



Australian Government
Australian Institute of Criminology

Economic Crime

Keeping Watch on Financial Transactions

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Overview – Keeping watch on financial transactions

Quantifying the losses of economic crime

- Current estimates and their limitations

Understanding the aims of financial transaction reporting

- Preventing money laundering and financing of terrorism – or more?

Identifying changes in reporting practices

- The extent of reporting – and the drivers of change

Assessing the success of financial transaction reporting

- The evidence of how financial intelligence is used in government

Quantifying the cost of AML regulatory compliance

- Recent estimates of compliance costs in Australia and overseas

Developing an evaluation framework

- Filling the missing pieces of the evaluation puzzle



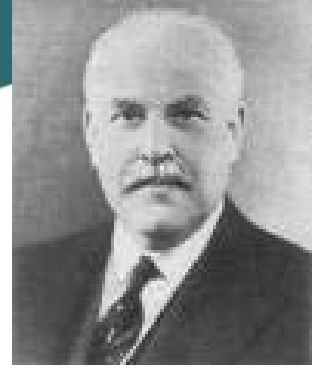
Economic crime – A multi-billion dollar industry

Fraud losses generally

- \$8.5 billion cost of fraud in Australia (\$5.9 billion in 2002) (*AIC 2005*)
- Up to \$4.5 billion is laundered in and through Australia (*Walker 2007*)
- Identity fraud cost \$1.1 billion in 2002 (*SIRCA 2003*)
- \$301 million reported lost by 420 organisations Feb 2006-Jan 2008 (\$1.5 million mean per organisation) (*KPMG Fraud Survey 2009*)
- \$977 million total personal fraud losses in 2007 (*ABS 2008*)
5% of Australians suffered personal fraud (806,000 people > 15 yrs)
- 4,055 individuals prosecuted for fraud – \$84.4 million (*CDPP 2007-08*)
- 2,178 finalised economic crime cases – \$236.7 million (*AFP 2007-08*)

Financing of terrorism

- Much smaller sums are required to finance terrorist acts
(e.g. 9/11 cost <US\$500,000, 7/7 cost £15,000, Madrid cost \$14,000)



Measuring the extent of economic crime

Sir Josiah Stamp “Some Economic Factors in Modern Life”

“The government are very keen on amassing statistics. They collect them, add them, raise them to the n th power, take the cube root, and prepare wonderful diagrams. But you must never forget that every one of these figures comes in the first instance from the village watchman, who just puts down what he damn pleases” (Stamp 1929, pp.158-9)

Limitations of official statistics

- Inaccuracy and incompleteness of recording
- Exclusion of unreported / undetected matters (KPMG 2008 survey – 63% of cases reported to police; 60% internal investigation; 45% immediate dismissal)
- Poor definition of economic crime offence categories (e.g. fraud)
- Inadequate recording of financial loss / impact



The aims of financial transaction reporting

Preventing money laundering and financing of terrorism by

- Deterring offenders from using entities to facilitate their activities
- Enabling regulators and law enforcement to investigate economic crime and terrorism effectively
- Facilitating the prosecution and punishment of offenders
- Facilitating the recovery of the proceeds of crime

Good governance and systemic benefits by

- Complying with legislative requirements
- Minimising risks of economic crime & ID fraud
- Minimising risks of reputational damage
- Maintaining the integrity of the financial system
- Promoting good governance practices





The AML CTF regulatory regime

Current obligations

- Maintain a risk-based AML / CTF program
- Register with AUSTRAC if a remittance service provider
- Perform customer identification and due diligence when carrying out specified transactions
- Report details of suspicious, specified threshold and international financial transactions to AUSTRAC
- Undertake annual reporting and other compliance activities

Forthcoming obligations

- Extension of obligations to *specified transactions* undertaken by real estate agents, dealers in precious metals and stones, lawyers, notaries, other independent legal professionals, accountants, and trust and company service providers (subject to legislation)



Identifying changes in reporting practices

Number of reports received by AUSTRAC from entities

- Suspect transactions
- Significant cash transactions
- International funds transfer instructions

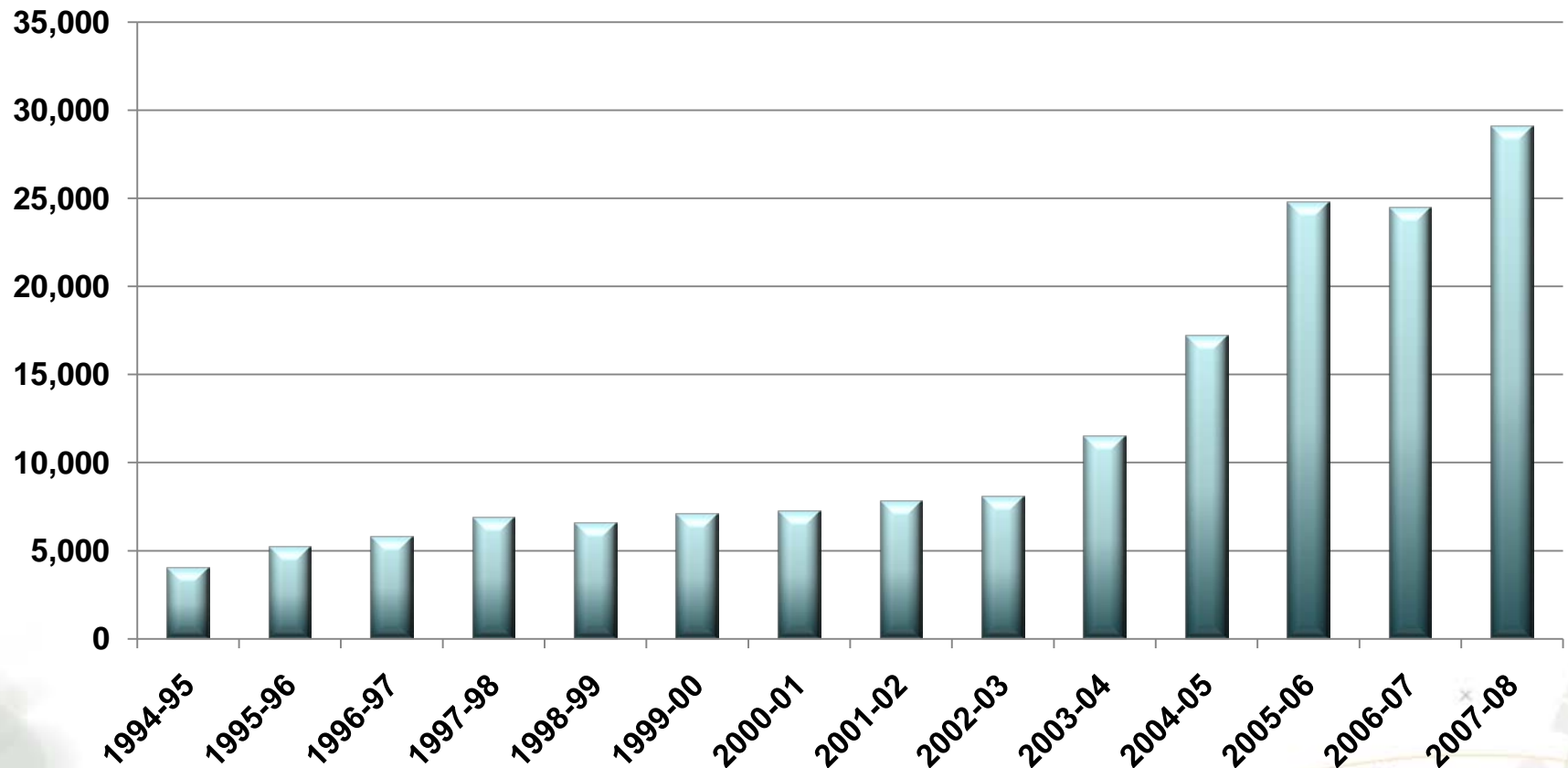
Number of reports received by AUSTRAC from travellers

