

# No Cash, Less Crime?

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**ESTA Annual Conference**  
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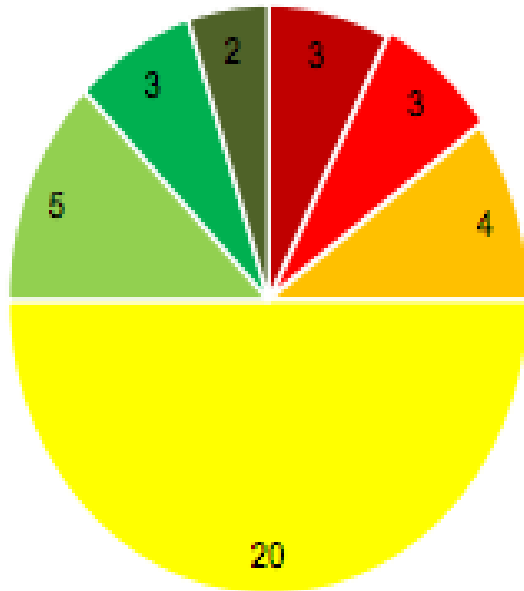
# CPL argument

- cash payment limitations can be effective measures in the control of serious crime, such as terrorism finance, organized crime and tax evasion

## Most terrorist attacks in Europe in past 20 years cost less than USD 10,000

15

Number of attacks by estimated cost



- Disrupted before any costs incurred
- < 100 USD
- 100-1,000 USD
- 1,000-10,000 USD
- 10,000-20,000 USD
- > 20,000 USD
- Not possible to estimate

“in 73% of the plots in Europe in 2014-16, the terrorists generated at least part of their income from legal sources such as salaries, welfare benefits, sale of property and loans”

“contrary to widespread notions of a crime-terrorism-nexus, criminal activities are not a very common source of funding for attack plots in Europe of late”

“there is little evidence of an increasing integration between criminal networks and terrorists in the area of attack financing”.

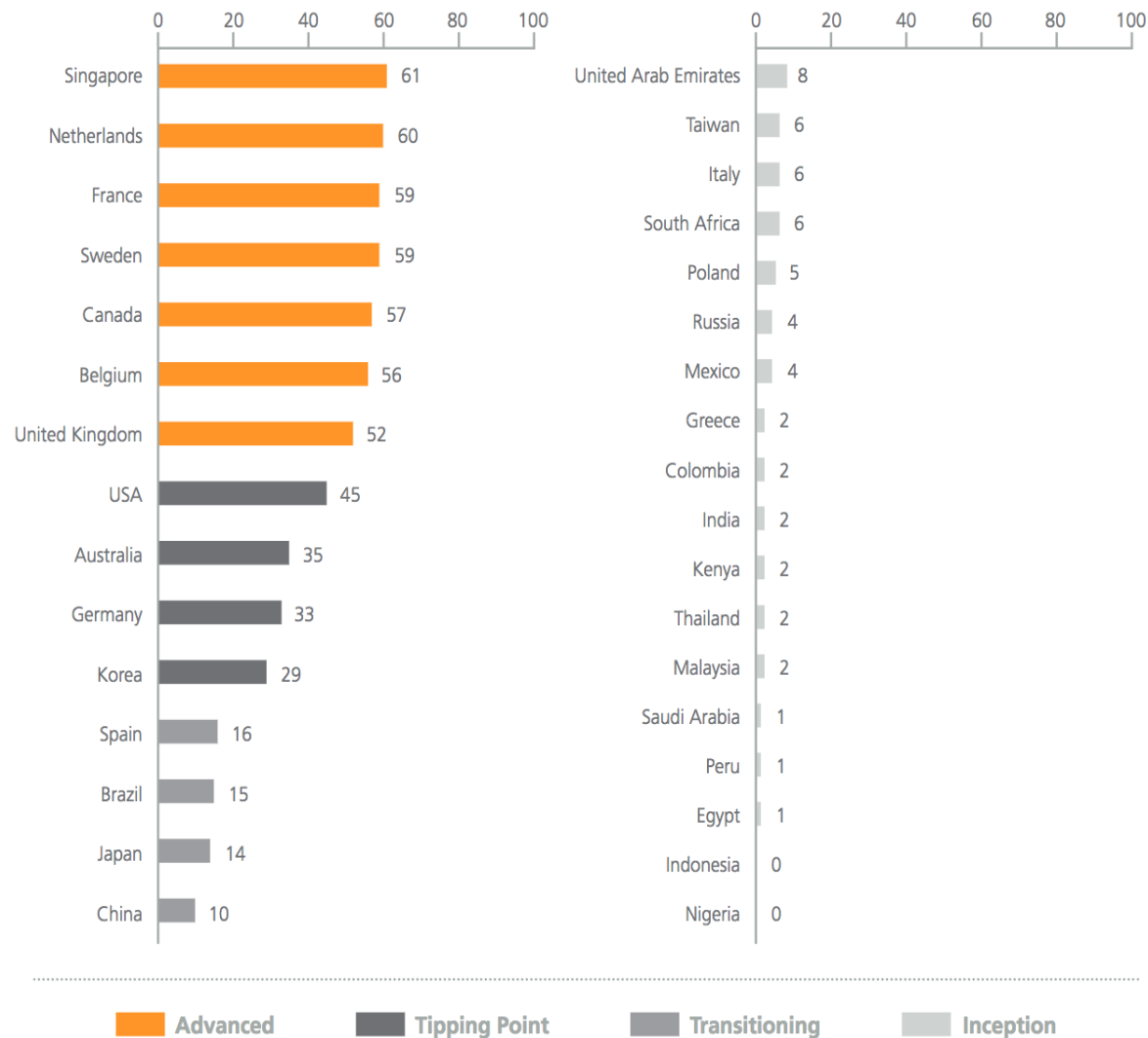
# Anonymity w/out Cash

- Fake IDs - cells behind Paris, Brussels, London attacks.
- Smuggling, trade diversion, mis-invoicing and barter deals are also possible (services, goods provided freely or under threat; commodities, such as drugs, tobacco, alcohol or diamonds). The use of third parties, voluntary or forced, to allow payments through their accounts on behalf of terror and organized crime groups.
- CPL would displace the problem, shift financial patterns, and provide incentives for offenders to become more sophisticated and better organized

- Some terrorists may use illegal trade, counterfeit or smuggled goods (relatively low risk of detection and prosecution, high margins).
- Drugs were exchanged for bomb-making material in the case of Madrid. Colombian traffickers have done this with innocent migrants in the USA; it is possibly used by numerous Chinese and other migrants by Chinese and Mexican criminal groups
- Such cash-based transactions can be better controlled by other means (e.g. at customs) than by CPL.

# High terror risks/incidents in EU countries with CPL: F, S, B, UK, NL

Figure 1: Estimated Percentage of Consumer Payment Transactions Done Using Non-Cash Methods\*

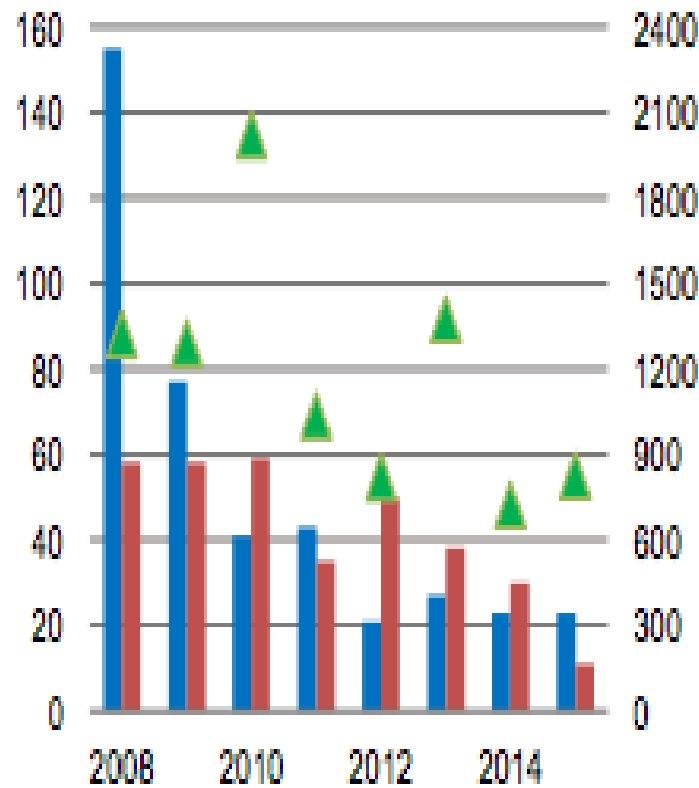


# ML

- Use of dirty money for illicit activities is not money laundering, but a transfer or exchange of value within a criminal context.
- Criminals/extremists do not ask for receipts, so cash transactions between them can be of any size regardless of AML and CPL measures

