
MONEY LAUNDERING IN THE CYBERWORLD: EMERGING TRENDS

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Introduction

Advancements in Science and technology, more particularly in the field of information and communication technology made human life very much comfortable and convenient. Generally, scientific development in any sector will be useful to the human beings and the society altogether when used/applied positively for the purpose for which they are intended/made. But the same scientific advancements are presently being misused by certain group of people of deviated behaviour causing lot of inconvenience, personal and financial damages, sometimes causing irreparable losses to the individuals and institutions of the society on large scale. These persons of deviant behaviour are popularly known as 'Cyber Criminals'. These people invented numerous advanced techniques and means by which crimes can be committed better using the developments in Information and communication technology, especially the internet revolution.

Cyber Money Laundering Methods

1. e-Banking¹ /NET Banking /Online banking

In this system, the customer using his personal computer and a browser can get access to the website of his bank to operate online transactions with the bank.²Presently, the Banks are facilitating their customers with many online transactions, which include, checking account balances, fund transfers to different accounts etc. Hence, banks are targeted by the launderers. Most crucial aspect is that, regulations on opening accounts with the banks providing online transactions vary from bank to bank and place to place, leading to asymmetric regulations

¹It is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.

²In internet banking system the bank has a centralized database that is web-enabled. All the services that the bank has permitted on the internet are displayed in menu. Any service can be selected and further interaction is dictated by the nature of service.;<http://worldjute.com/ebank.html>

between jurisdictions. Requirement of furnishing less information to the bank became a boon to the launderer, as it suppresses his identity from the law enforcement authorities.

Payments Using Disguised/Illegal Methods

These instruments are defined as “*payment instruments, facilitating the purchase of goods and services, including financial services, remittance facilities, etc., against the value stored on such instruments.*” Since the cash value is stored on the card, there is no need for the merchant to dial up a bank or credit card company to get approval for the transaction. Launderer can move funds from one country to another country without any information and permission of the financial institution.³ These PPIs are of the following 3 types.

Closed system Pre-payment Instruments(PPIs)⁴

Gift Cards

These instruments facilitate the holder to purchase goods and avail services from the issuer itself. Ex:- brand-specific **gift card**. The sale of gift cards online is an emerging trend. While many individuals re-sell their unwanted or unused gifts cards to exchange for cash, money launderers use this process to easily convert funds. One method of obtaining gift cards is by legitimately purchasing goods at a store, returning the items without a receipt to get store credit on a gift card, turn around and sell the cards online and receive cash. Launderers buy gift cards and resell them for a fraction of their price on the internet depending on bank insiders to filter their funds through legitimate accounts and credit lines.

Gift voucher cards are of 2 types.

- *Closed-system (or closed-loop cards)*

These can be used only at the retailers/shopping mall, which issued them. ⁵Apart from the retail outlets they can also be used at telephone, internet, restaurants and hotels.

³ As the users may hold numerous cards, the criminals are free to move billions of dollars without using banks at all. ‘Digi-cash’ was developing a computer-based payment system that involved so called ‘one way privacy method i.e, payers can ascertain the person, who received money from them, but does not allow the recipients to find out the senders of money.

⁴As closed-system payment instruments do not provide third party payment and settlement services and open-system PPIs are issued only by banks, digital wallets are placed under the second category, that is, the semi-closed payment instruments. They are reloadable instruments that can be issued only in electronic form.

⁵Gift card vouchers and the link to money laundering; <https://regentsriskadvisory.com/gift-card-vouchers-and-the-link-to-money-laundering/>

- Open-system cards⁶

These are used at the retail stores. Cash can also be withdrawn from the ATMs across the world.

These cards can be reloaded with funds using online transactions, at the bank or via a cash-tills transaction. They're an effective method for money launderers to transfer the funds quickly and secretly. **Launderers can load cash onto multiple pre-paid open-system cards** and on the cards abroad. The counterparts can then withdraw cash in their own currency easily from local ATMs. When the card is spent it can be discarded and the cash is untraceable.⁷ Launderer can place several thousand dollars on a retail gift card or bank card and not required to deal with any currency transaction report and it is unlikely to be recorded on a suspicious activity report. In fact, fraudsters often divert attention by breaking a larger sum into a number of smaller amounts at different outlets⁸

Semi-closed Prepaid Payment Instruments

These are used for purchase of goods and services, including financial services, remittance facilities, etc., at a group of clearly identified merchant locations or establishments which have a specific contract with the issuer to accept the PPIs as payment instruments. These instruments do not permit cash withdrawal, irrespective of whether they are issued by banks or non-banks.