- Cross-border movements of physical currency
- Cross-border movements of bearer negotiable instruments
 - 436 reports 1 December 2006 to 30 June 2007
 - 1,479 reports 1 July 2007 to 30 June 2008



Suspect transaction reports

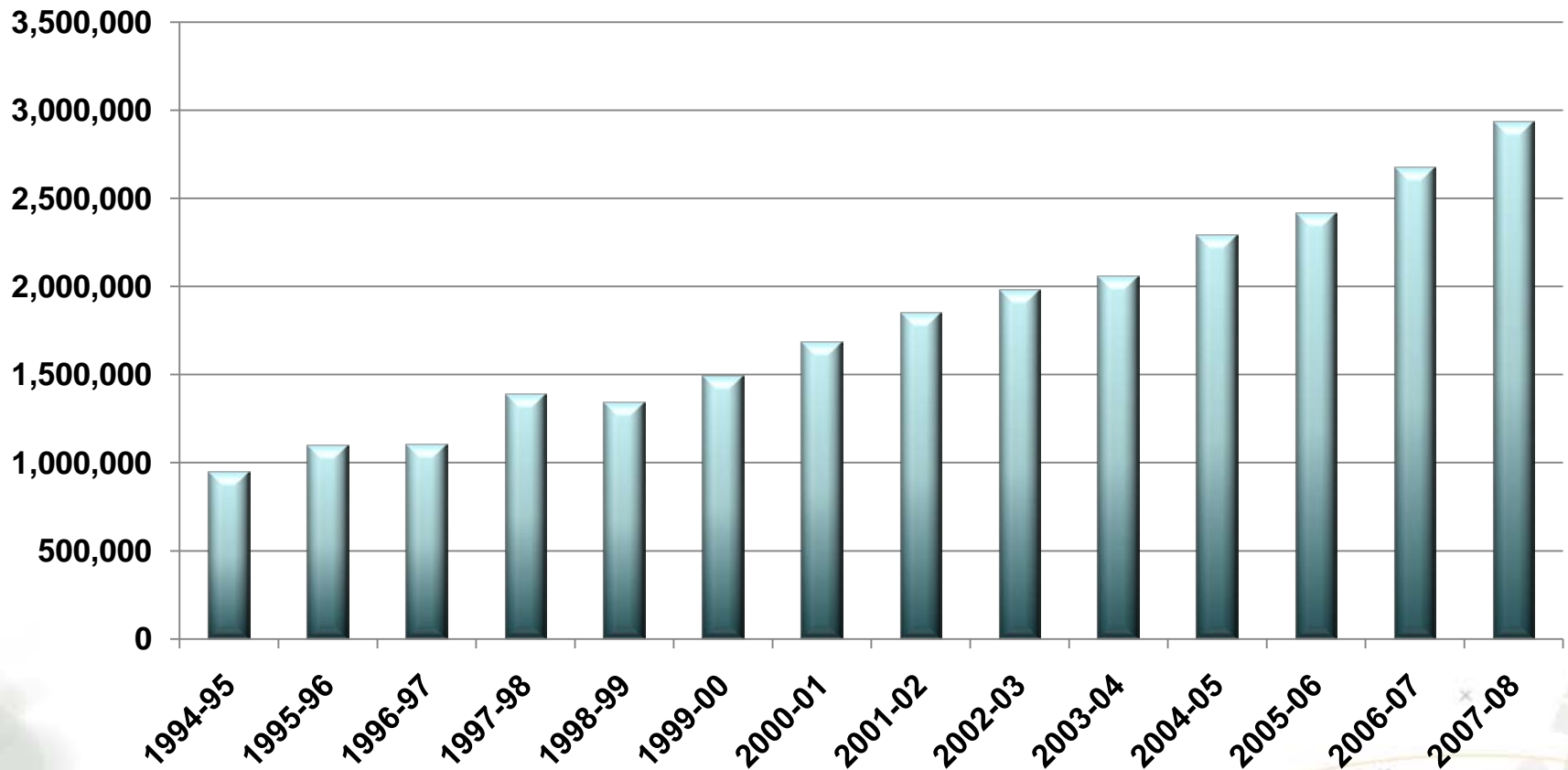
Number of reports received by AUSTRAC 1994/95 to 2007/08





