

## Confessions of a Former Money Launderer Ex-Con is Now a Crime Consultant, Helping Investigators Follow the Money Trail

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Ken Rijock is a former banking attorney at an international law firm. He's also a former money launderer.

He spent the 1980s as a money launderer and advisor to drug traffickers, until he was arrested and served a U.S. federal prison sentence for racketeering and money laundering. While serving his sentence, he assisted with the first joint Swiss-American money laundering investigation of bankers and lawyers, which resulted in a major seizure of the proceeds of crime.

Rijock is now one of the good guys, fighting money launderers on a global scale. With more than 25 years of experience in the field, he consults with law enforcement and the financial services industry. His extensive experience in money laundering tactics is now used to train U.S. and Canadian law enforcement and intelligence services. Rijock is a financial crime consultant with World-Check, a global provider of highly structured risk intelligence for banks, institutional lenders, lawyers, accounting firms and other regulated financial services.



**Q: How much experience would you estimate you have as a money launderer, and does it make you a better expert in detecting money laundering?**

**Rijock:** I can tell you that in the 10 years of doing money laundering, I probably got 30 years of experience. I was on the road every week. I have no family, no children or wife, and every week I was in the tax havens of the Caribbean. Every Thursday I was on a plane to some tax haven country, and every month I was in Europe. It was a busy period and not the lifestyle that encourages having a family or a normal life. As I always tell my students in financial institutions and law enforcement, when they go home at the end of the day and have dinner with their spouse and family, they're off duty. It's rare in the banking business that anyone has that kind of 24-7 relationship with their job. In the money laundering business you're never off duty; you're always on the job, brainstorming for new ideas on how to move the cash. You could get a phone call from a client in the middle of the night with a problem or an issue -- not just that they've been arrested, but they have cash they need of get rid of quickly. I've been there, and I've seen it.

**Q: How did World Check get started?**

**Rijock:** World Check began in 2000 after a number of Swiss banks were burned by several African dictators. The banks suffered a great deal of reputational damage because they had taken in a lot of dirty money. The banks asked several computer professionals to put together a data base that would tell them who is a politically exposed person, a high ranking politician or military person. The banks wanted to know who was dangerous, who was a criminal, and who was a problem. They also wanted to know who were close associates of those people. This is how World-Check got started. After 9-11, when all banks were held to a higher standard, everyone jumped on board. World Check is now global, with offices open 24-7 combing and culling through criminal records, AP intercepts, government notices to put into the data base on individuals and companies.

One example when I worked in compliance: a British national living in Uruguay came in and wanted to make an investment of a half-million dollars. He was squeaky clean. When that happens, I check all wire sources on newspapers to see if he'd ever been mentioned either positively or negatively in the press. I found him mentioned in an Australian newspaper from several years before where one of Mexico's biggest money launderers was caught and wanted to bond out. The judge didn't want to allow him out of jail, saying that the Mexican didn't have family or assets in Australia. The Mexican said he had a friend in Australia who had a mansion worth several million who would bail him out. That person was the British national from Uruguay. What was he doing with a mansion in Australia?

Learning that, I refused his investment. He actually called me up and asked why I didn't take his money. Compliance officers know better than to give a straight answer in such cases and say something like "it didn't meet compliance regulations," because they don't want the bank to get sued. I knew who I was dealing with -- a major money launderer. I told him plainly that I had a policy that prohibited the bank from accepting illicit funds. He didn't fight with me on it, but asked if he could get his money back.

This illustrates how trans-global money laundering is. One day you can have a wire transfer coming from South America, and the next it is a local transaction happening between your bank and another local bank that could be in question. Down in the Caribbean, the money launderers have a traveling money trust. This agreement makes it possible for the bank to wire the money to another part of the globe if law enforcement comes to ask about the account. This wire transfer happens before law enforcement has the chance to file charges or take administrative action. The money is gone in an instant with a click of a mouse.

**Q: What's the difference in mindset between the money launderer versus a BSA officer or law enforcement**

**Rijock:** Law enforcement and bankers are thinking about money laundering between the hours of 9 to 5, but their opponents, the money launderers, are always scheming -- looking for new techniques for putting old wine in new bottles. They're constantly looking for new methods to beat the system. To them it's the most exciting game in the world. For you, the banker, it's just a hum-drum job. To them it could be life or death or many years in prison without the possibility of parole, so it's a lot more serious to the money launderer than it is to the banker.

**Q: How does the seniority system at banks hurt their anti-money laundering actions?**

**Rijock:** Bankers don't realize that the seniority system that they use just feeds the fuel for the money launderers. For example, when a money launderer needs to move some cash or make a financial transaction, you'll want to do it the day before Thanksgiving or on Fridays at 3 p.m., when every senior member of the bank has already run out the door, leaving a junior manager in charge of the branch. It's not just a problem of a transaction and deciding if a customer can make a deposit. If it's an electronic transfer and it goes through, and the junior bank manager doesn't catch it, it's already too late. Maybe his boss would recognize that electronic transfer as suspicious, but the junior guy won't, because he doesn't have the experience or hasn't been burned. He won't know that electronic funds transfer to Northern Cyprus is probably a criminal transaction. This follows the same pattern of drug dealers who send in all of their large drug shipments into the U.S. on national holidays or Super Bowl Sunday, because they also know that law enforcement works on the seniority system, and the junior officers are unhappy they're not home with their families and are trying to find a TV with good reception so they can see part of the game.

