the Tax Justice Network, Japan's Tax gap was estimated at **US$170 billion** (2010).

Extremism and Terrorism: The Japanese Ministry of Foreign Affairs recognises a high threat of terrorism against Japan, with Japan frequently identified as a target by al-Qaeda in the Arabian Peninsula (AQAP) and its affiliates, and was specifically cited in speeches by former AQAP leader Osama bin-Laden. Japan currently views AQAP as its chief terrorist threat, while largely insulated from most other extremist threats.

Estimating Proceeds and Laundering: See below and for details on how these numbers were arrived at see Appendix 1 Methodology..

Proceeds	US$340 billion
Laundering	US$340 billion

2.4 - Germany

FATF: The FATF Country Evaluation is likely to start in 2020, reporting in 2021. According to the last FATF Country Evaluation[83] (2010), Germany "*is susceptible to [ML) because of its large economy and financial centre, as well as its strategic location in Europe and its strong international linkages.*" It also reported that, *"substantial proceeds of crime are generated, presently estimated to be EUR 40 to EUR 60 billion (approximately **US$45-67 billion**), inclusive of tax evasion, annually."* The FATF Report also included information on Germany's informal sector, *"estimated to have a large informal sector (> EUR 400 billion or >**US$448 billion**)"* and *"the use of cash is reportedly high. Germany's currency is the Euro which is used widely across Europe, thus making it attractive to organised criminals and tax evaders."*

US INCSR: According to the 2016 Report Germany was particularly vulnerable to ML because it is a leading member of the Eurozone, (22% of the bloc) and because it has a major financial centre. The INCSR 2016 also highlighted that although Germany *"is not a major drug producing country, it continues to be a consumer and a major transit hub for narcotics,"* and it also highlights that Germany is estimated to have "*a large informal financial sector, including informal value transfer systems, reportedly used by immigrant populations accustomed to such systems in their home countries and among refugees paying for their travel to Europe/ Germany. Also that bulk cash smuggling by organised crime elements is prevalent, especially illicit drug proceeds arriving in Germany from the NL.*" *Germany* is not named as a Major Money Laundering Jurisdiction by the US for 2018.[84]

Germany Risk Assessment: According to Germany's first ever RA,[85] published on 21st October, 2019, an estimated €100 billion **(US$130 billion**) was referenced as laundered in Germany (2016), with the main areas generating criminal proceeds, being Fraud, Drugs, Human Trafficking, and highest risk third countries identified as: China, Russia, Turkey, British Overseas Territories, the Caribbean, Cyprus & Malta.

Organised Crime: German government statistics for 2017 suggest that of almost 9,000 members of organised crime gangs, approx a third were German citizens (half of which didn't hold German citizenship at birth) and approx two thirds were foreign citizens. Main organised crime gangs in Germany include the Italian Mafia, Middle East (Lebanese, Afghan and Moroccan) Gangs, Albanians, Turkish, Russian and Vietnamese.

Drug Trafficking: The German drug market, sees heroin originating from Afghanistan, Pakistan or Iran, imported from Iran and, to a lesser extent, Turkey and the Netherlands. Cocaine is usually imported from South America and enters Germany through other European countries. The synthetic market is

expanding and the Netherlands and the Czech Republic remain the main producing countries for amphetamine and meths. Germany is being used as a transit country for MDMA trafficked to non-European destinations, such as the US.

Corruption: Germany is the 11 least corrupt nation out of 175 countries, according to the 2018 Corruption Perceptions Index reported by Transparency International. TI's Global Corruption Barometer 2013 revealed that political parties and businesses were the most corrupt institutions in Germany. TI for 2017 reported that 11% of respondents claimed to have been asked to pay a bribe and only a few said that they had refused to pay, indicating petty corruption is not uncommon.

Human Trafficking: There are an estimated 400,000 sex workers in Germany (6th largest), generating **US$18 billion.**[86] Prostitution is legal, commercial sexual exploitation is not. Of identified victims trafficked in Germany for commercial sexual exploitation 28% come from Germany, 20% from Romania, and 18% from Bulgaria. Non-European victims come from Nigeria, other parts of Africa, Asia, Europe and the Americas. Almost one-quarter of identified trafficking victims were children. Victims of forced labour have been identified in hotels, domestic service, construction sites, and restaurants. Members of ethnic minorities, such as Roma, as well as foreign unaccompanied minors who arrived in Germany, are particularly vulnerable.

Tax Evasion: Germany's Tax gap was estimated at **US$215 billion** in 2010. In 2017 Germany announced losses of at least €31.8 billion (**US$36 billion**) since 2001 as a result of illegal trading known as cum ex trades. See Tax Crimes in Part 4 Section 4.4.

Cybercrime: According to BITKOM, (German Association for Information Technology, Telecommunications and New Media), cybercrime caused financial damage of €55 billion[87] (**US$62 billion**) to the German economy in 2017. This is much higher than reported losses from cybercrime cases reported to German police, which was €71.8 million (**US$80 million**) also in 2017. German police also reported in 2017 that of these reported losses, fraud represented the largest element at 74.4%.

Terrorism and Extremism: According to the Interior Ministry in 2018,[88] extremist groups include far right groups of which there are approx 12,700 identified as oriented towards violence and Islamist extremists numbering 26,560. These numbers includes groupings such as the Lebanese Hezbollah or the Palestinian HAMAS, which use Germany as a safe haven, as well as those related to the main Islamist threats in Germany itself which come from IS and AQ. While no Islamist extremist attack was staged in Germany in 2018, the detection of a number of attack plans in various stages of preparation, means the threat level remains high.

Proceeds & Laundering: See below and for details on how these numbers were arrived at see Appendix 1 Methodology.

Proceeds	US$275 billion
Laundering	US$470 billion

2.5 - United Kingdom

FATF: The FATF Country Evaluation Report, published in 2018, showed the UK is placed 4/75 on technical compliance and 1/75 for effectiveness. The UK was described as "*the largest financial services provider in the world*," noting that "*as a result of the exceptionally large volume of funds that flows through its financial sector, the country also faces a significant risk that some of these funds have links to crime and terrorism.*[89]"

FATF also reported that "*the UK faces significant ML risks from overseas, in particular from other financial centres (including some of its Overseas Territories and Crown Dependencies), due to its position as a major global financial centre and the world's largest centre for cross-border banking. In particular, the UK is vulnerable and at risk of being used as a destination or transit location for criminal proceeds.*"

NRA: According to the UK's National Risk Assessments (2015[90] & 2017[91]), the main money laundering (ML) risks include high-end ML, cash-based ML, and the laundering of proceeds from fraud and tax offences, drug offending, human trafficking, migrant smuggling, organised crime and the proceeds of foreign corruption.

Organised Crime: The 2015 NRA highlighted that the costs of the most serious and organised crimes total £24 billion per year, (**US$31 billion**) with most of this related to drugs supply at £10.7 billion (**US$14 billion**) and fraud at £8.9 billion, (**US$12 billion**). The Assessment reported that most serious and organised crime is conducted by criminals operating in loose networks based on trust, reputation and experience. In 2018 the NCA published figures reporting 4,629 Criminal Groups with tens of thousand's of members operating in the UK.

More recently the NCA has reported that, "*although there is no exact figures, there is a realistic possibility that the scale of money laundering impacting the U.K. annually is in the* ***hundreds of billions of pounds.***[92]"

Fraud: The precise scale of fraud in the UK is unknown, though the NCA assessed that it is likely that fraud losses in the UK are increasing and that they are likely to be the most common crime committed against adults. Estimated unauthorised financial fraud losses across payment cards, remote banking and cheques totalled over £845 million[93] in 2018 (**US$1.1 billion**).

Tax: According to the Tax Justice Network, the UK Tax gap was estimated at US$110 billion (2010). HMRC's estimate of the tax gap however for evasion in 2014/15 was revised to £33 billion[94] (**US$43 billion**). The tax and duty regimes are also subject to criminal attacks including the coordinated and systematic smuggling of goods such as alcohol or tobacco and VAT frauds. Criminal attacks on the tax system are estimated to

have lost the UK £4.8 billion in 2016 (**US$6.2 billion**).

Human Trafficking: In the 2015 NRA[95] Human Trafficking victims are numbered between 10,000 and 13,000 victims. Despite this it has been reported elsewhere that the UK has approx 73,000 commercial sex workers and this activity generates approx **US$1 billion**[96] a year.

Emerging Threats: Technology: According to Europol a particular highlight which also applies to the UK is the role of technology highlighting that, "*the rate of technological innovation and the ability of organised criminals to adapt these technologies have been increasing steadily over recent years. Developments such as the emergence of the online trade in illicit goods and services are set to result in significant shifts in criminal markets and confront law enforcement authorities with new challenges*." For more details see Part 4, Section 4.3 Cybercriminals / Hackers.

Emerging Threats: The UK FCA published the outcome of its thematic review on ML in capital markets in June 2019. The Report did not attempt to provide an estimate of the size and scale of ML in or through the Securities Markets, as no empirical public information exists, instead identified typologies that indicated potential suspicious activity and findings directed at FI's participating in the Securities Market. See Part 3, Section 3.3 for more details.

Recoveries: The UK has restrained £1.3 billion (**US$1.7 billion**) and recovered £1 billion (**US$1.3 billion**) since 2014. HMRC has recovered a further £3.4 billion (**US$4.4 billion**) since 2016.[97]

Terrorism and Extremism: The threat to the UK from terrorism is rated as "Severe," which means an attack is highly likely in the near future. The terrorist threat to the UK has not changed from what it was at the outset of the Islamic State (IS) group's caliphate five years ago, while the threat from far-right extremism and dissident Irish Republicans has grown substantially.

IS has lost one of its major appeals - that of a physical territory with which to attract recruits from Europe and elsewhere.

The UK has more than 3,000 subjects of interest (SOIs), as well as a pool of over 20,000 former SOIs, some of whom are thought capable of moving to violent action. In the UK in 2018, there were fewer arrests and plot disruptions than in 2017, fewer plots are reaching the late stage of planning, yet for some, the propaganda appeal of both IS and AQ lives on.

Of importance however is that 80% of the plots disrupted by western intelligence agencies in 2018 involved people inspired by violent jihadist ideology yet who had no contact with its leadership in the Middle East.

Estimating Proceeds & Laundering: See below and for details on how these numbers were arrived at see Appendix m1 Methodology.

Proceeds	**US$190 billion**
Laundering	**US$295 billion**

FCN

MONEY LAUNDERING METHODS

Part 3

Part 3 - Money Laundering Methods

Whilst the scale of money laundering is global and immense, and cash based money laundering the most popular, the use of trade as a conduit to launder proceeds is also well established, with the size of the securities markets an emerging concern and a potential vulnerability, transaction based money laundering and virtual currency money laundering fuelled by the popularity of e payments and to a lesser extent cryptocurrency's from legitimate activity also bringing with it illicit funds too.

Much of the day to day response in terms of prevention and detection responsibility has been placed on FI's, and other private sector entities not unreasonably, as FI's are targeted and used in most cases to launder criminal proceeds, with usually the unwitting help of FI's and so called gatekeepers (professionals) and or high value goods dealers.

Still a significant element of criminal proceeds is used without it ever entering the formal financial system. Still further and particularly with trade based money laundering, FI's may be involved, but even then they may only a limited view.

As FI's are deputised to prevent and detect cash based money laundering in particular, there is no similar ally in trade. Shippers and airlines, ports and customs, are the FI's, financial centres and regulator's of the trade world but where FI's are required to implement preventative measures and 14 out of 40 FATF Recommendations require Countries to adopt measures requiring FI's to act, those involved in the day to day activities of trade are not included.

Recent concern raised about FI's responses to securities based and transaction based money laundering, may be understandable but serves to highlight further this distinction.

That decisions taken very recently by FATF to require Virtual Assets Service Providers ("VASP's) to adopt fully equivalent standards to those required by FI's, serves to highlight the emerging concerns with respect to virtual currency money laundering, but also serves to highlight the contradiction in the approach to trade based money laundering, particular where the estimated illicit amounts are so much greater in trade as against virtual currencies.

In this Part 3 these main money laundering methods are explored and their value in US$ terms sought to be established, based on the best available public sources. For details on the Methodology used including the calculations of the estimates, see Appendix 1 Methodology for more details.

For each method the main challenges currently faced by FI's in responding to the risks posed from these money laundering methods are summarised and potential actions suggested for FI's to consider in response.

To implement a number of these suggested actions will only be possible however with the evolution of the current legal and regulatory environment, which is explained more fully in Observations and Recommendations below.

The Highlights from this Part 3 are as follows:

- Cash based Money Laundering (ML) is the most common, likely most used and well known money laundering method.
- Cash based ML can be estimated of at least **US$4.4 trillion** as most of the criminal proceeds laundered will be either cashed in or cashed out at some stage.
- Cash based ML responses have significant challenges, which can be resolved but in some cases this will only be possible with the evolution of the current legal and regulatory system.
- Trade based ML is another significant ML method, with huge sums laundered, but in contrast to Cash is one of the least well understood, and has few obligations placed on those most directly involved for example, shippers and airlines, ports and customs and none required by FATF.
- TBML has been estimated as at least US$1 trillion (**US$1.13 trillion** equivalent in 2018) for developing countries, of which over 80% or (US$800 billion) were due to the fraudulent mis-invoicing of trade.
- The Black Market Peso Exchange is an example of and the best known TBML scheme, involving the exchange of narco dollars via peso brokers (for example in Colombia), who use then recirculate the US$'s purchasing goods from the US.
- Securities or Markets based Money Laundering is an increasing concern, largely as a result of its potential for laundering, and the fact that capital markets have relatively weak compliance controls and low levels of suspicious transaction reporting (for ML).
- Recent individual case examples, of Securities / Markets Based ML indicate there should be no room for complacency here. Whilst no figures are available for the likely size and scale of laundering via Securities or Markets, the size of these markets suggest that significant sums are laundered via the layering and integration stages as opposed to the placement stage.
- As money and how we spend it has changed, and digital e money, including online purchases are growing, the growth in Transaction based ML is reflecting this and is likely a fast growing money laundering method.
- Transaction based ML is estimated at **US$395 billion**.
- The evolution of digital e money has been accompanied by the emergence of virtual currency, which is popular with criminals although Virtual Currency based ML is likely the smallest in terms of size due to the relatively small overall size of the market for virtual currencies.
- VC based ML is estimated at approx **US$26 billion**.
- Despite the concerns raised about Virtual Currency ML it is in comparison to either Cash or Trade Based ML relatively insignificant in financial terms, but not unimportant.

3.1 Cash Based Money Laundering

Europol in their 2015 Report describe the important role cash still plays, despite the increasing number of alternatives available, calling their Report, "Cash is King."

It's not surprising that Cash retains its allure, with properties that make it desirable to criminals, including to launder. If Cash was newly innovated and introduced in today's world, it is unlikely it would be allowed, at least in its current form and in particular permitting an entirely bearer, portable medium of exchange capable of anonymous transmission.

Europol findings on cash are summarised from the experiences of EU law enforcement, including from cash detections and from suspicious activity reporting ("SAR's) which show that while cash is slowly falling out of favour with consumers, it still remains the criminals' instrument of choice to facilitate money Laundering.[98] The primary reason for more than 30% of all SAR's filed across the EU is cash. The US FBI and UK NCA also report cash remains important to criminals, with cash proceeds, cash laundering and cash smuggling still significant, and as such, cash intermediaries are targeted including Banks, Money Service Bureaux's, Casino's, Cash Intensive Businesses & High Value Luxury Goods Dealers.