Payments through 'Virtual Wallets' (Mobile Apps)

Most of the payments today are made using mobile phone or any other communication device, through voice access, text messaging protocols, or wireless application protocols (WAP) allowing the device to access the Internet.⁹

⁶those linked with card companies VISA and MasterCard

⁷Recent DEA investigations into criminal activity spanning international borders have noted an increase in the use of pre-paid cards with bulk cash smuggling activity.

⁸the method of laundering sometimes referred to as 'smurfing' – named after the little blue cartoon characters

⁹ However, new mobile payment services are not based on an underlying bank or credit card account. The telecommunication operator acts as a financial intermediary to authorize, clear and settle the payment between its client and the mobile service provider. The GSM (or UMTS) operator engaged in these activities usually are not supervised by a country's central bank or other banking regulators but may be subject to anti-money laundering measures. There are two possibilities. The operator may either allow customer to charge transactions to the phone bill (post-paid) or may permit the phone owner to fund an account held by the telecom operator (or other service provider) for the purposes of making payments (pre-paid). Pre-paid phone gives anonymity since; it is not required to register the identity of a SIM card buyer. Prepaid mobile payments accounts operate similarly like that of a prepaid card or an electronic purse.

1. 'WE CHAT',

It is the China's most popular app, with more than 900 million users. Using this single app, one can perform multiple tasks, from Car hiring to Date. One of the most significant, used daily by 600 million users, is *We Chat Pay*. It allows people to pay with a tap or a photo snap. There are many other instant messaging payment apps used by people all over the world.¹⁰ All these accounts and transactions make for another best target for money launderers. While the volume and number of accounts are enormous, all the transactions are digital, making tracking and monitoring for illegal activities are not that much easier¹¹.

Using 'Virtual Credit Cards'¹²(VCC)

Since there are not well developed laws and regulations governing Virtual Credit cards, launderers can taking to their advantage by *micro-laundering* technique. Criminals pass illegal money into online accounts and pulling 'clean money' from others. The anonymous internet and continuously evolving technologies giving scope for many online money laundering operations.¹³

Open System Pre-paid Instruments(PPIs)¹⁴

Prepaid cards helps the criminals to create untraceable money. Launderers purchase prepaid cards in bulk using stolen debit or credit cards,. Then, sell such stolen cards for hard cash. It is the most popular method of cyber laundering is using Pre-paid cards.¹⁵. Some retailers

¹⁰For example, Facebook's Messenger Chat service has integrations with PayPal, MasterCard, American Express, Transfer Wise, and Western Union.

¹¹ Thus, larger organizations thus can enable sophisticated pattern recognition systems that highlight questionable activities and accounts. Unfortunately, it is not possible for small organizations, due to cost and complexity.

¹²VCC is a new-age and a one-time use *credit card* that has no physical existence..Like physical *credit cards*, a *virtual credit card* has its own unique *card number*, validity date, the expiry date, and the CVV number which are visible online. It is created for a single online transaction and is valid for a maximum of 48 hours. The credit limit and validity period may vary from bank to bank.; Laundering Money Online: a review of cybercriminals' methods; June, 01, 2013 Jean-Loup Richet; United Nations Office on Drugs and Crime (UNODC).

¹³ Criminal organizations are taking advantage of this fact to launder illegally acquired funds through by anonymous online transactions. Most of these methods pull unsuspecting participants into money laundering schemes, often with serious financial and legal consequences for the victims.