**Q: What does your position at World-Check entail?**

**Rijock:** My position at World-Check is fascinating. My day is composed of looking for emerging threats. I try to distill what I find into two or three paragraphs. Why? Because BSA compliance officers at banks only have a limited time each day to do extraneous reading before they begin going through files. The articles I write for the website are designed for those people who only have about 15 minutes to learn what's going on in the world -- the headlines, some details, new techniques and references.

I have posted more than 1000 articles on the website over the past 18 months. I work seven days a week because we have clients worldwide. It's always something new, whether it's some obscure country changing its laws, or somebody saying in two years they're changing over to the euro. Everything I used to look for as a money launderer, I now do for World-Check. I look for targets of opportunity, those things that the money launderers think that banks don't know about or aren't paying attention to.

**Q: What are some examples of money laundering tactics you can share with us?**

**Rijock:** By and large, the most amount of money laundered in the world is done through "trade based" money laundering. Trade based money laundering follows the model of transfer pricing, where an offshore subsidiary of a company makes all the money and then transfers it to its parent company. Trade based money laundering submerges dirty money in international trade financing. Say a drug trafficker is making a lot of money in U.S. cash profits from drug sales in the U.S. He has a lot of cash out on the street, and what he needs to do is get that cash to his supplier in Bogota, Columbia. The drug trafficker will go to a depressed neighborhood and open a warehouse facility and then also open another one up in an adjacent country next to Columbia, like Ecuador. The drug trafficker will deliberately look for high-tech type products that the average law enforcement or banker wouldn't know their worth, say computer chips. The price range for computer chips can range from a couple of cents to half-million dollar chips that would go on the space shuttle. So the drug trafficker will either import or export those chips and either move money into or out of the U.S. this way. The drug trafficker invoices his company in Ecuador for computer chips, saying they are worth \$2,000 but then ships chips worth \$3 million. It would be nearly impossible for a banker or even a law enforcement officer to understand what I did. In reverse, what if the same drug trafficker needs money to invest in legitimate piece of property, such as a hotel in New York? They will use the same method to ship chips to New York to fund their investment. They use invoices or letters of credit to achieve their transaction, and nobody can understand the actual market value of those chips.

How was this method discovered? Two college professors (computer science and business) in Florida about 15 years ago took all of the U.S. Department of Commerce records and fed them into a giant computer program. The program kicked out every transaction where the sales price and the stated invoice value was more than five percent off, and they found millions and millions of dollars of transactions that didn't match up that were being moved around the world. This means what may appear to be a legitimate business could end up actually being just a front for money laundering. How many bankers go and visit each of their customer's places of business every year if they're not high risk?

For years, there was no solution to this. What I tell my students is where they have customers that have large amounts of transactions being moved, especially in high-tech equipment, is to find a competitor in the same type of equipment or industry and take them to lunch. Find out from the competitor if the amounts add up on the suspicious transported equipment. Or I tell them to take it to a university engineering professor who is knowledgeable in the equipment and have them take a look at it. But those solutions are not real time.

Wouldn't you know that 15 years after those Florida professors asked the question, the same professors constructed their solution. They've written a program where you can punch in the name of the computer product, using a uniform commerce code with the prices, and it will tell you if it's bogus or not. It is a web-based service that can be used by any compliance officer.

Another example of a tactic used in money laundering is life insurance policies in the secondary market. Let's say you're the vice president of Ford Motor Company and you're retiring. Along with your pension, 401k, stock and other benefits is Ford's "Key Man" life insurance policy, an \$8 million dollar life insurance policy that the company has been holding for you in case you died and needed to be replaced. You get the policy and you get to name the beneficiary, but now you have to begin paying the premiums. Most life insurance policies charge 4% of the total value, so a premium for an \$8 million dollar policy is a good chunk of change. So the retired executive tries to cash it in, and finds out that the actual cash surrender value is only \$300,000. Now he doesn't want to settle for that and asks his insurance agent if there is any other way to get money out of the policy. The insurance agent will tell him about the life settlement industry, they will buy your high net worth insurance policy from retired people who have finite life expectancies for a lot of money, usually up to 40 percent of face value. He'll sell that life insurance policy for 30 or 40 percent of face to a licensed life settlement agent, who then sells it to a life settlement broker for 50 percent of face value, and the broker then sells it to an investor for 75 percent of face value. The retired person who had a life expectancy of six years then dies only six months later and the investor claims the life insurance settlement of \$8 million. Money launderers are into this because of the lucrative returns, and the fact that when you get a check from a life insurance company, no matter how large

the check is, a bank will always take it without question. They expect that the life insurance company has done their due diligence in checking out the policy's recipient.