Sweden:  
Less cash – less cash crime

Number of reported offences per year

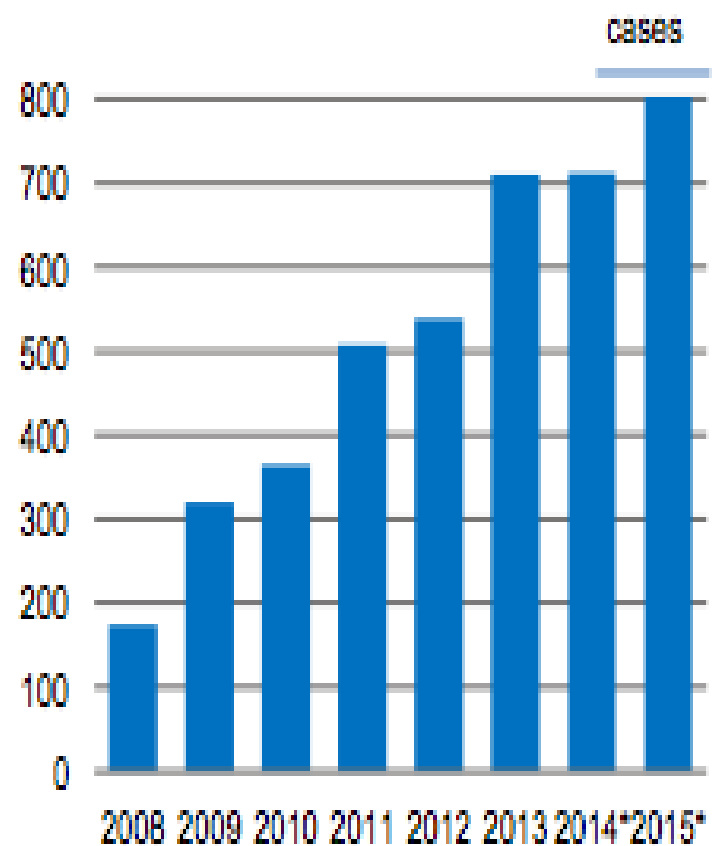


- Bank robbery (left)
- Security van robbery (left)
- ▲ Counterfeiting of currency (right)

Sources: Brå/Swedish Ministry of Justice, Deutsche Bank Research

Sweden:  
Less cash – more money laundering?

Number of reported offences per year



\*In mid-2014, the legal provisions regarding money laundering were changed.

Sources: Brå/Swedish Ministry of Justice, Deutsche Bank Research



# No-Cash Crime

- Extraordinary and systemically consequential damage is caused by methods that involve no cash at all:
- unlawful risk taking,
- frauds,
- money laundering,
- sanctions violations,
- LIBOR interest fixing,
- corruption

- Implicated are some of the biggest financial institutions in the world, such as Deutsche Bank, HSBC, BNP Paribas, Lloyds, JP Morgan Chase and many others.
- None of these serious crime risks would be controlled or eliminated under CPL.
- Ironically, the culprits were institutions to which citizens would have to turn their cash under CPL.

# Illegal business to consumers (B2C)

- Use of other payment methods
- Parallel "currencies" such as casino "black chips" in Macau and Hong Kong have become alternative currencies for consumers to buy illegal services
- Prepaid cards
- Crypto-currencies

# ML with/out cash

- The Laundromat case alone involved close to \$21 billion, 5140 companies, 732 banks and 96 countries.
- If cash is not an option, launderers may turn to heavier use of shell companies, the dark net, crypto-currencies, trade- and service-based money laundering or other channels.
- If cash is to be used, it may be taken to jurisdictions where scrutiny is avoided.
- As with terrorist finance, CPL would drive serious crime and ML to other methods, channels and locations harder to monitor

