TAKING US TO THE CLEANERS

A staggering amount of ill-gotten gains is "washed clean" in safe, law-abiding, little New Zealand every year. Much of this dirty business goes on right under our noses, in places most of us would never suspect. Caroline Courtney discovers just how widespread money laundering is – and how the launderers mostly manage to get away with it.

I felt like a kid who'd just been told where babies came from – the first time I heard how much dirty money is laundered through the Kiwi economy each year. *No, surely not? That can't be right... can it?* My innocence vanished.

It's at least $1.5 billion – the equivalent of nearly nine times Fonterra's after-tax profit last year. But wait. It could be more than $10 billion. No one really knows. It's not like the dirtbags who wash their ill-gotten gains "clean" through our money-laundering machines are telling.

CAROLINE COURTNEY IS A *NORTH & SOUTH* CONTRIBUTING WRITER.

Globally, a dizzying $US2 trillion spins through the murky money cleansing scene every single year, the International Monetary Fund estimates. But they don't know for sure, either. When one of the world's top anti-money laundering muckrakers, Professor Jason Sharman, of Queensland's Griffith University, asked the IMF how they arrived at that sum, "they admitted they made it up".

What we all know, almost intuitively, is the planet's ugliest profiteers play the laundering game. The terrorist organisations and their flush financiers. The drug traffickers. The modern-day slave traders. And the all-round exploiters and parasites of humanity. No surprises there.

But what most of us don't know – and I certainly didn't – is that washing dirty money until it looks lily-white happens on a massive scale in little ol' Aotearoa. Our own Ministry of Business, Innovation and Employment concluded New Zealand was a veritable "domicile of choice for international criminals wanting to launder money and traffic arms and drugs".

Meanwhile, the rest of us might kid ourselves money laundering happens somewhere over the horizon on shadier shores than ours, and that it's centred on big, international finance scams we can't get our heads around but, "the reality is altogether different," warns Ron Pol, the man fast becoming our leading expert on this dark and sinister art. The tie-wearing neighbourhood villains and tattooed drug dealers working your community's streets have dosh to wash, too, don't forget, and they're often laundering it through honest, local businesses that have "no idea they're being used as washing machines for criminals", says Pol, a former lawyer who nowadays advises lawyers, accountants and real estate agents on anti-money laundering compliance.

Odds are, in fact, that money laundering is happening right under your nose, in your very own 'hood. And the launderers are taking you and me for fools.

FOLLOW THE MONEY

How do they do it? Well, let's say you're a small-fry guy with $50,000 stashed in your Hawke's Bay attic from thieving. Or, a big-shot with

NICOLA EDMONDS

Honest local businesses have "no idea they're being used as washing machines for criminals."

RON POL (ABOVE).

a tidy million or two coming your way, via electronic transfers. Money you've creamed off inflated building contracts you awarded to your big-shot buddies. You sure mean to keep your pile hidden. You don't want the government or anyone else's hands in it. God forbid.

There are ways and means to fix your predicament. Here are a few:

Maybe you'll enlist an accomplice to deposit cash or electronic funds into multiple bank accounts here and offshore, in small amounts so as not to arouse suspicion – a technique affectionately known as "smurfing". Then maybe you'll buy and sell assets with those funds or create a labyrinthine trail of financial transactions to further disguise the money's origins and render it almost untraceable. A process known as "layering". Once your pile looks legit, it can come out of the closet and you can spend it on stuff you really want. Luxury properties. Flash cars. Yachts. Whatever.

Terrorism funding works in reverse. Take legal funds, earned from Middle Eastern oil fields, say, or charitable donations from "generous" benefactors, perhaps. Spin the money through multiple entities – shell companies, for example, created for the sole purpose of tactically manoeuvring funds from one entity to another. And, hey presto, the whole lot lands in the terrorists' burgeoning coffers. Next thing you know, IS parades a fleet of brand new, shiny black Toyota Land Cruisers through the streets of Syria.

