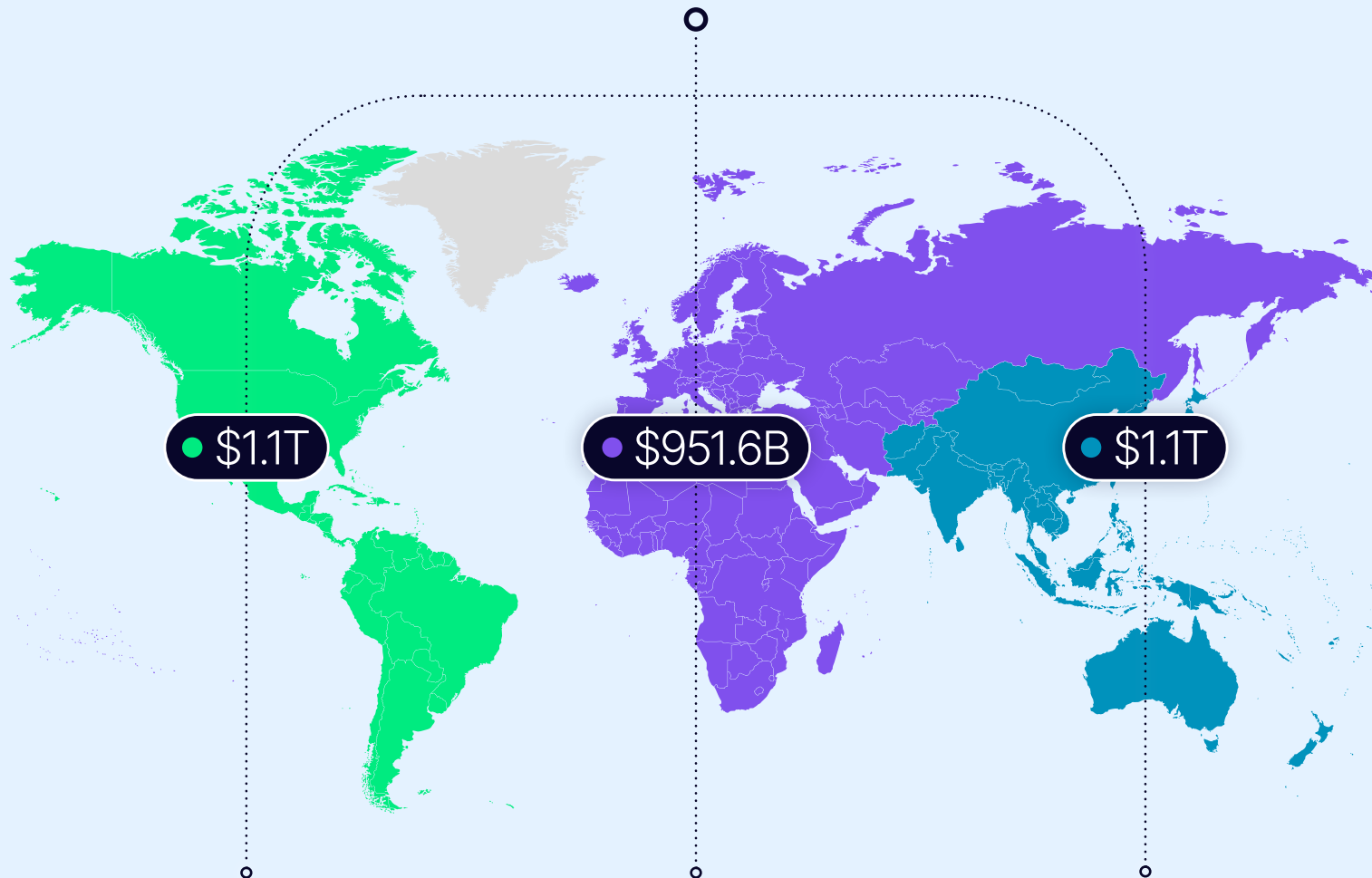


Understanding Predicate Crimes to Money Laundering

A guide to money laundering and terrorist financing threats facing financial institutions.

