



VIEWPOINT: JEFFREY ROBINSON

# Anti Money Laundering - Why It Matters

In the beginning, the idea was very simple.

Illicit drugs are a business and, like all businesses, in order to survive it needs cash flow and reinvestment.

Given that, the argument went, if money could be taken out of the equation, if there was a way to cut off the traffickers' cash flow and his ability to reinvest, the traffickers would go bankrupt and a bankrupt business would mean no product on the streets.

So, as far back as 1970, the United States Congress passed the Bank Secrecy Act which grand-fathered the anti-money laundering business by requiring banks, credit card companies, life insurance companies, money service businesses and securities brokers to report all cash transactions over \$10,000, as well as all other cash transactions that the institutions themselves decided to be "suspicious."

Out of that came the requirement to "know your customer (KYC)."

By 1992, Washington had piled a few new and improved money laundering laws on top, and KYC was all the rage. It was a bandwagon that everyone jumped on because no one was willing to risk being left behind at the parade. Especially because the government was taking attendance.

And yet, still, the streets were awash with drugs.

One estimate had it that \$100-\$300 billion in dirty money was circling the earth looking to get clean. Some of it was tax evasion, some of it was corporate and political corruption, but the bulk of it came from drugs. By 1997 the figure had increased to \$300-\$500 billion. And a few years after that, the number was increased again, this time to \$600-\$700 billion.

Today, it is almost certainly in excess of \$1 trillion.

Horribly, that represents a mere 10% of the wealth hidden offshore. In other words, offshore banking havens are today giving harbor to around \$10 trillion, which is a hugely powerful "dark force."

Still, throughout the 1990s, very few people saw dirty money in "dark force" terms.

Instead, as the AML music droned on, a number of influential people in the financial world began asking, "Why are we bothering?"

Inside boardrooms in New York and London, Paris and Brussels, Tokyo and Sydney, men in suits were looking at the cost of complying with the ever increasing burdens placed on them.

Newspapers were reporting even more drugs pouring onto our streets than before. And KYC was being seen as a disruption to the business of making money by moving money.

Granted, it was increasingly difficult for a Colombian calling himself "a distributor of agricultural goods" to walk into a bank with a suitcase full of used \$20 bills. And, yes, some banks found themselves on the wrath end of a prosecution for not fully complying by having the right training programs in place. But, for the most part, AML forced the good guys to get better at working their way around the regulations, and forced the bad guys to get better at disguising their cash flow and reinvestment.

For some bad guys, laundering money was no more difficult than hiring a lawyer to "plausibly deny" to bankers that his client was a criminal, and to "plausibly acknowledge" to those same bankers that the money in his privileged client's account was perfectly clean.

The so-called "gatekeepers" --- the very people being called on in legislation to help stop money laundering --- were the same people who stood to profit most by not stopping it.

Then came 9/11.

In the confusion that followed the attacks, governments redirected a massive chunk of law enforcement assets towards terrorism. The entire New York office of the FBI, for example, did nothing else. Find terrorists, they were told. And for the FBI in New York, no other crimes mattered.

At the same time, politicians worried that if the war on terrorism meant pulling cops off the local beat, then street crime would increase and that could turn into an election issue.

So while the left hand was hunting down Al Qaeda, and the right hand was protecting Granny from having her purse stolen, there were no hands left to work all the crimes in between.

A gigantic no man's land was inadvertently created where extortion, truck hijackings, counterfeiting, cigarette smuggling, human smuggling, grand theft auto, illegal gambling, illicit arms dealing, cybercrime, corporate corruption, political corruption, bribery, tax evasion and a million different types of frauds, were given such low priorities that they were for the most part, ignored.

Washington now decided --- and Western governments blindly followed suit --- that by using the money laundering laws, they could also follow the flow of terror dollars.

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It was a false premise.

Generally speaking, terrorists don't launder money, because terrorism is a cash business. However, as mistakes often do, heading off in the wrong direction produced some unforeseen positive results.

With terrorism on everyone's minds, the financial world got religion and gave more than lip service to the hunt for dirty money. No one wanted to be found holding onto Osama Bin Laden's savings account. Suspicious accounts were frozen and many offshore loopholes were shut.

In the States, the Patriots' Act, for all its controversial components, forced financial institutions to take government determination seriously or expose themselves to criminal penalties and, importantly, reputational risk.

In Britain, the Proceeds of Crime Act of 2002, redefined money laundering and increased the burden on all businesses --- not just traditional financial institutions --- to report.

Throughout much of the world, legislation and treaties that singled out Politically Exposed Persons gave fair warning that if you got caught sleeping with dictators and despots, there would be consequences.

Accordingly, in the wake of 9/11, companies all over the world took to reporting "defensively," throwing everything that might be deemed even remotely suspicious, into the pot. Rather than get fined or prosecuted for not complying, they flooded the authorities with so many transaction reports that they, literally, ground the investigatory process to a standstill.

Ironically, "defensive reporting" created a colossal money laundering intelligence database that, one of these days, will reveal who's been doing what with whom. This is where the cops will eventually start to find the extortionists, truck hijackers, counterfeiters, smugglers, arms dealers, cybercriminals, tax evaders, corrupt corporations, corrupt politicians, corrupt governments, and a million different types of fraudsters.

That said, more and more, I hear gatekeepers complaining that while they spend so much time and so much money on reporting, they get nothing back. More and more I hear weary gatekeepers grumble about "compliance fatigue. More and more I hear them ask, "Does it really matter?"

I would claim there is only one answer --- definitively yes.

It matters because reputations are at stake. It matters because lives are at stake. It matters because we live in a world of ever expanding contradictions.

We live in a world of laws based on a 17<sup>th</sup> century definition of jurisdiction, overseen by an 18<sup>th</sup> century model of jurisprudence, enforced by a 19<sup>th</sup> century model of law enforcement and governed by a pre-digital 20<sup>th</sup> century world of politically motivated regulations.

It matters because if we do nothing, if we give up on this because we've convinced ourselves that it doesn't matter, then the 21<sup>st</sup> century will belong exclusively to the terrorists and the traffickers, extortionists, smugglers, hijackers, counterfeiters, tax evaders, corrupt corporations, corrupt governments, despots and fraudsters.

And we will have no one else to blame but ourselves. 



**Jeffrey Robinson**  
Author

Jeffrey Robinson is the author of several international bestsellers about money laundering, terrorism and organized crime. Included in that list is "The Laundrymen," "The Merger," "The Sink" and most recently, "The Takedown - A Suburban Mom, A Coal Miner's Son and the Unlikely Demise of Colombia's Brutal Norte Valle Cartel". A few years ago, the British Bankers Association labeled Jeffrey, "The world's most important financial crime author."

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