The launderers are limited only by their considerable imaginations when dreaming up new dodge tactics. But let's start in the most mundane of potential money laundering settings, back here in the Land of the Long White Cloud.

THE CORNER SHOP

In 1920s Prohibition America, gangster Al Capone pumped dirty money through laundromats, rinsing it "clean" with honest cash earned by washing people's shirts. That's how we got the phrase "money laundering". Now most of us own a washing machine and your local launderer is more likely to be the corner shop, restaurant or other cash-rich business, says Pol.

Here's an example, adapted from his unpublished research: Take three very similar restaurants located near each other. Two are busy, but one isn't. The near-empty one has a "cash only" sign in the window and a Porsche parked out front, sporting the restaurant's logo. The business may be entirely above board. But if it is washing dirty money, it'll mingle the criminal cash with genuine takings and put the lot through its books. And because the restaurant's tax returns look similar to its busy competitors, it doesn't draw suspicion from authorities.

THE LUXURY RETAIL DARLINGS... AND THE REST

At glittering jewellery shops, antique dealers and galleries, items' values can easily be fudged. It makes upmarket retail stores great places to mix dirty money with clean – something a crime-ring operating out of Los Angeles' jewellery district took advantage of when it laundered $US1.2 billion in just 18 months for Colombian drug kingpins back in the 1980s, says Pol.

For the less ostentatious launderer,

GETTY

US gangster Al Capone (right) with his attorney, Abraham Teitelbaum, in 1931.

Prohibition era gangster Al Capone pumped dirty money through laundromats, rinsing it "clean" with honest cash earned by washing people's shirts.

the glamour-free end of retail can sometimes offer opportunities for obfuscation: think pawn shops, used-car dealerships and so forth.

THE FOOD AND WINE FESTIVALS

Ah, yes, that genteel summer's outing, where the wine flows, and the urbane money launderer might hope to relax and restock his cellar. Pol's friend spotted possible laundering at a wine and food festival recently. When, at the end of a splendid day's tasting, he went to exchange his $36 worth of unused "festival dollars" for credit at the region's wineries, he noticed a flustered cashier. She'd just been presented with about $2000 worth of "festival dollars" from another customer.

It got Pol thinking. "If that person bought them with cash in the morning using, say, drug money, and redeemed them for winery credits in the afternoon, he could either replenish his cellar or on-sell the wine and deposit the 'clean' money into the bank." Drug dealers did indeed ply their wares for "festival dollars" that day, he later found out from police. They were duly arrested.

THE REAL ESTATE AGENCY

Auckland's property market sure is hot. And it's almost certainly been hotter than ever with money launderers. For two reasons. One, real estate agents are exempt from the latest anti-money laundering law. Two, money launderers relish a pricey property market – because they can launder millions more at a time. So much more expedient! (So notes a Transparency International UK report.)

Let's play pretend for a moment. Imagine you're a real estate agent in Auckland. You receive an email from a person in China, inquiring about properties for sale within a top school zone. You email them back a list of six suitable homes to view online. They reply they'll take the lot. The millions of dollars required to complete the sales arrive, via electronic transfer, in a New Zealand lawyer's trust account. Easy as. You're ecstatic. As you celebrate with a fine pinot noir you wonder, albeit fleetingly, whether the mystery buyer was a genuine guy who took advantage of the ridiculously low interest rates available to some in China and our government's ridiculously nonchalant attitude towards unfairly advantaged

"I am only the (real estate) agent. I'm not the police," he piped down the telephone at me. It sounded suspicious, I said to him. Was he aware of his legal obligations to report suspicious transactions? "But I don't suspect," he retorted.

foreigners snaffling up our properties. (Obtaining a perfectly legitimate personal loan for as low as 0.2 per cent interest, "can be as easy as making a phone call", to your employer's bank if you're a senior executive in a Chinese company or government department, says Auckland legal consultant Ashley Balls, especially "if you're personally responsible for the external financial relationships of your employer".)

But back to you, the imaginary real estate agent. For another fleeting moment you entertain suspicions about your mystery buyer and the source of all his moolah. Still, who are you to pry? Have another pinot.