Estimates on physical cash smuggling based on records received by Europol indicate that in excess of EUR 1.5 billion (**US$1.7 billion**) cash is detected and/or seized by EU authorities each year. High denomination banknotes are particularly popular, with the €500 note now being taken out of circulation, it was once dubbed the "bin laden" for its supposed role in helping finance terrorism - and rarely seen in public.

While no definitive figures are available to date as to the proportions of cash used for illegitimate purposes, law enforcement investigations confirm that cash, and in particular high denomination notes, are commonly used by criminal groups as a facilitator for money laundering.

While not all use of cash is criminal, almost all criminals use cash. That said irrespective of the ML method used, cash will likely be involved in the generating of proceeds and in some part of the ML process, even in VC based ML when either cashing in or cashing out. The estimate for Cash based ML is therefore the same as that for laundering from the overall value of criminal proceeds or estimated as at least **US$4.4 trillion**. See Appendix 1 Methodology for details.

In comparison, the value of all notes and coins is estimated at US$7.6 trillion, narrow Money at US$36.8 trillion (notes and coins and money in bank accounts, and broad Money at US$90.4 trillion, (also includes investment accounts). With the laundering of cash, each wash and spin cycle attempts to clean the cash, and to distance itself from the original criminal proceeds. By numerous washing and spinning, the funds will touch many parties, and be commingled with other funds, some illicit and others legitimate, until it is almost impossible to discern any connection to criminal proceeds.

. **Current Challenges:** For cash based money laundering FI's are required to Know their Customers and to be able to analyse the data they hold to identify unusual and report suspicious activity. FI's should have a good understanding of the types of customers, country exposures, product and service usage, transactional and behavioural activity that should be of concern, however:

- this understanding assumes cash based money laundering operates in the same way largely for all crimes and geographies, which it does not.
- many criminals are well aware of the red flags or higher risk indicators used by most FI's and the more sophisticated will disguise or use alternative identities, and types of transactions to evade discovery.
- current operations are highly inefficient and very costly, producing significant false positives, creating friction for legitimate customers, and with little feedback from Law Enforcement (LE) most filed SAR's receive little external LE reaction, though some are extremely helpful.
- the ability to share information with other FI's on an ongoing basis is largely not permitted, and only limited information is provided by LE and even then usually as a request for information and without much context.
- FI's are assessed on the basis of their technical compliance with applicable laws and regulations which requires a 100% compliance approach, and a focus on inputs and not outcomes.

Recommended Response: FI's can improve responses by focussing on the following,

- better understanding underlying crimes and the variations across Countries.
- breaking down internal silos, where financial crimes risks have been traditionally managed distinctly, e.g. Markets, Fraud and Financial Crime Risk.
- understanding the importance of data, ensuring the quality of that data and managing that data.
- sharing that data (with safeguards), within an FI Group, and receiving data between FI's and with LE, to improve effectiveness and efficiency.
- using new technology, including machine learning, that can for example provide greater context, link customers and transactions of concern or identify hidden problematic activity.
- reforming SAR reporting, for example to a 3 tier reporting system (Tier 1 unusual transaction reporting, Tier 2 meaningful SAR's, and Tier 3 Prioritised SAR's).
- removing barriers and enable the operation of utilities, for example KYC and monitoring or screening utilities.
- moving beyond a technical regulatory compliance assessment of FI's to a balance scorecard approach taking into account fighting financial crime contributions.

ML (2018)	**US$4.4 trillion**

3.2 Trade Based Money Laundering

Trade Based Money Laundering ("TBML") is one of the main means by which criminal organisations and terrorist financiers launder money. Proceeds of crime are disguised and value is moved through the use of trade transactions in an attempt to legitimise their illicit origins.

The International Chamber of Commerce in 2018 called TBML the least understood financial crime method, estimating that hundreds of billions of US dollars pass through TBML schemes each year.[99]

GFI, reported in 2015 that Trade misinvoicing, which involves the deliberate falsification of the value or volume of an international commercial transaction, is the largest component of illicit financial flows they measured, which was close to **US$1 trillion** for developing countries. GFI estimated that on average over 80% or (**US$800 billion**) of such illicit financial outflows were due to the fraudulent mis-invoicing of trade.[100] According to GFI, Trade Misinvoicing is equivalent to 18% of total developing Country trade with advanced economies. GFI also reported estimates for Trade Misinvoicing costing in 2016 the authorities **US$13 billion** in India, **US$6.5 billion** in Indonesia, **US$3.4 billion** in South Africa & **U$1.6 billion** in Egypt. Whilst Trade misinvoicing is a larger phenomenon which uses the trade system to illicitly move money across borders, and classic money laundering a subset of this, these two activities overlap, and can be difficult to separate, especially as such illicit activity is also likely a financial crime.

The US Senate Narcotics Caucus in their Report entitled The Buck Stops Here: Improving US Anti-Money Laundering Practices,[101] published in 2013, says that TBML is "*estimated by some experts to be the largest money laundering method in use in the United States today*."

The most well known is the Black Market Peso Exchange,[102] which has also been described as, "*perhaps the largest, most insidious money laundering system in the Western Hemisphere*," according to the former Commissioner of the US Customs Service. "*It's the ultimate nexus between crime and commerce, using global trade to mask global money laundering.*[103] It came to light when Colombian and US officials discussed the problem of US goods being illegally imported into Colombia using the black market. When they considered the issue alongside the drug-money-laundering problem, they realised they were inter related.

According to the former Head of Europol[104] "*Trade-based money laundering is a highly effective way of mixing large volumes of criminal proceeds with legitimate funds, but also of moving them outside of the country of activity within business transactions. TBML is very attractive to organised crime groups and very hard to identify and investigate because of its transnational nature and complexity. Recent cases have highlighted the sophisticated methods used to exploit the complex supply chains of international trade to launder criminal assets.*"

Free Trade Zones, are considered likely key enablers for TBML, with approximately 3,000 FTZs in 135 countries, but also weaknesses

identified by FATF in their 2010 ML Vulnerabilities in FTZ's,[105] which make FTZs potentially vulnerable to abuse.

Current Challenges: A misconception about TBML is that it happens via the abuse of trade finance (TF) products, mainly through FI's, therefore TF products should be considered high risk and FI's should be doing more to manage these risks, commensurate with their higher risk status.

A misconception about TBML is that is happens via the abuse of Trade Finance (TF) products.

The Wolfsberg Group - 2017

That this has coincided with a decline in TF, in particular to SME's from developing countries should be no surprise. It is also the case that trading parties are using less TF and more often use so called "open account" trading, or bilateral terms which is estimated to govern approx 80% of international trade and is settled via international wire transfers through correspondent banking accounts.

Policy makers have legitimate concerns about TBML, and have been raising the bar mainly on better FI compliance through increased regulatory expectations, for example:

- by requiring FI's to collect additional trade due diligence on their customers,
- on increased surveillance over potentially unusual or suspicious transactions, for example using technology and link analysis to provide additional context
- on new controls to identify transactions where the price of goods can be established as significantly off market.

Recommended Actions: For TBML it is important that FI's address the current KYC, price manipulation and surveillance challenges set by regulators. For example

- additional KYC data for trade customers on the main types of trade being conducted, the size and monetary values, e.g. in US$ terms a month or a year, and the trading counter parties with whom the customer is dealing, including forms of transportation and routes, could be collected.
- trade surveillance can be undertaken to identify activity inconsistent with the FI customers' profile, and next generation technology can provide additional context to identify those FI customers of increased concern.
- correspondent banking surveillance should also be targeting TBML risks.

Whilst FI's can do more, collective action would make a bigger difference. Effectively tackling TBML requires effort from exporters, importers, freight forwarders, logistics companies, shippers, airlines, ports as well as FI's and FI Supervisors as well as customs authorities and law enforcement. All participants are essential pieces to put together a complex jigsaw without which only a piece of the puzzle can be seen. For more details see a TBML Awareness Video[106] released by the Wolfsberg Group.

ML	US$1 trillion
ML (2018)	US$1.13 trillion

3.3 Securities / Markets Based Money Laundering

In providing guidance[107] in 2018, FATF described Securities Markets as *"characterised by complexity, internationality, a high level of interaction, high volumes, speed and anonymity,"* and that, *"some of the same characteristics associated with the sector can create opportunities for criminals."*

In 2017 the UK's National Risk Assessment[108] (NRA) highlighted Securities Based ML as *"a significant emerging risk,"* relevant as the UK is one of the world's largest financial centres, and home to large Securities Markets.

The realisation that an intelligence gap in the understanding and usage of Securities Based ML was evident came in 2017, with the handing out of the UK's largest AML related fine to a major European Bank. The Bank's Moscow based customer was able to convert at least US$6 billion worth of Roubles into US$ using the equity markets, buying and selling major publicly traded Russian stocks, using a technique called "mirror trading."

This typology involves simultaneous, buy and sell orders of the same securities that are settled in different currencies by customers that are linked by common owners and or controllers. This enabled Russian funds to be transferred offshore, converted from Roubles to US$ and deposited into bank accounts in countries such as Cyprus, Estonia and Latvia.

Whilst Securities Markets have long been used by criminals, for example committing crimes such as insider dealing and market manipulation, the use of Securities Markets to launder money has been under appreciated. According to the NRA, "*capital markets have relatively weak compliance controls & low levels of suspicious transactions reporting*," & FATF describes a lack of AML awareness, and only a limited number of 'securities-specific indicators and case studies."

> Capital *markets have relatively weak compliance controls.*
>
> **U.K. National Risk Assessment - 2017**

The UK FCA published the outcome of its thematic review on ML in capital markets[109] in June 2019. The Report did not attempt to provide an estimate of the size and scale of ML in or through the Securities Markets, as no empirical public information exists, instead typologies that indicated potential suspicious activity and findings directed at FI's participating in the Securities Market, that:

- some market participants needed to "*be more aware of ML risks... and needed to do more to fully understand their exposure,*"
- effective customer risk assessment and due diligence are key to reducing ML opportunities,
- controls could be improved, including with transaction monitoring (TM).

Even more recently the EU, in it's 2019 Supranational Risk Assessment[110] identified 47 products and services that it regards as both TF and ML threats and the extent to which controls and responses address the residual vulnerability. Using a rating system of 1-4, (4 being the highest) Securities Markets (Institutional Banking & Institutional Broking) are rated for ML purposes at a "threat" level of 3 with a "vulnerability" rating of between 2-3 and 3 respectively).

Current Challenges: Knowledge gaps around money laundering through securities markets are starting to raise concerns, particularly as a result of recent schemes uncovered at a number of major European banks, where Securities Markets have also been used as well as the more traditional cash markets in particular to disguise suspected outflows from, for example, Russia.

Not surprisingly, FI's with Securities businesses, will be asking whether their current understanding of the risks is up to date and whether controls are sufficient to mitigate the money laundering risk. Risk may be being overlooked, because the Securities Markets are rarely used in the placement stage of ML and is more likely therefore carried out via the layering and integration stages and consequently are more difficult to spot.

By relying on traditional transaction monitoring systems, many FI's have found high false positive rates, often as high as 99 percent, with many questioning their relevance and usefulness.

Another challenge is data, which can present significant problems to enable a full and accurate picture of a customers activities, across numerous booking locations, with different systems being used. Even when data is available, it often requires a lot of work to collect, structure and organise to normalise it, so it is useful for monitoring or investigations.

A further challenge is People, where Investigators who are unused to the particularities of the Securities Markets have difficulty in conducting thorough investigations.

Recommended Actions: FATF stressed the need for securities firms to pursue a "*group-level approach*" to adequately mitigate ML and TF risks and to avoid a "*one-size-fits-all approach*" to controls. The FCA are encouraging FI's to raise awareness of this risk, ensure customer risk assessments are appropriate and consider moving beyond existing TM approaches.

The FCA is encouraging technology innovation in this area in the belief that next generation technology can provide additional context to identify those FI customers of increased concern, and potentially problematic transactions or relationships.

FI's that leverage these solutions, will be better enabled to identify new or emerging risks, more precisely model customer risk and identify relevant ML typologies. By better monitoring customer activity and relationships, FI's can focus their resources on increased risk areas and move away from a coverage model that is highly inefficient. In time FI's will want to consider moving away from transaction monitoring to entity surveillance, and entity resolution tools and network analysis tools that will play a large part in this transition, as FI's seek to build a more complete picture of the customer's relationships across the institution, not least in order to detect potential suspicious activity. Finally FI's may need to re train or invest more in educating investigators.

As new systems and tools are introduced, a check the box approach to closing and escalating investigations is unlikely to be productive. Since the products involved are so complex and highly nuanced, investigators will need to firmly understand the products and services offered and the activities of customers, to be able to both use the new tools effectively and to make reasonable risk decisions.

ML (2018)	No Estimate

3.4 Transaction Based Money Laundering

Transaction Based Money Laundering is a relatively new advanced form of ML sometimes also called electronic Money Laundering. E-commerce payments are quickly gaining popularity, and this growth creates ample opportunities for criminals to abuse the e payments system.

According to FATF,[111] electronic, online and new payment methods are gaining popularity, as they can be accessed globally to transfer funds quickly. This advanced, merchant-based fraud scheme takes advantage of legitimate payment channels by funnelling e-commerce transactions through merchant accounts, which could involve in reality sales of firearms, illicit drugs, child pornography and other illegal goods. It has even been used as a financing source for numerous terror attacks – including the attack on French satirical magazine Charlie Hebdo in 2015, and according to the US FBI by IS which used eBay and PayPal to funnel payments to a US member.

Transaction Based ML usually involves either an illegal operation selling illicit goods, but from what looks like a legitimate online shop front, or an illegal operation using a legitimate online business to commingle activity. It can also involve selling "nothing" in reality but booking sales, as a disguise for moving money around.

It has been reported that an estimated US$352 billion had been laundered globally through e-commerce in 2016 via 500,000 illegal online shops, with US$159 billion in 2016 in the US alone. EverCompliant discovered that on average, the size of this activity in an FI's merchant portfolio could be between 6% to 10% of its client base.

Current Challenges:

As online payments have thrived, so too has online fraud and payment-oriented crime. Detecting these illegal activities are challenging, as to the credit card company or acquiring bank or payment service provider the transactions appear legitimate, making Transaction Based ML an increasingly popular tool for money laundering and illicit transactions.

Recommended Actions:

To detect transaction laundering, KYC on the merchant is key, including reviewing the merchants website, with many fraudulent websites capable of being discovered by a simple review, and by understanding the likely size and scale of the business anticipated. Also the age of the website may be relevant. Sites typically don't sell a large quantity of goods when they're first launched.

Credit card companies, merchant acquirers, banks and payment service providers should also consider available detection surveillance tools that can detect hidden websites, high-risk content or goods (e.g. pornography, gambling, drugs, IP infringement) in these hidden websites, and link payment activity.