If they only knew that a Columbian drug trafficker who had no relation to the deceased had purchased the policy through a third party, they would not accept the check. Life insurance settlements have become such a cash cow that investors including Warren Buffett have invested in them. Buffett is estimated to have invested around \$40 billion in life insurance settlement policies. Buffett is legitimate, however others are not. A couple of years ago a boat load of cocaine was caught off the west coast. Documents onboard the boat showed how the drug trafficker had bought a large number of these life insurance settlement policies through a company in the U.S. Life insurance settlement companies are in a grey area when it comes to compliance, unlike banks and other financial service companies. Most of their compliance is minimal, and most of it is abysmal.

**Q: What are compliance officers up against? Are money launderers that smart?**

**Rijock:** The answer is yes. Every compliance officer has their tale of being caught. They all dread that phone call from law enforcement two years after they signed on a customer who looked legitimate, but turned out to be a criminal. The people involved in money laundering are very smart. I had one case of a dot-com millionaire from Salt Lake City, Utah who made a lot of money and got out of the dot com bubble before it burst. He was legitimate and owned a lot of businesses, but he just looked too young to have made all this money. So I looked and looked and applied due diligence. You don't just look at your target, but everyone around them; I found oddly enough that his lawyer's office was in Las Vegas. Most people don't go to lawyers outside of their home state, unless it is for specialized work. I dug more and found the lawyer had been arrested for money laundering in Memphis, and he was fighting the case. So I refused to take the money. A postscript to this story: 90 days later the son of the lawyer forms a company that runs a water purification plant in Sun Valley, Idaho, and tries to make an investment with the same amount of money. So if they can't make it through the front door, they try to come in the back door. It's a real contest, and you as a compliance officer have to have a lot of energy and you have to take your job seriously. You have to think on your feet. I hate to use the word unimaginative, but that's how I would describe many in the compliance industry. They don't get into the game; they're into the "check the box" mentality. They are doing their bank a disservice by not solving the problem. If they see something in a grey area, they pass right by it. They won't win against money launderers unless they get enthused and get into the game. If they get motivated then they get good at it. Sometimes they have to get burned a few times before they realize it. My mission is to shake them up and wake them up so they can face their adversaries on a level playing field. Their opponents are making more money, and they're committed and they know there are serious penalties for mistakes.

**Q: What are some the top trends in money laundering in 2008 that you're seeing?**

**Rijock:** Before 9-11, when it was easier for money launderers to move through commercial banks, they did so as much as possible. Now with heightened compliance requirements on all banks, the money launderers are moving. That direct access to banks by bulk money launderers has seriously declined. They need to put a buffer between themselves and the bank. When it became too difficult to use the banks on a daily basis (remember, money launderers work seven days a week) they moved over to the non-bank financial institutions. This is why MSBs and Casa de Cambios had all those problems. It's a cyclical thing; when they had problems with banks, they went to the currency converters and MSBs and any other institution that wasn't a bank. Now that those entities are becoming more regulated, MSBs are working feverishly to become compliant so they won't get hit with huge fines. But money launderers are always working 6 to 12 months ahead. What I've seen is the majority of them have already left the non-bank financial institutions and have moved into the privately held corporations.

One example of how they're working is the commissioned salesman method. I used to use it all the time. The money launderer would find a privately held corporation that was engaged in the sale of some commodity and always maintained a large inventory. They buy into the company or buy a portion of it, they would then hire on their people as salespeople. For the next two or three years

they would have massive sales figures pile up, but these were all dummy transactions. But there was sufficient inventory in the factory or warehouse to cover the fact that nothing was shipped. They would pay income tax on all of this income, allowing them to drop out of the criminal world and become legitimate taxpayers. Then one of the salespeople who made a couple million in commission would go and buy an automobile dealership.

When closely held private companies don't have oversight or compliance, this is where the money launderers are.

One of the other ways they're laundering money is to legitimately buy a cash intensive business. Then the money launderer begins to run huge amounts of money through that business. I had one client when I was a money launderer attorney who owned a restaurant in Miami. They were actually cocaine traffickers. Their restaurant was the fifth highest grossing restaurant in the United States at the time. They pay taxes on the money and everything looks legitimate.

Another obscure money laundering tactic is international product diversion. For example, a cereal maker has three trains full of cereal that is about to expire. They don't want to lose the money and want some way to get part of their cost back. Sometime they donate them to charity, but most times they will try to resell them in other markets. So the cereal maker is looking at a \$2 million cost, \$16 million in retail sales. Someone writes the cereal maker a letter from Nigeria and wants to pay them something for that cereal. The cereal maker sells out the entire shipment to the Nigerian at cost. Not only is the company not legitimate, but also the cereal is never shipped to Nigeria. Instead of going to Nigeria, it is re-routed to Cardiff, UK and comes back to a U.S. port, and is resold after being relabeled with new expiration dates in a chain of small grocery stores in the Northeast. The Russian mob group that organized this has made money and was successful in laundering millions in the process.