Significant cash transaction reports

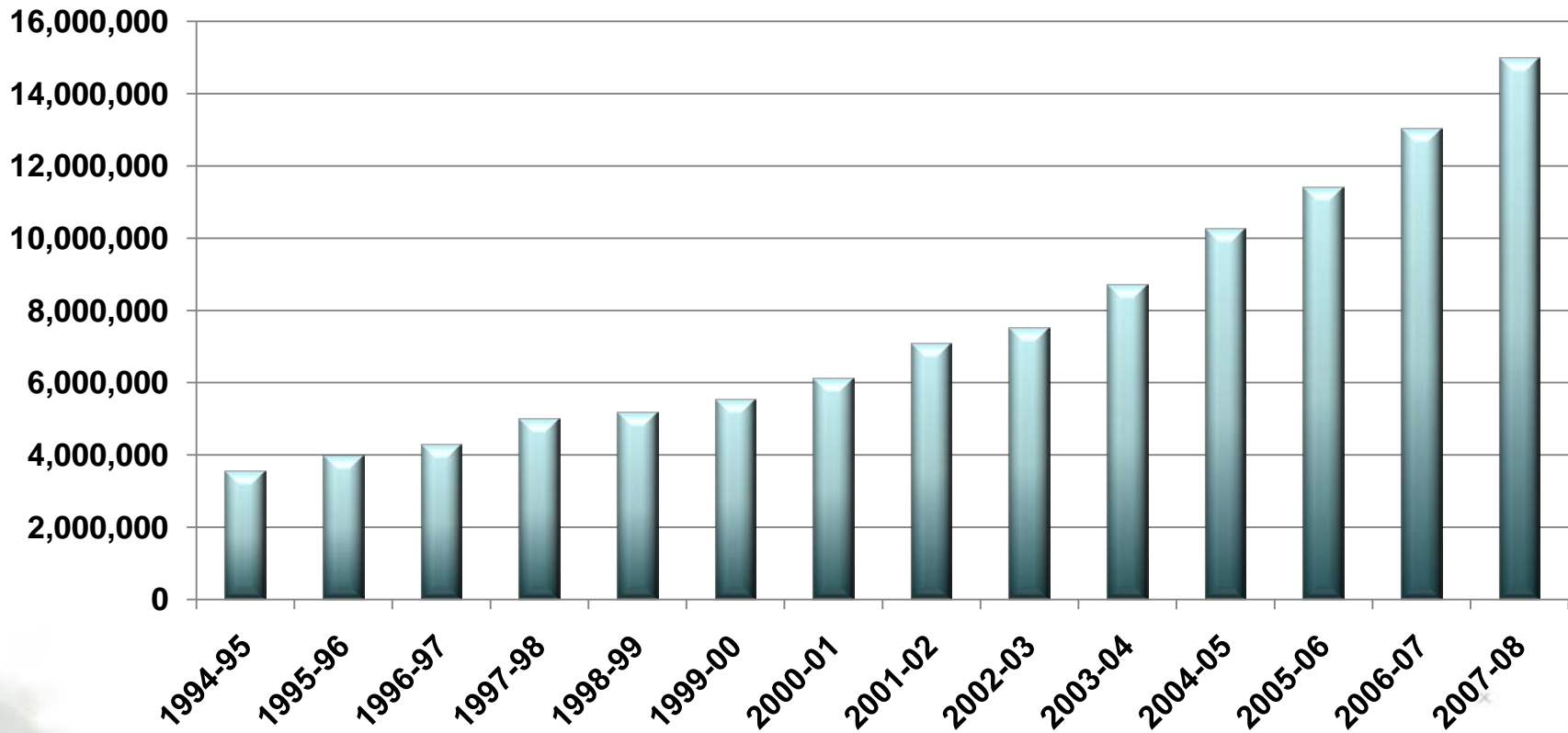
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International funds transfer instructions

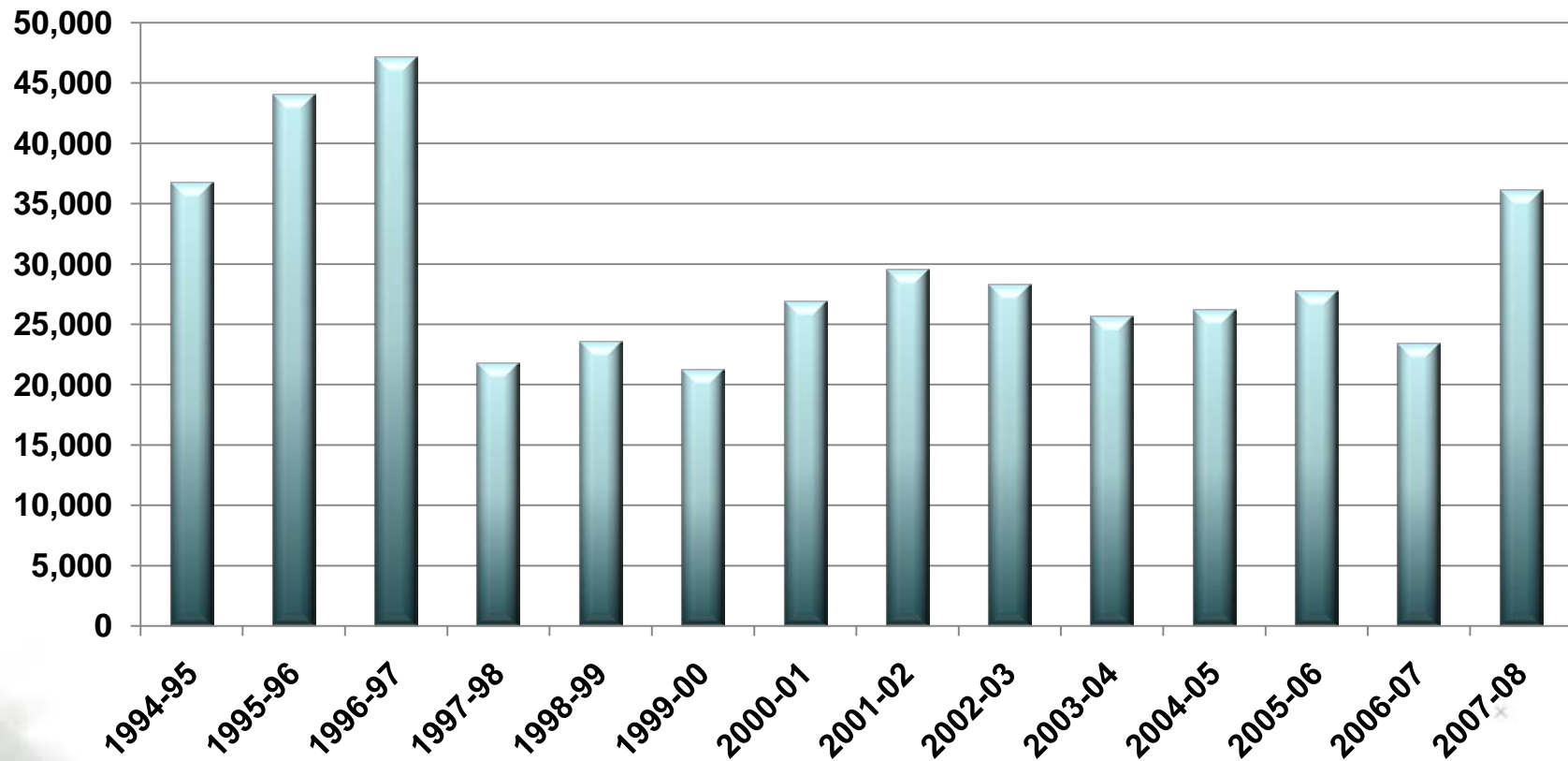
Number of reports received by AUSTRAC 1994/95 to 2007/08