ML	US$352 billion
ML (2018)	US$395 billion

3.5 Virtual Currencies Based ML

In February 2018, Europol estimated that £3-4 billion (3-4%) (**US$3.4 - 4.5 billion)** in criminal monies was being laundered annually in Europe through VC.[112] If these estimates are right that would suggest a global estimate of VC laundering of around **US$19 billion**. See Appendix 1 Methodology for more details.

According to Cipher Trace,[113] top exchanges have laundered a significant amount of bitcoin, estimated at US$2.5 billion at today's prices, and that VC are increasingly targeted by criminals not just for for money laundering purposes, but also to steal. In 2017 US$266 million was estimated as stolen, rising to US$1.5 billion in 2018 and by the first half of 2019 this figure had risen further to **US$4.26 billion** from cryptocurrency exchanges, investors, & users.

In 2018, US's FinCEN[114] advised that one of the main methods used by Iran to circumvent sanctions was its use of VC, which followed an Iranian announcement to create a national VC and reports suggested that Iranians may have moved **US$2.5 billion**, by converting into cryptocurrency.[115]

In March 2019, the UN published a report that North Korea had stolen **US$571 million** from Asian VC exchanges from January 2017 and September 2018, with hackers generating almost **US$670 million** in foreign and virtual currencies through cybercrime,[116] and in August 2019 that North Korea had overall amassed over **US$2 billion.**[117]

Current Challenges:

Due to its ability to be used for fast and international transactions directly between sender and recipient, VC is not only used for legitimate transactions by honest users but also for transactions in the context of criminal activities. Whilst bitcoin is the most well known, VC's such as "Monero" and "Zcash" are also likely popular with criminals because it has enhanced anonymity credentials. VC's are usually associated with laundering cybercrime computer-based fraud, but this is also changing as VC becomes more available and is useful as part of the layering process.

97% of direct criminal Bitcoin payments are sent to unregulated exchanges

Cipher Trace - 2019

Recommended Actions:

Whilst it is reported that 97% of direct criminal bitcoin payments are sent to unregulated exchanges and that 2. 36 times more criminal bitcoin is received by cryptocurrency exchanges in countries where AML is either weak or not enforced,[118] the decision by FATF to require all Virtual Assets Service Providers ("VASP's") to be effectively regulated was necessary, and should lead to better controls and enforcement in this area if VC AML regulations are successfully implemented and enforced globally.

ML (2018)	US$26 billion

Part 4 - Criminal Groups

In this Part 4 the largest beneficiaries in terms of value in US$ terms have been identified, based on the best available public sources. For details on the Methodology used including the calculations of the estimates, see Appendix 1 Methodology for more details.

The Highlights from this Part 4 are as follows:

- As for Beneficiaries:
  - Tax Evaders and Tax Fraudsters cost **US$4.3 trillion.**
  - An estimated 5.1% of world GDP is lost from tax evasion and or tax fraud amounting to **US$4.3 trillion**, with the top 10 Countries losing US$1.9 trillion. The US so called Tax gap (for 2016) was estimated at US$458 billion and in the EU (2015) at €825 billion (US$910 billion).
  - Organised Crime Gangs generate **US$2.4 trillion**, in criminal proceeds:
    - compared with US$870 billion estimated by UNODC in 2009.
    - of which, in Italy, **US$204 billion** in revenue is estimated to be generated by organised crime every year, with around 270,000 businesses in the country reportedly subjected to 1,300 crimes a day.
    - the Yakuza in Japan is estimated to generate an estimated **US$21 billion** a year.
  - Corrupt Officials benefit by at least **US$2 trillion.**
  - the IMF recently (2019) announced that curbing corruption could generate about **US$1 trillion** in tax revenues.
  - 1 in 4 people still regularly pay bribes, making Bribery the largest crime in terms of activity / incidence and effect on the largest number of people.
- Cybercriminals generate an estimated **US$1.5 trillion** mainly from fraud and theft, with the major targets being; (i) illegal online markets (**US$860 billion**), (ii) Trade secrets, including IP theft (**US$500 billion**) & (iii) Data trading (**US$160 billion**).
- Cybercriminals generate much less from Ransomware and cybercrime-as-a-service which is estimated at **US$1 billion** and **US$1.6 billion**, respectively.
- Terrorist Groups designated by Countries: such as: Australia, Canada, EU, UK, US, India, Russia, China and Turkey number more than 150 groups, though there are probably well over 300 globally with an estimated financing of at least **US$1 billion**.
- The Islamic State remains likely the worlds richest terrorist organisation, thought to have laundered and retained approx **US$400 million** to continue its operations, though Lebanese based Hezbollah receives Iranian State funding estimated at **US$700 million** in 2018, though these funds are used for military and none military activities.

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CRIMINAL GROUPS

Part 4

ORGANISED CRIME, CYBERCRIMINALS & CORRUPT OFFICIALS:

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4.1 - Organised Crime

Whilst organised crime gangs can be found in most countries, the most successful exploit key points of interest along the value chain of the most profitable criminal markets and in origin, transit and destination countries.

Although their activities are illegal they in large part respond to a demand for certain services from significant communities. Today's leading organised criminal gangs operate internationally and though great rivalries exist, they co operate often with each other too. They operate by using corruption as a tools, and the threat of violence is also a persuasive technique to encourage compliance or support and to ensure order within the group.

The FBI believe that there is no single structure under which organised crime groups function as, "*they vary from hierarchies to clans, networks, and cells, and may evolve into other structures. These groups are typically insular and protect their activities through corruption, violence, international commerce, complex communication mechanisms, and an organisational structure exploiting national boundaries*."

The UNODC in 2011 estimated that organised crime were involved in around 41% of total illicit activity, or around $870 billion.[119] Fast forward to 2018 this is likely to have grown to **US$2.4 trillion.**[120]

According to the UNODC,[121] major organised crime groups are increasingly looking beyond traditional markets to markets that generate both high profits and present low risks, with new and emerging crimes being: cybercrime, identity-related crimes, trafficking in cultural property, environmental crime, piracy, organ trafficking, and fraudulent medicine.

According to Europol's current Serious & Organised Crime Threat Assessment[122] (SOCTA), published in 2017, approximately 5,000 international Organised Crime Groups ("OCGs") are currently under investigation in the EU, an increase from 3,600, reported in 2013, largely based on improved intelligence.

> *"the rate of technological innovation and the ability of organised criminals to adapt these technologies have been increasing steadily over recent years*
>
> **Europol - 2017**

SOCTA 2017 also identified the following eight OCG priority crime threats:

- cybercrime
- drug production, trafficking and distribution
- migrant smuggling
- organised property crime
- trafficking in human beings
- criminal finances and money laundering
- document fraud
- online trade in illicit goods and services.

Europol in particular highlight the role of technology that: "*the rate of technological innovation and the ability of organised criminals to adapt these technologies have been increasing steadily over recent years.*"

They also point out that "Developments such as the emergence of the online trade in illicit goods and services are set to result in significant shifts in criminal markets and confront law enforcement authorities with new challenges."

Europol also remark that "*the profits generated by some of the successful OCGs and individual criminals active in the EU are enormous and rival those of multi-national corporations*."

For example, according to research carried out in Italy, the Cambrian mafia syndicate 'Ndrangheta" collected **US$73 Billion**[123] (€53 Billion) in revenue in 2013, with major contributions coming from: Drug Trafficking and Illegal Drug Sales: **US$33.3 Billion** (€24.2 Billion), Illegal Waste Dumping **- US$27 Billion** (€19.6 Billion), Extortion Payments - **US$3.9 Billion** (€2.9 Billion), Embezzlement - **US$3.3 Billion** (€2.4 Billion), Illegal Gambling - **US$1.7 Billion** (€1.3 Billion), Arms Trafficking, Counterfeit Goods, Human Smuggling and Prostitution all came to less than **US$1.1 billion** (€1 Billion) in total revenue. Whilst it's home base is in Italy the 'Ndrangheta" collectively has around 400 key operatives working on its behalf in 30 countries, with an estimate of 60,000 in total.

Another example can be found in Japan, where in 2010, 83,000 Yakuza gangsters controlled an economy worth an estimated **US$242 billion**[124] a year, making estimated criminal proceeds of **US$21 billion**[125] a year.

Europol believe that, "*document fraud, money laundering and the online trade in illicit goods and services are the engines of organised crime in the EU. Although neither document fraud nor money laundering have a direct impact on most citizens in the EU, they facilitate most, if not all, other serious and organised crime. The online trade in illicit goods and services is expanding rapidly. Almost all types of illicit goods are now bought and sold via online platforms that offer the same ease of use and shopping experience as most legal online platforms. Depending on the type of commodity and service, this includes platforms both on the surface web and the Darknet. Data is also traded as a commodity. The online trade in illicit goods and services is foreseen to increasingly disrupt established criminal markets and their traditional distribution models over the next few years.*"

Europol also believe that*, "the most threatening OCGs are those which are able to invest their significant profits in the legitimate economy as well as into their own criminal enterprises, ensuring business continuity and a further expansion of their criminal activities. The involvement in serious and organised crime may allow some terrorist groups to generate funds to finance terrorism-related activities. An increasing number of individual criminal entrepreneurs offer Crime-as- a-Service (CaaS). The online trade in illicit goods and services enables individual criminals to operate their own criminal business without the need for the infrastructures maintained by 'traditional' OCGs.*"

According to the National Risk Assessment from the UK[126] (2017), there were around 5,900 criminal groups in the UK, comprising approximately 39,400 individuals at the end of 2016. *The 2015 UK NRA*[127] highlighted *"that the social and economic costs of the most serious and organised crimes total £24 billion per year (**US$31 billion**), with most of this related to drugs supply at £10.7 billion (**US$14 billion**) and fraud at £8.9 billion (**US$12 billion**). The 2015 NRA had already identified fraud and drugs offences in the UK that generated a significant scale of criminal proceeds*

According to the US FBI,[128] transnational organised crime groups' generate profit from all manner of crimes such as drug trafficking, migrant smuggling, human trafficking, money laundering, firearms trafficking, illegal gambling, extortion, counterfeit goods, wildlife and cultural property smuggling, and cyber crime.

Like Europol, the FBI highlight organised crime groups are more commonly incorporating cyber techniques into their illicit activities, either committing cyber crimes themselves or using cyber tools to facilitate other unlawful acts. phishing, internet auction fraud, and advanced fee fraud schemes allow criminals to target the US without being present in the country, and the use of the internet allows organised crime to engage in traditional criminal activity, such as illegal gambling, but with a greater reach, thus expanding their global impact.

According to UNEP/ Interpol, the 5 largest organised crime gangs generate **US$28.5 billion** in revenues from illegal activities. These are the: Solntsevskaya Brava the largest of the Russian Mafia generating **US$8.5 billion** a year; Yamaguchi Gumi the largest Yakuza organisation based in Japan generating **US$6.6 billion** a year, Comorra and Ndrangheta Mafia's from Italy earning respectively **US$4.9 billion** and **US$4.5 billion**, and the Sinaloa Cartel from Mexico generating **US$3 billion** a year.

This UNEP/Interpol Report highlights a major inconsistency in the revenues from organised Crime from those referred to in the study earlier in this section on the Ndrangheta Mafia and from other reports that suggest organised crime generates up to **US$204 billion** in revenue every year according to the Conteserarti[129] (Italian Employers' Federation). Around 270,000 businesses in the country associated with the Federation reported being subjected to 1,300 crimes a day by organised criminal gangs.

According to the World Economic Forum Countries ranked for the prevalence of organised crime, (which was a subcategory for its 2017 Global Competitiveness Report), were identified and rated 1-7 with 1 the worst and 7 of little concern. The Top 15 Countries[130] were: El Salvador -1.5; Honduras - 2.4; Venezuela - 2.5; Mexico - 2.6; Guatemala 2.7 Jamaica 2.9 & Colombia 2.9; Chad 3.1; Peru 3.2 Yemen 3.3 & Pakistan 3.3; Guinea 3.4, Mozambique 3.4 & Mali 3.4 & Italy 3.5.

See below and Appendix 1 Methodology for details on how these aggregated numbers were arrived at.

Proceeds (2018)	**US$2.4 trillion**

4.2 - Corrupt Officials

Corruption plays a pivotal role, as both a financial crime and a facilitator of financial crime. It also helps protect criminals from investigation, prosecution, conviction and the confiscation of illicit assets.

> 1 in 4 people regularly pay bribes, with the harder hit those with the least ability to afford them.
>
> **TI - 2017**

According to the Global Corruption Barometer 2017, 1 in 4 people still regularly pay bribes[131]. Hardest hit by Corruption are the poor having to regularly pay so-called "tea money." In Asia, the highest bribery rates were in India and Vietnam, where nearly two-thirds of respondents reported paying extras to access basic services like public education and healthcare. The survey also suggested that the police were the most common demanders of bribes, with just under a third of people who had come into contact with a police officer in the past year saying they had paid a bribe. TI also surveyed public perception of corruption, with Malaysia and Vietnam scoring worst. Citizens in both countries felt governments were doing little to fight widespread corruption. Only one in five of those surveyed across 16 Asian countries or territories said they believed corruption had declined, while about 40 percent believed it was increasing. Nearly three-quarters of all Chinese surveyed said they believed corruption had grown worse recently, despite regular anti-corruption campaigns by the ruling Communist Party.

Still estimating the dimensions of the money flows related to corruption either in terms of how much is paid or how much is laundered as the profits of bribery is virtually impossible. Nevertheless the World Bank in 2004 estimated that the annual total value of bribes paid worldwide was **US$1 trillion**[132] and the UN later in 2009 stated that political corruption costs up to **US$1.6 trillion.**[133] The World Bank also reported that between **US$20-40 billion**[134] is lost to corruption and other crimes each year in developing countries, amounting to some 20-40% of all international aid sent to these Countries.

In 2016 the IMF updated its earlier estimates with a figure of "**US$1.5 - $ 2 trillion**[135] (roughly 2 percent of then global GDP)." The IMF recently (2019) announced that curbing corruption could generate about **US$1 trillion**[136] in tax revenues annually across the World. In addition to increasing revenues, "*Less corruption means lower revenue leakage and less waste in expenditures, and higher quality of public education and infrastructure.*"

According to results from Transparency International's (TI) annual flagship Corruption Perceptions Index (CPI) which first published results in the last century, more than two-thirds of countries reported in the CPI 2018 score below 50, (scores are 1-100, with 1 being the worst score) while the average score is just 43/100.

As TI itself states,[137] "*Our research makes a clear link between having a healthy*

democracy and successfully fighting public sector corruption," and "*Corruption is much more likely to flourish where democratic foundations are weak and, as we have seen in many countries, where undemocratic and populist politicians capture democratic institutions and use them to their advantage.*"

According to TI's Global Corruption Report[138] in 2009: Corruption and the Private Sector, the scale and scope of bribery in business is staggering, with, "*nearly two in five polled business executives have been asked to pay a bribe when dealing with public institutions*." Further one in five claimed to have lost business because of bribes by a competitor and more than a third felt that corruption was getting worse.