In 2023, an estimated \$3.1 trillion in money laundering and terrorist financing occurred worldwide.¹



Americas

- Other (Organized crime, fraud, corruption, etc.)..... **\$653.4B**
- Drug Trafficking**\$287.7B**
- Human Trafficking**\$109.1B**
- Terrorist Financing.....**\$5.1B**

EMEA

- Other (Organized crime, fraud, corruption, etc.)..... **\$613.9B**
- Drug Trafficking**\$226.4B**
- Human Trafficking**\$107.6B**
- Terrorist Financing.....**\$3.7B**

Asia-Pacific

- Other (Organized crime, fraud, corruption, etc.)..... **\$690.8B**
- Drug Trafficking**\$268.8B**
- Human Trafficking**\$130.1B**
- Terrorist Financing.....**\$2.7B**

The devastating human toll of these crimes can never be quantified.

[Source](#)

¹ Nasdaq, 2024 Global Financial Crime Report



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The financial industry is facing historic challenges in the fight against predicate crimes to money laundering.²

In 2023, \$3.1 trillion in illicit funds flowed through the global financial system, fueled by hundreds of billions of dollars generated by predicate crimes, from human trafficking to terrorist financing. Touching every region on earth, these crimes are among the most grievous imaginable and have deep repercussions for the integrity of the financial system and our communities.

As the financial industry combats this immense challenge, FinCEN's AML/CFT National Priorities³ and subsequent proposed Rule to Strengthen and Modernize Financial Institutions' AML/CFT Programs⁴ have established a regulatory imperative for financial institutions to effectively detect and disrupt predicate crimes to money laundering. Financial institutions must focus on priority criminal activities that pose serious threats to national security and answer the call for AML/CFT programs to "be effective, risk-based and reasonably designed, enabling financial institutions to focus their resources and attention in a manner consistent with their risk profiles." Understanding the features of predicate crimes such as victimology, key indicators and opportunities for mitigating risk, is essential to meeting these expectations.

This book, based on numerous industry sources and Nasdaq Verafin's decades of experience in financial crime management, is designed to help you identify the characteristics of significant AML/CFT threats facing your financial institution, the industry and countless innocent victims.

Source

² Predicate crimes to money laundering are illegal activities that generate illicit profits, which are then reintroduced into the economy through a process of placement, layering and integration.

³ Anti-Money Laundering and Countering the Financing of Terrorism National Priorities, FinCEN, 2021

⁴ FinCEN Issues Proposed Rule to Strengthen and Modernize Financial Institutions' AML/CFT Programs, FinCEN, 2024

What is Money Laundering?

According to the FFIEC BSA/AML Examination Manual, “money laundering is the criminal practice of processing ill-gotten gains or ‘dirty’ money, through a series of transactions; in this way the funds are “cleaned” so that they appear to be proceeds from legal activities.”⁵ Money laundering obfuscates the origin of funds from law enforcement, complicates investigations and threatens the integrity of the financial system. Financial institutions are obligated³ to take reasonable steps to combat the illicit activity and minimize their vulnerability to it.

Money laundering typically occurs in three stages: placement, layering and integration.

- 1 Placement.** Illicit funds are introduced into the financial system, often through a process called “structuring” where a criminal makes several small cash deposits at financial institutions that are just below legal reporting thresholds, allowing them to evade reporting requirements. In this stage, criminals may also use cash-intensive businesses to commingle illicit funds with legitimate income or attempt to move money abroad to locations with weaker regulations.
- 2 Layering.** The launderer obscures the origins of the money by creating complex layers of transactions, making the money trail difficult to follow. This can involve transferring money between multiple accounts, converting funds into different currencies or financial instruments such as stocks or bonds and investing in shell companies or offshore entities.
- 3 Integration.** Criminals reintroduce the laundered funds into the economy, making them appear legitimate and ultimately allowing them to be used without suspicion. This often involves investing in real estate or legitimate businesses, purchasing luxury goods and creating fraudulent business transactions to justify large influxes of cash.

Launderers embrace both emerging technologies and traditional tactics across the placement, layering and integration stages to maximize their success. For example, the decentralized and often pseudonymous nature of cryptocurrencies is making these virtual channels attractive to launderers, while funnel accounts, a tactic where multiple deposits are sent to a single account and rapidly withdrawn, are continuing to thrive. To fight money laundering, financial institutions must effectively combat the predicate crimes that fuel it.

Source

⁵ FFIEC BSA/AML Examination Manual, Money Laundering, 2024

What are Predicate Crimes to Money Laundering?

