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POLICY BRIEFING

The War on Dirty Money

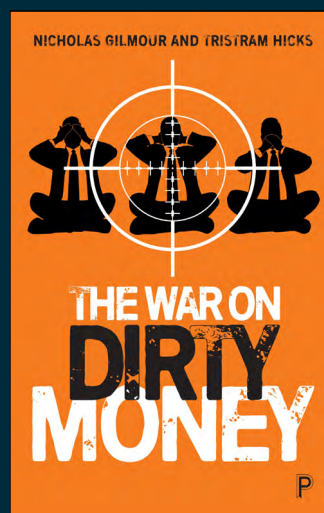
OVERVIEW

The global war on dirty money engages hundreds of thousands of full-time professionals across the financial sector, international institutions, national governments and the criminal justice sector. It costs well over \$200 billion per year and rising. Yet its victories seem few and far between, with no measurable overall progress.

Slavery, drug trafficking and fraud are just a few of over 20 different crime types targeted by the war on dirty money. These activities threaten the planet, its people and wildlife through illegal environmental destruction. Making crime not pay seems an obvious, direct and measurable way to reverse planetary destruction, reduce human misery, and meet the challenge head-on. Recovered billions could finance a virtuous circle that reduces crime and directly supports education, public health and sanitation.

The war is not going well. The authors trace the war back to a G7 conference in 1989, when a 'Financial Action Task Force' (FATF) was launched. Over the last 30 years a vast global infrastructure has been created to try and prevent 'dirty money' entering a financial system that is, in fact, already awash with it.

The authors suggest that after a promising start, the project was derailed and stayed there. This book challenges the global approach, arguing that complacency, self-interest and misunderstanding have now created longstanding absurdities.



The War on Dirty Money by
Nicholas Gilmour and Tristram
Hicks is published by Policy Press,
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[policy.bristoluniversitypress.
co.uk/the-war-on-dirty-money](https://policy.bristoluniversitypress.co.uk/the-war-on-dirty-money)



KEY FINDINGS

The global anti-money laundering regime is so divided between prevention and enforcement that the two halves use entirely different and mutually exclusive definitions of money laundering, causing chaos and dysfunction.

In theory, compliance with financial regulations tackles crime by preventing criminals from enjoying the proceeds of their crimes, discouraging investment in crime and stripping wealth from potential criminal role models. In fact, compliance has become an end in itself, separated from crime altogether.

The authors show that by evaluating individual countries the system completely misses the illicit financial flows between countries and thereby avoids detecting the origin and the destination of the dirty money.

The global regime is split in two: a prevention regime in the private sector that is awash with resources and a public sector enforcement regime that is stripped to the bone. Connecting the two is a vast investment in the generation of millions of 'Suspicious Activity Reports' (SARs) for investigation by enforcers, but at a critical point, the process breaks down, with the effect that the SARs are not used for their intended purpose.

This separation deprives prevention experts of real-world and real-time knowledge of what money launderers do and has led to a proliferating mushroom of typologies and red flags as a proxy for real experience. These 'facts by repetition' are limiting honest efforts to curb money laundering.

The prevention regime issues huge fines not against money launderers but against the current shareholders of companies whose long-gone managers failed to comply with what are by and large irrelevant regulations. The fines are used to pay for the regulators in a bizarre carousel. Meanwhile the people who actually arrest and prosecute

money launderers are starved of resources.

In 80% of countries the conviction of money-motivated criminals is followed by courts failing to confiscate their ill-gotten gains. The logic of asset recovery is free of any research-based evidence. Despite an army of academics devoted to crime and criminals, no one has studied if confiscating assets makes any difference to criminal behaviour.

The newest and most exciting part of the global effort is 'Regtech' (Regulation Technology), which sells innovative technological solutions that detect millions of suspicious transactions. 34 million SARs are sent in the general direction of law enforcement each year, but few actually arrive, because near the end of their journey the smart new Regtech hands them over to criminal justice systems which lack the relevant technology to process them.

Individual chapters of *The War on Dirty Money* look at tax, corruption and terrorism from unusual perspectives. The tax evasion and avoidance discussion concludes that international tax evasion, despite all the rhetoric, is not even a crime. The chapter on corruption suggests that if a country permits traffic officers in uniform to 'tax' road users' then this 'retail' corruption is symptomatic of 'wholesale' corruption. 'After all, if the police in a country cannot control a simple problem like corrupt traffic cops, how can they hope to tackle corruption in education, health, government procurement or any other part of the public sector.'

Finally, the countering of terrorist finance is shown to have no real connection with the war on dirty money at all but serves as a useful spotlight to show up the absence of real investment in anti-money laundering.

POLICY RECOMMENDATIONS

Each chapter ends with policy recommendations and concluding chapters summarise these. After 50 years of tackling grand corruption, fewer than 100 cases have come anywhere near justice across the entire world. The asset recovery total is less than 1% of the money available for confiscation.