Just in the last year Bribery scandals have revealed corruption in very high places all over the world including:

- **Brazil:** Former Brazilian President Michel Temer is facing corruption charges after his immunity from prosecution expired at the end of 2018 for his involvement in the so called Car Wash scandal which has ensnared top Brazilian politicians and businessmen. The Car Wash probe, launched in 2014, unveiled complex corruption schemes of money laundering and kickbacks among the highest echelons of power. Luiz Inacio Lula da Silva, who was President from 2003 to 2010, is currently serving a sentence of more than eight years for his involvement.
- **China:** Since 2012, about 37 officials with the rank of deputy government minister or above have been convicted of corruption in China. Together, their cases account for 3 billion yuan's (**US$420 million**) worth of bribes, with estimates of assets seized from so called "tigers and flies" of 20 billion yuan[139], (**US$2.8 billion**).
- **China: Hong Kong**: HK's former leader Donald Tsang was sentenced recently to 20 months in prison, after he failed to disclose a conflict of interest when he approved three applications from radio broadcaster Wave Media between 2010 and 2012, including a request for a digital broadcast license. The court found that Tsang was at the same time in negotiations with property tycoon Bill Wong Cho-bau over a luxury Shenzhen penthouse. Wong was also a 20 percent shareholder of the radio station.
- **Honduras:** According to US Prosecutors, the President of Honduras, Juan Orlando Hernández won elections with the financial aid of major narcotics traffickers. Unlike his brother, Tony the President has not yet been indicted, but allegations that President Hernández and his predecessor in the presidency, Porfirio Lobo, used at least US$1.5 million provided to them by drug traffickers to ensure their election and those of their allies to office, have been publicly made in court papers in New York.
- **Kyrgyzstan:** Former President Almazbek Atambayev has been charged in 2019 with corruption over his alleged role in the release of a convicted criminal, who was serving a 16-year prison term on charges of owning illegal weapons and drugs and taking part in mass riots.

- **Malaysia:** Former Malaysian Prime Minister Najib Razak, is accused of funnelling billions of dollars through a state-backed investment fund, 1 MDB and is currently on trial for corruption with his wife and others who benefited from state capture on an unimaginable scale.

- **Peru:** The country has been embroiled in scandal since Brazilian contractor Odebrecht admitted in 2016 to carrying out a vast bribery scheme to win lucrative construction contracts. The scandal has ensnared four Peruvian presidents, including Alan Garcia, who shot himself in 2019 as police arrived at his Lima home to arrest him. Garcia's predecessor, Alejandro Toledo, was recently arrested.

- **Saudi Arabia:** Whilst the Saudi government, officially ended the crackdown on corruption ordered by Crown Prince Mohammed bin Salman, earlier this year. Under the campaign launched in November 2017, the government targeted a hit list of Saudi princes, ministers and leading businessmen, which according to the Saudi's has been very effective, with 87 settlements reached, and 63 cases still pending. The Saudi Finance Minister has claimed that the authorities had collected approx **US$13 billion** from settlements in 2018 and expected a similar amount in 2019.

- **South Africa:** Former President Jacob Zuma, once a prisoner on Robben Island, with Nelson Mandela, was removed from office in February 2018, by his own party, after years of corruption scandals, which included the extensive state funded upgrades to his rural homestead, but most noteworthy as a result of his relationship with the Gupta's, (recently sanctioned by US authorities) and the progressive state capture they attempted with his support, influencing cabinet appointments and winning lucrative state tenders through corruption.

- **South Korea:** Former President Park Geun-hye was sentenced to 25 years prison in August 2019 in a corruption scandal, after being ousted from office in 2018, following his predecessor Lee Myung-bak who was sentenced to 15 years in prison also for corruption in 2019.

- **Sudan:** Former Sudanese President, who ruled Sudan for nearly 30 years, was ousted from power by the military in 2019, and is now facing corruption charges after investigators said they found more than **US$130 million** in al-Bashir's house.

- **Venezuela:** In 2019, FinCEN in the US issued an update[140] to its 2017 "Advisory on Widespread Public Corruption in Venezuela" to alert FI's to continuing widespread public corruption in Venezuela under the regime of Nicolas Maduro, which the U.S. Government considers illegitimate. It also alerted FI's to additional methods utilised by corrupt Venezuelan senior political figures to move and hide corruption proceeds.

Proceeds	**US$1.75 trillion**
Proceeds (2018)	**US$2 trillion**

4.3 - Cybercriminals or Hackers

Cybercrime is defined as a crime in which a computer is the object of the crime (hacking, phishing, spamming) or is used as a tool to commit an offence (child pornography, hate crimes etc), or both (theft of virtual currency). Cybercriminals may use computer technology to access personal information, business trade secrets or use the internet for exploitative or malicious purposes. Criminals can also use computers for communication and document or data storage. Criminals who perform these illegal activities are often referred to as hackers.

Whilst computers are used, and techniques such as hacking or phishing are employed the underlying crime is usually theft or fraud, for example of identity, or funds from accounts or credit cards which are compromised. Where IP theft is carried out, the underlying crime could be Counterfeit & Piracy of Goods, or where the internet is used for child pornography, the crime would be a human trafficking crime. Where online drug sales are completed these will be drugs crimes. For more details on the growing importance of Cybercrime to organised criminal" gangs see Part 4, Section 4.1 above.

Cybercrime is one of the fastest growing criminal techniques benefiting significantly from the digitisation transformation underway and is estimated at around **US$1.5 trillion**[141]. A study published in 2018 called "Web of Profit" followed interviews with convicted cybercriminals, analysis of data from international law enforcement operations and financial institutions, and covert observations on the Dark Web. The findings showed a burgeoning industry, where the professionalisation of cybercrime has become commonplace, and with it identified three major areas of cybercrime that generate proceeds namely; (i) illegal online markets (**US$860 billion**), (ii) Trade secrets, including IP theft (**US$500 billion**) & (iii) Data trading (**US$160 billion**). Ransomware and cybercrime-as-a-service contributed much less to the overall threat economy at **US$1 billion** and **US$1.6 billion**, respectively.

Of the proceeds generated the Study estimated approx **US$80 - 200 billion** was laundered each year, with Virtual Currencies the primary tool used by cybercriminals for money laundering, though they are moving away from Bitcoin to less recognised virtual currencies, like Monero, that provide greater anonymity.

The Study also found that in-game purchases and currencies are spurring a rise in gaming-related laundering; as China and South Korea become hotspots for gaming-currency laundering and covert data collection found that PayPal and other digital payment systems are employed by cybercriminals to also launder money, as digital payment systems laundering often involve the use of micro-laundering techniques where multiple, small payments are made so laundering limits aren't triggered.

The Study also compared profits based on the size of the cybercriminal organisation involved. While small and medium-sized collectives generated between US$30,000

and US$50,000 in profit, large, multinational groups can make more than **US$1 billion.**

Another study from the Centre for Strategic and International Studies (CSIS) and the security company McAfee reported that global economic losses caused by cybercrime have risen to **US$600 billion**. According to the study, about **US$150 billion** can be attributed to the theft of intellectual property.[142]

A US social security number could sell for as little as US$1 on the dark web, credit card numbers for as little as US$5, driving licenses, loyalty accounts and login details to online payment services from US$20, US Diplomas's from US$100 and US Medical Records and US Passports up to / from US$1,000

Experian - 2018

For details see Experian Report.[143]

The dark web is home to much of the day to day cybercrime economy, where criminals buy and sell malware, botnets, data lists to commit fraud and identity theft. The dark web is also used for sex trafficking, distribution of child pornography, drug sales and much more.

The dark web is well hidden by multiple layers and encrypted pages, that once successfully navigated eventually opens up. Those using the dark web, rely on anonymity.

In most cases, false identities are established and used to settle transactions, and to carry out crimes.

Former Head of the UK's. GCHQ until 2018, (Robert Hannigan), which is the U.K.'s signals intelligence, cryptographic and information assurance agency, describes successful cybercrime gangs as modelling themselves on everyday businesses, led by a CEO-type figure and making use of various specialties, across the enterprise "*including intrusion specialists, experts at transforming network beachheads into permanently compromised systems and data miners.*[144]"

He believes that "*Gangs can operate from anywhere, and typically pay corrupt law enforcement officials to look the other way*," and that "*the name of the game for the most successful cybercrime gangs is to typically break in, then hang out, studying an organisation and its network for weeks or months to see what's worth stealing*."

A challenge he believes is to cash out stolen proceeds which remains difficult, without leaving a trail. Whereas five years ago, gangs would have attempted to use money laundering, "*today it's mostly bitcoin*."

Cyberattacks on FI's are increasingly being linked to nation-states.[145] Out of 94 cases of cyberattacks reported since 2007, the attackers behind 23 of them were believed to be state-sponsored, the majority coming from CRINK countries: China, Russia, Iran & North Korea.

Proceeds (2018)	**US$1.5 trillion**

4.4 - Tax Fraudsters / Evaders

Whilst Tax Fraud is as much a financial crime as any other Tax Evasion is different. Whilst it is a predicate offence to Money Laundering, according to FATF Recommendations, the Crime itself only occurs, with none declaring or false representations to taxing authorities in order to intentionally evade due taxes.

In 2011, the Tax Justice Network released a study, that **US$3.1 trillion**[146] a year, (2010) or 5.1% of world GDP was lost in tax evasion by assessing the so called shadow economies of most Countries. The study reported that the top 10 Countries lost **US$1.9 trillion**.

These Countries were led by the US at US$340 billion, followed by Brazil at US$280 billion, Italy US$240 billion, Russia at US$220 billion, Germany at US$215 billion, France at US$170 billion, Japan at US$170, China at US$135 billion, UK at US$110 billion and Spain at US$105 billion.

Europe was the biggest regional loser at **US$1.5 trillion,** followed by Asia at **US$665 billion,** North America at **US$452 billion**, South America at **US$376 billion**, Africa at **US$79 billion** and Oceania at **US$46 billion.**

Additional estimates, including for example, from the US Internal Revenue Service in 2016 estimated that tax evasion cost the US Government **US$458 billion**[147] a year (from 2008-2010) and based on data for 2015 the tax gap in the EU has been estimated at €825 billion[148] **(US$910 billion)**.

According to the International Consortium of Investigative Journalists (ICIJ), recoveries fines & penalties arising out of the Panama Papers Investigation, has exceeded **US$1.2 billion,**[149] mostly from tax evasion, with recoveries coming from the UK (US$252mio), France (US$136 mio), Australia (US$135mio) & Belgium (US$22.5 mio).

> US$3.1 trillion (5.1% of world GDP) was lost through tax evasion
>
> **Tax Justice Network - 2010**

According to the OECD, total fines for Tax Crimes in 2015 was **US$2.9 billion,**[150] with the US levying criminal fines of US$2 billion, Spain US$500 million, Germany US127 million, Japan US$16.2 million & UK US$1 million (US$ equivalents). In 2017 it was announced that the German state had lost at least €31.8 billion (**US$36 billion**) since 2001 as a result of complex financial trading exploiting a loophole in German law and has been Illegal for a number of years, but continue to be exploited by criminal networks.

According to Europol, one of the costliest tax frauds valued at around EUR 60 billion[151] (US$67 billion) (2018) is missing trader intra-community (MTIC) fraud which is the theft of value-added tax (VAT) from EU Member States by organised crime groups, sometimes called Carousel Fraud.

Proceeds	US$3.1 trillion
Proceeds (2018)	US$4.3 trillion

4.5 - Terrorist Groups

Terrorist Groups designated by Countries: such as: Australia, Canada, EU, UK, US, India, Russia, China and Turkey number more than 150 groups, though there are probably well over 300 globally[152] that are considered as such by at least the country the Group is opposing.

Over time the numbers change, with some going away, others graduating to formal legal opposition, local or government parties, but many remain violent, outlawed and a threat. Still many of these terrorist groups are not proscribed as terrorists outside of their borders, and those that are, do not receive universal designations.

Unfortunately, reliable and credible publicly available information on amounts generated to finance terrorist groups is mostly not available, though based on the limited sources available it certainly exceeds **US$1 billion.**

According to Peter Neumann, Professor of Security Studies and Director of the International Centre for the Study of Radicalisation and Political Violence (ICSR) at King's College London, writing in Foreign Policy in 2017, "*today there are more terrorist organisations, with more money, than ever before.*

In 2015, for example, the self-proclaimed Islamic State (IS) had a budget of up to ***US$1.7 billion****, according to a study by King's College London and the accounting company Ernst & Young, making it the world's richest terrorist group. That same year, the total amount of all frozen terrorist assets amounted to less than US$60 million. Only three countries - Israel, Saudi Arabia, and the United States – had seized more than US$1 million.[153]"*

As IS lost territory these amounts quickly reduced estimated at **US$520 million** in 2016 and **US$192 million** in 2017.[154]

Financing for IS during the Caliphate Years was from local sources, including from Oil, Taxation, Extortion, Kidnap for Ransom and Antiquities. In its current state, after the loss of the Caliphate it is operating on much reduced budgets and likely relying on savings estimated at **US$400 million[155]** built up during the height of its power.

In its current state, after the loss of the Caliphate, IS is operating on much reduced budgets and likely relying on savings estimated at **US$400 million** built up during the height of its power.

Soufan Group - 2018

Whilst relatively small amounts are usually enough to fund individual acts of terrorism, groups require funding to survive and to carry out recruitment, propaganda, social programs and otherwise be sustained. The larger the terrorist group the bigger the funding needs, as was seen with IS.

Before 9/11, according to a CIA Report, Al Qaeda was operating on a **US$30 million[156]** a year budget. Since then the US seized **US$265 million**[157] in assets linked to AQ by

end of 2007. By end 2018, the US had blocked **US$46 million** for more than 40 foreign terrorist organisations and **US$216 million** for so called State sponsors of terror (Iran, Sudan & N Korea).

Lebanese based Hezbollah receives funding from the Iranian government, with the US government estimating Iran transfers around **US$700 million**[158] (2018) annually, whereas Hamas' Budget in 2011 was estimated at approx **US$70 million,**[159] with funding from Iran replacing earlier reliance on funding from the Gulf States, from donors and charities. Other groups budgets, such as Al Shabaab are estimated to be much lower at **US$8 million**[160] in 2017, whereas the FARC from Colombia, which recently announced it was regrouping operated on an estimated **US$400 million** in 2012.

Terrorists meet their funding needs in a number of ways, largely based on the available opportunities, the nature, type and purpose of the organisation. Terrorist groups can be self funding and/or sponsored by States directly or indirectly and or private persons. In either situation funds can be either from legal or from illicit sources or both. Where state sponsored terrorism was commonplace, there has been a significant decrease in the availability of this kind of funding, and so terrorists have turned to alternative sources of funding, including criminal activities.

The UNODC believe that criminals and terrorists, "*share a need to operate in the shadows, exploiting gaps in criminal justice responses in and between countries and regions," and that, "they also employ each other's tactics and trafficking practices*," pointing to the Islamic State as an example of a terrorist group profiting from kidnap and ransom, Illegal oil sales and trafficking in antiquities, when it held territory across Syria and Iraq.[161]

Other terrorist groups have and or continue to finance their activities through crime and or by establishing links with organised crime, for example[162] Abu Sayaf funded their operations through drug trafficking, kidnapping, extortion and arms smuggling and the attacks in Paris in November 2015 were funded by petty crime (for example, before the Charlie Hebdo shootings the terrorists funded their activities after reselling counterfeit goods (Nike sneakers[163]) and drugs. Al Shabaab supports itself by ship piracy and from trade in Somali charcoal and Boko Haram is involved in extortion (including illicit taxation), resource extraction, human and antiquities trafficking.