¹⁴ PPIs are issued only by the banks, These are used at any merchant for purchase of goods and services, including financial services, remittance facilities, etc. If they aren't caught in the act of using the stolen cards, it's very difficult to trace these culprits as the prepaid cards are traded face to face to avoid any record

¹⁵ A prepaid credit card ¹⁵works in the opposite way of a normal credit card, because instead of buying something with borrowed funds (through credit), one has to buy things with funds that have already been paid. This card functions like a gift card.

restricted the daily amount on Prepaid cards. These Pre-Paid Cards are of two types. a) Open System Cards¹⁶ and b). Closed System Cards¹⁷

Using Credit Cards¹⁸

Today the Credit cards are widely used by the customers, paying for the services available on Internet. The Credit card provide certain fixed credit limit to be used for purchases/shopping and allow cash withdrawals (within the permissible limit) by the borrower in a given period, which is pre-determined by the card issuer basing on the credit ranking of the card holder.

Money Launderer plays 'Dual Role'

One interesting example of today wherein the Credit card is being mis-utilised by the launderer in the present internet society, playing dual role, one as a buyer/customer, other as a Company/Seller. Initially, he procures maximum number of credit cards from numerous banks much in advance, in countries having flexible, relaxed laws and regulations governing the banking industry. He applies them in different names. Later, makes online payments as a prospective buyer using credit cards for the products and services offered by the company having an attractive website in Internet, accepting online payments. People are now setting up fictitious online commerce companies or shell companies¹⁹ by creating a beautiful website accepting online payments for the purchases made in his website. Money launderer today, just sitting before a PC, connected to internet within four walls is committing all these kinds of fraud. In this process, the credit card issuing bank, first makes payment on behalf of the customer/credit card holder, the credit card holder will in turn pay the due amount to the Bank, that issued credit card in due course of time. As such, illegally gained dirty money is paid by the launderer to the bank, where as the Bank pays pure white money to the seller company. The interesting point here is that, the credit card holder himself the owner of the company which accepts online payments through credit cards, from himself, but in different dummy and fake names.

¹⁶ is a typical debit card with which everyone can pay for services, goods or withdraw money from ATM in a large geographical area.

¹⁷ is related to the systems, like pre-paid telephone cards which can be bought and resold. They can be exploited at all the three stages of money laundering. The pre-paid cards are good to transfer funds across borders.

¹⁸ **Credit Card** is a plastic card issued by a financial institution that allows its user to borrow pre-approved funds at point of sale in order to complete a purchase.

¹⁹ appear in paper but do not exist in reality

For this, only requirement is designing an attractive website either himself, if he is a techno savvy if not, by engaging few persons having knowledge of computer operations and a front office with little space within four walls. The company or organisation which offers to sell its products and services will not exist at all physically except a front office. These are called 'Shell companies'. Nobody bothers and enquires as to its actual physical existence at a place stated in the website. This techno-savvy money launderer using this technology maximum extent to his advantage as it provides anonymity. The transaction is much faster and he can purchase from any city, state, country cutting across the barriers of continents in this global village.

Transaction Laundering

In this digital era, Money laundering assumed another novel trend i.e, Transaction Laundering.²⁰ It is defined as a transaction, wherein an unknown businessman uses payment credentials of an approved merchant's to process card payments for unknown products and services.²¹ Transaction Laundering violates certain credit card norms policies, thus placing the merchants and customer to violate [KYC](#) norms. Transaction Laundering is going on presently, cleverly exploiting the feature of online anonymity.

2. Digital/Virtual/Crypto Currency

e-Money, is an electronic money, in digital form, can be exchanged through smart card without intermediary. One of its potential characteristic features is 'anonymity'.²²

'Virtual money' is nothing but a digital currency, used by the criminal either to defraud or to launder money. 'Virtual currency' is an unregulated digital currency, in electronic form. It is

²⁰Transaction Laundering - Money Laundering Goes Electronic in the 21st Century
<https://www.finextra.com/blogposting/15423/transaction-laundering---money-laundering-goes-electronic-in-the-21st-century>

²¹ It is the most common, least enforced method of money laundering. For example, a cyber criminal can set up a website within no time, accepts payment by card and disguise their income from illegal activities by rerouting payments through a legitimate merchant account, like an online book shop. Electronic Money Laundering: Digital Solutions for a Digital Problem; <https://evercompliant.com/electronic-money-laundering-digital-solutions-digital-problem/>

