Cybersecurity Digest
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# Layering - Money Laundering

Many forms of criminal activity generate significant amounts of money. To avoid attracting the attention of law enforcement, criminals must find a way to disguise the source of their ill-gotten funds. That's the goal of money laundering, which involves criminals engaging in a series of transactions to conceal the criminal origins of their money.

**Money laundering involves three stages:**

1. A criminal (or those under their direction) introduces funds earned through criminal activity to the financial system.
2. A money launderer (or the criminal themselves) engages in a series of transactions to create layers between the illegal source of the cash they control.
3. The criminal moves laundered money back into the financial system.

During the layering stage, the goal is to disconnect the money from the illegal activity that generated it. Generally, the more layers money passes through, the harder it becomes to connect the funds to criminal activity.

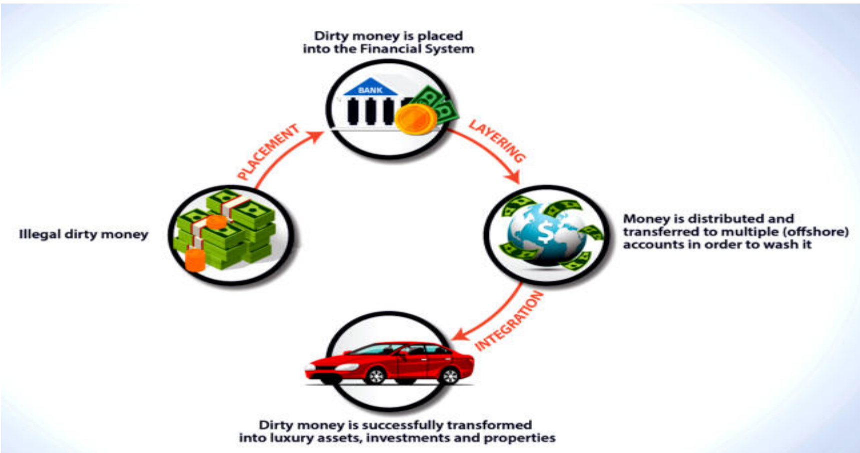
Layering can include changing the nature of the assets, i.e. cash, gold, casino chips, real-estate, and can also involve electronic transactions such as wires and ACHs, paper transactions, and/or manual movement of the funds between countries using covert means.

## Challenges in detecting and combating layering in money laundering

The layering stage in money laundering is arguably the most crucial for the launderers. Illicit funds come out of the dark and blend with legitimate instruments. Launderers conclude these multiple transactions to confuse standard money laundering controls, which institutions primarily establish.

After separation from the original source, the crime proceeds enter into the financial system. The funds are dispersed and disguised to reduce the chances of suspicion or detection from law enforcement agencies. These funds are fragmented into smaller transactions and often transferred overseas to keep the money moving internationally, preventing the authorities from tracking the movement easily.

The possibility of transferring money electronically makes the cross-border movement of funds easy without inviting the attention of the authorities.




## Smurfing

A Smurf is a money launderer who seeks to structure large transactions into smaller ones to avoid monetary thresholds requiring more scrutiny by banks and financial institutions. Smurfing is a layering technique wherein a Smurf resorts to structuring large amounts of cash into multiple small transactions and spreading them across many different accounts. Smurfing is a known money laundering technique adopted by criminals to circumvent the radar of regulatory authorities.

## Red flags indicating layering in money laundering

Criminals across the globe use some common methods for layering a transaction. Some of the red flags indicating layering in money laundering are:

- Large number of fund transfers within a single bank
- Large number of transactions with rounded-off amounts
- Multiple fund deposits and immediate withdrawals
- Large number of wire transfers in quick succession
- Fund transfers from high-risk customers or high-risk geographies

## Measures for Identifying and Preventing the Layering of Illegal Funds

### Adequate Customer Due Process

- Robust KYC (Know Your Customer), involving identification and verification of the customer and the Ultimate Beneficial Ownership (UBOs).
- Screening the customers against the sanctions list
- Identifying the customer's relationship with Politically Exposed Persons (PEP) or nexus with any adverse media related to financial crime.
- Enhanced Due Diligence for customers identified as high-risk

### Ongoing Transaction Monitoring

- Continuous transaction monitoring to detect and report suspicious patterns and red flags indicative of layering and money laundering activities..

### Documenting the red flags

- Documentation and dissemination of identified risk indicators associated with the layering stage of money laundering to the team is crucial for awareness and necessary action..

### Training the team

- It is essential to onboard teams from various business segments to create an unbreakable shield against layering activities. This is possible only when the team is adequately trained in detecting the risk indicators and applying necessary controls.

## RBI Direction

In a move to combat financial fraud, the Reserve Bank of India (RBI) has mandated that banks and other regulated entities (REs) utilize the **'1600xx'** numbering series exclusively for transactional calls to customers. For promotional communications, the **'140xx' series** should be employed. This directive aims to enhance the security of digital transactions and protect customers from fraudulent activities.