Whilst terrorism finance has links to criminal activity and in some cases to organised crime, terrorism is not a crime for money and terrorist organisations are not as interested as criminals in seeking to gain a legitimate appearance for their funds, or to integrate them into the legal economy. Indeed evidence suggests terrorists retain raised funds largely outside of the formal financial system, preferring to hold physical assets, and to exchange these for other physical assets, to use cash, precious metals and stones and the informal money transfer system to avoid detection, and or linking activities and those involved.

Proceeds	**>US$1 billion**
Proceeds (2018)	**>US$1 billion**

FCN

OBSERVATIONS & RECOMMENDATIONS

5. Observations & Recommendations

Despite the limitations presented in estimating criminal activity designed to be hidden, the results present a bleak picture. Criminal markets are generating more illicit funds than at any other time in our history, with ever more harmful effects inflicted against every Country, against billions of people and against our increasingly fragile environment.

We are witnessing the transformation of organised crime into very big business, leveraging networks to connect criminal actors, adopting polycriminality, embracing new cyber tools and opportunities afforded by the transformation to digital.

As the US approaches its 50 year anniversary since it passed it first AML Laws and FATF this year celebrated its 30th birthday and the G20 extended its mandate indefinitely, it's worth asking a few hard questions, for example:

- Are we doing enough?
- Is what we are doing working? &
- What could we do better?

Are we doing enough?

Over many years criminals have successfully laundered funds, exploiting the international financial system, to place, integrate and layer criminal proceeds, with an international task force approach to combating the threat, via FATF having so far limited effects.

The response to the threat has come in the form of Recommendations to Countries to introduce common measures that are necessary to combat the threat and the harms that result. Country Evaluation Results conducted by FATF and published to date are in too many cases disappointing, and reflect indifferent commitments from too many Countries to the task. Using a simple scoring model, from 75 Country Assessments completed (by May 2019), the average scores are 64% for Technical Compliance with the 40 Recommendations and 31% for Effectiveness or satisfying the criteria applying to FATF's 11 Immediate Outcomes. In terms used by FATF to assess individual results, (not compliant/low effectiveness; partially compliant/moderate effectiveness; largely compliant/substantial effectiveness; and compliant/high effectiveness) but not overall, you could make a case that if they did, these results could best describe Country results as "**Partially Compliant**" and "**Moderately Effective.**"

Is what we are doing working?

Whilst the Country Evaluation results should be better, they still suggest a lot has been done, for example on average a new SAR is being reported somewhere around the world every 30 seconds, but despite efforts, we are not yet seeing anything like the kind of outcomes we had hoped for.

Whilst improving technical compliance remains important, more important is to focus on measures that will boost effectiveness.

That we can do better is essential, and it may involve action plans to implement remaining FATF Recommendations, but more likely it will also involve renewing commitments, funding, international co operation and considering changes to existing laws and regulations.

Could we do better?

Those tasked with combating financial Crime, led by governments, including law enforcement, supported by the private sector, can do better, but how?

- **Renewing Commitments**

Country Evaluation scores strongly indicate G20 Commitments, to combatting financial crime are not the priority they appear to be, as words are not translated into all the actions required, reflecting a lack of progress on implementing all necessary measures (for example as required by FATF), but also in addressing corruption, a cross cutting issue as a financial crime itself (but also through facilitation, and enabling avoidance of prosecution or conviction), where progress has largely stalled, with numerous examples of leaders of major Countries implicated, for example Brazil, Malaysia, South Korea and South Africa, (See Part 4 Section 4.2).

- **Funding**

Fighting financial may be expensive, but not doing so is even more costly. Doing it inefficiently and ineffectively is the worst of all worlds. Refinitiv in its 2018 survey, Revealing the True Cost of Financial Crime,[164] reported that selected bank and corporate customers collectively spent an average 3.1% of global turnover over 12 months to prevent criminal intrusion into their global operations, which would equal approx US$1.28 trillion if this was the norm for the private sector across the world.

Taking the UK as an example, the public sector finances the National Crime Agency, which includes the UK's Financial Intelligence Unit which has an annual budget of £424 million (**US$550 million**) a year. Lynne Owens, the Head of the NCA believes the public sector is significantly underfunded and in a recent statement, called for a budget increase to nearly £1.1 billion (US$1.4 billion equivalent) a year, warning that, "*the UK "can't afford not to" spend an extra £3 billion (US$3.9 billion) on fighting organised crime over the next three years*," arguing that the threat from drug dealers, cyber criminals, human trafficking gangs and sexual predators was growing "*in scale and complexity*."

In the UK, private sector funding has increased substantially, as the bar has been raised on compliance, and fines and penalties have increased. With reports from UK Finance estimating that UK Banks spend more than £5 billion (**US$6.5 billion**) annually on fighting financial crime, some

complain the costs are too high, but most point out that costs are too often incurred in areas that have little impact on effectiveness. The example of the UK is unlikely to be unique. Funding, both in the public sector as well as the private sector is a discussion that has been avoided for too long.

- **International Cooperation**

Criminals don't respect borders and operate transnationally, which is why international co operation is so important and is one of the 11 outcomes that have been prioritised by FATF in their Country Evaluations. Whilst IO 2 (International Co-operation), actually topped the results, with approx 45 Countries reporting positive results (largely effective/ effective), the overall effectiveness score is still short of 50%, (IO 7 on Investigations & Prosecutions scored at only 22%, & IO 8 on Confiscations scored at 27%).

In 2011, the UNODC reported that less than 1% of criminal proceeds were seized.[165] With big increases in criminal proceeds identified in this Study, and with still minimal assets seized, as revealed in FATF Country Reports, it is likely that the no more than the less than 1% figure remains valid.[166]

- **Recommended Changes Including to existing laws and regulations**

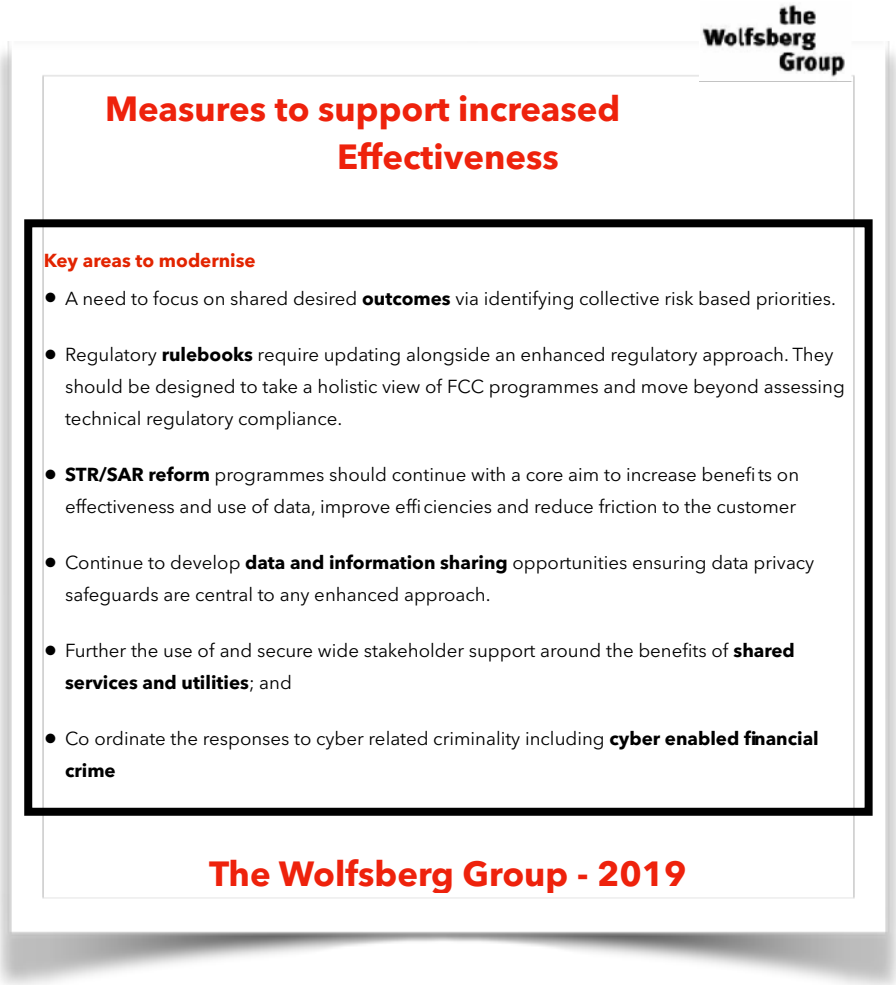
Whilst the costs may appear to outweigh the benefits, at least in purely financial terms, that may not be the right measurement? Just as the war on drugs, is a century old, the war on financial Crime 50 years old and the war on terrorism nearing 20 years old. Just because the results aren't what was hoped for, or expected, what's really the alternative? Legalising cannabis is itself controversial but is not a path that is likely to be followed for other serous financial crimes. So rather than look for an alternative, the better question is how can we efficiently achieve better outcomes? So whilst not recommending fundamental changes to the current approach, or giving up on the current system, we should recognise it is dated and is not keeping up with either the criminals or the opportunities that are available to raise effectiveness.

In addition to renewing commitments, meeting funding requirements and improving international cooperation, changes to the existing system, which also include legal and regulatory changes, and new approaches for example by regulators and FI's are urgently needed. These have been highlighted in Part 3 already, in particular for each of Cash, Trade, Securities, Transaction & Virtual Currency based ML, and are in addition to all FI's taking full responsibility for having an (reasonable and proportionate) effective fighting financial crime programme..

In summary the main overall improvements / changes (incorporating those suggested below by the Wolfsberg Group[167]) needed to turbo boost effectiveness are:

- better understanding and prioritising the threats (See Page 59 for more details) and as a result underlying crimes and the variations across countries, ML methods and criminal groups, the impact on products and services and the controls deployed and transactions and behaviours to look for.

- understanding the importance of data, ensuring the quality of that data, managing that data, sharing that data (with safeguards), within an FI Group, & receiving data between FI's and to and from LE.
- using new technology, including machine learning, that can for example provide greater context, link customers and transactions of concern or identify hidden problematic activity.
- reforming SAR reporting, for example to a 3 tier reporting system (tier 1 unusual transaction reporting, tier 2 meaningful SAR's, and tier 3 Prioritised SAR's).
- removing barriers so as to enable the operation of utilities, for example KYC and Monitoring or Screening Utilities.
- moving beyond a technical regulatory compliance assessment of FI's to a balance scorecard assessment approach taking into account financial crime contributions.
- considering extending preventative measures obligations beyond FI'S to others including trade parties, fintech's following such action being taken against VASP's.



- **Additional Calls for Action**

Calls for action by others, with both analysis and recommendations, have also been published that suggest a growing consensus around necessary measure to improve effectiveness including from:

- US Bank Trade Bodies in their comment letter on US AML Reform[168] published May 2019.
- Deep Impact? Refocussing the AML Model mon Evidence and Outcomes,[169] by the Royal United Services Institute, Centre for Financial Crime & Security Studies published October, 2019.
- The global framework for fighting financial crime: Enhancing effectiveness & improving outcomes[170] by The Institute of International Finance and Deloitte LLP White Paper published October, 2019.

- **Threat Assessment Recommendations**

In conducting this Global Threat Assessment, and compiling the necessary information a number of important observations can be made regarding assessing threats. These observations are set out below:

- Country National Risk Assessments, can be improved:
  - in many cases they are either still not published, are out of date, or are underestimating the likely threat from financial crime.
  - for those that include values and criminal markets, these are the exception and even here coverage is limited and significant intelligence gaps exist, or available information is not being shared.
  - Countries with high inherent risk exposures should take the lead and prioritise this work, which includes the G20/EU/FATF Member Countries.
  - these Countries should prioritise a better understanding of the threat transnationally from a supply, network and demand perspective to cover both the goods and the fund flows for the largest criminal markets.
  - G20/EU/FATF Member Countries should coordinate their research to identify and assess threats collectively rather than simply on a country by country basis, recognising the threats are common, interrelated and transnational.
  - further targeted research should be carried out (supported by public and private sector as well as the NGO sectors where additional expertise and information may lie) as:
    - a number of areas are under researched and information is less readily available than for other areas, for example for Illegal Gambling, for Securities Based Money Laundering, Transaction Based Money Laundering, Terrorism Financing, Tax Fraud, Environmental Crimes, Illegal Organ Trafficking, etc
    - a number of Criminal Markets have been assessed and estimates given vary widely, even from credible and trusted sources, for example Migrant Smuggling assessed by both the UNODC and ILO varies considerably. Organised Crime figures for a number of major organised crime groups, for example the Italian Mafia also point to major differences.
    - a number of Criminal Markets estimated could be much larger and much more significant, and so warrant additional research and analysis, for example the Oil Theft Market, where some unverified reports presents a significantly larger estimate than that provided in this Report, not including the importance oil played on supporting Islamic State's Caliphate in Iraq and Syria.
  - the threat assessment exercises that should be carried out would benefit from some work on establishing methodologies and or by a nominated body or bodies to carry out, commission and verify, comment and or assure such work. UNODC, Interpol or Egmont could play a role here.

FGN

METHODOLOGY & FURTHER DETAILS

Appendix 1 - Methodology & Further Details

Whilst every attempt has been made to fairly estimate values, inherent challenges and limitations, in reviewing and reporting estimates based on different methodologies and over different time periods must be recognised, and particularly given that criminals do not report statistics on their activities, considerable uncertainties exist not only regarding the accuracy of the estimates, but also how these are allocated amongst the different crime groups and the values applied in different sectors.

Nevertheless in order to establish the overall value estimates in this Report, Financial Crime News conducted extensive open source research, focussing on the best available information from credible and reliable sources, including from international agencies, governments, non-governmental bodies, law enforcement, and other experts.

Part 1 - Criminal Markets

Once identified, quoted and referenced, a final figure for each criminal market was selected. For each of the Top Ten Markets included in this Report, either a single figure was available or more often a number of figures and or a range of figures was available, reflecting the challenges in compiling data and assessing values to activities that by their very nature are trying to stay hidden. See Table 1.

