



BAE SYSTEMS

The Invisible  
Network

As money laundering around the world reaches between US\$1-2 trillion each year<sup>1</sup>, disrupting interest rates, house prices and more, **BAE Systems** reveals the motives and modus operandi of the criminals behind money laundering to help businesses fight back.

As long as we've had money, we've had money laundering. Today it is estimated that money laundering is the equivalent of the fifth largest global economy at three per cent of the world's Gross Domestic Product.

In today's digital world, criminals are constantly exploring new ways to find and exploit loopholes in legitimate channels to make the proceeds of crime look like legal tender. Businesses and financial institutions have a balance to strike between ensuring that they are ahead of regulatory compliance requirements, while also staying ahead in the race to detect criminal behaviour and identify money launderers.

When it comes to money laundering it isn't simply about the illicit money. It is about the impact that the laundering causes. The invisible network of money launderers is keeping hospitals, schools and libraries from being built.

They are bending the property market, pricing first time buyers out of many cities. And the profits of money laundering are the cause of crime and misery the world over.

Understanding the personas behind money laundering is the key to enabling successful business defence.

Here, BAE Systems exposes the criminals and money laundering practices business leaders need to understand. Working with our leading financial crime experts, we have identified six common personas involved in money laundering to help businesses to start the fight back.

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<sup>1</sup> [https://www.unodc.org/unodc/en/frontpage/2011/October/illicit-money\\_-how-much-is-out-there.html](https://www.unodc.org/unodc/en/frontpage/2011/October/illicit-money_-how-much-is-out-there.html)

