The 3 stages of money laundering

One of the key forms of illicit financial activity that merchants need to watch out for is money laundering. According to the Financial Action Task Force (FATF), money laundering involves ‘the processing of criminal proceeds to disguise their illegal origin’. These proceeds result from international criminal activity such as drug trafficking, organised crime like prostitution as well as white collar crime, for example embezzlement. In an effort to educate merchants about what money laundering involves, we thought we’d outline the universally recognised 3 steps in the money laundering process.

Stage 1- Placement

The first stage of the money laundering process, known as placement, involves moving the money from its source and putting it into circulation. Before this happens, the money is usually broken up into smaller amounts to help avoid detection by financial institutions. These smaller amounts are then put into circulation in various ways. Some criminals deposit the money in several different bank accounts which makes it very difficult for authorities to track it. Alternatively, the money is used to purchase financial instruments such as cheques or money orders that are subsequently deposited into accounts elsewhere. Sometimes cash is smuggled out of the country of origin to countries with weak financial regulations where less questions are asked.

Stage 2- Layering

The second stage, layering, involves moving the money several times to further distance it from the original source. One popular method of layering is to transfer the money from one account to another on several occasions and in different countries. Any countries that fail to enforce anti-money laundering (AML) regulations or don’t subscribe to the FATF recommendations are usually popular destinations. Criminals can also use the money to buy and sell financial assets such as stocks and currencies. Other ways to ‘layer’ the money include buying goods that are later sold locally or abroad and using it to pay for everyday goods or services in an attempt to make the money look legitimate.

Stage 3- Integration

The final stage of the money laundering process involves the movement of the laundered money back into the mainstream economy with the appearance of a legitimate source of funds. At this stage, the money is usually invested into legitimate business ventures. Some of the most popular types of ventures include investing in property or luxury assets. Criminals can also set up front companies in countries with strict corporate secrecy laws. They can then access the funds while protecting their identity.

‘Know Your Customer’ is one of the key measures that merchants can implement to reduce money laundering. As we discussed in a previous post, merchants are expected to keep accurate and up to
date records of their customers and continuously monitor transactions. They can then report any suspicious activity to the financial authorities.

The problem is, Know Your Customer can be expensive and time consuming to put into action. If you’re looking for a payment solution that automates these measures (as well as compliance and fraud mitigation), you should really check out Vogogo’s solution. For more information, get in touch today.

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