Table 1 - Criminal Markets / Groups

Top 10 Crimes	Low US$	Year	High US$	Year	Total US$ (2010-18)	Total US$ (2018)
1. a) Fraud	2.6 trillion	2018	5.2 trillion	2018	**2.6 trillion*^~**	**2.6 trillion*^~**
- U.K.	190 billion	2018	190 billion	2018	(190 billion)	(190 billion)
- Bank Cards	16.8 billion	2017	16.8 billion	2017	(16.8 billion)|	(17.6 billion))
- BEC/EAC	12.5 billion	2018	12.5 billion	2018	(12.5 billion)|	(12.5 billion))
1. b) By Cybercrime	1.5 trillion	2018	1.5 trillion	2018	(1.5 trillion)	(1.5 trillion))
- Online Markets	860 billion	2018	860 billion	2018	(860 billion)	(860 billion)
- Trade Secrets (IP Theft)	500 billion	2018	500 billion	2018	(500 billion)	(500 billion)
- Data Trading	160 billion	2018	160 billion	2018	(160 billion)	(160 billion)
2. Tax Crimes	3.1 trillion	2010/11	3.1 trillion	2010/11	**3.1 trillion***	**4.3 trillion***
- Top 10 Countries	1.9 trillion	2010/11	1.9 trillion	2010/11	(1.9 trillion)	-
- UK Tax Gap	110 billion	2010/11	-		(110 billion)	-
- US Tax Gap	340 billion	2010/11	458 billion	2016	(458 billion)	-
- EU Tax Gap	-	-	910 billion	2015	(910 billion)	-
3. Bribery & Corruption	1.5 trillion	2016	2 trillion	2016	**1.75 trillion*^^**	**2 trillion**^**
- World Bank 04	1 trillion	2004	1 trillion	2004	(1 trillion)	-
- UNODC 09	1.6 trillion	2009	1.6 trillion	2009	(1.6 trillion)	-
4. Counterfeit & Piracy	461b/923b	2013/2013	1.13t / 2.3t	2013	**1,050 trillion*^**	**1.86 trillion*^**
- US Market	225 billion	2016	600 billion	2016	(600 billion)	(671 billion)
- Digitally Pirated Goods	213 billion	2015	213 billion	2015	(213 billion)	(241 billion)
- Drugs	75 billion	2010	200 billion	2014	(200 billion)	(215 billion)
- Electronics	169 billion	2012	169 billion	2012	(169 billion)	(191 billion)
- Foods	49 billion	2010	49 billion	2010	(49 billion)	(63 billion)
- Auto Parts	45 billion	2011	45 billion	2011	(45 billion)	(53 billion)
- Toys	34 billion	2010	34 billion	2010	(34 billion)	(44 billion)
5. Drug Trafficking	426 billion	2014	652 billion	2014	**539 billion^**	**578 billion^**
- Cannabis	183 billion	2014	287 billion	2014	(235 billion^)|	(255 billion)
- Cocaine	94 billion	2014	143 billion	2014	(118.5 billion^)|	(128 billion)
- Opioids	75 billion	2014	142 billion	2014	(108.5 billion^)|	(116 billion)
- ATS	74 billion	2014	90 billion	2014	(82 billion^)	(88 billion)
6. Theft/Stolen Goods	-	-	-	-	**262.2 billion^**	**270 billion^**
- Identity Theft	160 billion	2018	160 billion	2018	(160 billion)	(160 billion)
- Theft (Cargo/Oil/Gem/Ret)	92 billion	2010 - 2015	92 billion	2010-2015	(95.6 billion*^)|	(103 billion)
- Others	3.5 billion	2017/2018	3.5 billion	2017/2018	(3.5 billion)	(3.6 billion)
- Antiquities Trafficking	1.2-1.5 billion	2014	1.6-6.3 billion	2015	(3.1 billion^)	(3.3 billion)
6. Environmental Crime	91 billion	-	259 billion	-	**195.5 billion^**	**199 billion^**
- Illegal Timber	52 billion	2014	157 billion	2014	(104.5 billion*^)|	112.2
- Illegal Fishing (IUU)	11/15.5 billion	2014/2016	23.5/36.4b	2014/16/14	(21.6 billion*^)|	(24.1 billion)
- Illegal Mining	12 billion	2014/2016	48 billion	2014/2016	(30 billion)	(33.5 billion)
- Illegal Wildlife	7 billion	2015	23 billion	2016	(15 billion)	(16.8 billion)
- Waste Dumping	10 billion	2016	12 billion	2016	(11 billion)	(12.3 billion)
7. Human Trafficking	32 billion	2011	150.2 billion	2014	**150.2 billion***	**162 billion***
- Sexual Exploitation	99 billion	2014	99 billion	2014	(99 billion*)	(106 billion)
- Forced Labour	43 billion	2014	43 billion	2014	(43 billion*)	(46.5 billion)
- Domestic Servitude	8 billion	2014	8 billion	2014	(8 billion*)	(8.5 billion)
- N Korea (forced Labour)	2.5 billion	2014	2.5 billion	2014	(2.5 billion*)	(2.6 billion)
- Illegal Organ Trafficking	840 million	2014	1,7 billion	2014	(1.27 billion*	(1.36 billion)
9. Smuggling	-	-	-	-	**80.75 billion*^**	**89.2 billion*^**
- Cigarettes / Tobacco	40 billion	2016	50 billion	2012	45 billion^	(51 billion)
- Humans	5.5-7 billion	2016	35 billion	2013	20.75 billion^	(22.9 billion)
- Alcohol (U.K.)	1.5 billion	2012	1.5 billion	2012	1.5 billion*	(1.7 billion)
- Metals & Minerals	3.9 billion	2016	3.9 billion	2016	3.9 billion*	(4.4 billion)
- Oil Smuggling (EU/Iran)	4.4/3.3 billion	2012/2019	4.4/3.3 billion	2012/2019	7.7 billion*	(9.2 billion)
10. Others	-	-	-	-	**4.25 billion*^)**	**4.95 billion*^**
- Illicit Arms Trafficking	1.5/1.7 billion	2016- 2014	3/3.5 billion	2016/2014	(2.4 billion^)	(2.7 billion)
- Kidnap & Ransom	-	-	1.5 billion	2010	(1.5 billion*)	(1.9 billion)
- Forgery	0.35 billion	2015/2018	0.35 billion	2015/2018	(0.35 billion)*	(350 million)
- Counterfeiting Currencies						
Totals						
- 1+4 to 10						**5.8 trillion**

In order to identify a single figure, a number of methods were adopted in each case attempting to achieve a reasonable figure, neither promoting a lower or a higher outcome.

For each final figure an annotation against the figure has been ascribed reflecting the determination in this case.

For example:

* indicates no alternative to the final total in these cases, e.g. Fraud, Cybercrime and Tax Crimes.

* ** indicates a clear updating of earlier figures at a later point in time, not indicating a range but a clear final total in these cases, e.g. Human Trafficking.

* ^ indicates a range of results, for example between two US$ amounts, and in these cases a midpoint is recorded as the final result, e.g. Drug Trafficking and Environmental Crime.

* *^~ indicates a range of results, for example between two or more possible US$ amounts, and in these cases the most conservative is recorded as the final result, e.g. Fraud.

Table 2 - Criminal Markets / Groups - Net Figure Assessment

Markets & Groups	Total US$ (2018)	Include /Exclude	Net Figure
1. Serious Fraud	2.6 trillion	Include	2.6 trillion
2. Bribery & Corruption	2 trillion	Not considered a traditional criminal market.	n.a.
3. Counterfeit & Piracy	1.9 trillion	Include	1.9
4. Cybercrimes	1.5 trillion	Exclude as contained in Fraud, Theft Drug Trafficking & Goods Piracy	n.a.
5. Drug Trafficking	580 billion	Include	580 billion
6. Theft / Stolen Goods	270 billion	Include	270 billion
7. Environmental Crime	200 billion	Include	200 billion
8. Human Trafficking	160 billion	Include	160 billion
9. Smuggling, Arms Trafficking, Kidnap & Ransom, Currency Counterfeiting & TF	90 billion	Include	95 billion
10. Tax Evasion and Tax & Fraud	4.3 trillion	Exclude - Not considered a criminal market	n.a.
11. Organised Crime	2.4 trillion	Exclude - as covered by involvement in criminal markets above	2.4 trillion
Total after ignoring Organised & Cybercrime, Corruption & Tax	US$15.3 trillion	Exclude US$9.5 trillion	5.8 trillion

Combinations of the above are used also.

Following the determination of a single figure for each of the Top Ten Criminal Markets, the figure was (where necessary, if figure represented a year earlier than 2018) converted into a figure for 2018, based on the Global GDP, for example if a figure for a market represented that market in 2014, then the figure would be represented by a percentage of then global GDP (for 2014), which would be used to derive an equivalent figure based on the percentage for GDP for 2018, thus assuming no changes to the market in this period, in order to present the best available comparable and consistent figures for 2018. Note GDP 2018 is taken from IMF nominal amounts estimated at US$84.74 trillion (rounded up to US$85 trillion).

For all none USD values, the appropriate rates of exchange for figures not originally quoted in U.S. dollars (US$) are calculated based on 1 Euro valued at US$1.12, and £1 valued at US$1.30 and 1 Yuan valued at US$0.14.

The Top 10 Markets, excluded a number of important categories, for example, bribery and corruption, tax evasion, cybercrime, and organised crime which for different reasons, as set out in Figure 2, are not considered truly criminal markets and have been described separately in Part 4.

For the method used to determine the amount of Proceeds generated by Country and available for Laundering see next section, Part 2 Country Exposures.

Part 2 - Country Exposures

Country Exposures are estimated by focussing on the amounts generated in that Country as proceeds of crime, as well as the amounts of criminal proceeds that are available for laundering, i.e via the formal financial system.

Each Country with a Country Exposure has been estimated and arrived at by a simple calculation, though the inputs into the calculation, requires knowledge of the Global Proceeds of Financial Crime, the size of the economy of a Country and the relative size of a Country's economy to the world economy. For the latter (in both cases) IMF GDP nominal numbers have been used for 2018. To identify a Country's "Proceeds" Exposure, the GDP for 2018 is identified, the GDP of the particular Country where the estimate is being determined is identified and the share of that Country as part of Global GDP is established. This figure in percentage terms is then applied against the Global Proceeds of Crime established in Part 1. The resulting figure is taken as the estimate for Proceeds.

Admittedly this is a fairly basic model and produces an allocation of Global Proceeds strictly in accordance with the ranking of a Country based on the size of its economy (based on GDP Nominal).

A more advanced approach considered for a future assessment, but not for this Assessment, could include additional factors to increase or decrease the arrived at number based on the allocation from Global Proceeds, for example by reference to Country Corruption Indices, or to FATF Country Evaluation Results, or indeed Composite Country Indices, like the Basel AML Index. Suffice to say that Countries with positive scores in these indices are likely to have estimates that are somewhat overstated and vice versa.

In order to arrive at an estimate for a Country's exposure to laundering, two calculations are necessary with the result being achieved by combining the sums of each calculation.

The first calculation takes the Country Proceeds figure arrived at as described above and seeks to establish how much of this figure (representing domestic proceeds of Crime) would be laundered. Based on the UNODC 2011 Study, which found that of US$2.1 trillion, that US$1.6 trillion was available for laundering (or 76%), the same is applied to Proceeds in Country. By applying 76% to the Country Proceeds amount a figure is arrived at concluding the first calculation.

For the second calculation this is more complex and seeks to identify how much overseas criminal proceeds are available for laundering and of this how much is likely to be laundered via or in the Country being assessed (representing foreign proceeds to be laundered). Starting with the figure for Global Criminal Proceeds established in Part 1:

- the amount of domestic proceeds is first deducted,
- then the amount available for laundering is next established, by applying the 76% to the Global Proceeds figure.
- then (based on the UNODC 2011 Study, which found that of the Money available for

laundering approx 50% would be laundered overseas), the third step is to divide the figure so far arrived in half to find the figure that is available for laundering overseas, as far as the being assessed Country is concerned.

From this figure another calculation is required. By taking the share of international payments attributable to the Country being assessed, the amount of additional exposure to available laundered funds could be estimated. These are based on Currency Market Shares provided by SWIFT and published by the ECB for 2017.[171]

Taking this share for example 39.9% for US$ or 1.5% for Chinese Yuan, the %age is applied to the aforementioned figure and this is the amount estimated for laundered monies from overseas.

To complete the calculation the domestic and overseas numbers are combined to produce a total estimated available for laundering sum.

It should come as no surprise that leading economies are likely to represent much of where the proceeds from Criminal Markets are both generated (demand and victims), but also they are likely to be destinations for illicit funds being laundered as well as for legitimate transactions, with which of course the illicit funds seek to hide or be disguised. This model only takes Global Payment Data and converts that to establish the estimate for laundered funds, where appropriate.

A more advanced approach considered for a future assessment, but not for this Assessment, could include additional factors to increase or decrease the arrived at number, by including other factors that are likely to encourage illicit funds as well as legitimate funds, such the availability of broad financial services, including wealth management and exchanges, and access to so called professional gatekeepers. Other factors for a future model could include the size and scale of international trade, including Ports (air and sea), particularly in determining exposures for example to TBML. Another factor may be the availability of desirable none bankable assets such as Real Estate, Art, Schooling etc.

US - Estimating Proceeds and Laundering:

Taking Global Proceeds of Crime at US$5.8 trillion, established in Part 1, the share attributable to the US will be substantial. Fraud, Counterfeit & Piracy, Illegal Drugs, Theft, Human Trafficking & Smuggling in particular target the US as a leading market.

By taking the US share of the global economy (24% for 2018), as it's share, criminal proceeds generated is valued at **US$1.4 trillion**, of which **US$1.1 trillion** is available for laundering with the rest either taken as costs, re invested or laundered in cash outside of the formal financial system.

Overseas criminal funds, available and estimated for laundering via or in the US is . US$878 billion (based on US$ share of international payments of 39.9%).

Together the total amount available for laundering in or via the US is **US$2 trillion,** and criminal proceeds generated in the US of **US$1.4 trillion**.

China - Estimating Proceeds and Laundering:

Taking Global Proceeds of Crime at US$5.8 trillion, established in Part 1, the share attributable to China will be substantial, Counterfeit & Piracy, Illegal Drugs, Human Trafficking & Environmental Crimes in particular apply to China.

By taking the Chinese share of the global economy (16.4% for 2018), as it's share, criminal proceeds generated is valued at US$1.0 trillion, of which US$760 billion is available for laundering.

Overseas criminal funds, available and estimated for laundering via or in China is US$38 billion (based on Yuan's share of international payments of 1.6%).

The total amount available for laundering in or via China is US$798 billion, (rounded up to US$800 billion) and criminal proceeds generated in China of US$0.95 trillion, (rounded up to US$1 trillion).

Japan - **Estimating Proceeds and Laundering**

Taking Global Proceeds of Crime at US$5.8 trillion, established in Part 1, the share attributable to Japan will be substantial, with Fraud, Illegal Drugs, Illegal Gambling, Human Trafficking, Environmental Crimes and Organised Crime in particular applying to Japan. By taking Japan's share of the global economy (5.88% for 2018), as it's share, criminal proceeds generated is valued at US$341 billion, of which US$259 billion is available for laundering. Overseas criminal funds, available and estimated for laundering via or in Japan is US$82 billion (based on Yen's share of international payments of 3%).

The total amount available for laundering in or via Japan is US$341 billion, (rounded down to US$340 billion) and criminal proceeds generated in Japan is also US$341 trillion, (rounded down to US$340 billion)

Germany - **Estimating Proceeds and Laundering**

Taking Global Proceeds of Crime at US$5.8 trillion, established in Part 1, the share attributable to Germany will be substantial, with Fraud, Illegal Drugs, Human Trafficking, and Organised Crimes in particular applying to Germany. By taking Germany's share of the global economy (4.7% for 2018), as it's share, criminal proceeds generated is valued at US$273 billion, of which US$207 billion is available for laundering.

Overseas criminal funds, available and estimated for laundering via or in Germany is US$265 billion (based on Germany's size versus the share of international payments of the Euro (9.6% (27% of 35.7%)).

The total available for laundering in or via Germany is US$472 billion, (rounded down to US$470 billion) and criminal proceeds generated in Germany of US$273 billion (rounded up to US$275 billion).