Predicate crimes to money laundering are illegal activities that generate illicit profits, which are then reintroduced into the economy through a process of placement, layering and integration.

In June 2021, FinCEN released their Anti-Money Laundering and Countering the Financing of Terrorism National Priorities identifying specific predicate crimes to money laundering that financial institutions must prioritize “in their efforts to meet their obligations under laws and regulations designed to combat money laundering and counter terrorist financing.”³

FinCEN’s AML/CFT Priorities include but are not limited to:

1. **Corruption**
2. **Fraud**
3. **Terrorist Financing**
4. **Human Trafficking**
5. **Drug Trafficking**

Understanding and combating these predicate crimes is fundamental to an effective AML/CFT program. While not specified among FinCEN’s National Priorities, uncovering and disrupting money mule activities is also imperative, given their crucial role in the laundering process, hindering AML/CFT controls and evading regulatory scrutiny.

AML/CFT Priorities



Corruption



Fraud



Terrorist Financing



Human Trafficking



Drug Trafficking

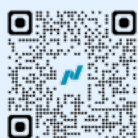
Fraud

What is it?

“[Lying] in order to deprive a person or organization of their money or property.”⁶

Who are the victims?

Fraud can be committed against individual customers, vulnerable people such as the elderly, business customers or your financial institution.



Discover more fraud schemes and scams in our special eBook.

How does it work?

Fraud scams are numerous and becoming increasingly sophisticated. From advanced fee schemes and elder financial exploitation to authorized push payment (APP) fraud such as Business Email Compromise (BEC) and romance scams, criminals deceive their victims into sending a payment, diverting a payment or ultimately appropriating funds under false pretenses. Proceeds from schemes and scams are often laundered, making fraud a predicate offense to money laundering according to FinCEN’s Anti-Money Laundering and Countering the Financing of Terrorism National Priorities.⁷

Fraud scams are rapidly evolving as criminals experiment with new technology, methods of deception and attack vectors. Warning signs and Red Flags to monitor often vary significantly from scam to scam — more information is available in our eBook *Understanding Fraud Schemes & Scams: A guide to common scenarios used by fraudsters to victimize your customers*.⁸

Source

⁶ Fraud 101: What Is Fraud?, Association of Certified Fraud Examiners, 2024

⁷ Anti-Money Laundering and Countering the Financing of Terrorism National Priorities, FinCEN, 2021

⁸ Fraud Schemes & Scams: A guide to common scenarios used by fraudsters to victimize your customers, Nasdaq Verafin, 2024

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What are the indicators?

Indicators vary significantly by typology.

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How to mitigate the risks?

Transaction monitoring that profiles both sending and receiving accounts of a funds transfer, considering the risk that a receiving account may be a mule.

Money Mules

What is it?

“A money mule is someone who, either wittingly or unwittingly, transfers or moves illegally acquired money on behalf of someone else.”⁹

Who are the victims?

Money mules are often victims of fraud who believe their actions are for a job or a romantic partner.¹⁰ When a money mule moves funds without knowing the activity is part of an illegal scheme, they are called an unwitting mule.¹⁰ In contrast, when a money mule is willfully blind to the illegal nature of their activity and continues to move funds despite warnings that their activity is illegal, they are called a witting money mule.¹⁰ Finally, mules who are career criminals and move funds for profit are called complicit money mules.¹⁰

How does it work?

Money mules act as conduits between fraud and money laundering, depositing and moving illicit proceeds, hindering AML/CFT controls and helping criminals remain anonymous. Using their own personal bank accounts or opening new ones, they move money through multiple payment channels to obfuscate the source of funds and obscure the money trail from law enforcement. The mule may retain a portion of the transfer amount as commission.

Ultimately, the illicit funds are reestablished in the financial system. Criminals will perform transactions such as real estate purchases, acquiring luxury items or buying investments. These assets appear legitimate on the surface — but represent the illicit funds being reintroduced into the economy.

Source

⁹ National Money Laundering Risk Assessment, Department of the Treasury, 2022

¹⁰ Money Mules, FBI, N.D.

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What are the indicators?

Another financial institution rejects an outgoing payment due to suspected fraud.

A history of **fraudulent activity on an account**.

An account has **no established history of receiving legitimate payments**.

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How to mitigate the risks?