# Countries with CPL have high/er rates of shadow economies

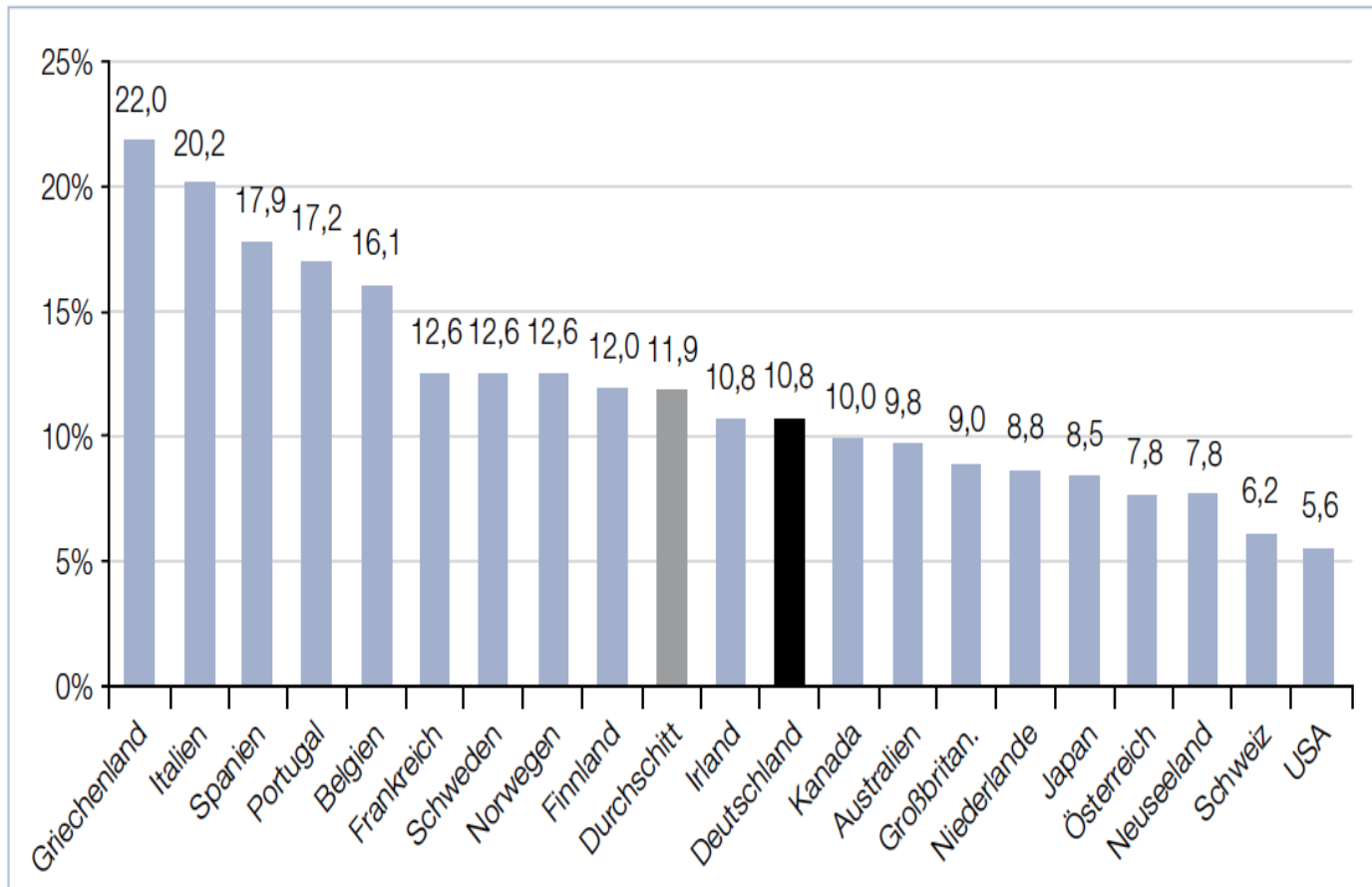


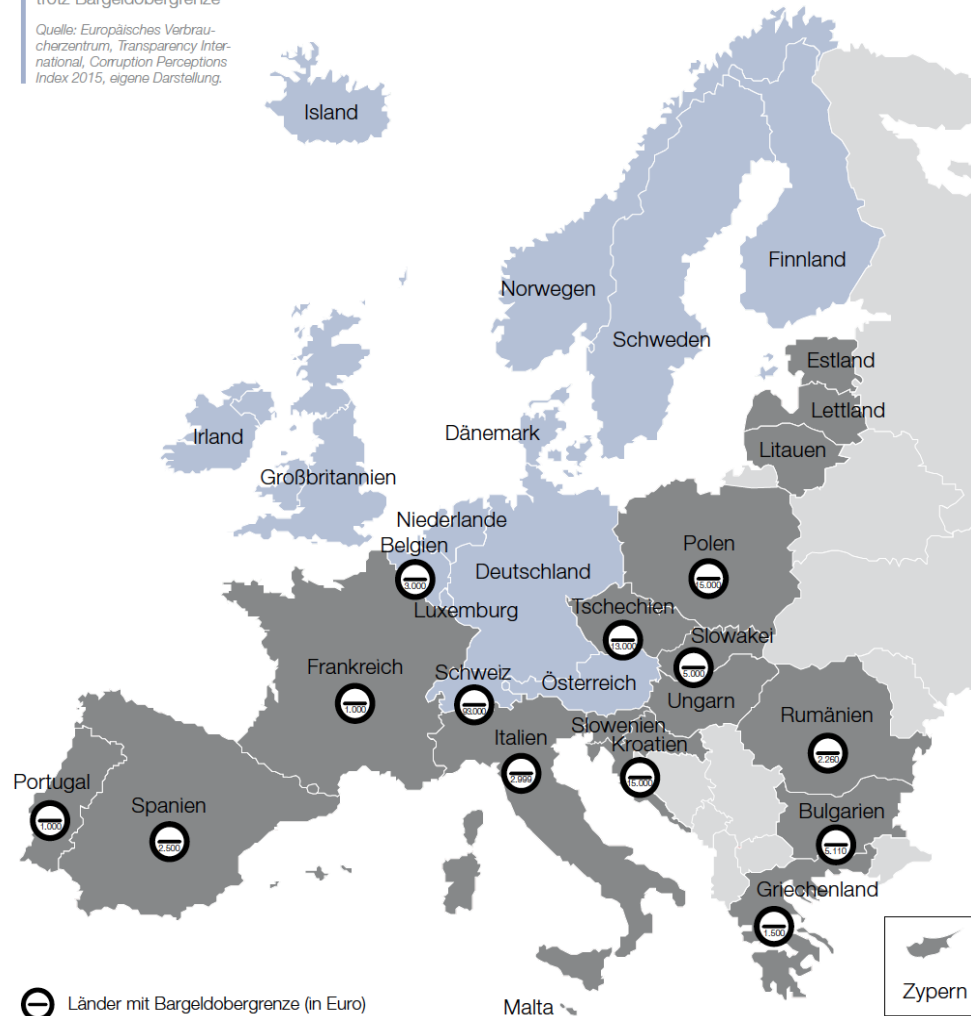
Abbildung 1:  
Ausmaß der Schatten-  
wirtschaft in den  
OECD-Ländern  
(im Verhältnis zum BIP)

Quelle: Schneider/Boockmann  
(2016), S. 23.

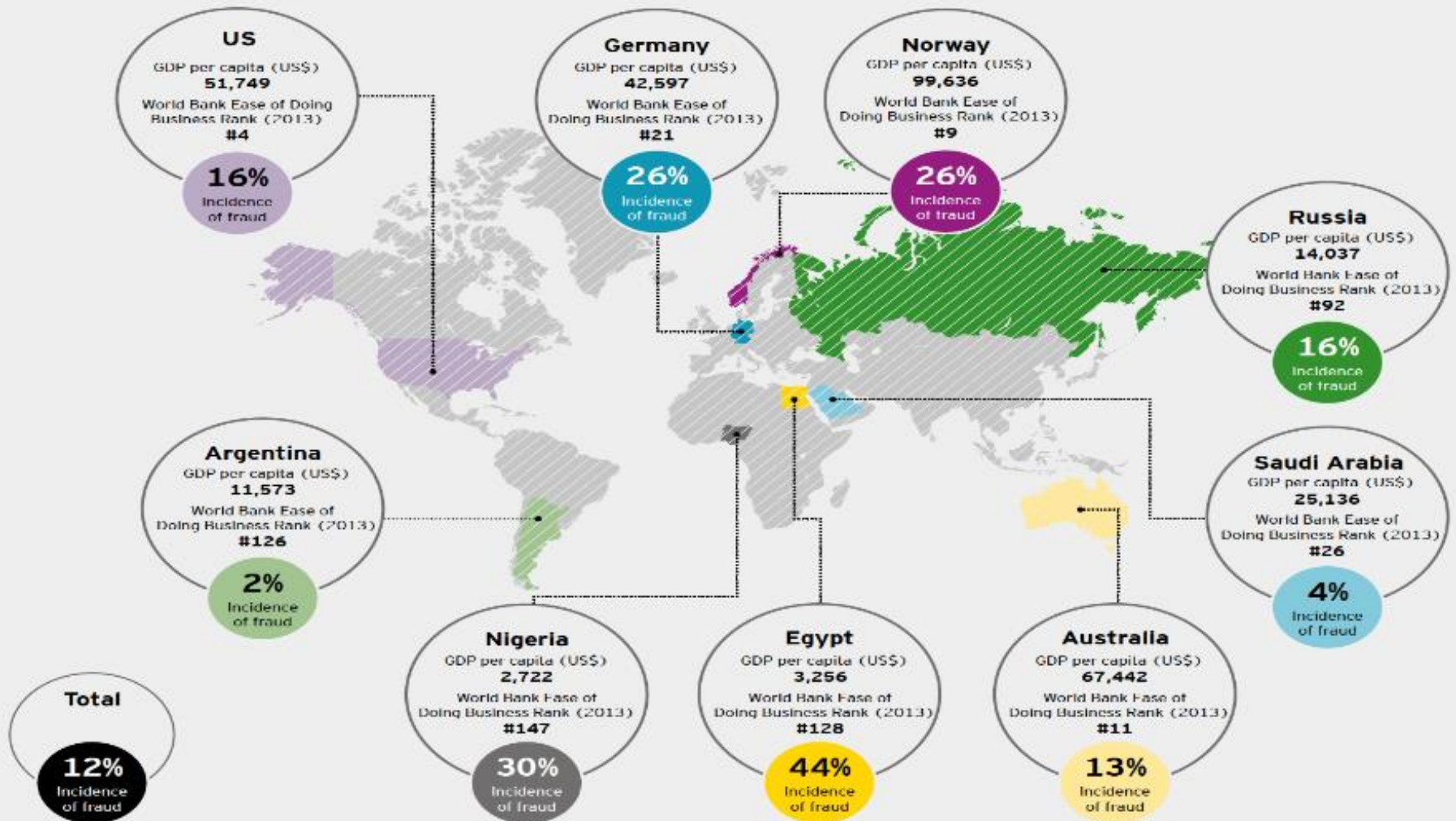
# Corruption is high and is perceived to be high in countries with CPL

Abbildung 2:  
Hohe Korruption  
trotz Bargeldobergrenze

Quelle: Europäisches Verbraucherzentrum, Transparency International, Corruption Perceptions Index 2015, eigene Darstellung.



# E&Y 13<sup>th</sup> Global Fraud Survey



Q: Has your organization experienced a significant fraud in the last two years?

Base: All respondents (2,719)

GDP per capita figures are 2012 GDP per capita (current US\$) from World Bank World Development Indicators, as updated on May 6, 2014