Or how about this real-life scenario: a home sold for around $2 million to an offshore Chinese national. The new owner left it largely vacant and less than six months later re-listed it. The Asian agent didn't know why the vendor was selling so soon, or what he did for a living, or how he might have got the money out of China to pay for the property, given the Chinese government allows its citizens to remove only a paltry sum from China each year. "I am only the agent. I'm not the police," he piped down the telephone at me. It sounded suspicious, I said to him. Was he aware of his legal obligations to report suspicious transactions? "But I don't suspect," he retorted, in exasperated broken English. That's the trouble with suspicion, isn't it? It's subjective.

Truth is, soul-sapping scenarios like these have been repeated all over

Above: Chinese currency.

GETTY

Auckland for a long time. Sure, the government has finally taken some heed. From October 1, these offshore buyers will need a New Zealand bank account, IRD number and a tax identification number from their homeland country before the property titles can be transferred into their names. What's more, the Real Estate Institute's industry leaders agreed just last month to a voluntary "best practice" policy whereby they now recommend their members have buyers provide proper ID at the time of purchase.

But the core issue is this: real estate agents don't operate under the same anti-money laundering, anti-terrorism regime that applies to many other "high-risk" professionals and businesses, such as banks. For now at least, they remain exempt from the Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT Act), which would hold them to higher standards of accountability and impose harsher penalties on them if they breach those standards.

Instead, real estate agents are supposed to report their suspicions under the older, lighter-weight Financial Transactions Reporting Act 1996. Do they? Hardly ever, if the latest publicly available figure is anything to go by. Police received just nine reports from real estate agents in 2009. An astonishingly low reporting rate, given that the following year the Police Financial Intelligence Unit's National Risk Assessment report ranked property and other high-value asset purchases as the country's second most popular money laundering vehicle – just behind electronic banking transfers.

Has the property and high-value assets category jumped to the number one spot on the money launderer's popularly chart? Chances are, yes. While the banks have had to lift their game to comply with the AML/CFT Act – and scrutinise transactions ever more closely – the real estate industry hasn't been required to do so.

It's seems inexplicable why the government chose to leave real estate agents off the list of professionals covered by that act – contrary to the requirements of the Financial Action Task Force (FATF), the global body which sets the anti-money laundering standards the world's supposed to follow. Did REINZ lobby the government for the exemption? "Not at all," says REINZ CEO Colleen Milnes.

Whether or not laundered money has helped drive up our property prices we can't say because no one in New Zealand has seriously asked, let alone researched, that question. But with billions of dollars laundered here every year, where do the corrupt prefer to park money of such magnitude? And how does their spending impact on our economy and, in particular, Auckland's housing market? Interestingly, dirty money targets major cities, according to overseas research, says Pol. And it has a much bigger impact on those cities' property prices than economists previously believed. (That's because its effect is much more significant than the usual "income-multiplier" effect from legal earnings that economists are familiar with, he explains).

The Aussies have woken up to the problem. Global crime syndicates are buying up expensive Australian real estate, says one of the country's top crime-busting agencies, the Australian Crime Commission. Prompted by public concern over foreign investment in real estate, the commission has launched an investigation into money laundering and terrorism financing through real estate. It won't yet say which countries the dirty money flows from. But the FATF's just-released 2015 review of Australia's anti-money laundering measures points the finger at Asia-Pacific countries – and in particular China – as the likely sources of the "large amounts" of laundered loot being tossed into the perceived safe and stable Aussie housing market.

Meanwhile, Britain has woken up to a nightmare. There, an invasion of black money has likely pushed up average prices in London, particularly in high-value boroughs, creating a widespread ripple effect down the property-price chain, which extends beyond the city, according to a report by Britain's anti-corruption agency, Transparency International UK. It identifies more than 36,000 London properties covering 2.25 square miles of the inner city, held by hidden companies registered in off-shore tax havens, such as the Virgin Islands. (See Shell Gamers, page 57.) Huge numbers of such properties are believed to have been bought anonymously to hide illicit money.