²² Virtual Currency' is defined as the money value represented by a claim on the issuers which is stored on an electronic device and accepted as a means of payment by persons other than the issuer; Virtual Economies and Financial Crime: Money Laundering in Cyber Space by Clare Chambers Jones; Chapter-5;p-106

stored and transacted with the help of a designated software/mobile/digital wallets. The transactions takes place on internet through secure, dedicated networks.²³

Crypto currencies like *bitcoin*²⁴ and *ethereum* belong to virtual currency group. A crypto currency uses cryptography technology, which give the transactions security and authenticity. These *crypto currencies* are transacted on dedicated block chain-based networks, which are open to the common public. Anyone can join and start transacting with *crypto-currencies*. Without appropriate legal and regulatory mechanism and control system to deal with the unruly crypto-currency are not there, the Bitcoin flow result in grave risks and serious consequences adversely affecting interests of both investors and consumers. The banking/financial institutions will face catastrophic risks and consequences due to Bitcoin, the present techno-centered society.²⁵ When diagrammatically represented, the *digital currency* can be a larger, bigger circle, which includes an immediate inner circle representing *virtual currency*, which in turn includes another small inner circle representing the [crypto currencies](#).²⁶

The *Bit coin/Ethereum/Litecoin*,²⁷ the primary form of crypto-currencies are purchased from the digital exchange. These consists of exchange of major currencies with *altcoins*²⁸ and using

²³ Virtual currency is considered to be a subset of digital currency group, which also includes crypto-currencies, which exist within the block chain network. Virtual currency is currency held within the block chain network, which is not controlled by a centralized banking authority. This is not regulated and hence experiences dramatic price movements since the only real force behind trading is consumer sentiment.

²⁴ Bitcoin, the first Crypto Currency. It is a virtual currency existing as a computer code, introduced in 2008 using the name Satoshi Nakamoto. In a very short span of time, this valuable digital currency rose from just 6 cents per coin in 2010 to \$ 1,000 per coin in 2017; and further to \$ 19,783 by 2018. Optimists predict further rise, but pessimist voice concern at its potential volatility and relative uncertainty and speculative disaster. Bitcoin fluctuates unpredictably as the same coin plunged in December 2017 to \$11,000 and again rebounded to over \$14,500 in the same year.

²⁵What started as a small endeavour some 20 years ago has become part of our core work—from analysis and policy advice, to assessing the health and integrity of financial sectors, to providing financial assistance when needed, to helping countries build institutions and increase operational effectiveness.”-Christine Lagarde, Managing Director of the IMF Dominic Suszek, Top 10 Anti Money Laundering Stories in 2017, <https://globalradar.com/the-top-10-anti-money-laundering-stories-in-2017-year-end-review/>

²⁶ Compared to virtual currency, a digital currency covers a larger group that represents monetary assets in digital form. Digital currency can be regulated or unregulated. In the former case, it can be denominated to a sovereign currency, i.e, a country's central bank (like RBI) can issue a digital form of its regular currency notes, whereas, virtual currency is unregulated hence, constitutes a type of digital currency. Speaking of virtual currencies, crypto currency, a digital currency designed to work as a medium of exchange, offers another avenue for money launderers to clean their money. Virtual currency is different than digital currency since digital currency is simply currency issued by a bank in digital form.

²⁷ Unfortunately, the primary currency implements a block chain system that stores transaction audit trails. To obscure the audit trail and get privacy in the transaction, the perpetrators perform a number of layering transactions.

²⁸ alternative coins, which do not maintain audit trails

'Coin mixers'. The currency stored in crypto-currency will be later redeemed in the form of fiat wherever and whenever it is required.

3. Digital Precious Metals (DPM)

Scientific advancement in information technology and market demand for efficient consumer transactions, necessitated to adopt novel electronic payment methods, which include, the digital precious metals.²⁹ Services of Digital Precious Metal services are used to facilitate on-line transactions without the need for currency/ foreign exchange etc. It involves options of exchange or making purchases of precious metals.³⁰ Once a purchaser acquires the virtual precious metal, he transfers all/ part of it to an individual/merchant in exchange for the goods and services.³¹

It is a novel method of transferring value in cyber space, which facilitates exchange of money for the precious metals (like e.gold etc) held in cyber world from any country at any time very much conveniently.