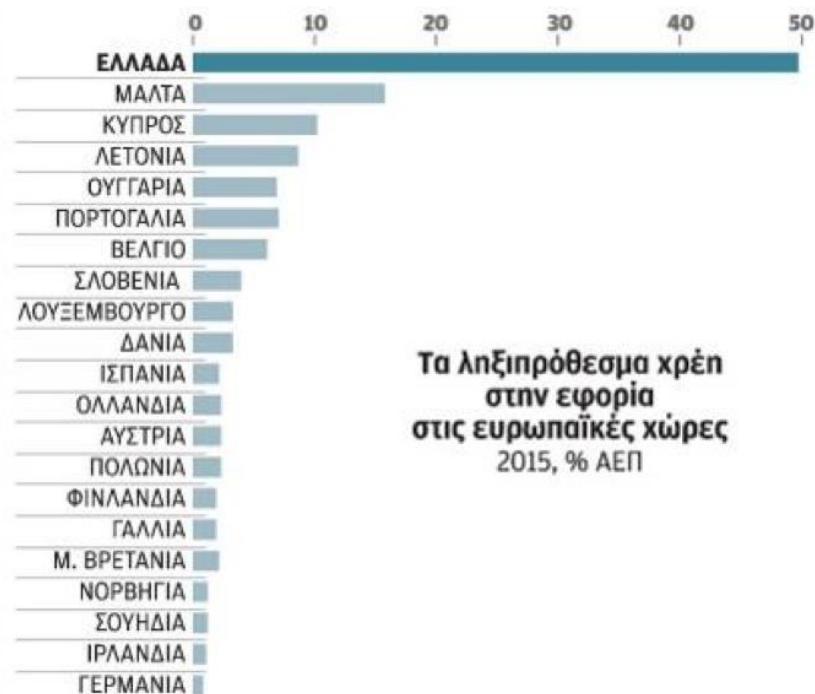
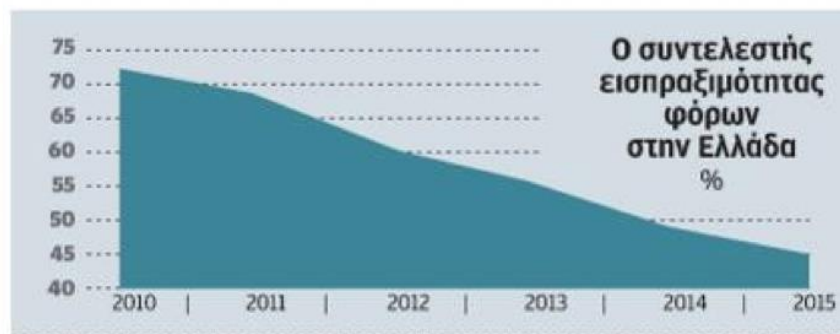
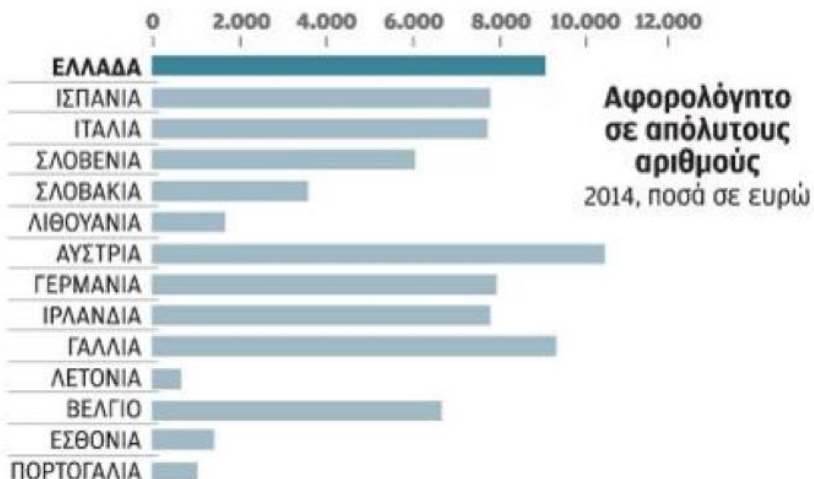
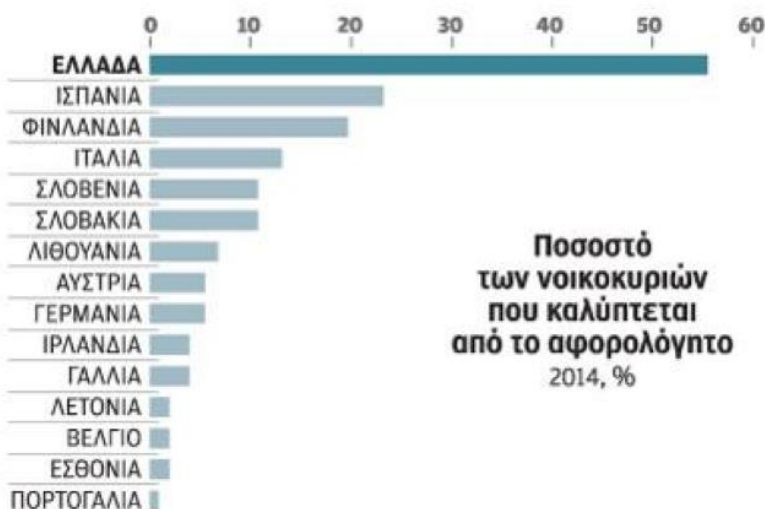
# Wish to be like GR?

- Tax evasion is a difficult problem in many countries. But, mixing terrorism, serious crime with money laundering issues muddies and inflames the debate about CPL. Tax evasion is better dealt with by effective state services and responsiveness to citizens, regulatory reforms to reduce tax avoidance and related lawful, but awful practices
- Good governance, trust, legitimacy – taking away the freedoms and rights that go hand in hand with cash, hurts these causes



# EU-blessed policies = less revenue collected

## Μπούμερανγκ η υπερφορολόγηση



# Denominations, high hopes, low returns

- Countries with high denomination\_notes are low on crime and organized crime (e.g., Japan, Singapore, Switzerland, UAE), while crimes with very low denominations are high on crime (e.g., Brazil, Nigeria, S. Africa, Venezuela)
- Tax evasion and corruption do not go hand in hand with low denomination notes: Georgia has a \$200 denomination note, but enjoys low corruption and tax evasion rates. Malaysia and Uzbekistan have their highest notes in the equivalent of \$11 and \$1.57 but suffer much more corruption

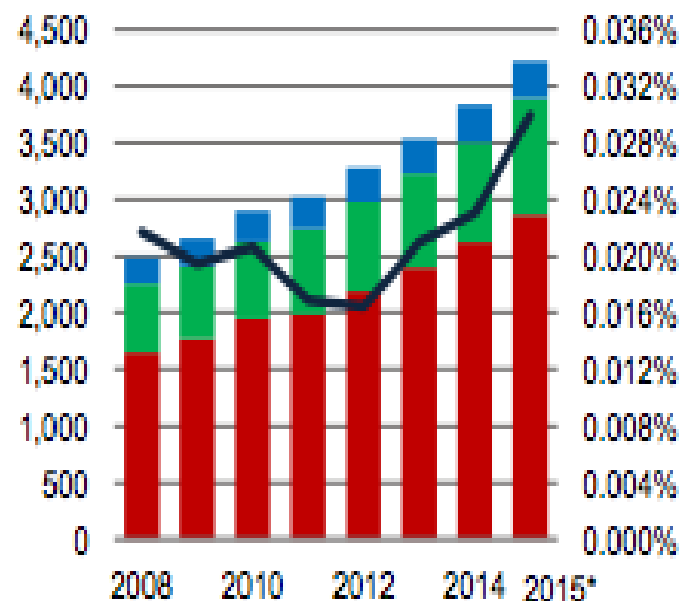
# In short

- CPL or cashlessness will not eliminate for-profit or ideologically motivated crime.
- Alternatives to illegal transactions and value will substitute cash.
- If this is more expensive, the cost will be passed on to consumers.
- As payments go digital, methods change and fraud goes up (see nearly cashless Sweden's rising card fraud rates)

## Sweden:

### Electronic payments and card fraud

Number of transactions in millions (left);  
share of fraudulent card payments in % (right)



- Card payments
- Credit transfers (paperless)
- Direct debits
- Share of fraudulent transactions in card payments

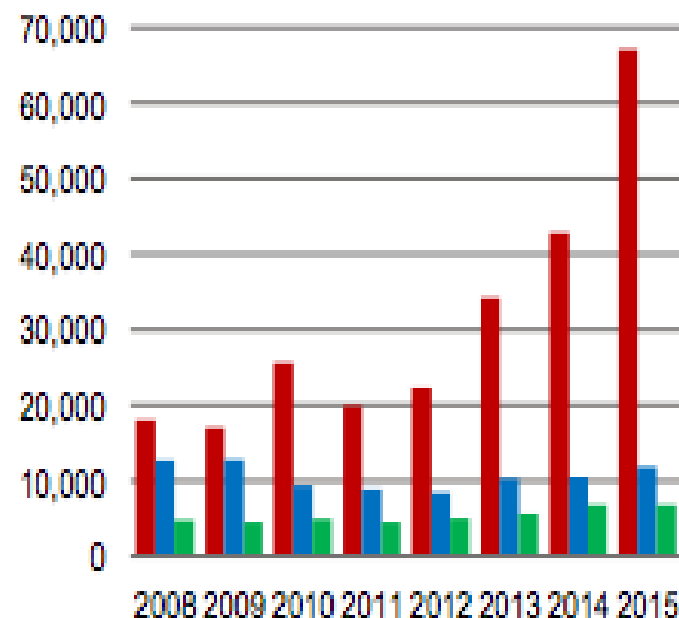
\* Number of electronic payments estimated

Sources: Sveriges Riksbank, Brå/Swedish Ministry of Justice, Deutsche Bank Research

## Sweden:

### Online card fraud on the rise

Number of reported fraudulent transactions



- Fraudulent payments with stolen debit/credit card data
- Fraud with card payments at point of sale
- ATM fraud