- The Financial Action Task Force must clarify the national asset recovery statistics necessary to evaluate a baseline for the war on dirty money and prioritise their immediate publication.

The authors suggest that the rhetoric of politicians and international bodies has had no real substance for 30 years. This may be deliberate, as the self-interest of both rich countries and rich people based in poor countries are aligned. The global war on dirty money takes place exclusively at a national level, with predictably mixed and normally disappointing results. International criminals operate across borders with impunity.

- We need an honest debate among international bodies (OECD, OSCE, UN, Council of Europe, the African Union etc.) and an honest broker (the FATF) to discuss corporate immunity from criminal justice and government complicity in enabling such crime.

The absence of meaningful statistics allows the meaningless rhetoric to continue. The FATF needs to define asset recovery and collect consistent data. Anti-money laundering professionals in prevention and enforcement need to use the same definition so that they work towards the same end.

- The 'placement, layering, integration' definition should be formally discarded in favour of the UN Convention wording for money laundering.
- The Financial Intelligence Units need to hand over all their intelligence to investigators unless there is a compelling reason not to do so.
- The massive investment in technology needs to be rebalanced so that the benefits of computerisation for Regtech are also applied to law enforcement.
- The compliance industry and law enforcement need to work together pooling people, materiel, and intelligence for the public good.
- The gross imbalance between a massively resourced support industry and a tiny ill-equipped front line needs to be adjusted. This would do justice to the hundreds of thousands of compliance experts whose work is not effectively utilised in the war on dirty money.

The war on dirty money started well, the United Nations Conventions were built on sound logic and good legal definitions and the FATF has been incredibly successful in creating a global machine. Hundreds and thousands of experts could be tackling criminals through the soft underbelly of their assets. Individual countries have scored victories: Ireland in the 1990s, the UK in the 2000s and most recently Kenya.

- Anti-money laundering successes should be identified, celebrated and the ingredients for success promulgated by international bodies, especially the FATF.

Above all, our best brains in academia and policy need to work together on evidence-based policy solutions that build on identified success in tackling dirty money. This could be promoted by the FATF and its regional bodies, supported by fresh empirical research and to support better critical thinking and analysis.

- International law enforcement bodies such as Interpol and Europol should commission research and release data to researchers to understand today's criminal behaviours.
- Money laundering needs to be recognised for what it is: a series of transfers and purchases rather than a singular process defined by typology reports.
- Technology providers could use this new knowledge to create preventative technology (PrevTech) solutions.

Finally, the book imagines a landscape where the war on dirty money is victorious and the billions stolen by criminals are instead available across the world to tackle the 'Five Giants' of want (poverty), ignorance (poor education), squalor (poor housing), idleness (lack of opportunity) and disease (inadequate health care). Winning the war on dirty money is not an end in itself but a way to change for the better the lives of the global population.

- The many international institutions with a public commitment to anti-money laundering (AMF) should explicitly communicate to their member states the importance of AML, in order to rejuvenate the war on dirty money.

ABOUT THE BOOK

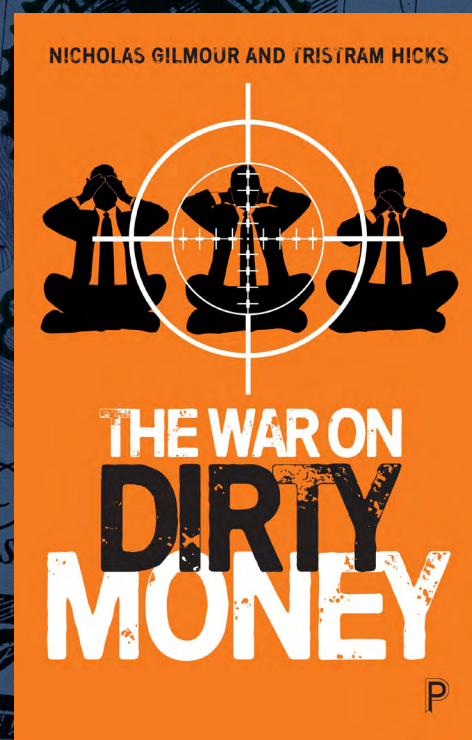
Billions of dollars are wasted each year trying to prevent 'dirty money' entering a financial system that is already awash with it. The authors challenge the global approach, arguing that complacency, self-interest and misunderstanding have now created longstanding absurdities.

International and government policy makers inadvertently facilitate tax evasion, corruption, environmental and organised crime by separating crime from its root cause. The handful of crime-fighters that do exist are starved of resources while an army of compliance box-tickers are prevented from truly helping. The authors provide a toolbox of evidence-based solutions to help the frontline tackle financial crime.

AUTHOR INFORMATION





Nicholas Gilmour is a consultant providing expert advice and guidance to various governments and international organisations fighting financial crime.

Tristram Hicks is an international criminal justice advisor on the operational effectiveness of anti-money laundering regimes. He is a former New Scotland Yard detective superintendent.



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