Money Laundering Professionals devise certain schemes, wherein the criminals make money from the proceeds generated in virtual currency via online illegal markets such as *Dark Web*, *Drug-trafficking markets* etc. In most of the cases, online payments for illicit drugs purchased are transferred to e-wallets, exist in the form of virtual currency such as Bitcoin etc. Thereafter, the virtual currency is transferred through multiple number of e-wallets, using 'coin mixers'³² Later such funds are transferred back to e-wallet of the OCG(organised Crime Group) and finally transferred to bank cards and the cash is withdrawn. Financial instruments are issued

²⁹Despite increased awareness of the risks associated with electronic payment systems in recent years and the recent enactment of international conventions such as the Council of Europe Convention on Cybercrime, the 'lack of adequate law enforcement authority to examine abuses in the system all make the possibility of undetected abuse by money launderers probable; Forbes 2007:22

³⁰ Those group actions have immediate conclusiveness since they're conducted as a book-entry transaction between the dealer's accounts. These derivatives may be changed, like any other traditional commodity or securities derivatives, between the account holders. Consumers purchase certain amount of virtual valuable holdings supported this worth of the metal on the global trade goods exchanges.

³¹ The dealer's internal regulations usually differentiate between themselves. There can be some restrictions or limits on price of DPM, method of funding or usage of account. Sometimes they allow anonymous accounts. The access to account only through Internet prevents dealer's efforts to verify customers' true identity. It shifts the money wash risk to a brand new level.

³² A coin mixer' is basically a method of creating crypto-currency transactions a lot of anonymous and more durable to trace. People who would like to own higher levels of privacy and obscurity with their Bitcoin and altcoin transactions oftentimes use coin mixers to accomplish this, and 'crypto currency tumblers' to strengthen anonymity of the virtual currency transactions.

in the names of ‘money mules’³³ who will withdraw money from the ATM’s so as to provide to members of the client OCGs.

4. Online Sales/e -Commerce

“*Fake it ‘till you make it’*” is a famous idiom rooted in the great Aristotle teachings, who said that, “*a person who acted virtuous would, in fact, become a virtuous person*” **Fake merchants**, a burning problem related to money-laundering problem today. These merchants act like real merchants.³⁴

Internet and e-commerce are the main channels for committing financial crimes. The e-commerce features such as, online payments methods, virtual world without physical borders are facilitating and promoting the money laundering to the convenient of both the customer and the businessman. Growth of online micro-merchants with products/services seen in the recent years, with large number of transactions. This attracted the money launderers. The e-commerce infrastructure has number of facilitating factors to assist in laundering criminal proceeds. E-commerce has a global access. Jurisdictional laws are being exploited by money launderers easily residing in one jurisdiction and can be able to perpetrate offences in other jurisdiction and transfer the value via other multiple jurisdictions.

Laundering through ‘Ghost Rides/ Fake Rides’

Cyber launderers are adopting new techniques to launder their illegally gained money.³⁵ In recent times, cybercriminals have been using certain creative methods focussing on "gig economy" apps like *Uber* and *Airbnb*. Under these technique, the illegal money is passed via several automated systems, finally reaches the launderer as clean/legal money. *Modus Operandi involves* the employing money laundering clients to hire Uber drivers, waiting for making making additional money, who accept ride requests from money laundering clients at

³³ Money mules are people, employed by the Professional Money Launderers, to serve as intermediaries for criminals and criminal organisations. Whether or not they are aware of it, they transport fraudulently gained money to fraudsters. The use of intermediaries makes it difficult to figure out the identity of the fraudster. Money mules, just like fraudsters, are guilty of illegally transporting fraudulently gained money and can be prosecuted for this.