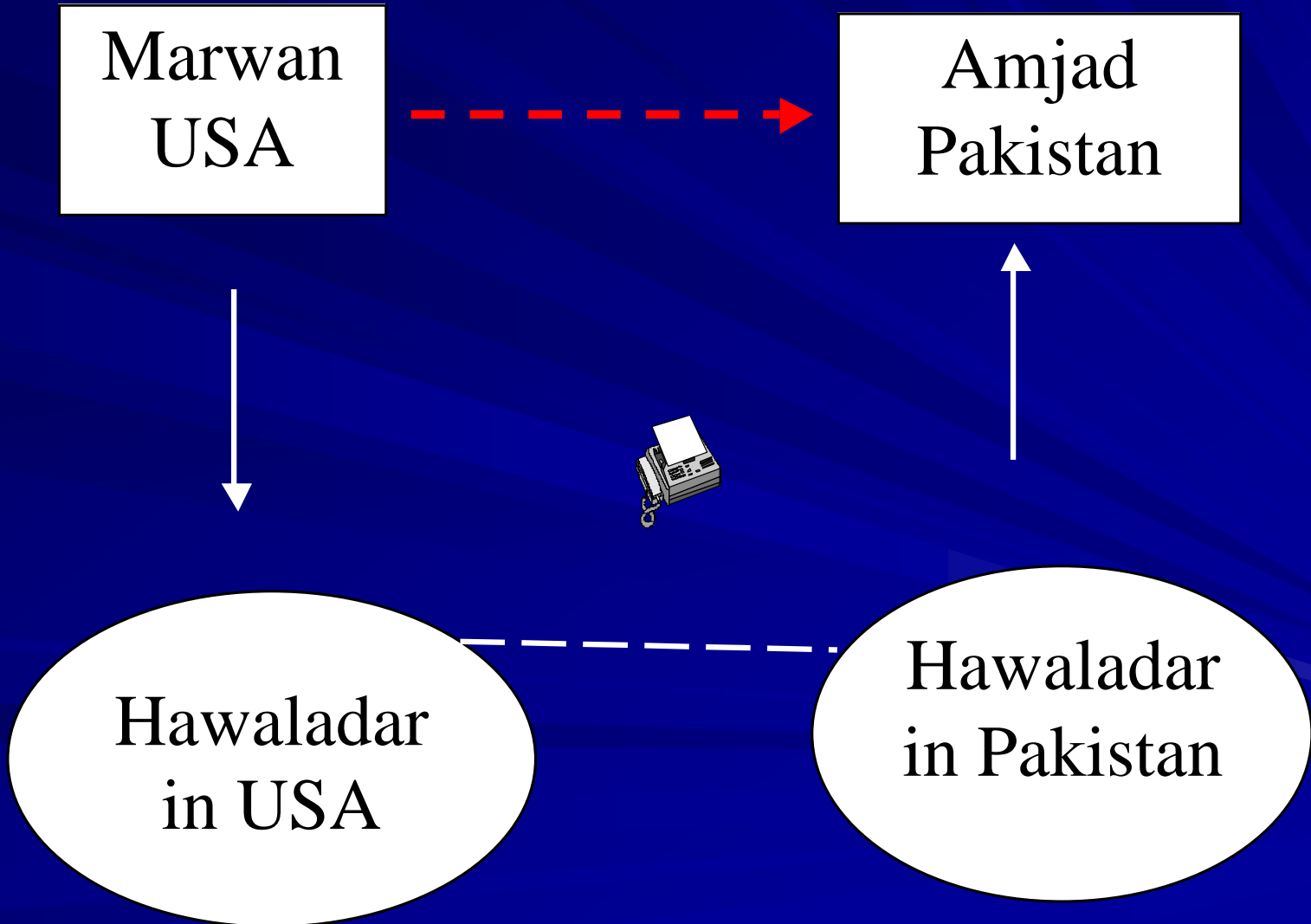
Sources: Brå/Swedish Ministry of Justice, Deutsche Bank Research

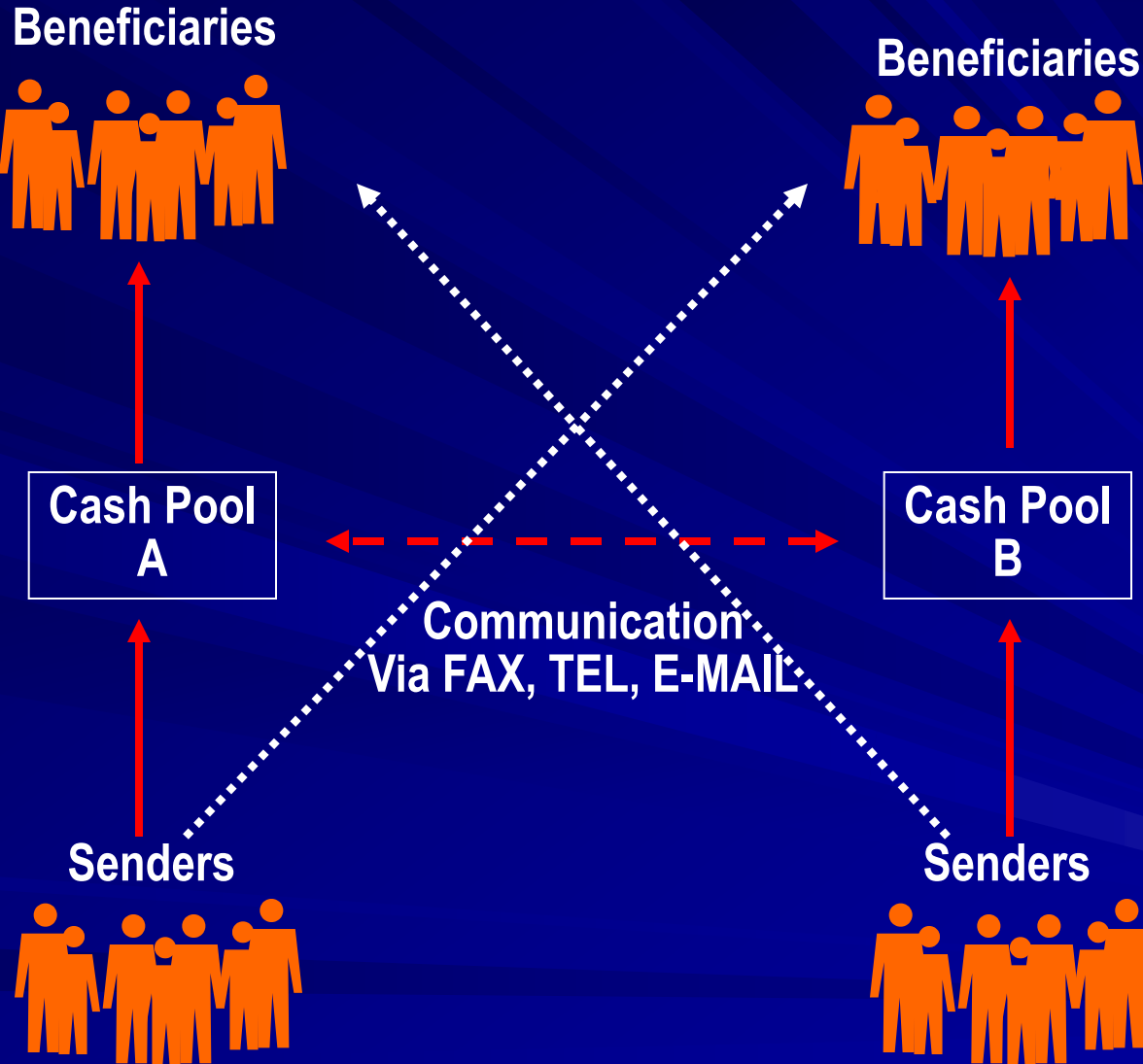
# Law enforcement

- Crime controllers need investigative trails.
- Transparency is about easy access to records, whereas traceability is the capacity to find answers to investigative questions.
- Big data and analysis must be combined with access by those who need to know, sharing of information and solid analysis.
- Terrorists from Boston to London, Paris, Brussels were on the authorities' radar screen, but the attacks were not prevented. Better use of data, timely and proper cooperation are more effective than more data that end up fragmented, wasted or abused