The report, *Corruption on Your Doorstep: how corrupt capital is used to buy property in the UK*, analysed data from the country's Land Registry and Metropolitan Proceeds of Corruption Unit. "It's hard to see how welcoming the world's corrupt elite is beneficial to communities in the UK," its director, Dr Robert Barrington, rightly pointed out.

Here are a few 101-examples of how

Whether or not laundered money has helped drive up our property prices we can't say because no one in New Zealand has seriously asked, let alone researched, that question.

GETTY

corrupt money can gain a foothold on the property ladder: a kingpin may get his relatives or associates to buy properties in their names, with mortgages. And he'll pay off those mortgages through small regular payments or via off-shore accounts. The properties can change hands again later, allowing the proceeds to surface in his accounts. Mission accomplished. Or the launderer might buy a property-owning business, using a part-payment of under-the-table cash, which suits the vendor just fine because he wants to show a tax "loss" on the deal to IRD. Or maybe he'll build himself a property investment portfolio. He'll use some cash for the deposits, repay the mortgages with regular instalments of dirty money, pay for the "renos" with "cashies", generate steady rental income streams and make capital gains. Hey, he might even start paying tax! Before he knows it, he's created such a wiggly trail of laundered money even he has to stop to think where it all came from.

By these and other duplicitous means, the money launderer can spread his risk. Outsource the job of depositing the money into the bank, says Pol.

And the unwitting – or otherwise – real estate agent who facilitated these sales? "Even without actual knowledge that funds come from serious criminal activity, failing to spot well-known 'red flags' or ask obvious questions could land [real agents] in hot water," the industry reported in its REINZ magazine two years ago. Those "red flags" include paying over the odds for a property and undue urgency to buy. What's more, failing to "lift the lid on transactions that a reasonable business person would investigate may increasingly be regarded as negligent or reckless". In short, sufficient to prosecute.

REINZ has been proactive in its anti-money laundering stance, says Milne. It publishes a guide, developed with police assistance, alerting agents about what to look out for. Agents are "very cautious" about accepting cash deposits and instead request that funds are deposited into bank accounts. And while the real estate industry isn't regulated in the same way as as banks and other high-risk businesses, it takes its role within the anti-money laundering landscape seriously, she says. Nonetheless, an industry insider I spoke with told me agents have held the view that the responsibility for spotting dirty money largely rested elsewhere – with banks and the police.

THE PROFESSIONAL'S OFFICE

Quiz time: how much money can be stuffed into a briefcase? $10,000? $100,000? Answer: $1 million. Not long ago, an individual turned up at a Kiwi lawyer's office with a briefcase carrying around that sum in bank notes. He thought he'd simply pass it over to his lawyer as final settlement for a property he'd bought. He was mistaken. The rather nervous lawyer advised his client that, er, no, he couldn't pay with cash. So the buyer went away in huff, only to return a few hours later with a bank cheque for the full amount. Meaning, the briefcase full of cash was still out there, somewhere. Even he wasn't dumb enough to trot down to the local bank with it.

Did his lawyer report this suspicious carry-on? Rules restrict the release of information relating to suspicious transaction reports that go to the Police Financial Intelligence Unit. But if he didn't report, his firm could be held accountable.

Like real estate agents, lawyers and accountants presently remain exempt from the latest anti-money laundering act, but they're still obliged to report suspicious transactions. The world over, however, they hardly report any at all, the Financial Action Task Force found.

Whether such professionals realise it or not – and many don't – they're the money-launderers' "enablers". The "gatekeepers" protect the gates of the wider financial system through which launderers must pass if they're to succeed, the FATF notes. Far fewer criminals could get away with a lot of what they get up to if it weren't for lawyers, accountants, financial advisers and the like either knowingly, or unwittingly, helping them to launder and hide assets.

The vast majority of professionals are scrupulously honest, of course, and the financial transactions they handle entirely legitimate. But one of the difficulties they face "is knowing what to look out for", when trying to spot launderers' dirty tricks, says Pol, who advises organisations about their vulnerability to money laundering (see www.amlassurance.com).