Transaction monitoring that profiles both sending and receiving accounts of a funds transfer, considering the risk that a receiving account may be a mule.

Corruption

What is it?

Corruption is “the abuse of public office for private gain.”¹¹

Who are the victims?

Corruption often involves the misappropriation of public assets, which undermines social services and other supports needed by citizens and the most vulnerable.⁵

How does it work?

Corrupt officials misuse their power or authority for personal gain. Their bribery, fraud, kickbacks, embezzlement and other illegal activities result in illicit funds to be laundered and integrated into the economy. In doing so, they may exploit the U.S. and international financial systems to launder illicit gains, including through the use of shell companies, offshore financial centers and professional service providers who enable the movement and laundering of illicit wealth, including in the United States and other rule-of-law-based democracies.¹²

This investment of illicit funds into legitimate markets ultimately threatens the integrity of the financial system, impedes economic growth and erodes public trust.

Source

¹¹ Anticorruption Fact Sheet, World Bank Group, 2020

¹² FIN-2022-A001, Advisory on Kleptocracy and Foreign Public Corruption, 2022

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What are the indicators?

Transactions involving **long-term government contracts consistently awarded, through an opaque selection process**, to the same legal entity or entities that share similar beneficial ownership structures.

Transactions involving services provided to state-owned companies or public institutions by companies registered in high-risk jurisdictions.

Transactions involving official embassy or foreign **government business conducted through personal accounts**.

?

How to mitigate the risks?

Risk-based controls and procedures for the **effective segmentation, stratification and ongoing surveillance of politically exposed persons**.

Identify and verify the identity of beneficial owners of legal entity customers.

Human Trafficking

What is it?

“Human trafficking occurs when a trafficker uses force, fraud or coercion to compel another person to work or engage in a commercial sex act.”¹³

Who are the victims?

Victims can be from a diverse background, but the vast majority are women and girls.¹⁴

How does it work?

Human trafficking is modern slavery. Traffickers commodify innocent people for their own gain, targeting victims domestically within the United States and recruiting or coercing individuals from other countries into the sex trade. Passing through victims, family members, associates and businesses, the illicit proceeds of this crime are obfuscated as a means of evading detection.¹⁵

In 2023, human trafficking generated an estimated \$346.7 billion worldwide. Following the money, along with exploring a potential victim's behavioral patterns, can help expedite an escape from slavery, prevent further trauma and disrupt criminals that commoditize human beings for profit.



Discover more human trafficking insights and typologies in our special eBook.

Source

¹³. About Human Trafficking, U.S. Department of State, N.D.

¹⁴. Breaking Down Global Estimates of Human Trafficking: Human Trafficking Awareness Month 2022, Human Trafficking Institute, 2022

¹⁵. Human Trafficking: Know the Behavior, Uncover the Crime, Nasdaq Verafin, 2024



What are the indicators?

Customers frequently appear to move through and transact from, **different geographic locations in the United States.**

Transactions are inconsistent with a customer's expected activity and/or line of business in an apparent effort to cover trafficking victims' living costs.

Customer's account shares common identifiers associated with escort agency websites and commercial sex advertisements.



How to mitigate the risks?

Targeted analytics that consider customer profiles, demographic data, transactional activity and online adult classifieds for effective detection of potential traffickers, fronts and victims.

Terrorist Financing

What is it?

The process of raising funds to support terrorism.¹⁶

Who are the victims?

Terrorism endangers lives domestically and internationally.¹⁷

How does it work?

From lone extremists to small cells and massive networks, financing is the lifeblood of terrorism. Funds are used to recruit, train, pay and mobilize members, promote radical ideologies, procure weapons and execute attacks. By abusing the financial system, terrorists can obfuscate the flow of funds that support their nefarious activities. Those involved in terrorist financing use a variety of means to gather and move funds. This includes exploiting banks, money transmitters and virtual currencies, leveraging legitimate and sham charity organizations and even abusing crowdfunding sites to solicit funds from unwitting donors.¹⁸

Globally, it is estimated that funding for terrorist acts and organizations amounts to \$11.5 billion, including arms trafficking, foreign and domestic terrorism and domestic violent extremism.¹ Disrupting the financing flows to terrorist groups is essential to shut down these operations and the power they seek to gain from fear.