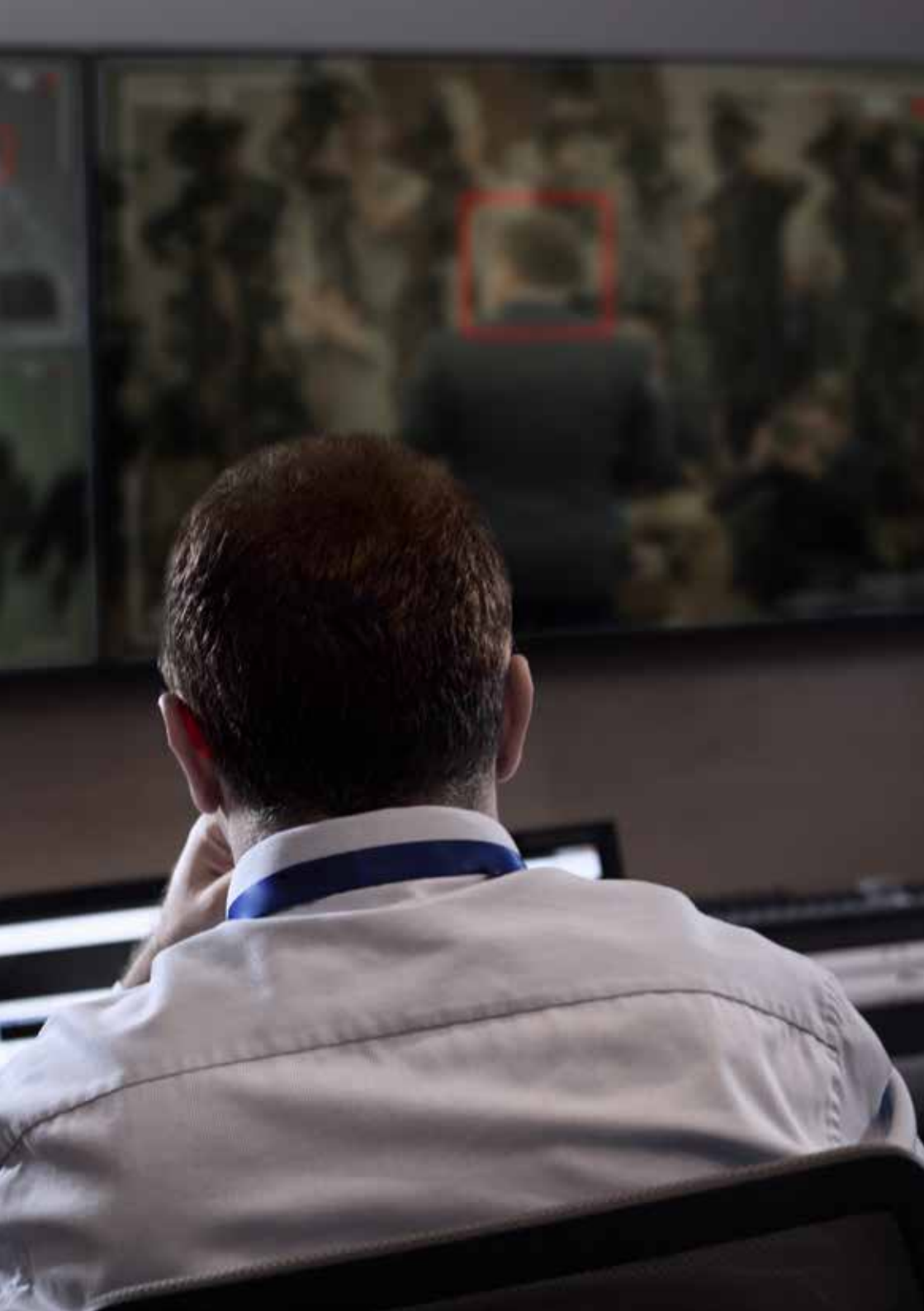
# The Invisible Network

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It's vital we all understand the nature of **money launderers** and the impact they have on all our lives.

It's just as important for businesses to know how to **defend against them** – and in the process, play a role in protecting our societies from crime.



# The Source

## Nature

They're white collar fraudsters, cyber criminals or organised crime gangs, and they make plenty of illegal profit from doing bad things. The problem is, they can't spend it until it looks like all that wealth has been accumulated legally. These people, groups and gangs are the reason money laundering exists on the scale it does. At the same time, their greed is the reason societies and people suffer from criminal acts.

Successful money laundering means they can profit from illicit activities – and will probably continue to do so for as long as they can extract wealth from their lawbreaking.

## Behaviours

The Source operates outside the law – in their country at least. As a result, the money they make from their crimes can't be put to use easily without it being cleaned up first. As a result, the Source is often a regular customer of other personas such as Sharks, Shop Fronts, and Bystanders, including money mules and organised crime gangs that fulfil many functions in illicit financial services. This activity represents a relatively low barrier to the Source, but it's still a tricky operation that can result in loss of a significant chunk of their illicit earnings.

The Source doesn't care about the impact their laundering activities have on others; after all, they've already stolen from their fellow men and women. But their need to clean the profits of their crimes creates a raft of criminal enterprise devoted to laundering.



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They've got dirty money – and a whole underground industry exists to clean it up.

### How to protect from the Source

- Sources use professional criminal gangs to do their work and that makes them very difficult to trace. The best time to spot them is at the placement stage of the laundering cycle
- Those organisations with the right Know Your Customer (KYC), Ultimate Beneficial Ownership (UBO) and Customer Due Diligence (CDD) controls in place have a better chance of spotting laundering attempts

# The Leader

## Nature

They're clinging to power – and stripping their country of wealth to line their own pockets and prop up their rule.

Because of their outcast status, the Leader resorts to subterfuge to hide their funds and spend money on the things that keep them in power. To do that, they need clean cash.

Denied access to legitimate markets by sanctions, Leaders are short of Dollars, Euros or Yuan to buy the loyalty of their enforcers and the other things they need to prop up their regime: the bread and circuses that keep the populace passive and the strong-arm men who enforce the Leader's regime loyal.

## Behaviours

The Leader usually has two key motivations: staying in power and enriching themselves and their followers. Both of these activities require some careful movement of wealth in and out of the Leader's country, and that means manoeuvring around sanctions, PEP watch lists and money laundering controls. Quite often, the Leader is already on some sort of watch list, and they'll often call on trusted friends or associates to act as fronts for their activity.