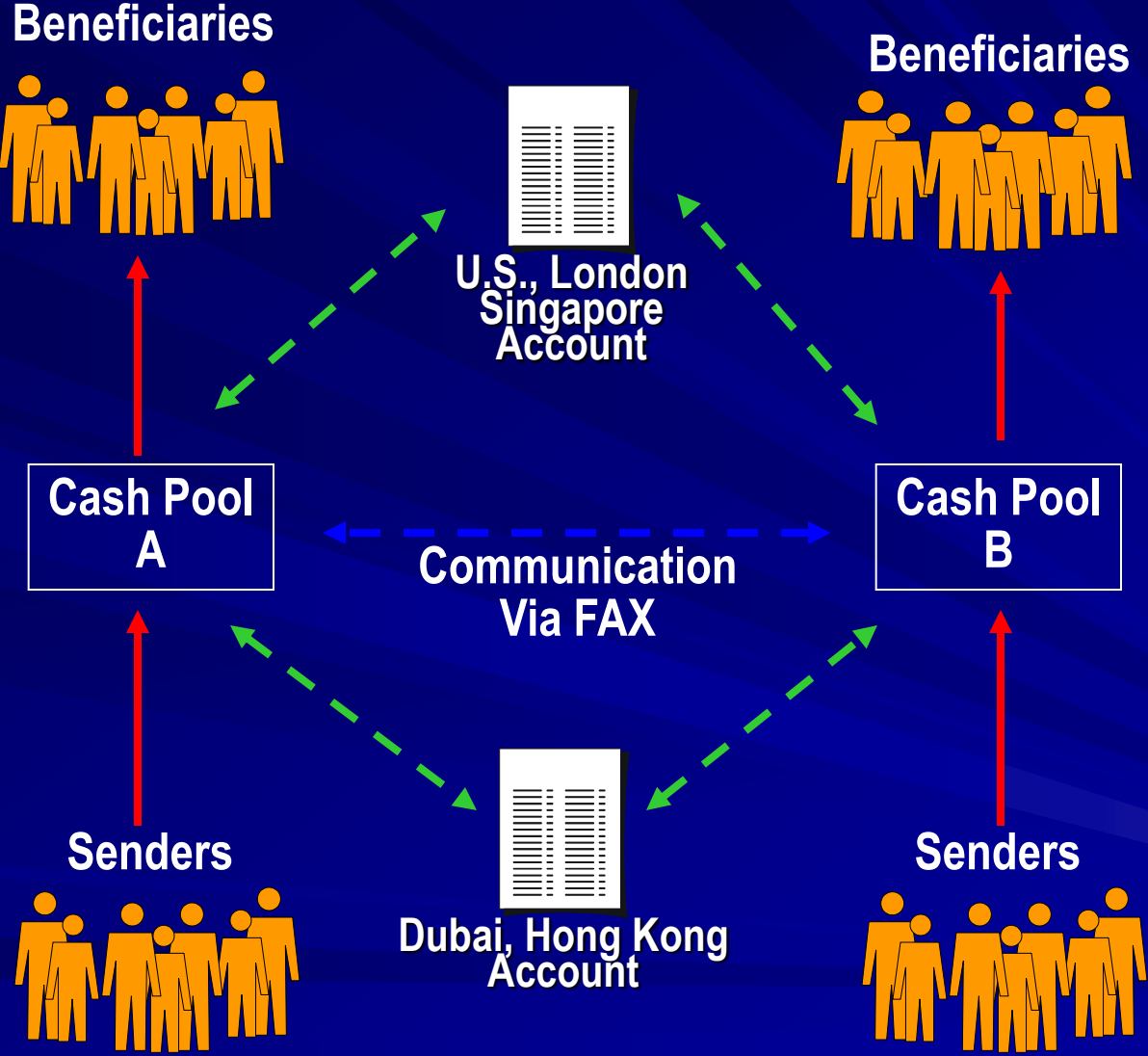
- Criminal trails are broken by cash transactions, but can also be broken by other means such as pre-paid cards, fake IDs, third parties, mis-invoicing or barter deals. CPL would simply displace crime and make determined offenders smarter

# Basic Hawala









# Account Settling



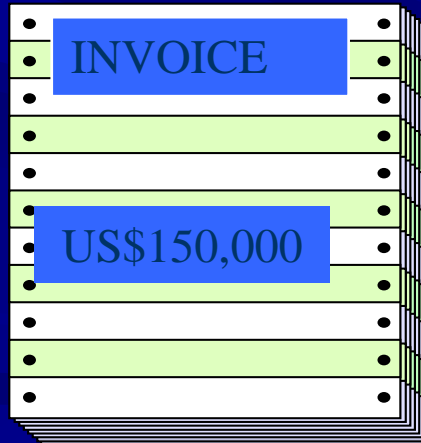
- Accounts are settled through:
  - reciprocal payments to customers
  - physical movement of money [courier/cargo]
  - wire transfer or check
  - legal and illegal TRADE

# Under Invoicing



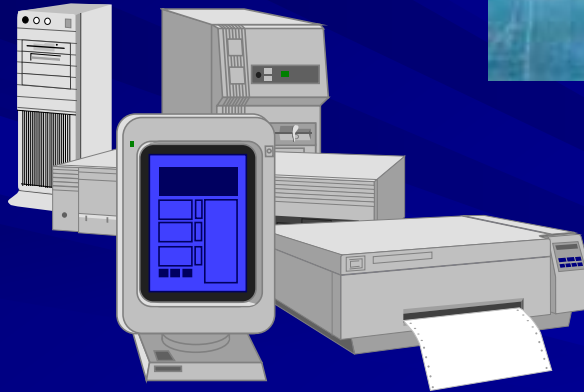
Value goes from London to South Asia

# Under Invoicing



SA sends B \$150,000 and receives invoice

# Under Invoicing



for \$250,000 worth of computer hardware,  
which balances B's \$100,000 debt to SA