It's impossible to say how many have been – and are being – duped. But picture this scenario, adapted from Pol's unpublished research: money arrives via electronic transfer in a law firm's trust account, earmarked for a large-scale construction contract. A few days later, the lawyer's told the deal is off and asked to return the funds. Fearing he might be the target of an advance-fee scam operating out of a tin hut in Nigeria, he waits until the transaction clears before returning it. He doesn't think to ask more questions.

Were his "clients" professional launderers, whizzing billions of dollars around the planet for the likes of Albanian sex traffickers, Mexican drug lords or corrupt Russian officials? "Clients" who appreciated the legitimising-effect of having their money race like a speeding comet through a respectable Kiwi law firm? Too late now to find out.

Meanwhile, how much "hear no evil, see no evil, speak no evil" monkey business goes on among professional groups? We don't know. But thanks to the AML/CFT Act, police now receive more suspicious transaction reports, among them reports of professionals facilitating "possible proceeds of crime through client accounts" and "abuse of trusts", notes national manager of the Police Financial Crime Group, Detective Superintendent Greg Williams.

THE CASINO

The gambling den: the money launderers' traditional temple. Professional launderers might get their stooges to pump cash into the pokies and have them sit there long enough to recoup most of their money in winnings, minus the 13-ish per cent the machines are programmed to retain. Not a bad return. Or they might load up the pokies with credit, cancel that credit and get their money back suitably "cleaned". That's how police believe methamphetamine magnate Royce Duncan largely laundered $882,000 worth of drug money over two years at Auckland's SkyCity casino, the *New Zealand Herald* reported.

Duncan started serving his jail sentence in 2013, the same year our long-overdue Anti-Money Laundering and Countering Financing of Terrorism Act came into full force. It should be trickier to fool our casinos nowadays. Still, Australia has had anti-money laundering laws for 25 years and yet a sweet-faced waiter-cum-drug-trafficker laundered up to one billion dollars through Melbourne's Crown Casino before being murdered last year. That he could evade detection at Australia's largest casino for more a decade "is an indictment of the system that's designed to stop this kind of stuff", laments money laundering expert Professor Jason Sharman.

Macau glows at the centre of the casino universe, a "temple to the acquisition of extreme wealth by any means necessary," writes *The Guardian*'s Jonathan Kaiman. With gambling illegal in mainland China, this tiny dot on China's southeast coast, only eight kilometres square, doesn't just do about five times' the business of Las Vegas. It washes an astonishing $US202 billion worth of dirty money every year, a US congressional report noted two years ago. The movement of money through Macau is "fuelled" by the Chinese junket system, acknowledged that same report, reiterating a widely stated view. The Chinese junkets are more than just holiday tour operators. They're gambling promotors who lure wealthy Chinese gamblers – or "whales" – to casinos' exclusive VIP rooms and in return collect commissions from the casino operators. These unique middlemen range in size from big corporations to one-man bands. And a number of junkets – who knows how few or how many – are widely alleged to have links to organised crime and money laundering.

Imagine you're a corrupt Chinese official who's embezzled pots of money. You need to get it out of China to a safe haven where you can convert it into something secure – like property in a pleasant and law-abiding land where you can picture yourself retiring some day. Or into a secret bank account in an offshore tax haven until you figure out your next move. Problem is, China's government regulations allow you to transfer only 20,000 yuan ($US3200) per person per day or a maximum of $US50,000 a year, out of China. Chicken feed.

No need to fret. You have options when it comes to circumventing the rules. You might deposit your ill-gotten gains with a junket in mainland China. Or get a junket to extend you a line of credit, something they'll willingly do for high-rollers. Then you'll take one of their gambling holidays to Macau. The junket will give you your money in casino chips once you arrive. Once you're done having fun at the tables, you can cash in your unused credit and/or winnings for a bank cheque or electronic transfer in Hong Kong or US dollars, ready for investment elsewhere.