Cross-border currency movement reports

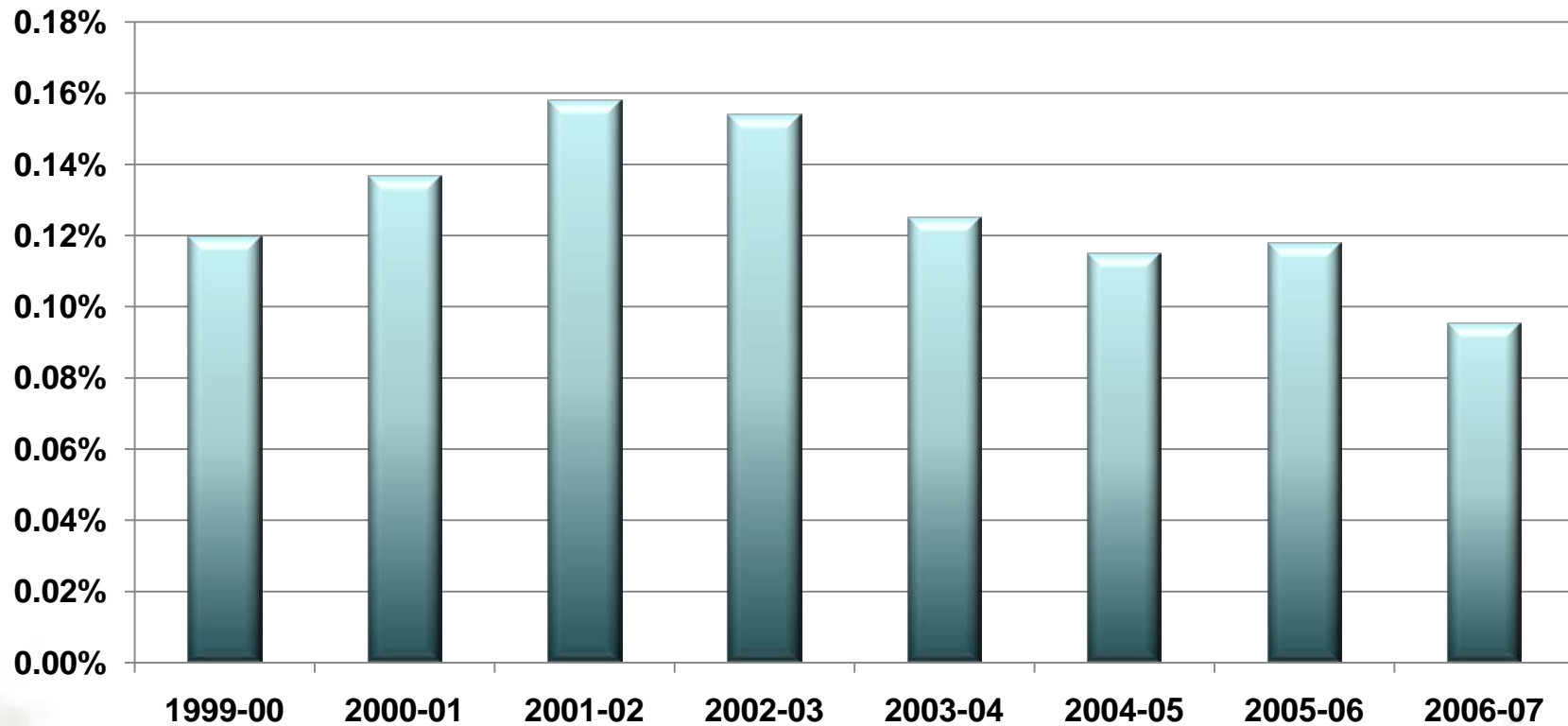
Number of reports received by AUSTRAC 1994/95 to 2007/08





Cross-border currency movements

Percentage of passengers reporting 1999/00 to 2006/07





Understanding the drivers of change

Increasing numbers of financial transactions

- Greater financial activity in the economy (*but for how long?*)
- More extensive use of electronic payment systems

Legislative reforms leading to more reporting

- New legislation that has captured more types of reporting entities
- New legislation that has extended the scope of reporting

Over-reporting by regulated entities

- Fear of enforcement action leading to over-reporting
- Lack of clarity about when to report may lead to over-reporting
- Electronic tools facilitating ease of reporting

Increased detection of reportable transactions

- Reporting entities being more effective in detecting anomalies



Assessing the success of transaction reporting

Crime reduction indicators

- Reduction in predicate crimes through general & specific deterrence
- Prevention of crime displacement (bulk cash, alternative remittance)

Enforcement activity indicators

- Increase in the number of investigations and prosecutions
- Increase in the number of convictions and penalties imposed
- Increase in the effectiveness of investigations and prosecutions
- Increase in recoveries of the proceeds of crime