Source

¹⁶. The IMF and the Fight Against Money Laundering and Terrorism Financing, International Monetary Fund, 2023

¹⁷. FIN-2024-A001, FinCEN Advisory to Financial Institutions to Counter the Financing of Iran-Backed Terrorist Organizations, 2024

¹⁸. 2024 National Terrorist Financing Risk Assessment, Department of the Treasury, 2024

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What are the indicators?

A customer or a customer's counterparty **conducts transactions with OFAC-designated entities** and individuals or transactions that contain a nexus to identifiers listed for OFAC-designated entities and individuals, to include email addresses, physical addresses, phone numbers, passport numbers or CVC addresses.

Information included in a transaction between customers or in a note accompanying a peer-to-peer transfer include key terms known to be associated with terrorism or terrorist organizations.

A customer that is or purports to be a **charitable organization or NPO solicits donations but does not appear to provide any charitable services or openly supports terrorist activity** or operations.

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How to mitigate the risks?

Targeted analytics supported by consortium and counterparty insights to identify potential shell companies and activity that may be indicative of terrorist financing activity.

Drug Trafficking

What is it?

“The cultivation, manufacture, distribution and sale of substances which are subject to drug prohibition laws.”

Who are the victims?

In the United States, over a hundred thousand Americans have died of drug overdoses with millions of people using illicit substances worldwide.

How does it work?

Trade in cocaine, opioids and heroin, methamphetamine and other illicit substances is a multi-billion-dollar industry for traffickers and Drug Trafficking Organizations (DTOs). From producers to smugglers and dealers, drug-related activity crosses international boundaries to arrive on the streets of communities around the world. The sale of these illicit substances generates immense profits — proceeds that traffickers and DTOs need to launder to hide their origin. DTOs launder their proceeds through various illicit means including professional money laundering networks, trade-based money laundering, shell companies and money mules.

Globally, an estimated \$782.9 billion was linked to drug trafficking and DTOs in 2023.¹ Beyond generating billions, DTOs are often linked to violent crimes and fuel substance abuse and addiction, with destructive and lasting effects on our communities. Intercepting the flow of funds to and from these activities is crucial to exposing and disrupting these criminal enterprises.

Source

¹⁹ Drug Trafficking, United Nations Office on Drugs and Crime, N.D.

²⁰ FIN-2024-A002, Supplemental Advisory on the Procurement of Precursor Chemicals and Manufacturing Equipment Used for the Synthesis of Illicit Fentanyl and Other Synthetic Opioids, 2024

²¹ Opioid Overdose, World Health Organization, N.D.

²² FIN-2019-A006, Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids, 2024



What are the indicators?

A customer or counterparty has previous drug-related convictions or open-source reporting indicates connections to clandestine lab operations.

Account owners or third parties structure cash deposits at bank branches nationwide into the same account, which funds outgoing transactions at or near border states.

A transaction is out of pattern for customers or a business type.

A transaction occurs with no apparent business purpose.



How to mitigate the risks?

Targeted analytics that analyze incoming deposits, outgoing payments and behavioral evidence including frequent travel and rapid flow of funds from accounts.

The Human Impact of Predicate Crimes to Money Laundering

Predicate crimes to money laundering are a major global challenge. Generating trillions of dollars in illicit funds,¹ the challenge of disrupting these illicit flows is immense and can overshadow the impact of these crimes on the people who suffer at the hands of their perpetrators.

Make no mistake — terrorist financing, human trafficking, drug trafficking and other predicate offenses are among the most heinous crimes imaginable and the human cost is profound. At any moment, tens of millions of people are coerced by traffickers into labor or sex work.⁹ An international opioid crisis has claimed over 600,000 lives in the United States and Canada.²³ And terrorism remains “the most direct asymmetric threat to the security of the citizens” of the United States and its NATO allies.²⁴

The reality is that behind the monetary toll of financial crime is a humanitarian crisis and collective action is needed to disrupt the predicate crimes that fuel it. By adopting new technologies and seizing opportunities for innovation and collaboration, your financial institution plays a key role in the solution.

“\$350 billion dollars from human trafficking. Imagine how many victims had to suffer — sweat, blood and tears — for \$350 billion dollars.”