³⁴ In this situation, faking it until they make it, is simply an illegal means to what has become a lucrative endgame for them. How The e-Commerce Fakers Launder Money; <https://www.pymnts.com/news/security-and-risk/2018/trulioo-ecommerce-onboarding-fake-merchants-money-laundering>

³⁵ Eg:- Recruiting fake Uber drivers, shady Airbnb hosts and crypto conversion specialists with the help of underground dark web

pre-fixed prices. Laundering huge sums of money is also very simple, which consists of involving multiple drivers in the scheme, easily increasing the volume.³⁶

5. Online Auction/e-Auction

Online auction is a service, where the participants either sell or bid for their products or avail services on Internet. On-line activities facilitate Virtual auctions on internet for the people cutting across the nations and continents of the world. These auction sites offer users with platforms powered by differing kinds of auction software systems. It is rapidly rising online activity. It permits its registered users to place things on a procurement or to shop for such things. There are auction sites, offering certain basic financial services also. Money will be sent from Buyer to the bank account of the company and in return, desired will be sent by the Seller. If the item is exactly the one, as promised by the seller, the company sends money to him/her. The entire process appears like legal business activities as reputed auction companies are involved. As this is an auction price without any limits and the *Smurf*³⁷ will bid higher and higher. Higher the price, more the illegal money get legitimate appearance.³⁸

Money Laundering on 'e-Bay'

On the Internet, laundering of money is performed online, using legitimate websites such as eBay. The eBay facilitated many scams including, money laundering. e-Bay is one among the most popular platform, providing facility to buy and sell products of their choice and avail services on the web.³⁹ As this is the internet era, money laundering activities too crept in to the internet, became online. Online sales can be tracked. *PayPal* sends sellers a 1099K if these two conditions are met, \$20,000 in Sales and 200 items are sold.

Those dealing with illegal money set up fake listings on eBay. It looks sort of a real dealing, however the value is inflated astronomically for items.⁴⁰ e-bay provides a wonderful platform,

³⁶ Then, after Uber takes its standard cut from the "ghost rides," the complicit drivers distribute their earnings to the operator of the laundering scheme. The operator takes a cut, and passes along the remaining, clean money to the client.

³⁷ a colloquial term refers a money launderer,

³⁸ Online auctions include business to business (B2B), business to consumer (B2C), and consumer to consumer (C2C) auctions.

³⁹ It's a website where individuals and businesses buy or sell new or second-hand items, from books and clothes to cars and holidays. e-bay is the best example of an auction site that uses all three methodologies. Like alternative on-line services and activities, online auctions can attract stolen or pirated products.

⁴⁰ **Illustration:** Suresh has a customer who wish to purchase some illegal item, such as drugs, stolen property, or weapons. Instead of cash transaction, Jim tells his customer. he will set up a listing on eBay for a particular item at a very inflated price, such as a Disney Black Diamond VHS tape. He will then send a link to the item to the

confusing shield to the unscrupulous people to hide behind, which is convenient to the launderers. Millions of things are oversubscribed on eBay.⁴¹

6. Online Betting/Gambling

The online gambling' is identified as a potential, ideal web-based service to legalise illegally acquired proceeds. 'Casinos' are used to launder illegal money. The same laundering activity is now being carried out by the on-line gambling sites. There are two ways by which online laundering is performed.

- 1st method involves the Gambler either starts an on-line gambling company or exploit the legitimate internet service or to clean illegal money, mostly using 'credit cards'.
- In 2nd method, on-line gambling companies located in off-shore financial centers lacking regulatory controls operate gambling⁴²Tracing the source and ownership of illegal money, moving through these accounts is very difficult for the enforcing and regulatory authorities .

Some time back, the 'Sony Online Entertainment' users' were found to have moved large amounts of money from US person's Account to a Russian Account through online games by buying multiple number of virtual items, which are rare.

7. Online Gaming⁴³in Virtual World

In the past (1980s), video games were time pass amusements, which involved simple basic fun with the computer Eg:- 'Space Invaders' and 'Asteroids'. Now in digital era of 21st century, the online games involve interactive types associated with spending money, it is known as

client. This is called a Pre-arranged sale. So the video could be priced at \$5,000. Since these Disney VHS tapes are not worth that much, no one will actually purchase the item, Jim's client will purchase it, the money flows through Pay pal. E-Bay also gets their fees and Pay pal gets its fee of 3 percent. Suresh ships a box of rocks or some insignificant item to the client's address. Once the group action has taken place on eBay, and the money is in Jim's account, he meets up with his client to deliver the actual goods which again may be drugs, weapons, or some sort of contraband. The transaction takes place, the money has changed hands, and the illegal goods are delivered.