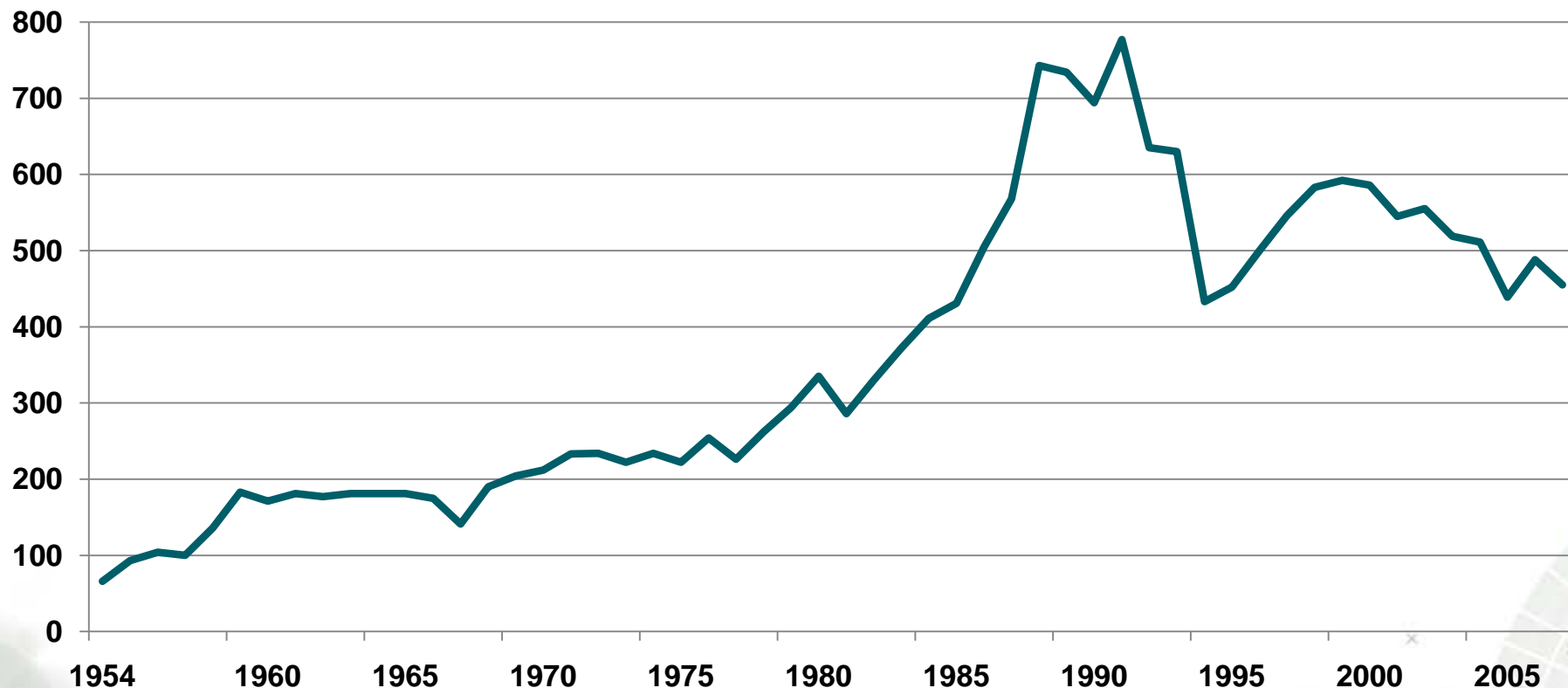
Good governance indicators

- Compliance with regulatory requirements at minimum cost
- Maintenance of the integrity of the financial system
- Reduction of risks of reputational damage amongst entities
- Increase in the profitability of regulated entities



Crime reduction – recorded fraud offences

Rate per 100,000 popn, recorded by Australian police (1953/54 - 2007/08)





Evidence of enforcement activity

Measures of success?

- If crime is reduced, fewer convictions may indicate success

Investigations

- Number of investigations undertaken by police
- Number of matters referred for prosecution
- Enhancing the effectiveness and efficiency of investigations

Prosecutions and punishment

- Number of charges prosecuted and convictions secured
- Level of sanctions imposed

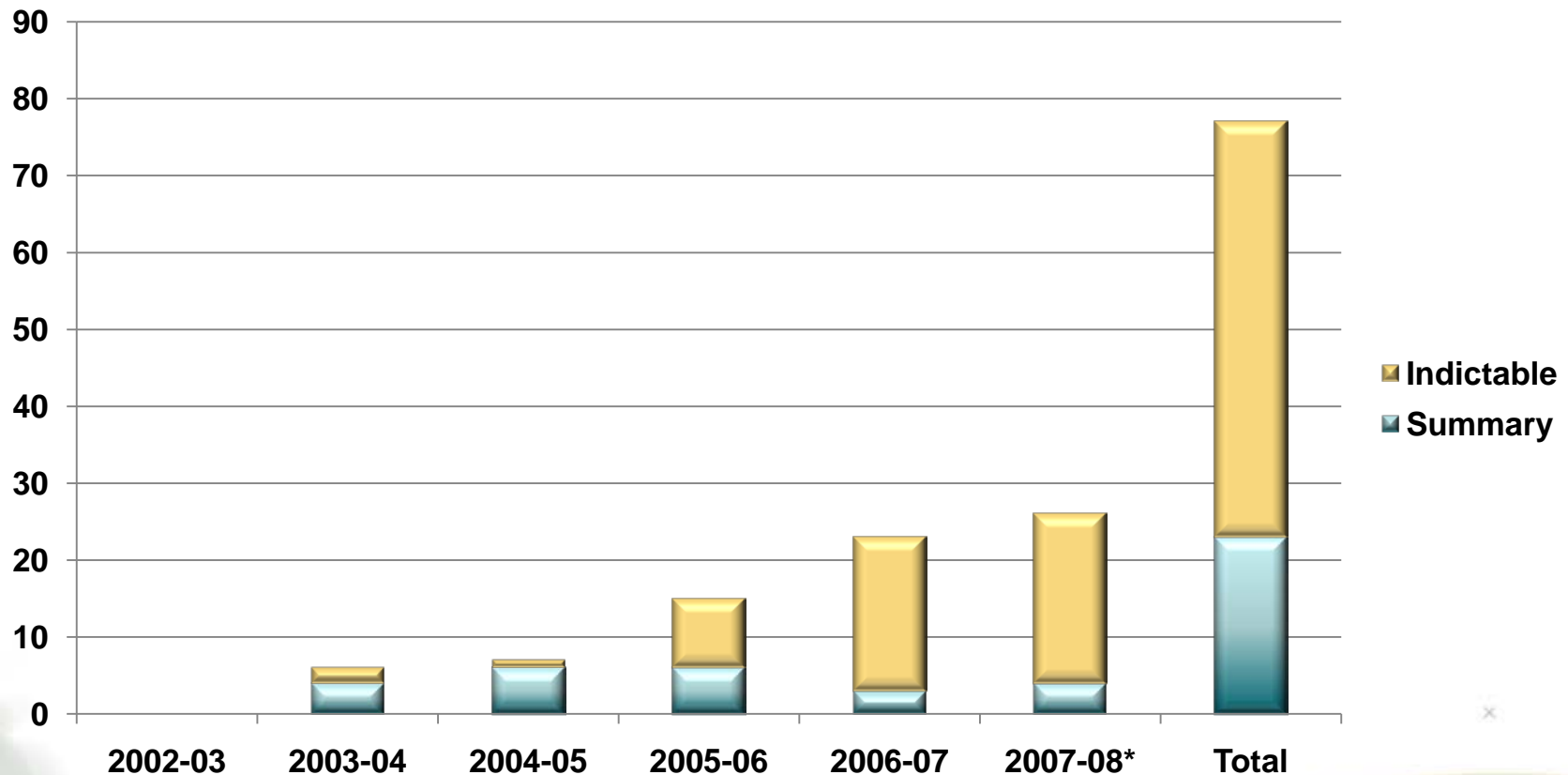
Proceeds of crime recoveries

- Number of proceeds of crime matters handled
- Amount of funds recovered / assets seized