But everyone knows President Xi Jingping is cracking down on corruption and capital flight. VIPs are starting to avoid Macau, and so too are the junkets as their share of the casinos' shrinking profits takes a hit.

Instead, they're piling high-rollers onto planes to gambling destinations elsewhere. Like Sydney. Junkets' VIP clients – mostly from mainland China – now account for a massive 84 per cent of high-roller gambling at Sydney's only casino, The Star, according to a recent Bloomberg report.

I asked New Zealand's largest casino operator, SkyCity, if it's seeing a rise in junkets bringing Chinese high-rollers to its VIP rooms?

"Of the groups we work with to bring international business guests to New Zealand, junkets contribute to a limited number of these guests," said a spokesperson, adding that SkyCity only works with licensed junket operators, who are subject to standard visa approval processes. It falls to the Department of Internal Affairs to license gambling organisers (such as junkets) and their representatives, as well as supervise casinos' compliance with the AML/CFT Act. The DIA's onsite review of SkyCity concluded that "SkyCity has invested heavily in developing its core AML/CFT systems and that it is generally operating at a high-level of compliance".

THE SHELL GAMERS

Fact: vast global networks of shell companies shield perpetrators of heinous crimes, terrorism and corruption. Sharman and his colleagues uncovered just how easy it is to flout international standards prohibiting anonymous shell companies when they impersonated everyone from would-be money launderers to terrorism financiers. They emailed 7400 incorporation agents in 180 countries who, for a fee, form companies on behalf of third parties. "We said, 'we want a shell company and we don't want people to know our business and we don't want to pay much tax'," he explains. Here's one actual reply:

"[Y]our stated purpose could well be a front for funding terrorism, and who the f*** would get involved in that? Seriously, if you wanted a functioning and useful Florida corporation you'd need someone here to put their name on it, set up bank accounts, etc. I wouldn't even consider doing that for less that 5k a month... If you have a serious proposal, write it up and we will consider it."

Half the agents who replied didn't ask for proper identification. Half of those didn't require any ID documents at all. One in 17 would have obliged the financier of terrorism.

Sharman, who with his colleagues published their ground-breaking research in the book *Global Shell Games*, concluded: "The rules meant to govern

PHILIPPE LOPEZ/AFP/GETTY IMAGES

Global Gaming Expo Asia, held in the gambling mecca of Macau, May 2015.

LAUNDERED LOOT AND THE LAW

S At least $NZ1.5 billion is laundered in New Zealand every year, excluding tax evasion ($7.2 billion annually) and excluding trade-based laundering – which is believed to be substantial (See The Trading Agency, page 58). The estimate comes from the 2010 National Risk Assessment issued by the Police Financial Intelligence Unit. Work on a new assessment is under way. Meanwhile, the international agency Tax Justice Network estimates New Zealand's total shadow economy (including tax evasion, but excluding criminal activities such as drug dealing and smuggling) stands at $20.5 billion annually.

- Our Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT) came into full force in 2013, as part of our responsibility to adopt the standards set by the global body, the Financial Action Taskforce (FATF).
- The AML/CFT Act applies to "reporting entities" such as: banks, casinos, life insurers, financial services companies, building societies, credit unions, issuers of securities, trustee companies, brokers, future dealers, some financial advisers and safe deposit businesses.
- The Ministry of Justice has begun initial work on phase-two of AML/CFT Act and will consider bringing "gatekeeper" groups such as real estate agents, lawyers and accountants under the act. Until this happens, our AML/CFT law does not fully comply with FATF's requirements.
- "Reporting entities" are variously supervised by the Reserve Bank, Financial Markets Authority and Department of Internal Affairs.
- AML/CFT reporting "is increasingly contributing to and initiating investigations", says Detective Superintendent Greg Williams. Suspicious transaction reports quadrupled between 2012-2013 and 2013-2014.
- Failure to comply with the AML/CFT Act carries a number of penalties, including criminal penalties of up to two years' imprisonment, a $300,000 fine for an individual or a $5 million fine for a body corporate – much stiffer than under the older Financial Transaction Reporting Act (where offending can carry up to six months in prison and fines of up to $20,000 for an individual and up to $100,000 for a body corporate).

company formation don't actually work very well. And rich, English-speaking countries do a worse job of applying the rules than almost everyone else, including developing countries."