Leaders and their associates will use the services of Sharks and Bystanders to introduce their funds to the licit banking system. More often than not, they'll be keen customers of the Bystanders, buying luxury goods, properties and vehicles for themselves, their family and key allies.



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They need hard cash to stay in power - and keep their henchmen in the lap of luxury.

### How to protect from the Leader

- Strong controls on Customer Due Diligence, Know Your Customer and Ultimate Beneficial Ownership
- Current and comprehensive PEP and Watch List checks
- Transaction filtering controls to weed out suspicious or known-bad parties

# The Bystander

## Nature

There are those who actively commit crime, and those who are happy to pretend they haven't seen it because it suits their ends. Bystanders won't actively facilitate crime, as Sharks and Shop Fronts do, but they will fail to raise the alarm if they see something that's not quite right. Blinkered by greed, the bystander will convince themselves that they're not witnessing flagrantly illegal or merely suspicious behaviour because it will line their own pockets.

Bystanders might think their rich, mysterious client is a little too mysterious, but they pay well, and they appear – at least on the surface – to be entirely legitimate. The Bystander's conscience might be a little troubled. But the nice new car, house or lifestyle they can now afford makes it all better.

## Behaviours

Bystanders are often two things: delusional, and motivated by money. They've persuaded themselves that the customer they're dealing with is above board, despite worrying hints that this may not be the case. Bystanders can delude themselves that they're just successful businesspeople with some very wealthy clients who are completely above board.

Sometimes there's a moment of clarity for Bystanders when they realise they're actually abetting a crime, and embrace it wholeheartedly, becoming either Sharks or Shop Fronts. The vast majority, however, are content to go with the flow and collect their winnings. They'd rather not think about the theft, violence and other criminality that indirectly bought them their new luxury sports car.

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Bystanders are doing well for themselves: they've got happy clients who pay well. Well enough to make them turn a blind eye.

### How to protect from the Bystander

- Bystanders often obey the letter of the law, if not necessarily the spirit of it. Looking for loopholes and ensuring strict policies procedures and controls are in place is vital
- Bystanders won't actively raise the alarm – so due diligence around KYC, CDD and UBO should involve a third party in some way

# The Watched

## Nature

They're people in positions of power, influence or opportunity who could either be corrupted, or if they set their minds to it, facilitate corruption. They're senior civil servants or public figures.

Politically Exposed People are not necessarily high profile when it comes to public awareness – but they represent possible avenues of corruption and targets for bribery and other inducement by virtue of their position. They might be civil servants. But equally, they could be close friends or relatives of senior public servants or those who hold political power.

## Behaviours

They might be Politically Exposed Persons (PEPs) or they might be government officials abusing their positions to line their own pockets. Either way, they'll look to hide evidence of their dealings. They're desperate to avoid having their tactics exposed to public view, and willing to go to extraordinary lengths to secrete their cash in preparation for a retirement away from spying eyes and jail cells.

The Watched aren't systematically looting a state, like Leaders. However, their ranks are swelling year on year, with PEP lists typically growing by 30-40% each year.

The Watched are not necessarily organised criminals. This means their approaches to turning bad money into good are less elaborate and more risk-averse than those of more sophisticated criminals.

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All eyes are on them: they're high profile individuals, government ministers or civil servants. Some of them are up to no good.

### How to protect from the Watched

- Sanctions and PEP lists are hugely helpful, but they can't be used in isolation. They must be incorporated into a proactive efforts to root out and exclude subjects.
- Organisations are penalised for failures to flag the Watched. A proactive approach to uncovering networks is much more effective than box-ticking

# The Shark

## Nature

Motivated by greed, Sharks commit and help others commit crime. They help those with illicit funds enter the banking system and present a cleaner face to the world, and turn a profit from their criminal acts.

Sharks are often professionals of some sort: bankers, lawyers, estate agents, accountants, casino operators and the like, working for a legitimate organisation with strong compliance controls in place. But they've gone rogue, and provide their clientele with an inside line around money laundering controls.