Money laundering prosecutions

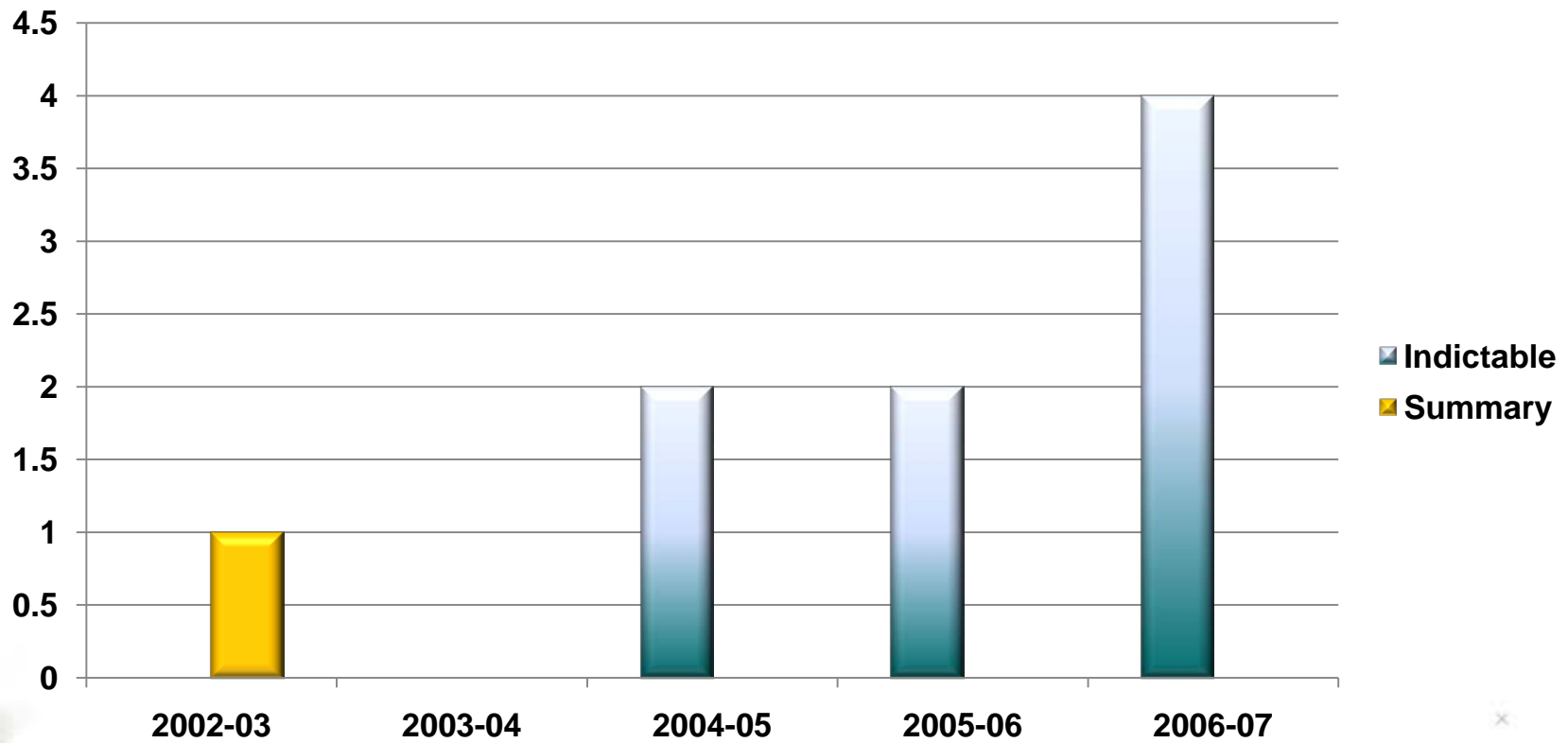
Number of charges dealt with by CDPP 2002/03 to January 2008





Terrorism charges

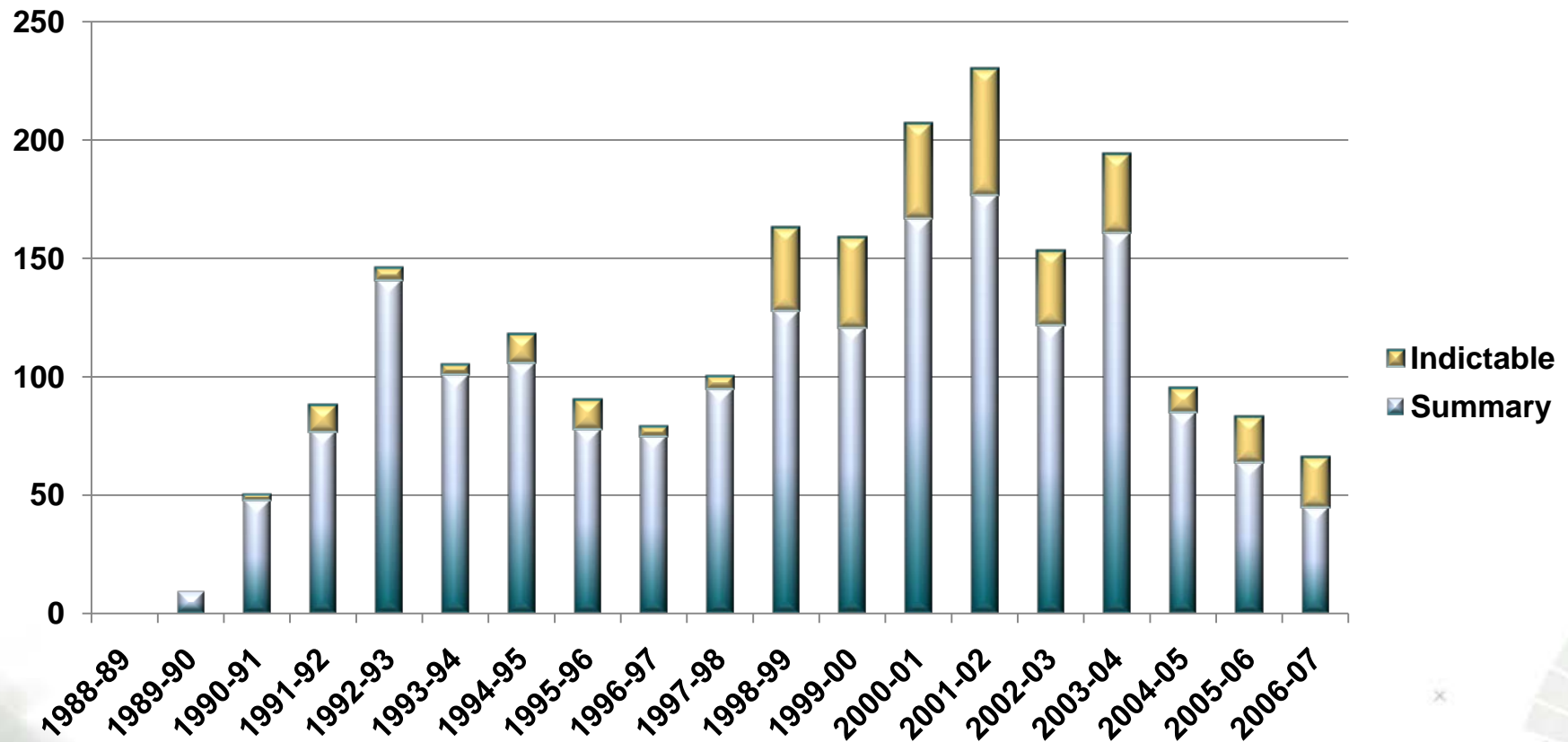
Number of charges dealt with by CDPP 2002/03 to 2006/07