U.K. - Estimating Proceeds and Laundering

Taking Global Proceeds of Crime at US$5.8 trillion, established in Part 1, the share attributable to the UK will be substantial, with Fraud, Illegal Drugs, Human Trafficking, and

Organised Crimes in particular applying to the UK .

By taking the UK's share of the global economy (3.3% for 2018), as it's share, criminal proceeds generated is valued at US$191billion, of which US$145 billion is available for laundering. Overseas criminal funds, available and estimated for laundering via or in the UK is US$151 billion (based on the GBP'S share of international payments (5.4%).

The total amount available for laundering in or via U.K. is US$296 billion, (rounded down to US$295 billion) and criminal proceeds generated in UK of US$191 billion, (rounded down to US$190 billion).

Table 3 - Country Estimates for Proceeds and Laundering

Largest Economies	GDP (2018) US$ IMF	Share of US$5.3t (Laundered US$)	Largest Economies	GDP (2018) US$ IMF	Share of US$5.3t
1. United States	20.4 trillion (24%)	1.4 trillion (2 trillion)	11. Russia	1.63 trillion (1.92%)	111 billion (84)
2. China	13.5 trillion (15.9%	1trillion (800)	12. South Korea	1.62 trillion (1.9%)	110 billion (84)
3. Japan	5.0 trillion (5.88%)	340 billion (340)	13. Spain	1.43 trillion (1.70%)	99 billion (75 plus 103 = 178)
4. Germany	4.0 trillion (4.7%)	275 billion (470)	14. Australia	1.42 trillion (1.7%)	99 billion (75)
5. United Kingdom	2.82 trillion (3.3%)	190 billion (295)	15. Mexico	1.22 trillion (1.44%)	83.5 billion (63)
6. France	2.77 trillion (3.25%)	189 billion (144 + 202 = 348)	16. Indonesia	1 trillion (1.18%)	68.4 billion (52)
7. India	2.7 trillion (3.18%)	184 billion (160)	17. Netherlands	913 billion (1.07%)	62 billion (47 plus 69 = 116)
8. Italy	2.0 trillion (2.35%)	136 billion (103 plus 136 = 239)	18. Saudi Arabia	702 billion (0.82%)	59 billion (40)
9. Brazil	1,87 trillion (2.2%)	128 billion (110)	19. Turkey	766 billion (0.9%)	52 billion (40)
10. Canada	1.7 trillion (2.0%)	116 billion (100)	20. Switzerland	704 billion (0.83)	48 billion (36)
European Union	18.8 trillion (22%)	1.276 trillion (970 plus 608 = 1.7 trillion	Rest of the World	16.645 trillion (19.5%)	1.13 trillion (860)

Using this method those Countries with the next largest economies, i.e. from 6-20, starting with France and concluding with Switzerland generate criminal proceeds and laundering figures, which are summarised in Figure 3 on this page 66. The EU and the rest of the world (Countries in aggregate outside the top 20 largest economies) figures are also included.

Part 3 - Money Laundering Methods

In Part 3, the main money laundering methods are summarised and values of laundered monies using these methods estimated.

These estimates are largely based on publicly available information, and or referenced in the respective sections within Part 3 itself.

Nevertheless the following explanations are provided.

Cash Based ML.

While not all use of cash is criminal, almost all criminals use cash.

That said irrespective of the money laundering method used, cash will be involved in the generating of proceeds and in some part of the money laundering process, even in VC either cashing in or cashing out.

The estimate for cash based money laundering is therefore at least the same as that for the overall value of criminal proceeds available for laundering as set out in Part 1, being US$4.4 trillion or 76% of the Global Criminal Proceeds figure - US$5.8 trillion, as described in Criminal Markets and Country Exposure Sections earlier in this Methodology.

The figure provided is described as "at least" as with any laundering or washing cycle undertaken to turn dirty money into clean money, it can appear much bigger as it passes again and again through the system, therefore appearing as if new funds are being laundered.

Trade Based Money Laundering

For trade based money laundering the estimate is taken from a single source from 2015 and has been revised to reflect what that figure would be based on it's percentage of GDP for the year 2018.

Securities Based Money Laundering

For Securities based ML, no estimate is given as no reports or studies are publicly available and for reports and or studies that refer to Securities based ML, they generally confirm that there is insufficient empirical evidence to support estimating any valuation.

Whilst no estimate is provided it's likely to be significant, and likely in excess of estimates provided for transaction based ML, and VC based ML, but unlikely to be larger than either TBML or cash based ML.

Transaction Based Money Laundering

For transaction based ML, sources identified in Part 3 Section 3.4 are the basis for the estimate provided.

Virtual Currency Based Money Laundering

For VC based ML, sources identified in Part 3 Section 3.5 are extrapolated and aggregated in order to generate a reasonable estimate, which is provided.

Part 4 - Criminal Gangs

Organised Criminal Gangs

The Organised Crime estimate comes from:

- taking the figure for Global Criminal Proceeds established in Part 1,
- taking 41% of this figure to reach the estimate, with 41% being the amount used in the UNODC Study published and reported in 2011, and so adopting the same basis to generate this estimate.

Corrupt Officials

The estimate provided is derived from the most recent publicly available sources referenced. As this source provides a range the estimate is the mid point within that range. The estimate is also brought forward to reflect an equivalent 2018 figure, based on GDP nominal rates at the years of the source date and 2018.

Cybercriminals

The estimate provided is derived from the primary publicly available source referenced.

Tax Fraudsters / Evaders

The estimate provided is derived from the primary publicly available source referenced in the Part 4 Section 4.4. The estimate is also brought forward to reflect an equivalent 2018 figure, based on GDP nominal rates at the years of the source date and 2018.

Terrorists

The estimate provided is derived from the publicly available sources referenced and aggregated, though the figure of at least US$1 billion is likely exceeded.

Acknowledgements

This Report, in particular relies on many reports, studies and papers, but a few standout and deserve particular mention and credit, in particular:

- the UNODC's Report published in 2011, titled "Estimating illicit financial flows resulting from drug trafficking and other transnational organised crimes[172]" which attempted to size and measure financial crimes, based on 2009 markets,
- The Financial Cost of Fraud by Crowe Clark Whitehill,[173]
- The Rise of Environmental Crime: A Growing Threat to Natural Resources, Peace, Development & Security, published in 2016 by UN Environment Programme and Interpol,[174]
- Transnational Crime and the Developing World: published in 2017 by Global Financial Integrity,[175]
- Profits and Poverty: The Economics of Forced Labour by the International Labour Organisation,[176]
- Global Slavery Index[177] on Human Trafficking,
- International Chamber of Commerce and International Trademark Association sponsored Report on the Economic Impacts of Counterfeit and Piracy, by Frontier,[178]
- The World Drug's Reports by the UNODC[179] as well as many other contributions from the UNODC,
- Cybercrime by Dr Michael Maguire & Bromium,[180]
- Tax Crimes by the Tax Justice Network,[181]
- Corruption: Costs and Mitigating Strategies by the IMF, [182]
- These along with many others, from the public sector, private sector and civil society, including from academia and from the professions, provide a wealth of information to view financial crime closer than ever before.
- This Report has also received the benefit of numerous professional colleagues "advice" and "counsel", including in alphabetical order, Liad Alon, Ross Aubrey, Hans Peter Bauer, Alexon Bell, Elizabeth Bethoney, Jens Gebhardt, David Howes, Kirsty Kelly, Alan Ketley, Vishal Marria, Natalie Merrylees, Victoria Meyer, Tracy Paradise, Sarah Runge, Markus Schulz, Patricia Sullivan, Andrew Williams, as well as from so many discussions are learnings from in particular members of the Wolfsberg Group without which this Global Threat Assessment could not have been published.
- This Global Threat Assessment is dedicated to Tomas and Hannah Cusack who continue to be my inspiration, as well as to my good friend, the dear departed yet still very fondly remembered, Matt Cooper, May his peace be unrested to read this work, which is as much inspired by his enthusiasm for fighting financial crime and his dedication to helping others understand the knowledge and benefit from the experiences he once shared with many.

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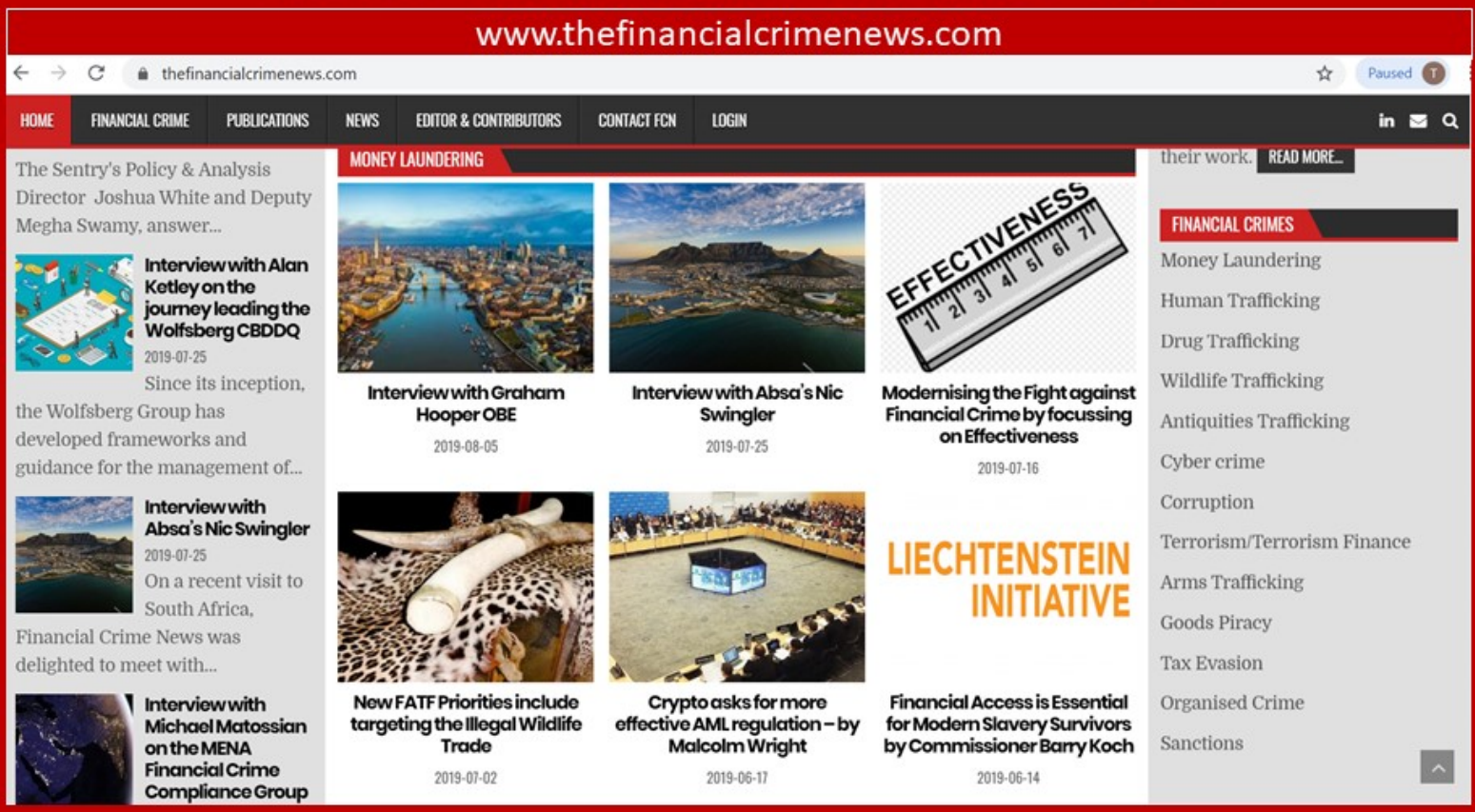

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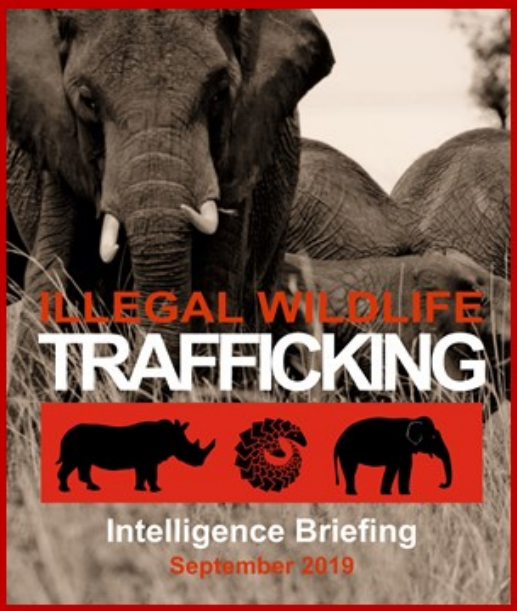

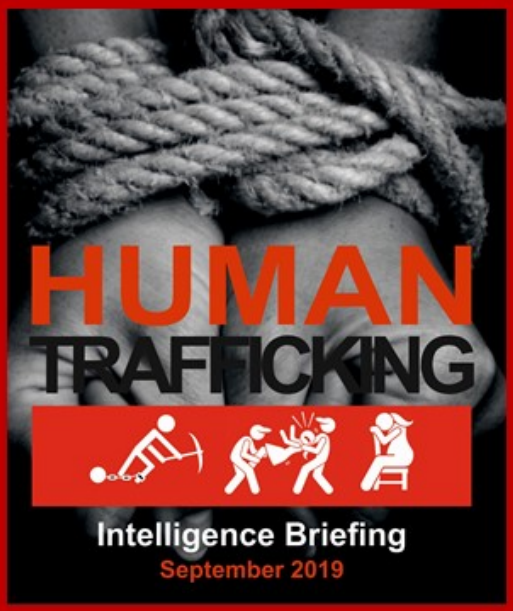

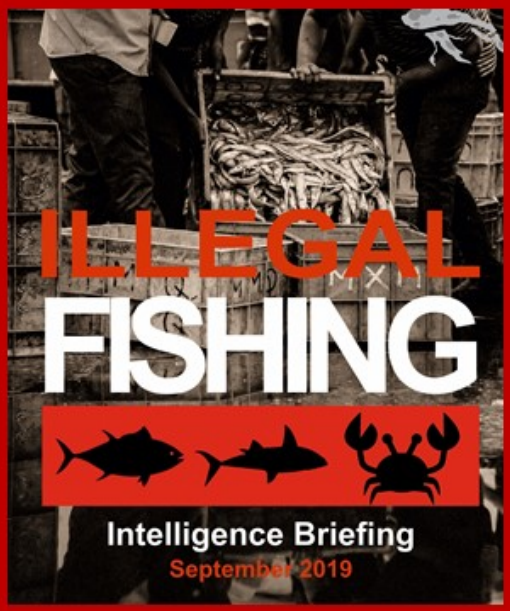

Reviews

Reviews of the Global Threat Assessment from leading Financial Crime Fighters

– by **Hans Peter Bauer, Founder and Senior Adviser to the Wolfsberg Group,** "*Finally, here it is. From now on we shall have a quantitative basis on how to go forward in the fight against financial crime, the financing of terrorism and the implementation of sanctions, which has been missing for so long. To my knowledge John Cusack's new book, for the first time, presents a global overview of the volume of crimes committed, exposed countries and money laundering methods, with impressive and sometimes surprising results. Whatever progress we want to make on improving the effectiveness in the fight against financial crime we shall need a quantitative basis to set the priorities in all three categories and to assess objectively the performance of all the measures taken. For this purpose John Cusack's latest publication offers indispensable support which should be updated and deepened on a regular basis. In addition, the book contains valuable considerations and in particular recommendations on how to address and progress these issues going forward. The stage is set. In all aspects, the book profits immensely from John's vast professional experience and his network of international experts on the subject.*"

