

**Lunch Meeting Tuesday, 13 October 2015**

**Swissôtel Metropole, Geneva**

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**Subject: Real Economy & Organised Crime: from Infiltration to Occupation**

**Trends and Developments in the Eternal Struggle with Crime in Business**

Companies and their controlling bodies have both the legal and moral obligation to monitor the use of their resources, a task that increases in complexity as criminal groups get ever more sophisticated in their efforts to extract a company's wealth.

National legislation is often inadequate in the fight against global phenomena like money-laundering and corruption. Even when adequate, it is often only loosely enforced. A somewhat lax attitude towards enforcement has helped make London, New York and Switzerland the biggest safe havens for economic crime syndicates.

Criminals anticipated long ago that a weakly supervised financial sector can be easily infiltrated: why should a Mexican drug dealer bring dirty money to Geneva in a suitcase when he can comfortably use electronic money transfer systems of the banks he owns? He could even sell his valuable laundering competencies to his competitors, as criminal infiltration is an economic activity in its own right.

As for industrial espionage, what is the point of stealing competitors' secrets if I can buy the competitor ?

**Claudio Foglini** is a Corporate Intelligence Expert. He works as a senior manager for Scalaris Economic Crime Intelligence AG, a Swiss company serving large industrial and financial corporations.

Claudio focuses on strategic, operational and reputational issues that require accurate information and complex analysis skills. He is particularly interested in the relationship between government and private intelligence services, which he explored also at the Institut Hautes Etudes Defense Nationale (IHEDN) in Paris.

His academic background is in international relations and management, and he started his business career with Reuters and Dow Jones, before joining the intelligence community.

He also teaches Corporate Intelligence at HEC Lausanne, where he is co-director of an executive education program, and at HEC Genève and HEIG-VD Yverdon, in Master Programs.

## MONEY LAUNDERERS STAY ONE STEP AHEAD

Companies and their controlling bodies have both the legal and moral obligation to monitor the use of their resources. The task is becoming more complex as methods of illegally extracting a company's wealth get ever more sophisticated.

While regulation varies widely from country to country, national legislation is often inadequate to fight global phenomena like money-laundering or corruption.

Anglo-Saxon countries are vigorously defending new rules (FCPA, UK Bribery Act) with extra-territorial scope, but only rarely enforcing them, and mostly on foreign entities, while their financial centers, London on top, are the biggest safe havens for organized (economic) crime syndicates.

In fact, we observe that light touch regulation is as much of a boon to criminal syndicates as for companies seeking to minimise their taxes.

## GEOGRAPHICAL FLOWS

In geographical terms, three blocs have emerged. The developed markets are chronically plagued by debt, stagnation and strong regulatory pressure. The emerging markets, including the Indian subcontinent, China, and neighboring regions, are growing strongly, helped by a lax regulatory environment and significant capital to invest. The "Third World", African countries in the lead, is rich in natural resources, but plagued by plutocracies, or rather kleptocracies, whose wealth is often fueled by international corruption and traffic in arms and drugs.



### Economic crime: a new geography

Criminal organizations have also become international in their quest to find new markets, diversify activities and manage legal risks.

New organizations have honed their financial acumen as they pull back from the more traditional activities, which often involve struggling with local security forces for the control of an area. The financial arena is less risky, since international financial crime has only recently become a focus for governments, and they are often reluctant to invest substantial resources to combat it.

The economic and financial flows that are observed between these three worlds are the focus of large transnational criminal organizations.



### Economic crime: financial flows

The first flow, in red, is from Developed Economies towards the Third World, in payment for the control of natural resources and access to new markets.

The second, in blue, affects the large, fast-growing economies like China and India which invest heavily in both the developed markets and emerging ones like South America and Africa.

The Third World is at the crossroads of these two main streams, and in turn produces an outward flow of commodities and people towards their richer partners.

The large criminal organizations of the future are likely to develop in this area.

### WHEN THE STATE MUSCLES IN

In Africa large scale arms and drug trafficking are still controlled by organizations of the first and second world, although this picture is changing as local operators begin to move in. In our investigations, which relate to criminal activity in Second and Third World countries, we record two trends that confirm this scenario.

The first is the direct participation of the state in corrupt activity, not as a passive observer but as the main actor – for example, the mining sector in West Africa. Autocratic regimes organize corrupt and criminal activities via the direct management of the companies supplying equipment or logistics, enabling them to divert funds to corrupt beneficiaries.

This activity is extremely lucrative, as a single mining company can generate tens of millions of dollars in fictitious revenue thanks to the extremely high costs of mining. In more than one country,

criminal activities such as drug trafficking that present legal and operational risks are managed in tandem alongside companies that can be used to launder the proceeds and reduce the risk. It is the state itself which pilots this transition to a more mature, largely economic crime.

A second, related trend is that of former drugs or arms traffickers transitioning to the role of mining company executives. Organized criminals can thrive as accomplices of the State. This phenomenon a new type of risk for international businesses – their witting or unwitting complicity in organized criminal activities

## **CORRUPTION SUPPORT**

Any organized criminal activity must provide for the recycling of its profits in order to shield the beneficiaries from legal consequences. In effect, a corruption support industry is developing, taking on a life of its own: transnational crime is gradually outsourcing the integration of laundered money into the legal economy.

In one case where an American chemical company was the injured party, we discovered a vast network of companies belonging to a deceased, and therefore silent, Latvian national that was used to launder the proceeds of corruption.

The stringent anti-money laundering guidelines now in force in all major financial centers oblige the criminal economy to look for:

- alternatives to bank secrecy that allow actors to maintain complete, undocumented anonymity
- financial channels to control legal activities in which laundered money is invested

The demands for anonymity are met by offshore companies with corporate owners. A few company formation groups control this market niche: they are found in the Caribbean, Switzerland or Luxembourg, but especially in the United Kingdom and the United States, and can create company structures that allow complete anonymity. A recent investigation into front companies found that several company formation businesses required no formal identification, meaning that beneficial owners could completely distance themselves from their companies.

So while numerous governments in developed economies have targeted transnational crime, it is often these governments themselves that have provided the mechanisms used by transnational criminals to sidestep the law.

Moreover, transnational criminals have anticipated the trend towards more transparency in developed nations. For example, knowing Swiss banking secrecy would soon disappear, they emptied the coffers in Lugano and Geneva, and transferred the bank deposits into shell companies in London, Singapore or Delaware, in order to invest these funds in the "real economy".

One side effect of the shift has been a wave of private banking consolidation and closures in Switzerland.

Why should a Mexican drug dealer bring dirty money in a suitcase to Geneva, when he can comfortably use electronic money transfer systems of the bank he owns? He could even sell his precious laundering competencies to his competitors.

It is relatively easy to anticipate that, in the near future, emerging countries will become more willing and able to launder their illegal monies in house, concentrating in one place criminal activities and laundering capabilities.

Some UN estimates put the volume of economic crime at one trillion euro per year. Laundering activities "cost" between 5% and 10%, which means that the "professional economic crime support" market is worth around 50 billion euro.

This is comparable to the illegal drug market, but margins are much easier to defend, and risks much lower.

The infiltration of organized crime is not a risk anymore, but a hard fact.

Our problem is not blindness, as we know what is happening,

Our problem is resistance to change and to much needed reforms.