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Consequences of the crisis on money laundering

On 6 and 27 April 2020, CTIF-CFI published statements on its website warning of the consequences of the COVID-19 crisis on money laundering. The economic and social consequences have now become clearer and some money laundering trends can be identified that are linked to the current social and economic situation. In this document CTIF-CFI provides an overview of these trends and assesses the previous warnings using recent files, information from operational partners and open sources. The aim is to support reporting entities in detecting suspicious transactions and to fine-tune or amend the current analysis in the future, based on the resulting disclosures.

In the analysis we distinguish between predicate money laundering offences and money laundering techniques, which seem to increase sharply as a result of the crisis, or undergo changes.

1. Types of crime

Fraud

Fraud has been one of the main predicate offences in CTIF-CFI's files for years. At the height of the COVID-19 health crisis several cases of fraud were identified in the trade in medical supplies. The method used by the fraudsters was usually quite simple, the supplies were not or only partially delivered. Given the urgent nature of the trade it was not possible for companies or governments ordering the goods to conduct thorough research into the reliability of suppliers, a situation that fraudsters could use to their advantage.

CTIF-CFI also dealt with fraud cases in which fraudsters took advantage of the exceptional economic and social circumstances in order to commit their crimes. Misuse of the support measures provided by governments to alleviate the economic consequences of the COVID-19 crisis was identified in several files. At regional level these are the compensation and support grants given to companies to counter the sharp decline in turnover or forced closure. These files revealed that fraudsters used fake documents such as forged bank statements to request aid for companies to which they were not linked in any way.

Conventional types of mass fraud, such as advance-fee fraud, phishing and emotional fraud, may also increase in the current circumstances. The measures taken to reduce the spread of COVID-19 have further increased the social isolation of some vulnerable groups, extending the "pool" of potential fraud victims. The COVID-19 pandemic is often also used as an excuse in fraud schemes: goods cannot be delivered or people cannot travel and need money urgently,…

Social and fiscal fraud

For over ten years CTIF-CFI has found that companies set up by Portuguese or Brazilian nationals – often front men – are used to exploit illegal workers, mainly in the construction industry and industrial cleaning industry. These companies, which usually disappear quite quickly, are often part of a network of subcontractors operating for official ordering parties. Proceeds of undeclared work, received by transfers from the ordering companies, are moved through the network using fake invoices and are eventually withdrawn in cash or laundered using new payments systems. Previously the focus was on generating profits from undeclared work, whereas more recent files indicate that networks are also used for laundering the proceeds of other predicate offences such as drug trafficking. Given that the companies involved rarely comply with their social or fiscal obligations, social and fiscal fraud is committed. CTIF-CFI also identified that some companies involved in these networks had received compensation and support grants because of a loss in turnover or because they were forced to close as a result of COVID-19 measures.

Although the origins of this type of social and fiscal fraud go back to the financial crisis of 2008, it is clear that in the current economic crisis, in which industries such as the construction industry are hit hard, it is very tempting to use (extremely) cheap subcontractors. The rise in unemployment also led to an increase in the range of workers willing to carry out undeclared work. In this regard it is likely that Portuguese / Brazilian networks attracted by illegal work in vulnerable sectors will remain a substantial money laundering risk.

Illicit trafficking in narcotic drugs

Measures to limit the spread of COVID-19 have had a substantial impact on the hospitality industry and retail industry, as they were forced to either close altogether or because of the mandatory closing time in the evening. Moreover, it is to be expected that the current economic crisis will further affect the profitability of the hospitality industry and retail business, potentially resulting in a wave of bankruptcies. In several files and analyses related to laundering the proceeds of drug trafficking, CTIF-CFI identified that the cash-intensive nature of the hospitality industry and the retail industry makes these industries vulnerable to investments and takeovers of criminal origin. This is certainly true in times of economic crisis when many companies are in danger of disappearing.

Interference by criminals may occur semi-formally through a direct takeover of shares or an investment, sometimes in combination with appointing a new manager. Often illegal income is combined with the turnover of a company that primarily works with cash. Large cash deposits by companies with a limited actual turnover or an abnormal repayment of bridging loans given to companies in difficulties due to the COVID-19 crisis may be indications of potential criminal interference. Unexplained transfers to hospitality businesses or retail establishments by order of companies in completely different sectors, such as the construction industry, could point to potential laundering using the offsetting technique.

2. Money laundering techniques

Offsetting technique

The money laundering technique known as the “offsetting technique” enables criminals to move excess cash proceeds of criminal activities such as drug trafficking to companies in need of dirty money, to pay undeclared workers for instance. The cash that is handed over in person is offset by carrying out bank transfers, often to accounts abroad and with fake invoices used as a justification.

National and international transfers that are part of the offsetting scheme are difficult to detect, because they seem to be part of the financial flows linked to legitimate trade, or seem to be part of legitimate provision of services, corroborated by invoices. At a time when national and international payments are disrupted by the consequences of the COVID-19 crisis, it is even more difficult to identify suspicious transactions that are part of the offsetting technique. Moreover, the exceptional economic situation often gives professional launderers an excuse to use alternative, suspicious payment channels.

Investment in real estate

The partial lockdown as a result of the first COVID-19 wave at the start of April 2020 resulted in a sharp drop in the number of transactions on the Belgian real estate market for a short period of time. The activity has now picked up again, but it is generally expected that, despite interest rates remaining low, economic uncertainty will have a negative effect on the size of the real estate market in the near future.

Internationally travel restrictions have had a severe impact on tourism and the price of property in a number of popular holiday destinations, in southern Europe as well as in North Africa and in the Middle East.

Investments in residential properties as well as in the tourist industry are traditionally an important money laundering method of organised crime. Analysis of recent files shows that professional money launderers provide investments abroad, where property is officially purchased at prices far below the actual value but the difference in value is paid unofficially. Substantial amounts can be laundered by renting out the property and eventually selling the property at its actual value.

In Belgium as well as abroad there is a risk that the shrinking property market will become a magnet for dubious investments, which will not be subjected to the appropriate scrutiny given the exceptional economic circumstances.

It is clear that none of the offences and money laundering techniques discussed are new or a direct result of the COVID-19 crisis. The current climate of economic crisis is, however, conducive to these issues and somewhat suppresses the natural monitoring mechanisms. Economic operators may be tempted to be uncritical of companies and entrepreneurs that start a business in specific industries or manage to stay afloat despite the economic downturn. These genuine economic concerns should lead to increased vigilance with regard to criminal interference, given that the money laundering risk has never been so high due to the economic crisis.