# Hawala and over-invoiced exports



India

\$1.20 per item

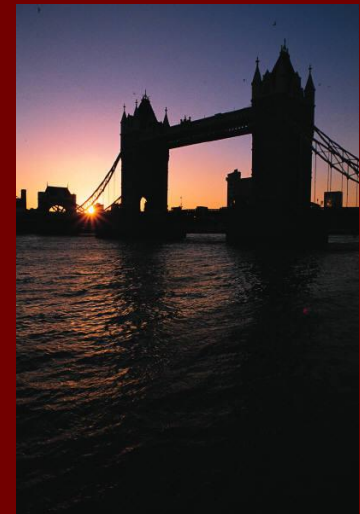
Sri Lanka



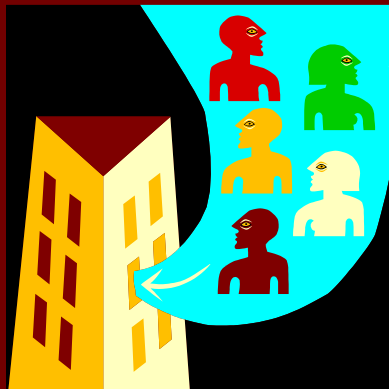
Africa



UK



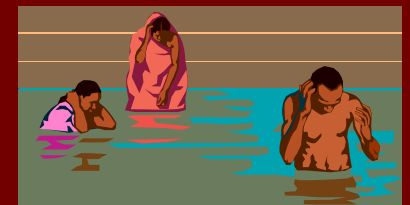
\$30 per item

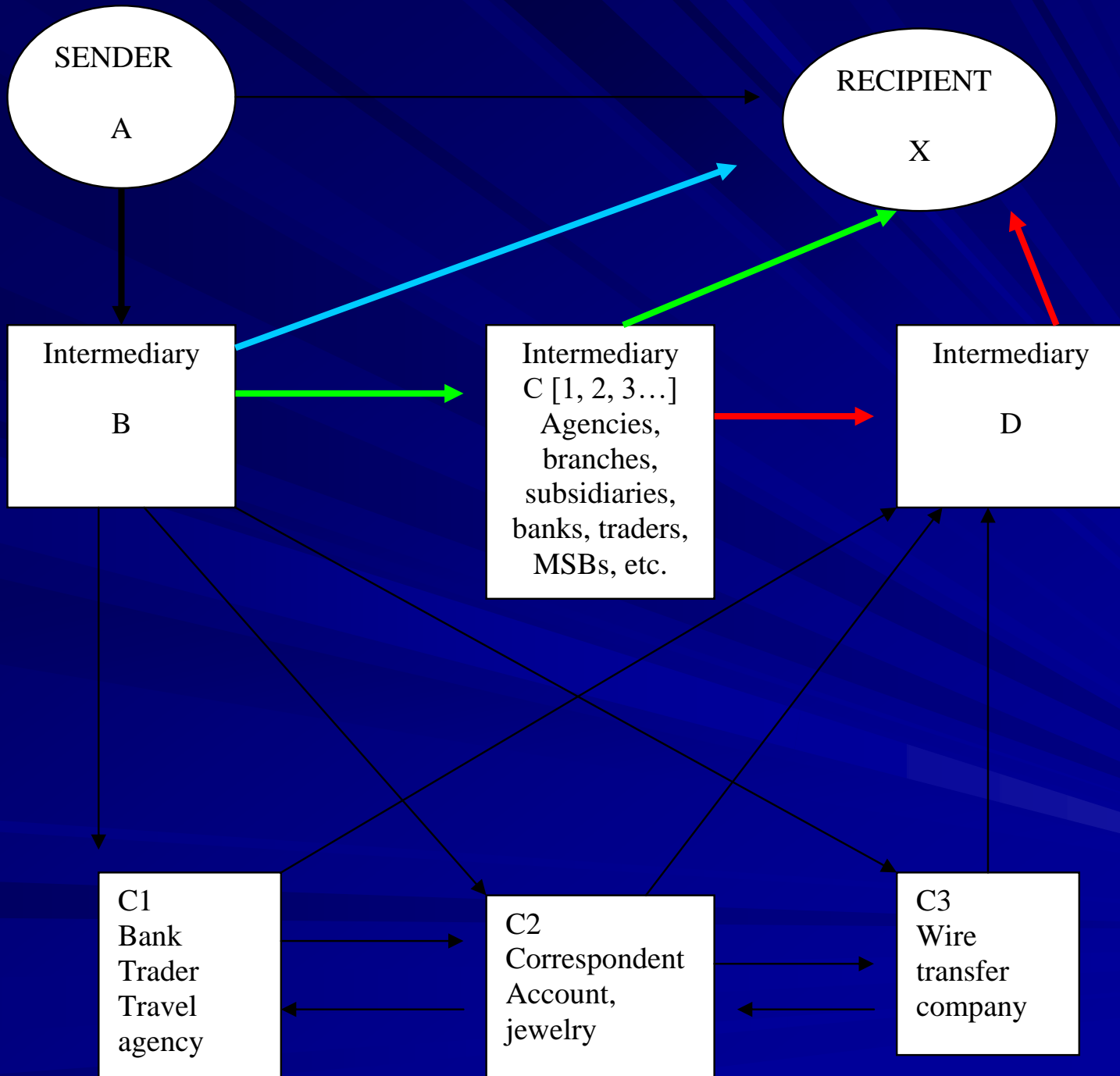


Dubai



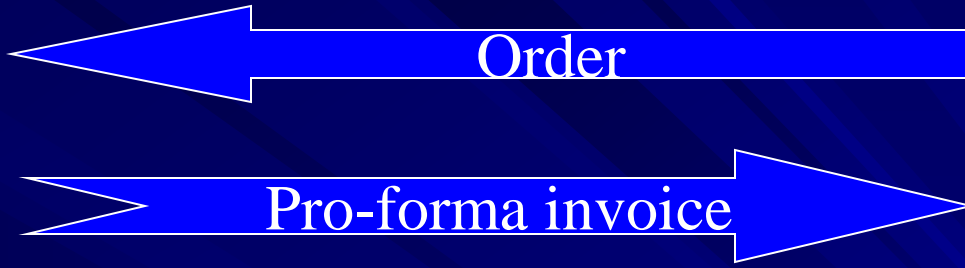
# Export subsidies







U.S.  
Manufacturer



Russian Company



U.S. Bank

Letter  
of  
credit



Swiss Bank



Government  
Bank of Moscow

U.S.  
Manufacturer

Order

Pro-forma invoice



Russian Company

up to 50% discount



Agent

Notice of L/C

rubles



U.S. Bank

Letter  
of  
credit



Swiss Bank

authorization



Government  
Bank of Moscow

U.S.  
Manufacturer

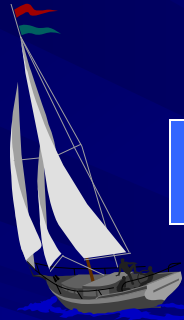
Order

Pro-forma invoice



Russian Company

up to 50% discount



Agent

Contact

Notice of L/C

payment



U.S. Bank



Swiss Bank

Letter  
of  
credit

authorization

rubles



Government  
Bank of Moscow

Request for funds

Agent

Co-conspirator



goods

payment

Diversion  
Fence

goods

Wholesaler

payment

Agent



Russian Company

Co-conspirator



Money

Money



Swiss Bank #2

goods

payment

goods

Wholesaler

payment

Diversion Fence

Diversion Fence

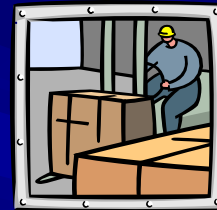
# Paul Mitchell without Diversion



Goods are transported to  
warehouses owned  
Mr. Axelrod's associates



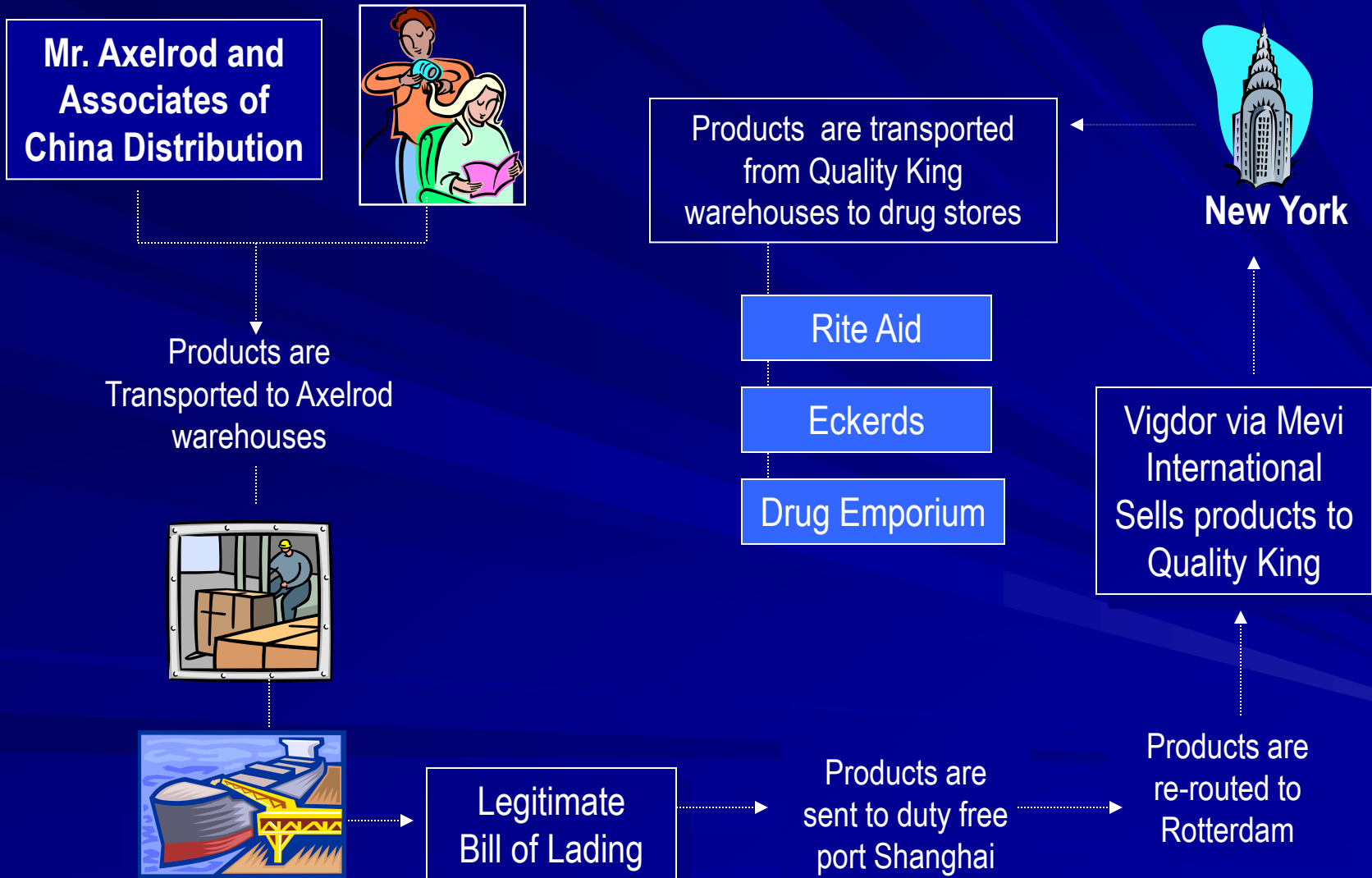
Mr. Axelrod and  
Associates of  
China Distribution