– Timea E. Nagy-Payne, Human Trafficking Activist & Survivor

Source

²³. Opioid Overdose Crisis: Time for a Radical Rethink, The Lancet, 2022

²⁴. Countering Terrorism, North Atlantic Treaty Organization, 2024

Predicate Crimes to Money Laundering: Quick Reference Guide

Predicate Crime	Definition	Victims	Indicators
Fraud	"[Lying] in order to deprive a person or organization of their money or property." ⁵	Can be committed against individual customers, vulnerable people such as the elderly, business customers or your financial institution.	Indicators vary significantly by typology.
Money Mules	"Someone who, either wittingly or unwittingly, transfers or moves illegally acquired money on behalf of someone else." ⁸	Often victims of fraud who believe their actions are for a job or a romantic partner.	Another financial institution rejects an outgoing payment due to suspected fraud. A history of fraudulent activity on an account. An account has no established history of receiving legitimate payments.
Corruption	"The abuse of public office for private gain." ¹⁰	Often involves the misappropriation of public assets, which undermines social services and other supports needed by citizens and the most vulnerable.	Transactions involving long-term government contracts consistently awarded, through an opaque selection process, to the same legal entity or entities that share similar beneficial ownership structures. Transactions involving services provided to state-owned companies or public institutions by companies registered in high-risk jurisdictions. Transactions involving official embassy or foreign government business conducted through personal accounts.
Human Trafficking	"A trafficker uses force, fraud or coercion to compel another person to work or engage in a commercial sex act." ¹²	Victims can be from a diverse background, but the vast majority are women and girls.	Customers frequently appear to move through and transact from, different geographic locations in the United States. Transactions are inconsistent with a customer's expected activity and/or line of business in an apparent effort to cover trafficking victims' living costs. Customer's account shares common identifiers associated with escort agency websites and commercial sex advertisements. How to mitigate the risks? Targeted analytics that consider customer profiles, demographic data, transactional activity and online adult classifieds for effective detection of potential traffickers, fronts, and victims.

Predicate Crimes to Money Laundering: Quick Reference Guide

Predicate Crime	Definition	Victims	Indicators
Terrorist Financing	"The process of raising funds to support terrorism." ¹⁵	Terrorism endangers lives domestically and internationally.	<p>A customer or a customer's counterparty conducts transactions with OFAC-designated entities and individuals or transactions that contain a nexus to identifiers listed for OFAC-designated entities and individuals, to include email addresses, physical addresses, phone numbers, passport numbers or CVC addresses.</p> <p>Information included in a transaction between customers or in a note accompanying a peer-to-peer transfer include key terms known to be associated with terrorism or terrorist organizations.</p> <p>A customer that is or purports to be a charitable organization or NPO solicits donations but does not appear to provide any charitable services or openly supports terrorist activity or operations.</p>
Drug Trafficking	"The cultivation, manufacture, distribution and sale of substances which are subject to drug prohibition laws." ¹⁹	In the United States, over a hundred thousand Americans ²⁵ have died of drug overdoses with millions of people using illicit substances worldwide. ²⁶	<p>A customer or counterparty has previous drug-related convictions or open-source reporting indicates connections to clandestine lab operations.</p> <p>Account owners or third parties structure cash deposits at bank branches nationwide into the same account, which funds outgoing transactions at or near border states.</p> <p>A transaction is out of pattern for customers or a business type.</p> <p>A transaction occurs with no apparent business purpose.</p>

Source

²⁵. FIN-2024-A002, Supplemental Advisory on the Procurement of Precursor Chemicals and Manufacturing Equipment Used for the Synthesis of Illicit Fentanyl and Other Synthetic Opioids, 2024

²⁶. Opioid Overdose, World Health Organization, N.D.



Nasdaq Verafin provides cloud-based Financial Crime Management Technology solutions for Fraud Detection, AML/CFT Compliance, High-Risk Customer Management, Sanctions Screening and Management and Information Sharing.

More than 2,600 financial institutions globally, representing nearly \$10T in collective assets, use Nasdaq Verafin to prevent fraud and strengthen AML/CFT efforts.

Leveraging our unique consortium data approach in targeted analytics with artificial intelligence and machine learning, Nasdaq Verafin significantly reduces false positive alerts and delivers context-rich insights to fight financial crime more efficiently and effectively.

To learn how Nasdaq Verafin can help your institution fight fraud and money laundering

Call: **1.877.368.9986**

Email: **info@verafin.com**

Visit: **www.verafin.com**

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