⁴¹Some legitimately sell for hundreds or thousands of dollars. It is easy to blend into the crowd and successfully pull off illegal schemes on the world's largest online marketplace.

⁴²This method can affect a normal bank since such companies have their accounts in offshore banks that, in turn, use a reputed United States correspondent bank.

⁴³**Laundering Money Online: a review of cybercriminals methods-Jean-Loup Richet;(Submitted on 9 Oct 2013)**

Massively Multiplayer Online Games (MMOG). Ex:-*Second Life, World of Warcraft, World War II etc.* Virtual Games differ from Traditional Video Games in respect of its content, rules and ultimate objectives.⁴⁴

Now, Money launderers are moving illegal proceeds of cash through various virtual reality role-playing games and converting such cash into real money later withdrawn from ATMs all over the world.⁴⁵ In these virtual games, players buy and sell the virtual goods and services. Unfortunately, some of these games permit conversion of real dollar deposits to virtual dollars and back to real dollars for a fixed exchange rate.⁴⁶

It involves frequent opening of too many accounts online games to transfer money. MMORPGs use credits, which can be exchanged by the players for real money, which is convenient form them. Popular games of this kind include, “*Second Life, World of Warcraft etc.* It is very interesting to note that, game developers are not at all associated with the scam and in many cases, they are seen engaged in efforts to stop such crimes to occur. In recent times, virtual communities and online gaming and scams related to MMORPGs have emerged.

8. Online Ponzi/Pyramid Schemes

Online Ponzi Scheme is a fraudulent investment campaign using internet in which people are invited and induced to invest large sums of money upon promising high rates of returns/interest amounts, usually paid from the illegitimate business activities/trading. The schemes are advertised as not having any risks. These claims are supported with certain financial documentary proofs to the fresh investors and existing investor testimonies stating their higher earnings from the scheme and & drastic changes in their lifestyle.

The Ponzi Scheme typically involves continuously recruiting new investors in order to

⁴⁴ the traditional video games have specific ultimate objective. Ex:-Defeating all the level bosses, saving the kingdom or just winning the game. Playing in a virtual world, comparatively an end in itself. The objective of virtual worlds is to continue participating in the world, internet with other users and gaining more status or experience within the virtual world. These games differ in their content and rules. Standard video games, involves only relationship between a User and Computer software. In MMOGs, too many people across the world interact with each other online representing themselves as ‘*avatars*’. Modern virtual worlds differ from traditional video games in their objectives.

⁴⁵Compliance officers at financial institutions and their banks may be guilty of money laundering if it facilitates deposits or payments in these virtual worlds, since there is no due diligence on players or recipients.

⁴⁶For example, ten to one, and to withdraw those funds, using many ATM services available across the globe.

provide returns to the old investors. If this cycle is stopped, the scheme fails. These people apply the principle of Robbing the old investor 'A' to pay new investor 'B'. They use money of the existing investors to get the new investors. It is very difficult for the scheme to continue for longer durations, as recruiting the new investors and paying the old customers is not feasible. It is a vicious cycle, which finally collapses/ends when any one of three things happens.

- Unable to attract adequate new investment capital to pay outstanding dividends
- Founders of the scheme absconds with all the investment money or
- Regulators and Investigators bust the scheme, while in progress.

9. Crowd Funding

'Crowd funding' involves the financing a project or venture etc, to raise funds from public inviting online, which provides anonymity and with global accessibility of these platforms, due to which this platform became vulnerable for misuse.⁴⁷

Ex:- Fake company, owned by criminal group inviting crowd funds online. The organisers./management of crowd funding receive illegal money which are made legal through crowd funding transaction. The funds are integrated into the financial system.⁴⁸

[Crowd funding sites](#) are easily accessible, user-friendly, non implementation of AML systems facilitating the money laundering. For example, a launderer may campaign fictitiously and initially donate money to the crowd funding and receive money later. The money is recorded in the bank as a legal transaction as it is collected through the crowd funding payments.