Two years ago, the British Virgin Islands, the Caribbean tax haven that's officially home to about 900,000 companies, attracted more foreign direct investment than almost every place on Earth. Only the world's top three super-powers – the US, China and Russia – attracted more. Not bad for a place with a population of just 30,000, huh? More recently, the BVI and other tax havens have slipped down the league table as launderers look elsewhere to "invest", no doubt partly due to the leaking of documents revealing the identities of account holders by the International Consortium of Investigative Journalists.

Back here, our company registration rules have been well and truly exploited by the corrupt. One of our biggest shell company scandals came to light five years ago when a Georgian-registered cargo plane carrying $US18 million of smuggled Korean arms bound for Iran was intercepted at Bangkok airport. It had been chartered by a New Zealand shell company registered to an address in the Salvation Army's Queen St Auckland building. True to type, the shell had no obvious controllers, no operations, nor any staff. Its sole "director" was a presumably shell-shocked fast-food worker. It had been registered here by incorporation agents who weren't required to know their clients' identities under New Zealand law.

Rules around company identification have only just been tightened under the new Companies Amendment Act, which "will make New Zealand less attractive to organised criminals", according to MBIE spokesperson Gordon Irving. But you have to wonder why it took so darned long? The European Union lopped New Zealand off its "white list" of trusted banking jurisdictions in 2012, in the aftermath of Kiwi shell company scams that included the plundering of hundreds of millions of dollars from a state-owned bank in Kyrgyzstan.

Still, money launderers are nothing if not adaptable. Anecdotally, they're erecting even cleverer façades these days. They might create an illusion of a genuine business operation – give a few blockheads some grandiose job titles and develop a decent website, for instance.

THE TRADING AGENCY

The import/export business features high on the launderer's popularity chart, according to Pol's research. While trade-based laundering often involves smuggling and duty evasion, it's hard for customs officials to spot the fake "trading" which doesn't need real goods to trade, as long as a regular-looking paper trail can justify electronic transfers of funds. Before long, your local drug dealer looks like a successful business entrepreneur, who's earned his wealth in the import/export business.

THE MONEY CHANGERS

We're talking about the underbelly of the professional financial services industry here – the unscrupulous "Wolf of Wall Street" wannabes who, with wilful blindness, manoeuvre dirty money through financial market vehicles: stocks, bonds, futures, foreign currency speculation and so forth. Most people's lack of interest and knowledge around this stuff helps their money-grubbing schemes go undetected. Says a source: "In a trading environment where some professionals get paid per transaction, rather than a percentage of the 'upside', and where the scale has grown to a point whereby sums equivalent to the world's GDP are traded daily, extraordinary demands are made on human honesty. Add in that most trading is now software-driven at high speed and anything is possible."

THE BANKS

The first time 70-year-old Yvonne heard of anti-money laundering regulations was when she went to her bank to transfer $10,000 to her daughter's family in England. The anxious bank teller called his manager over to talk to her. He knew Yvonne well, but still asked her some prying questions before processing the transaction. Kiwis can't transfer more than $10,000 out of the country at any one time without it being flagged as potentially suspicious. Soon, we probably won't be able to transfer more than $1000 off-shore without banks needing to send a transaction report to the Police Financial Intelligence Unit.

What's more, if Yvonne suddenly changed her usual spending habits – pre-loaded her credit card with funds prior to taking a trip, say, or started spending up large on her debit card – the software that banks are required to run under our anti-money laundering regulations would flag those transactions or patterns of transactions. And if those transactions weren't adequately explainable, a suspicious transaction report may well end up at the Police FIU.

Banks have to play it safe. Not least because they operate in a globalised world where failure to meet their anti-money laundering obligations could lead foreign banks to stop doing business with them, explains New Zealand Bankers' Association CEO Kirk Hope. They've had to step up their customer due diligence processes and put family trusts under much greater scrutiny, for example, since the arrival of the AML/CFT Act.