Financial Transaction Reports Act charges

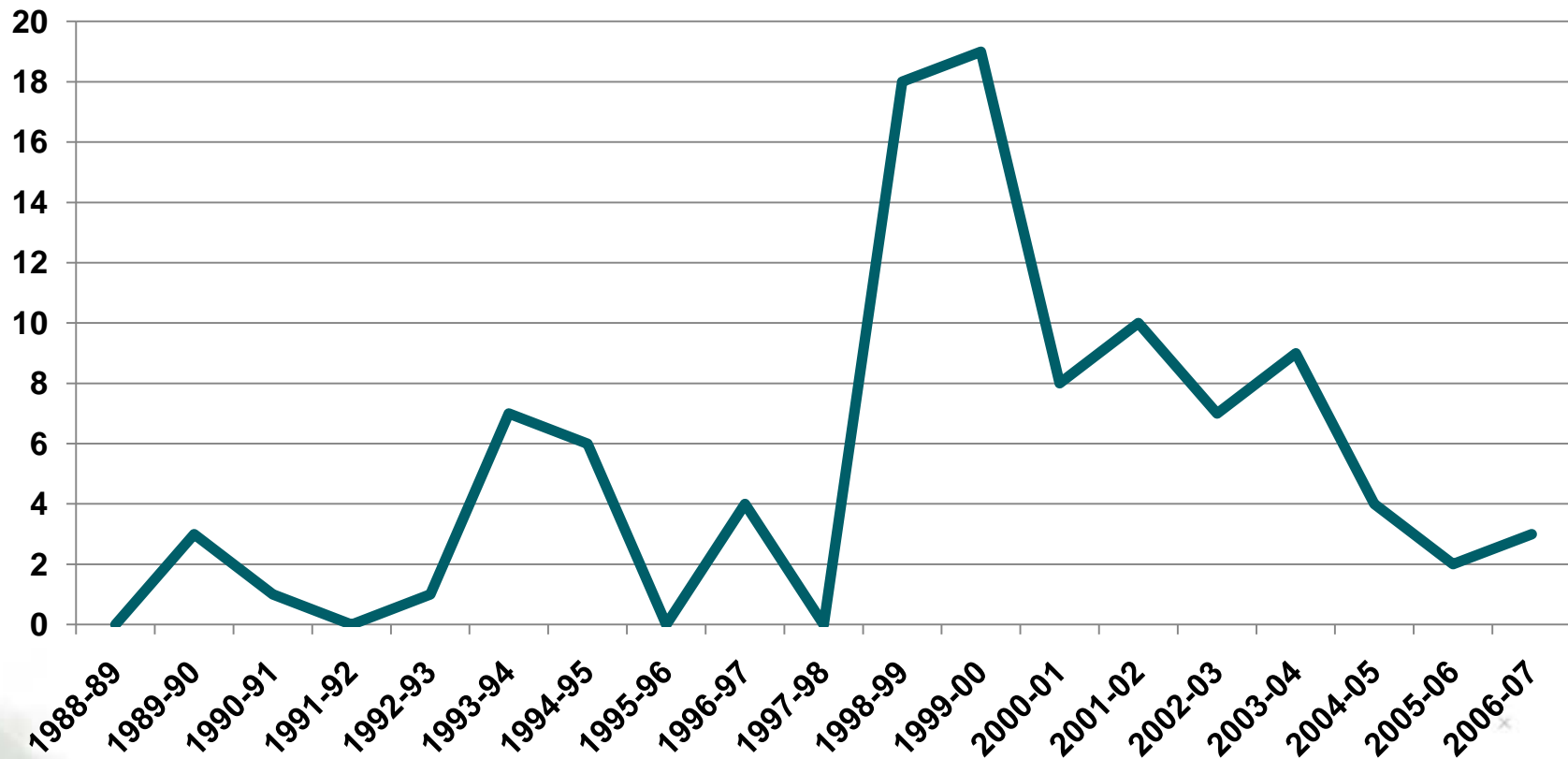
Number of charges dealt with 1988/89 to 2006/07