The emerging platforms such as social media, rapidly increasing internet usage/mobile connections, all these led to creation of a novel form of 'Crowd funding'. This became a popular method to connect entrepreneurs requiring finance and the investors searching for returns, which include pure profits and non-financial returns also. Crowd funding is classified

⁴⁷Virtual Currencies, Crowd funding and the Money Laundering and Terrorist Financing Risk;Natasha Reurts; Bright Line Law; <https://www.lexology.com/library/detail.aspx?g=92829b24-a4a9-40c1-9276-62baf476ed02>

⁴⁸ Crowd funding is also susceptible to abuse by terrorist financiers as demonstrated by evidence of campaigns seeking backers for fictitious charitable initiatives abroad or the use of fake individuals backing a fake company (i.e. purchasing fake equity) or project. The money is then removed from the platform and is transferred for illegal activities.

in to the following 3 types first one is Rewards/donation crowd funding⁴⁹ second is Debt crowd funding⁵⁰ and the third one is Equity crowd funding⁵¹

Lack of specific regulations, guaranteed, quick and high returns are the pulling factors in crowd funding⁵². The crowd funding facilitates the most serious problems like, money laundering⁵³ and diversion of funds on fake/inflated projects⁵⁴

Many cases, these funds are used for the benefit of those suffering with illnesses/sufferings or who are expected to finance their next big project. But unfortunately, in some cases, crowd funding websites are being used for illegal purposes, including money laundering⁵⁵.As the crowd funding sites are characterised with easy accessibility, user friendly hence and are considered as best option to launder money.⁵⁶ Ex:- If somebody wants to buy illegal things like narcotics, pretend as an investor and crowd fund a fake start up company by a drug distributor. The buyer in return receive narcotics.

Crowd funding websites, provides an ideal platform for laundering. The launderer, using stolen credit cards donates to himself, through crowd funding campaign on mobile. Money is moved/transferred and to avoid any detection and immediately withdraw from the crowd funding account before he is identified and caught by the enforcing agencies.⁵⁷

⁴⁹Supporters pledge money in return for rewards, or simply make donations.

⁵⁰Investors loan their money and receive interest on their loans in return (also known as “peer to peer lending”).

⁵¹Investors receive shares in a business, and share in success of such businesses.

⁵²Breaking through the wall; Understanding the basics of Crowd funding ;

Rohit Mahajan (Partner and Head, Forensic) and Rohit Goel (Director, Forensic).<https://www2.deloitte.com/in/en/pages/finance/articles/understanding-the-basics-of-crowdfunding.html>

⁵³Funds received electronically under the guise of a legitimate crowd funding offering would be easier to integrate into the financial system than if the transaction were conducted in cash.

⁵⁴Funds raised can be used for purposes other than what was initially disclosed.

⁵⁵According to United States Financial Crimes Enforcement Network (FinCEN),;Crowd funding: A New Cover for Money Laundering;

<https://www.caseware.com/alessa/blog/crowdfunding-new-cover-money-laundering/>

⁵⁶ For example, someone funding a personal bank account with cheques and cash deposits from foreign businesses and unidentified individuals then uses the money to invest in a fictional project or service collecting donations through crowd funding site. It’s also possible for individuals to receive deposits from a crowd funding site and to then structure cash withdrawals from such account.

⁵⁷In highly sophisticated operations, crowd funding fraud is combined with other diversionary tactics to *layer* or *structure* financial transactions to avoid detection.⁵⁷ A twist on this method is to launch a whole bunch of small crowd funding campaigns simultaneously using false names and phony IP addresses. Again, the campaigns are funded with stolen credit cards, but the individual amounts are low enough to avoid close scrutiny. In one case, the FinCEN caught a foreign entity, which was collecting fund through multi-state cash deposits, foreign cheques and deposits from crowd funding sites to wire large amounts of money to a high risk country” to fund terrorists.