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Unwrapping money laundering: What you need to know

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You've read the news or heard about it. Money laundering has happened in every country and industry. Royalty, politicians, singers, doctors, spouses, and students have all been involved. Banks, exchange houses, cryptocurrencies, universities, hotels, hospitals, real estate, construction companies, consulting firms, clothing manufacturing, and many others have been used to launder money; even the Vatican has been involved! Getting involved in money laundering can happen to any person no matter their gender, age, religion, economical position, or profession. With so many cases happening, we can ask ourselves: Who is the next person or company that will be involved in a money laundering case?

But why does money laundering keep happening? Because people keep minimizing the risk by thinking: "We are too far away from it," "This won't happen to us," or, "Why bother if we've been operating like this and we have been fine?" Or they ignore it or don't want to admit that they are vulnerable.

All money laundering cases have one common factor: people.

People can be used to launder money or simply facilitate it. Sometimes they get paid, and sometimes people may not realize what they are doing and will end up doing it for free. In both cases, people are helping to launder money.

What is money laundering?

Put simply, money laundering is the process used to make "dirty" money "clean." It's said to be dirty because it comes from illegal or illicit activities—prostitution, kidnapping, organ trading, bribery, illicit firearms, wildlife trafficking, human trafficking (which can become modern slavery),^[1] extortion (such as ransomware attacks), illegal drugs or drug trafficking, and counterfeit goods. The list goes on and on.

Keep in mind that these activities vary from country to country. For example: in the Netherlands, prostitution is not illegal; in Uruguay, marijuana is legal for recreational and medical purposes. Therefore, it is important to know what is legal and illegal in every country where you do business.

Money laundering has three inherent characteristics:

1. It's too much money in any currency. It is so much that the criminals need to expand or create new methods to launder the money more quickly.
2. It happens worldwide. Of course, it starts in one location, but it expands to other countries and continents. Money laundering keeps growing internationally.

3. The criminal makes the money-laundering process complex—as complex as it can be. This happens for two reasons: (a) to hide the source of the funds and (b) to hide the person or ultimate beneficiary owner.

It is estimated that the amount of money laundered in a year is between 2% and 5% of the gross domestic product worldwide, or between USD\$800 billion and \$2 trillion^[2]—and these numbers are increasing daily because most money laundering still goes undetected.

There is another key concept: the politically exposed person (PEP). Internationally, the PEP definition varies, but it is common that it includes the president of a country, senators and deputies, armies, judges, mayors or governors, royalty, official representatives of international organizations such as the United Nations, the International Monetary Fund, central banks, etc. It also includes family members to some degree, such as spouses and kids.

Politicians have shown us that they can be corrupted. If they are corrupt, then they will either receive or give bribes. A bribe is an illegal activity: dirty money that needs to be laundered. These dirty assets are usually put in the name of family members, a friend, or a representative to protect the money should there be an investigation by authorities into the corrupt individual. Internationally, the PEP designation has an expiration date—an average of two years after the PEP leaves the position, after which they are no longer considered a PEP. That's why a PEP is always considered a high-risk customer.

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