– by **Chris Brannigan, CEO of Caspian**, "*John Cusack's Global Threat Assessment, provides a unique picture of financial crime threats, across crimes, countries, methods and groups, revealing the true size and scale of the problem, like never before. The Global Threat Assessment also provides answers on how to fight back and how to improve overall effectiveness. Caspian supports increased effectiveness in FI financial crime compliance programmes through its leading solution, "Transaction Investigator" using advanced technologies to support financial crime investigations, which only goes to endorse a number of key observations and recommendations, including embracing innovation, regtech, which are already proving it's possible to make a bigger difference.*"

– by **Rob Campbell, Programme Director of the United for Wildlife Transport & Financial Taskforce's, for the Royal Foundations,** "*The collection of detailed information here is unparalleled, a consolidated report covering all forms of financial crime, and refreshingly one of the first reports to include the growing risks of wildlife trafficking. John has become a real ally for the United for Wildlife Taskforce's with his depth of knowledge on the financial flows of illicit trade and money laundering, helping us understand the similarities with other financial crimes, many of which are outlined in this report.*"

- *by* **Ruth Dearnley, CEO of Stop the Traffik,** "*John Cusack is an explorer in a world of crime that creates revenue from many sources and his interaction with anti human trafficking is a welcome one. Particularly when the world of anti trafficking is populated by such a wide variety of NGO agendas. And the research base for human trafficking is significantly shorter in terms of time than many other threat areas. In 2007 HT was not on any threat assessment anywhere. We are still learning. Stop the Traffik believes firmly that HT will only decrease if we are able to share the richest picture of how and where it is manifest in a way that works for all actors, whether that Law Enforcement and Justice process; Financial Services, Banking or Business; Multi Lateral entities and NGOs in the widest sense. And it is a 2 way revolution, with all actors sharing what they know in a non competitive, safe space. Intelligence for action doesn't just mean for investigation in the traditional policing sense. It's how every sector reviews its exposure and activity and HT proofs it No demand for the product and services of*

trafficked / exploited people equates to zero income for traffickers. It is said that 89 million people have had an experience of HT / exploitation in the last 5 years and this tells all of us that there is a significant churn in this business. We need to collaborate in ways that undermine this potential for new recruits. And it is just about money, access to money and the ability to use and move it. The challenge is to build and digitise the financial typologies of trafficking and to encourage traffickers to expect to be denied these abilities. The world of FSOs has a pivotal role to play in fundamentally undermining the business that is Human Trafficking and Johns work and this publication are really helpful guide."

- by **Tom Cardamone, CEO, Global Financial Integrity**, "*At a time when financial crime is generating more illicit funds than any other time in history, this judicious report presents a comprehensive picture of the size, composition and evolution of financial crime throughout the world. The contents of this report are simply stunning; the world must do more to curb financial crime. This study illuminates the pervasive extent of financial crime throughout the world, and offers cogent analysis and solutions for a way forward."*

– by **William J Fox, Co-Chair of the Wolfsberg Group and Financial Crimes Executive at Bank of America**, *"I have had the pleasure of intersecting with John Cusack from time to time for the past 16 years. Most recently I have had the honor as serving with him as co-chair of the Wolfsberg Group. Over the years, I have learned that John's passion for the fight against financial crimes is unmatched. He is insightful, creative and experienced as well as indefatigable. He brings all of these skills to bear in full display in his Financial Crimes News: A Global Threat Assessment. In a tactical sense, John has developed a very useful assessment that will prove highly useful to financial crimes professionals – be they in the private or public sector. He covers the landscape of criminal markets, exposed jurisdictions, money laundering methods and criminal groups all with facts, figures and incisive analysis. This assessment is a highly valuable guide and framework of how professionals should think about financial crime. But perhaps more importantly, John's assessment has a strategic bent with insightful recommendations that would make both national and financial institution financial crimes programs more effective. I have walked part of this journey with John at the Wolfsberg Group as he was developing his thinking. I believe he is on the right track and that this assessment provides an important voice for much needed reform of the financial crimes regime.*

– by **Khoo Boon Hui, formerly President of Interpol, senior Deputy Secretary in Singapore's Ministry of Home Affairs and commissioner of the Singapore Police Force,** *" All too often in the fight against financial crime, we base actions on perceived threats and on public concerns, oftentimes amplified by legitimate media reporting. But there still remain serious gaps in our understanding and awareness. John Cusack's Global Threat Assessment shows how these gaps are being exploited and with evidence collated, aggregated and analysed, he demonstrates how we need to raise our game in both targeting and achieving greater success in the fight against financial crime. More than this though, John Cusack's Global Threat Assessment provides serious food for thought for all of us, as it reveals what can already be done with publicly available sources. We need to consider what more could be achieved if we match this exercise with so far restricted private information from around the world. It is clear that to succeed we have to share more information and to find ways for all stakeholders, public and private, local and international to work better together."*

– by **Jason Holt, EMEA Lead Exiger, and Former FCC head in the U.K. and EMEA and BNP Paribas, Bank of America and JPMorgan**, "*This book is an Invaluable roadmap to the financial crime challenges our world faces today. Supported by a wealth of well sourced data, this book navigates the reader through the significant financial crime threats we face today, as well as the opportunities we have to resolve these and the impact if we fail to do so. The only useful fact missing here, is that which measures the positive impact this author has already had on reducing financial crime globally. This is a must read, not only for financial crime professionals but anyone who cares about our planet or society.*"

– by **David Howes, Global Co Head Financial Crime Compliance, Standard Chartered Bank**, "*As always, John has added to the debate on tackling financial crime through his research better to understand its scale and scope. There is a lot here to digest and to provoke debate about the most effective way to respond, which must be in partnership across the public and private sectors if we are going to realise the full potential of using financial intelligence to tackle criminal and terrorist threats.*"

– by **Tom Keatinge, Director, Centre for Crime & Security Studies at the Royal United Services Institute**, "*The response to financial crime is predicated, in part, on 'known unknowns', but aggregating what empirical data we do have is an important step in arraying our limited resources against the threat. This new report provides a valuable base on which further research and both public and private sector intervention can be based*."

- by **Gottfried Liebrandt, CEO of SWIFT until 2019**, "*This work provides a clear and quantified overview of financial crime in terms of type of activities, geographies and tools and techniques used to launder the financial proceeds. By highlighting the key areas of risk it will allow the financial industry to focus their Financial Crime Compliance efforts, thus greatly increasing both effectiveness and efficiency. It is a must read for Financial Crime Compliance professionals*."

– by **Iain Lobban, Head UK GCHQ until 2014,** "*I have worked for over four years with John Cusack, the principal author of this Report. Those who know him will attest to his experience and expertise, his authority and his restless quest to make a difference. It is hard to escape his view that not enough is being done, that insufficient focus is being brought to bear on our strategic and operational counters to this global, ever morphing phenomenon of financial crime*." – see more in Preface to GTA.

– by **Vishal Marria, CEO of Quantexa**, "*As a leading solution provider disrupting the way FIs tackle financial crime, John Cusack's Global Threat Assessment resonates completely. It not only clearly articulates the nature of the threat, but also the requirements needed to create tailored solutions. Quantexa is already demonstrating increased effectiveness for its FI clients through the use of AI and big data analytics and supports greater information sharing as recommended in this this authoritative publication*."

– by **Michael Matossian, EVP, Global Head of Group Regulatory Compliance at Arab Bank and Founder and Deputy Chair FCC MENA Group**, *"Financial crime threats continue to expand and diversify cutting across borders, sectors, and markets. Addressing this global problem requires looking through the macro lens for better unveiling the changing faces of financial crime. That is why I consider this report "FCN: Global Threat Assessment" authored by John Cusack, an important resource for Heads of Financial Crime and Money Laundering Reporting Officers. Entrusted every day with steering efforts, resources, and capabilities in the right direction and in alignment with evolving threats and current waves, the report offers compliance practitioners an all-encompassing overview of the financial crime current environment across different markets, countries, methods and groups with each risk area tackled in great detail. Some of these are emerging themes, whilst others are more traditional areas where criminals continue to tap new ways to bypass set controls. The report also provides an update on the current state of key criminal groups and an outlook of expected future patterns building on a deep-dive analysis of various reports and studies. It also identifies key exposed countries based on economic size for both the generation of the proceeds of crime and the amounts potentially laundered. Specifically, Chief Compliance Officers will find the report as a valuable source for providing meaningful reporting to upper management including their CEOs on issues that ought to take the centre stage while also providing a toolkit for measuring exposure to evolving risk dimensions their radar might have otherwise missed. The report concludes with offering key recommendations for enhancing the global fight against financial crime including as it relates to international cooperation and an overhaul of regulatory regimes to accommodate the changing combating financial crime landscape. In short, the report provides a great resource for combating financial crime professionals in crafting stronger financial crime compliance controls as a way to reinforce the strength, safety, and integrity of the financial system."*

– by **JIm Richards, CEO RegTech Consulting and former BSA Officer, Director of Financial Crimes Risk Management at Wells Fargo & Co**, "*John Cusack's Global Threat Assessment is a quantum leap forward in the global fight against financial crime. I cannot improve upon what Sir Iain Lobban so eloquently writes in his introduction to John's Threat Assessment: "it is a highly impressive compendium of information from multiple sources, harvesting a wide range of studies by reputable authorities, generating a comprehensive view of the threats and trends, of the potential scale and ingenious variety of financial crime around the world today." Notably, though, and in addition to John's brilliantly researched and detailed assessment of the key markets, countries, methods, and groups, are his authoritative observations and recommendations, all based on twenty-plus years as one of the world's preeminent financial crimes compliance professionals."*

– by **Sarah Runge, Global Financial Crimes Compliance Head of Regulatory Strategy at Credit Suisse, and formerly until 2018 at the the U.S. Treasury Department's Office of Terrorist Financing and Financial Crimes, as Director of the Office of Strategic Policy for Terrorist Financing and Financial Crimes**, "*Quantifying and qualifying the cost of financial crime is incredibly difficult. So challenging, in fact, that it hasn't been attempted in over a decade. John Cusack not only estimates the volume of such proceeds, but he breaks it down by criminal markets, exposed countries, money laundering methods, and criminal group to provide the most comprehensive global assessment to date. Thanks to John, not only do we have a description of threats, but a methodology which we can follow*

and understand. John undertook extensive research to identify information and drew his analysis from over 100 public sources of information in order to publish a truly global threat assessment. This work will now become the new basis of statistics for estimating the value of financial crime and offers one way forward with thoughtful recommendations. Thank you, John."

by **Che Sidanius, Global Head of Financial Crime & Industry Affairs, Refinitiv**, "*This is a seminal paper on the challenges that currently faces the fight against financial crime. Quantifying the scale of illicit proceeds is usually the challenge, and this report does exactly that. It also exposes the fact that the problem is global and that we, across the public and private sectors, need to do better and take a more collaborative approach to make a difference.'*

– by **Patricia Sullivan, Global Co Head Financial Crime compliance at Standard Chartered Bank**, "*An early and very dear mentor taught me "if you can't measure it, you can't monitor it." I have shared this advice with many in my teams over the years. John Cusack's compelling research here is an opportunity to consider and debate if we have the right and complete intelligence to measure financial crime threats. If we are not able to accurately measure the risks, then the tools, solutions, and recommendations to mitigate may be ineffective."*

– by **Nic Swingler, Head Financial Crime Compliance for Absa Group Limited,** "*John's Global Threat Assessment should be mandatory reading for all Financial Crime professionals. He has achieved the rare feat of providing the reader with a thoroughly researched, fact driven holistic assessment across criminal markets which seamlessly link into further detailed analysis across countries, money laundering methods and criminal groups. All of this is presented in a succinct manner and in a format which is easy to follow. The "cherry on top" is John leveraging his wealth of knowledge and immense experience to provide very valuable and practical recommendations."*

– by **Victoria Meyer, Founder and CEO of SIBAcademy**, "A must-read for anyone looking for an overview of trends in laundering the proceeds of crime, this FCN Special Edition provides a comprehensive overview of the billions laundered annually around the world and the methods used to move those funds. The analysis of criminal markets, in particular, highlights the advance of organised crime and the growth in demand for laundering of criminal proceeds.An impressive amount of research, covering over 100 separate studies and reports, has been distilled into an accessible summary of money laundering drivers, methods and risks. This assessment of the available research also points to the worrying conclusion that not enough is being done to analyse global threats, and highlights the need for more coordinated intelligence to drive a new joined-up strategy for fighting money laundering and terrorist finance."

– by **Andrew Williams, Global Head of Compliance at UBS until 2014, leading consultant and coach**, "*John is one of the outstanding Financial Crime professionals of his generation and his Global Threat Assessment demonstrates that rare combination of detailed sourcing and factual analysis with the overlay of decades of practical experience. That, together with a very user-friendly style that make it an invaluable tool for everyone involved in the fight against financial crime and those with a wider interest in the sector. Truly a "must read."*

FCN: Global Threat Assessment

– by **Malcolm Wright, Chief Compliance Officer, Diginex, and Chair of the AML/CTF Working Group for the Industry Body, Global Digital Finance**, "*A comprehensive review of the landscape of financial crime has been long overdue for some time. Whilst we have seen many individual reports on various predicate crimes such as fraud and human trafficking, alongside the methods used by criminals such as cash, trade-based money laundering or virtual currencies, we have not seen a consolidated bringing together of all of this information. The FCN Global Threat Assessment (GTA) has done just that; bringing the latest estimates on financial crime, and taking a data-driven approach to being able to provide pivots on the types of crime, countries with most activity, money laundering methods, and criminal groups involved. An interesting consideration that the GTA permits is some objectivity around scale. For example, there is considerable debate about the threat posed by virtual currency money laundering. However, against the backdrop of cash ($4.4tn USD), TBML ($1.13tn USD), and Transaction Based Money Laundering ($352bn USD), virtual currency money laundering accounts amounts to $26bn USD. This may be pause for thought; the necessity to prevent financial crime is a given, but as regulators seek to implement effective AML controls in line with FATF Recommendations, the GTA may offer some guidance on ensuring proportionality of controls that are in line with the size and scale of misuse. The GTA looks set to become an important piece of work across the board in assessment of financial crime risk, and to become a resource upon which Compliance and Risk teams, and regulators and Governments can draw supportive data from.*"

Endnotes:

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[4] See: https://home.treasury.gov/system/files/136/2018NMLRA_12-18.pdf
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[9] See: http://dx.doi.org/10.1787/9789264252653-en. (hereinafter "OECD/EUIPO Report").
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[40] See: Associated Press, "UN: Countries near deal to crack down on cigarette smuggling," Washington Post, March 26, 2012
[41] See: The International Organisation for Migration: "It's Time to Take Action and Save Lives of Migrants Caught in Crisis," Press Release, December 17, 2013
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[61] See: https://www.fbi.gov/investigate/violent-crime
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