## Behaviours

The Shark works for a legitimate business, using it as cover to help their clients evade sanctions, launder money and profit from crimes. As a result, they'll make a great deal of effort to appear law-abiding to others – all the while cultivating contacts in the criminal underworld to bring in customers like the Leader, the Source or the Watched.

Sharks both hide behind their employer's money laundering controls and subvert them. They'll know what paperwork to falsify, which approaches to take and which junior people are more likely to miss suspicious activity or ignore it for the right incentive.

They are rewarded, sometimes handsomely, for being the bent professional that people with dirty money turn to with their funds in order to escape detection in the law-abiding world. But some are coerced or blackmailed into helping criminals.



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A cold-blooded predator, they swim among law-abiding workmates, subverting their employer's controls to line their own pockets.

### How to protect from the Shark

- Spotting insider activity is incredibly difficult, but examples from successful prosecutions and arrests can point the way
- Sharks are often not on Sanction or PEP lists, but they may be found on interdiction lists most financial institutions hold
- Making sure the right checks are in place is a priority for any organisation

# The Shop Front

## Nature

The Shop Front operator realises there's plenty of money to be made helping launder funds, and they've built an entire business to do it.

A close relative to the Shark, who operates within a legitimate organisation and subverts its controls, the Shop Front is a business built from the ground up to serve crime and criminality, disguising the real owners of businesses, funds and properties.

They're a nightmare for organisations that must establish the owners of funds they're dealing with, and their activities give a serious lift to an enormous and harmful underground economy.

## Behaviours

Some Sharks go on to build legitimate-looking businesses to launder money from the ground up, catering specifically to shady people and criminality.

They're like the Shark – but they're specifically operating on the wrong side of the law, setting up their businesses specifically to do deals for bad people. This laundering professional's business is set up and run with the express purpose of catering to people who want to launder illicit funds.

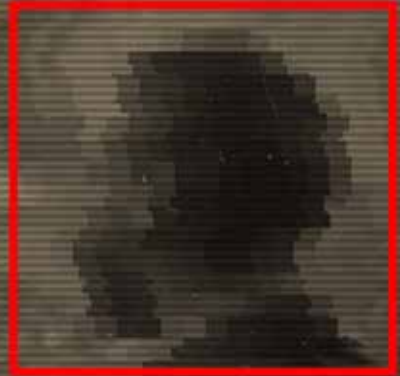
Shop fronts range from business registration and service companies through law firms, financial advisers, real estate consultants and even, in one case, entire banks.

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An entire business built on disguising criminals' beneficial ownership. It's an enterprise rotten to the core.

### How to protect from the Shop Front

- Shop Fronts exist to get around controls and checks, and it's often a case of collecting information on the shop fronts as well as the parties they try to mask
- Press report and occasional appearances on Sanctions or PEP lists should be seen as a sign to conduct more rigorous due diligence
- The Common Reporting Standard will come into effect at the end of 2017, and preparation to take full advantage of its measures is worthwhile



# ■ How BAE Systems helps

BAE Systems helps banks and other institutions stop money laundering, correctly identify customers and beneficial owners, and make it more difficult for criminals to profit from their misdeeds.

We also facilitate secure intelligence sharing between financial institutions, government bodies and industry bodies. It is also vital that everyone understands the nature of money launderers and the direct impact these groups have on their lives.

BAE Systems defends banks and businesses in three key areas:

## 1. Sanctions and PEP screening

We help you identify entities and people who are subject to international sanctions, or who are in a position to profit from criminal activity.

## 2. Know Your Customer, Ultimate Beneficial Ownership and Customer Due Diligence

Our tools and services help banks and financial institutions to establish exactly who they are dealing with, eliminating contact with criminals and ensuring they can do business with the lawful.

## 3. Regulatory Compliance

Governments work to prevent financial crime as a means to protect the citizens they serve; laws and regulations are a vital tool in this fight. We help banks and other financial institutions serve the letter of the law.

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