Countering TOC Financing - The Role of Financial Intelligence Unit

Jakarta, August 14th 2019
Presentation Structure

- Money Laundering
- Financial Intelligence Unit
- TOC – International Trade Abuse
- PPATK – DJBC Collaboration
Money Laundering:

“the concealment, disguise, obscure of the origins of illegally obtained assets, so that the assets as if derive from legitimate activities”

Money Laundering Process

**Placement:** the initial entry of the "dirty" cash or proceeds of crime into the financial system.

**Layering:** to separate the illicit money from its source through complex transaction that obscure the audit trail and sever the link with the original crime.

**Integration:** the money is returned to the criminal from what seem to be legitimate sources.
New Paradigm to Fight a Crime

1. Money as blood of the crime.
2. Most criminals are economically motivated.
3. Tracing the crime/suspect by tracing the transaction.
4. Wider reach and could reveal more suspects. In some cases its beneficiaries.
Follow the Money

Sources of fund

1. Senders
2. Related parties
3. Underlying Transaction

Profiling
Suspicious Transaction Reports

Receivers

4. Related parties
5. Use of fund

Related parties

4. Underlying Transaction
5. Use of fund

Senders
In most countries, the present of FIU is undoubtably crucial to assist law enforcement agency for their investigation processes through follow the money approach. Crimes nowadays such as white-collar crime, organized crime, and trans-national crime are very complex that it is difficult to prosecute the person. However, it is most likely to trace their assets and confiscate it for the country.

Almost most countries around the globe have its own FIU with almost 120 of them.
FIU Main Tasks

1. Collecting/Receiving
2. Analyzing
3. Disseminating
AML/TF REGIME SCHEME

PRESIDENT

NATIONAL COORDINATION COMMITTEE

International Cooperation
Domestic Cooperation

PPATK

REPORTING PARTIES

Bank & Non bank Financial Intitutions
Goods and service providers
Supervisory & Regulatory Agencies

AML APPROACH

DUE PROCESS of LAW

INVESTIGATOR → PROSECUTOR → JUDGE

LAW ENFORCEMENT & JUSTICE AGENCIES

CUSTOMS & EXCISE

LAW ENFORCEMENT APPROACH

PREDICATE OFFENCES

PROCEEDS OF CRIME

House of Rep
Society

PREDICATE OFFENCES

PROCEEDS OF CRIME
TOC Financing

- Drugs and Narcotics
- TBML
- Corruption
- Terrorist Financing
- Human trafficking
- Cyber crime
### Money Laundering (FATF, 2006)

Three broad categories of hiding illicit funds and introduce it into the formal economy

<table>
<thead>
<tr>
<th>Via the use of financial institutions</th>
<th>Physically smuggle bulk cash from one country or jurisdiction to another</th>
<th>The transfer of goods via international trade</th>
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FATF Definition on TBML

The FATF defines TBML as the “process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.”

Note:

- TBML is unilinear to common believe of hiding illicit money that represented by cash, checks, wire transfer, virtual currency and property ownerships;

- It is the value represented by trade goods – and the accompanying documentation both genuine and fictitious- to transfer illicit funds.
Trade Finance

• Trade Finance can be described as the provision of finance and services by FIs for the movement of goods and services between two points, either within a country or cross border.

• “It takes two to tango”, means that TBML rely upon collusion between the seller and buyer.

• Various intermediaries can facilitate Trade Finance such as bank, correspondent bank, issuing bank, insurance, etc.

• APG typologies report focus on cross border trade finance, excluding domestic trade.
Open Account Transaction

• The majority of international trade is carried out under “open account: payment will be made when the goods received by the buyer” terms.
• FI’s only aware of the actual payment-money transfer, and will not be aware of the underlying reason of the payment.
• FI’s is not in the position to check the validity of underlying goods that has been shipped.
“Anything that can be priced can be mispriced”
-Raymond Baker-

“TBML generally begins with the invoice!”
-John A Cassara-
Magnitude of (TB) Money Laundering

- Criminals launder 2-5% of global GDP annually or approximately $3-5 Trillion. (UNODC, 2011)
- It is deteriorating for developing countries economy in which $6.6 trillion have lost in illicit financial flows through trade misinvoicing. (Global Financial Integrity, 2015)
- 5.69 % or equivalent $218,9 Billion was moved out from the U.S. in the form of value transfer via undervalued export. (Zdanowicz, 2013)
- Experts believe approximately half of the trillions dollars laundered every year from Narcotics and the other half comes from tax-evasion. (International Policy Report, 2003)
Possible Suspicious Activity – Red Flags

- Transaction from/to High risk jurisdictions / free trade zones
- Activity unrelated to core business ex; an exporter of electronics shipping paper supplies.
- A party is unable or unwilling to produce appropriate documentation upon request.
- International wire transfers are received as payment for goods into bank accounts where the exporter is not located.
- The transactions involves a 3rd party that has no apparent connection to the buyer or seller.
- Payment is made from multiple sources and/or multiple accounts.
INTER AGENCIES COOPERATION:
The Egmont Group is a united body of 159 Financial Intelligence Units (FIUs)

PPATK has been a member of the Egmont Group since 2004

Benefits:
Expanding and systematizing international cooperation in the reciprocal exchange of financial intelligence information

Increasing the effectiveness of FIUs by offering training and personnel exchanges to improve the expertise and capabilities of personnel employed by FIUs

Fostering better and secure communication among FIUs through the application of technology, presently via the Egmont Secure Web (ESW)
**Joint Analysis**

- **2013**
  - PPATK & Austrac
  - Tobacco Smuggling

- **2014**
  - PPATK & Austrac
  - Child Sex Exploitation and Terrorist Financing

- **2015**
  - PPATK & Austrac
  - ISIS Project

- **2016**
  - PPATK & Austrac
  - Wild Life Crime and Terrorist Financing

- **2017**
  - PPATK, Austrac & BNM
  - People Smuggling

- **2018**
  - PPATK, Austrac, BNM & AMLC
  - Terrorist Financing
Data and information sharing in which DJBC owned trade data while PPATK owned finance data. Those data is crucial to detect anomalies in international trade and to justify the movement of large amounts of money;

Financial data is beneficial to reveal a comprehensive network of fraudulent international trade or financial transfer;

Assist in revealing the beneficiaries or mastermind of certain offences in which sometimes difficult to trace with follow the suspect approach;

DJBC’s data assist banking sector to detect TBML practices so they could better in submitting STR;

Joint investigation on electronic smuggling, unlicensed manufacture of tobacco products and used clothes smuggling.
SIPESAT and IFTI Data for Detecting TBML

• Assisting “follow the money” approach. PPATK could trace ownership of bank account more effective and efficient. As a result, PPATK intelligence report quality increased and benefitting LEA in their investigation processes.

• IFTI is crucial as data comparison in analysis process. Combining IFTI and Export-Import data could be a powerful weapon to detect TBML.

• Can be used as a disruption strategy to combat TBML and to secure trade finance system from being exploited for TBML.

• Enhance the mechanism of Trade transparency scheme with capability of getting full visibility on the financial picture attached to the trade data.
Thank You

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