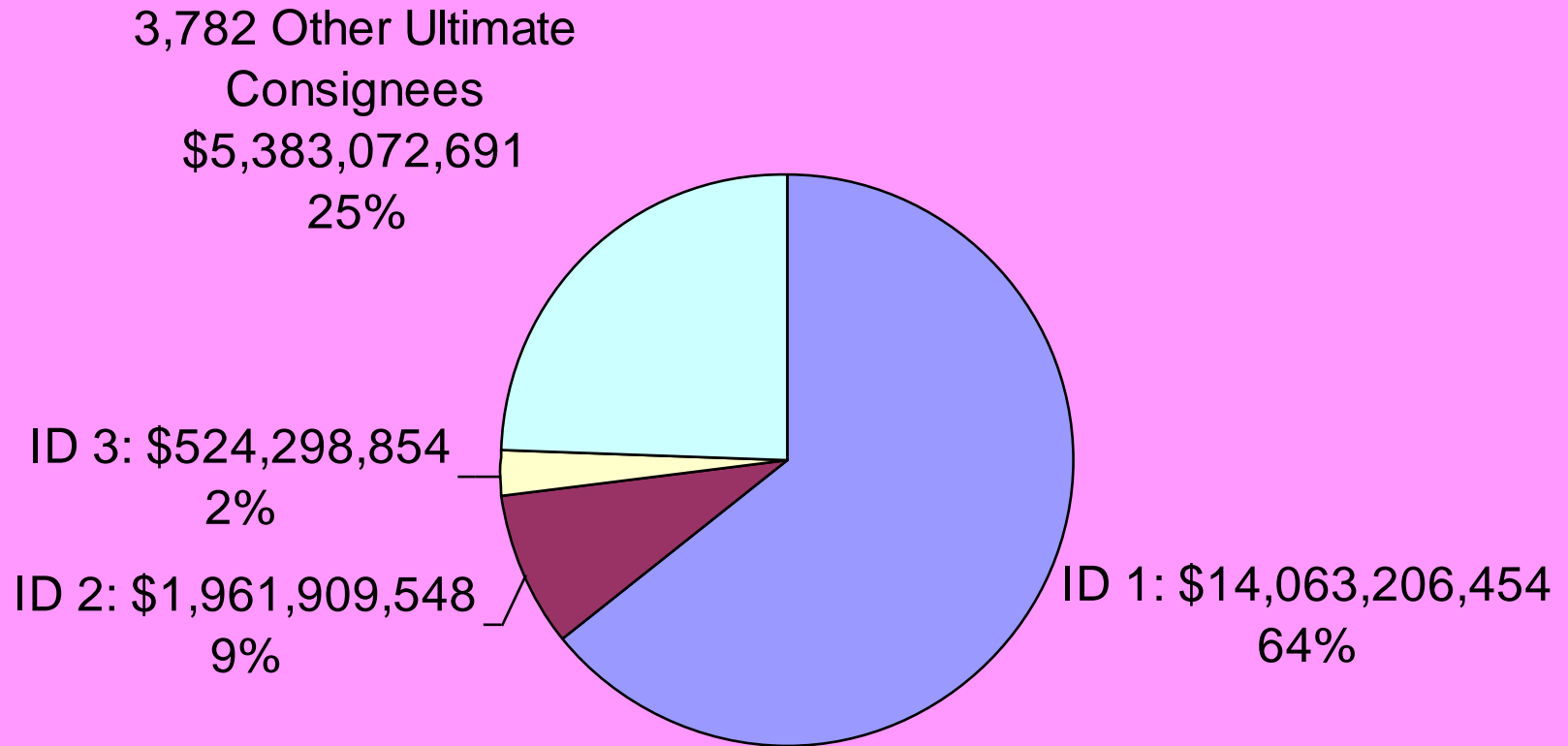
Products are  
shipped to  
Shanghai

Legitimate  
Bill of Lading

# Paul Mitchell with Diversion



# Top 1 Diamonds broker > .5 Carats \$21,932,487,547





DATE

**CO. OF  
ORIGIN**

CO. OF  
EXPORT

**Rough diamond  
import declarations**

20030709

**GB**

GB

20030711

**GB**

GB

20030715

**GB**

GB

20030722

**GB**

GB

20030725

**GB**

GB

20030821

**GB**

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20030822

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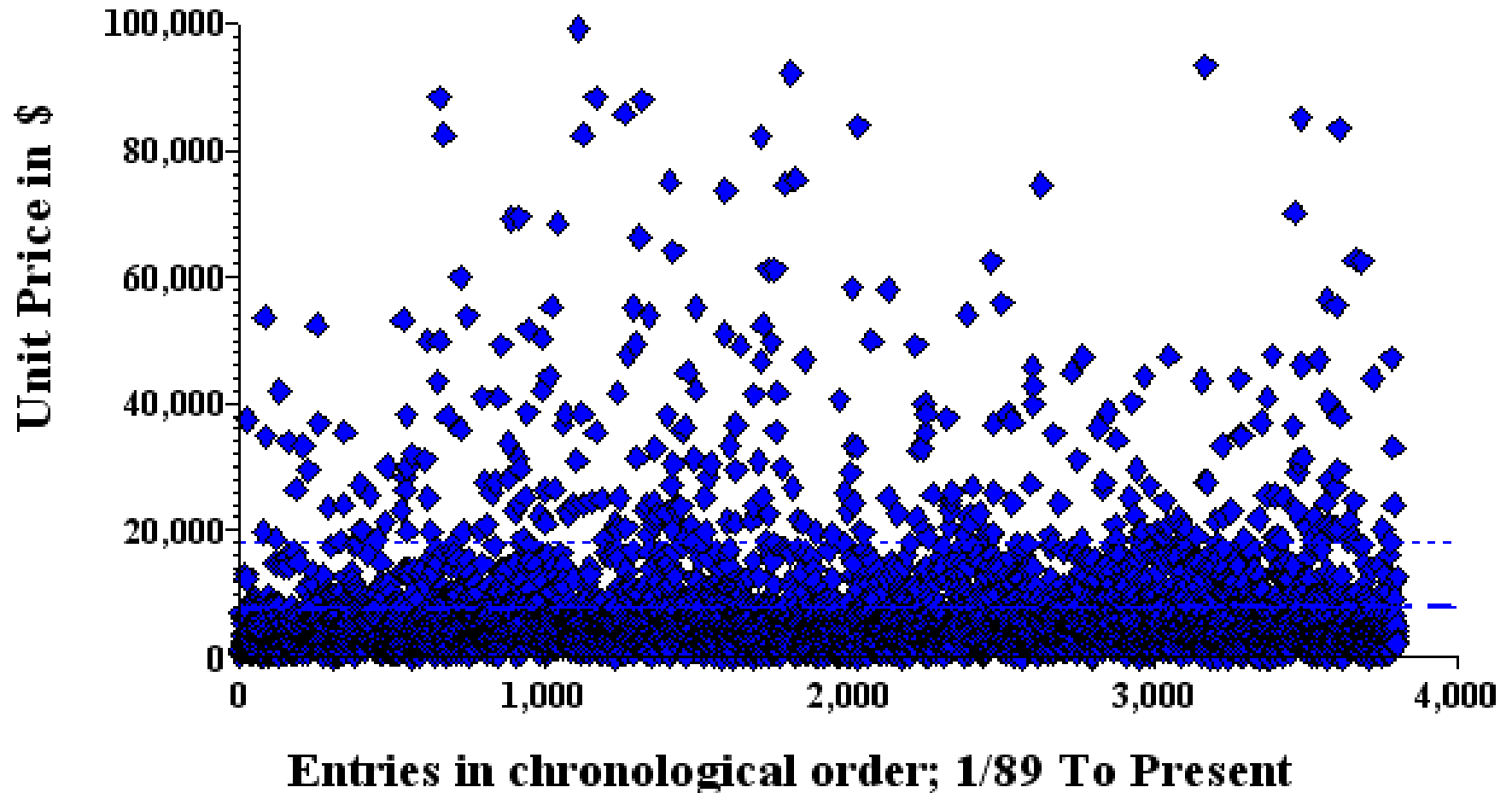
20031007

**GB**

GB

# Polished diamonds

## Unit Prices for co GB



# Non-cash broken trails

- Criminal trails can also be broken by other means such as pre-paid cards, fake IDs, third parties, mis-invoicing or barter deals.
- CPL would displace crime and make determined offenders smarter. Techniques to fight smuggling and illicit trade, integrated analysis of data from various industries when there is a legitimate need to access and analyze them (e.g., telephone records, other communications, travel, CCTV, etc.) based on clear criteria and supervision can help far more with crime and security threats than CPL.
- Even if some marginal gains could be made by CPL, the heavy price they come with militates against their adoption

# Cost-Benefit Analysis

- No gain
- A lot of pain and new risks:
  - Cost (India)
  - Legitimate industry
  - Right to privacy
  - Unbanked and financial exclusion of the vulnerable
  - Crises and emergencies harder to manage
  - Negative rates
  - Control by banks
  - New crimes
  - Incentives for more better organized crimes
  - Culture
  - Human rights, intrusion and potential abuse
  - Trust and legitimacy

# CPL argument is on thin ice

- both on internal logic (EU aims and principles) and externally (ineffectiveness of the measures and the collateral damage they will cause).
- Instead of considering policies with little or no effect on stated objectives, we need a demand-side approach to crime problems: a strategy based on an understanding of root causes and key drivers of terrorism, serious crime and tax evasion
- Supply side approaches have not worked in the past (cf. drug trade) and will be ineffective in the future. Need for
  - smart-policing leveraging new control options, available intelligence
  - better cooperation within and across countries
  - well thought-out financial controls

- CPL should not be imposed on MSs against the will of the people, whose interests the proposed policy would undermine rather than protect.
- Policy-makers must preserve the reliability and credibility of the financial system, promote rule of law and fairness in markets and society, shun rush judgments and ill-considered measures, and to consider thoroughly the potential adverse consequences of proposed policies.
- I hope this work assists in the exercise of this important task and responsibility

Thank you so much

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