Nonetheless, how easy is it for massive sums of corrupt money to pass through our banking system? The world's two corruption hot-spots are Russia and China, according to experts, although it's happening everywhere, frankly. So imagine a corrupt public servant who has a $20 million kickback due. He knows having that kind of money suddenly show up in his homeland bank accounts would quickly have him investigated – and quite possibly condemned to a grisly fate. What instructions might he give to the big corporation which bribed him? How about: "Deposit my 'fee' into a stable banking system, in a land where the government applauds foreign investment and where the welcoming staffers throughout that land wouldn't recognise dirty money unless someone handed it to them and said, 'Here, wash this for me, would you?'"

Well, that's exactly the kind of situation New Zealand regulations are aimed at preventing, replies Hope. Jo Public isn't privy to what goes on behind the scenes to catch the corrupt. Banks need to stay tight-lipped about their modus operandi if they're to outwit them. But customers do risk having their accounts shut down and having their activities investigated if they can't explain their transactions. It does happen. In one case, the ASB closed the accounts of a financial services and trustee management business after it failed to satisfactorily explain a $US1 million transfer from a Tunisian company to an Islamic Bank in the United Arab Emirates. And when that same business made another potentially suspicious transaction off-shore, the Royal Bank of Scotland tipped off the ASB.

Spin the money through multiple entities – shell companies, for example, created for the sole purpose of tactically manoeuvring funds from one entity to another. And, hey presto, the whole lot lands in the terrorists' burgeoning coffers.

GETTY IMAGES

Yes, banks support one another – across brands and borders – in the war on dirty money. And, yes, anti-money laundering regulations might inconvenience law-abiding customers like Yvonne occasionally. But when weighed against the perils of doing too little to try to stem the flow of criminal capital, what's the alternative?

THE ACT AT WORK

To meet their obligations under the AML/CFT Act, certain businesses and professionals – or "reporting entities" in the legal lingo – must have anti-money laundering compliance programmes, designed to detect and deter money laundering and terrorism financing. They have to appoint a compliance officer (although there's no specific training required to become one) and they must do due diligence on their customers. "Reporting entities" file suspicious transaction reports to the Police Financial Intelligence Unit – something they're doing in increasing numbers. And that rise in reporting "is increasingly contributing [to] and initiating investigations," into everything from scams and local drug distribution to complex transnational cases involving co-operation with international partners, says Detective Superintendent Greg Williams. Still, actual prosecutions for money laundering remain very low.

Modern policing follows the money."

The FIU is regarded as "a leader in assessment of strategic money-laundering risk," says Williams. It has 20 staff, including analysts and researchers, and a dedicated computer system with a database of all those suspicious transactions reports. Much more than that, police don't seem to want you or me to know. Do you blame them?

Meanwhile, the AML/CFT act itself remains, "shot through with holes and needlessly complex", maintains Pol, who's undertaking a political science doctorate into policy effectiveness and anti-money laundering. That said, he's encouraged by a series of changes to it, as well as the Organised Crime and Anti-Corruption Bill currently before Parliament. He hopes that developing evidence-based policies and focusing on meaningful outcomes will one day turn New Zealand into an anti-corruption world leader, rather than a laggard.

On another encouraging note, observes Pol, "the old mentality of financial crimes being 'too hard' and the police instead focusing on the 'products' of crime [such as drugs] and overlooking the money trails which would lead them to more 'products' is slowly changing. Modern policing follows the money."

Yet, worldwide, it's believed less than one per cent of laundered money is ever detected. And of the trillions stolen, much of it has been looted from the poorest nations. Profit-motivated crimes – in other words, most crimes – harm millions of people every year and in some of the most despicable ways imaginable. If I was hoping Professor Sharman could foresee some light at the end of this dark tunnel, sadly, it was vain hope. From his global vantage point, right now, the criminals are winning and the enforcement agencies losing. +