Proceeds of crime charges 1988/89 to 2006/07

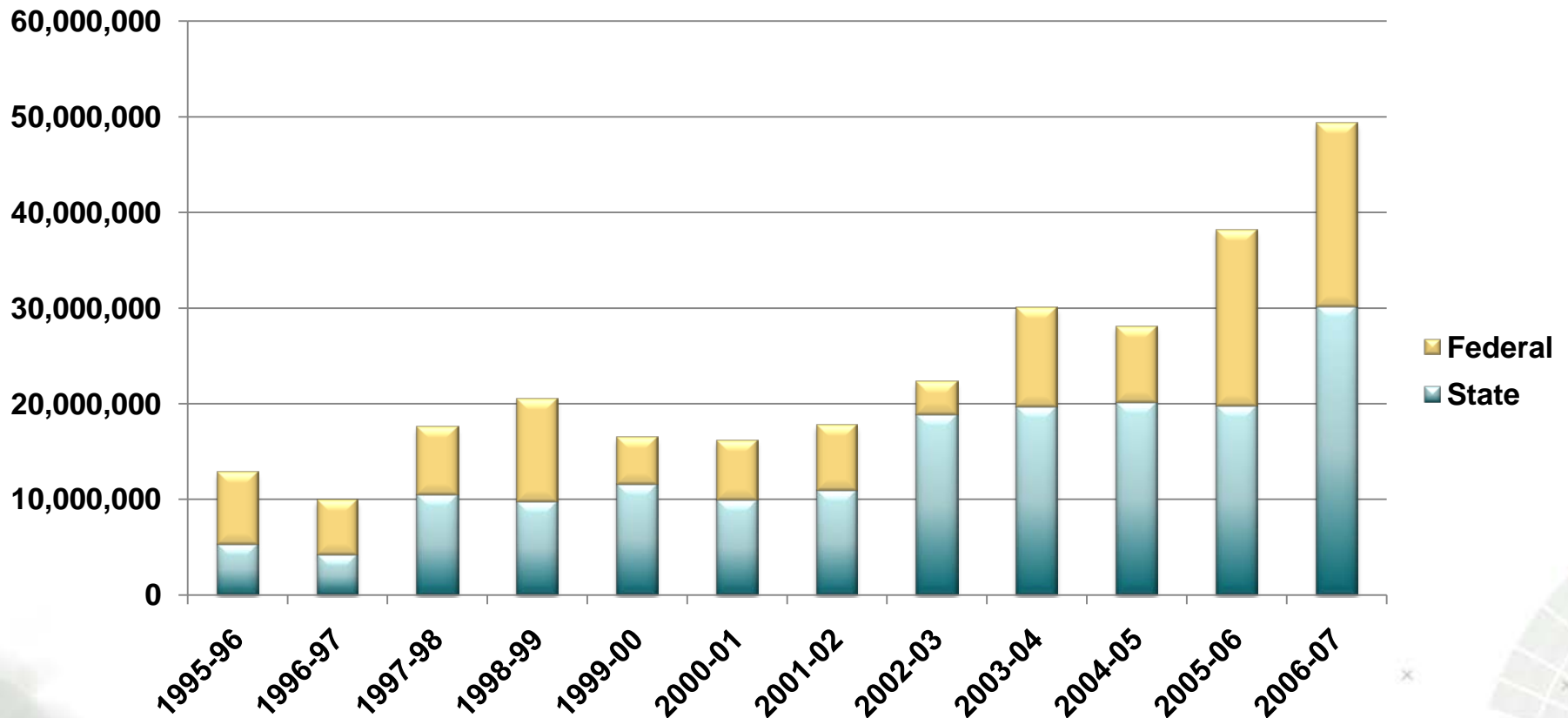
Number of charges dealt with by CDPP under all POCA legislation





Assets confiscated in Australia

Australian dollars confiscated 1995/96 to 2006/07





Effectiveness and efficiency of investigations

AUSTRAC provides financial intelligence to 34 agencies

- 2.5 million searches total (2007-08) including 873,128 by AUSTRAC
- Aust government agencies: Centrelink, Customs, ASIC etc (907,123)
- Australian Taxation Office (424,584 searches)
- Aust Social Justice agencies: Child Support Agency etc (187,858)
- State / Territory law enforcement (130,890 searches)
- State / Territory revenue agencies (5,176 searches)

Utility of AUSTRAC data 2007-08

- Australian Government agencies used financial transaction report information in 2,698 operational matters
- AUSTRAC data contributed to ATO assessments of >\$76.7 million
- AUSTRAC data led to \$8.5 million of annualised savings for Centrelink



Quantifying the cost of AML regulatory compliance

Regulatory costs

- AUSTRAC – government appropriation 2008-09: \$55 million (1999-2000: \$12 million)
- Attorney-General's Department – cost of legislative reform
- Cost of enhanced verification checks with issuing agencies

Impact on business profitability

- Loss of legitimate clients e.g. *Scarman Centre Survey* (2002) of 344 UK financial institutions – 58%: KYC could lead to customers being alienated, 46%: KYC could lead to lost business

Business compliance costs

- Staffing, education, monitoring tools, software
- Sathye (2008) compliance costs for Australian banks \$1.02billion
- Z/Yen Ltd estimates (2005) UK (0.026% GDP), US (0.021% GDP)
- Aust estimate 0.02% of GDP (\$1,031.2b) = \$206m (2007-08)



The estimated cost of AML compliance

Country	Sector	Low estimate	Best estimate	Top estimate
United States (2004-05)	Banking	£410m	£600m	£800m
	Other financial services	£400m	£600m	£800m
	Total (0.021% of GDP)	£810m	£1,200m	£1,600m
United Kingdom (2004-05)	Banking	£85m	£100m	£120m
	Other financial services	£60m	£70m	£80m
	Accountants & lawyers	£60m	£65m	£70m
	Estate agents, casinos, others	£15m	£18m	£20m
	Total (0.026% of GDP)	£220m	£253m	£290m
Australia	Total (AIC est. 0.02% of GDP) equivalent £stg	£80m (2004-05) £96m (2007-08) A\$206 million		



Developing an evaluation framework

Aim	Outcome indicator	Outcome evidence	Cost indicator	Cost evidence
Crime reduction	Reduced predicate crimes	eg Cost of fraud \$5.9b in 2002; \$8.5b in 2005	Criminal justice system costs	\$9.8b for criminal justice system (2005-6) including: % of \$2.0b Cth agencies (2005-06)
	Reduced ML recidivism	No of repeat offences		
	Prevention of displacement	Bulk cash \$300m; ARS criminality	Legislation costs etc	
Enforcement activity	Police investigations	No of investigations	Policing costs	% of \$4.5b for policing % of \$466m for courts % of \$2.4b corrections
	DPP prosecutions	No of prosecutions	Court costs	
	Convictions/sanctions	No of convictions	Corrections	
	More efficient investigations	Time to conduct investigations		
	Increased recoveries	\$288m (1995-2007)	AUSTRAC costs	
Good governance	Compliance with AML CTF laws	Extent of reporting to AUSTRAC (increase)	Cost of compliance to entities	\$206m (2007-08)
	Good governance	Better FATF evaluations Profitability (increase)		



The missing pieces

Crime reduction

- How is the incidence of predicate crime, ML & TF changing?
- To what extent is crime reduction attributable to AML / CTF?
- How much crime is displaced to cash smuggling / ARS?

Enforcement activity

- To what extent has AML / CTF assisted law enforcement?
- What proportion of CJS costs are attributable to AML / CTF?
- To what extent are recoveries facilitated by financial intelligence?

Good governance

- How much does AML / CTF compliance cost business?
- How many reports to FIUs are false positives?
- What non-AML / CTF benefits do businesses derive from the regime?
- How much does the regime cost government?
- To what extent does financial intelligence reduce fiscal losses?



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