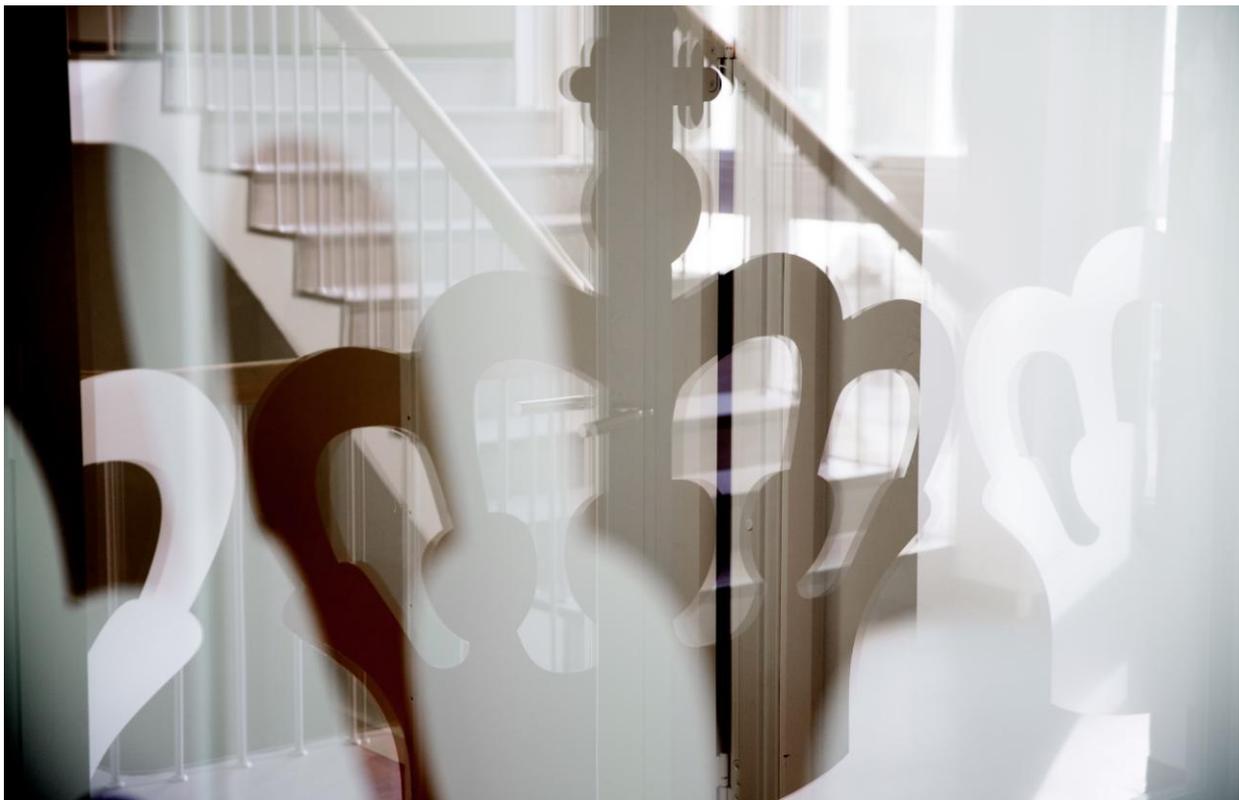


Money Laundering in Denmark



National Risk Assessment 2015

Summary

The purpose of the national risk assessment of money laundering is to determine the risk that criminal proceeds will be laundered and to identify the risk areas – sectors, systems, products and services – preferred for and particularly vulnerable to exploitation for money laundering purposes in Denmark.

The total annual money laundering potential in Denmark is estimated to be approx. DKK 20.6 bn, comprising funds such as proceeds from drugs crime, human trafficking, car theft, robberies, arms trade, smuggling of tobacco and liquor, tax and excise duty fraud and other economic crime.¹

The extent of money laundering is not expected to decline over the next two years, primarily because of the many new possibilities to generate illicit profits by exploiting the internet, the rise in the number of economic crimes and a criminal landscape that seems to be stable for other profit-driven crimes.

The areas with the greatest risk of exploitation for money laundering purposes are assessed to be currency exchange offices, legal business structures and money remittance providers.

- **Currency exchange offices** are used widely by persons from many different crime areas who change proceeds from their crime into foreign banknotes in higher denominations in order to disguise the origins of the funds and make them easier to carry across borders and away from the authorities' spotlight. In addition, several of the small currency exchange offices rarely submit reports and they are struggling to comply with their anti-laundering obligations. These offices are therefore considered a high-risk area.
- **Legal business structures** (private limited companies, sole proprietorships, etc.) account for two-thirds of the total sum of suspicious transactions in STRs. Criminal actors use the easy access to company formation and registration and the limited checking of the documentation in that connection to form companies that can be used to commingle legitimate and illegitimate revenues, transmit illegal funds out of the country or turn criminal proceeds into cash.
- **Money remittance providers** are used by criminal actors in Denmark to move criminal proceeds across borders or pay for illegal goods. The use of money remittance providers to assist the laundering process has been detected in human trafficking networks, drug deals, tax crime and fraud cases. The stand-alone providers in particular, i.e. those not part of a large money remittance chain, find compliance with their anti-laundering obligations challenging.

In addition to these risk areas, an additional two channels are assessed as continuing to be used extensively for money laundering:

¹ Project 'ECOLEF': The Economic and Legal Effectiveness of Anti-Money Laundering and Combating Terrorist Financing Policy, 2013, p. 39

- **Banks** constitute an attractive place to deposit criminal proceeds, because the sector has so many customers and handles enormous volumes of transactions every day, which makes it possible to conceal suspicious transactions. Even though the sector has good anti-laundering measures in place generally, many banks still submit few STRs or none at all.
- **Cash smuggling** – i.e. physical carriage of cash across borders – is estimated to be growing as a channel to bring criminal proceeds out of the country as the financial sector in Denmark is constantly getting better at complying with the obligations to register and report transactions under the Money Laundering Act.

The assessment of each of the risk areas has been based on six set criteria relating to the threat, vulnerability and consequences of each particular factor. The schematic overview below shows the risk assessments of the particular areas. See Appendix A for further elements of the risk model.

Figure 1. Assessment of areas at risk of being used to launder proceeds from crime

	Threat		Vulnerability		Consequence		Overall assessment
	Extent	Development	Ease of use	Countermeasures	Economic loss	Consequence to Society	
Currency exchange offices	Red	Red	Red	Red	Red	Yellow	Red
Legal business structures	Red	Red	Yellow	Red	Red	Red	Red
Money remittance providers	Red	Red	Red	Yellow	Red	Yellow	Red
Cash smuggling	Red	Red	Red	Yellow	Red	Yellow	Red
Banks	Red	Yellow	Yellow	Green	Red	Yellow	Yellow
Gambling activity	Yellow	Yellow	Red	Red	Green	Yellow	Yellow
Real property	Yellow	Red	Yellow	Yellow	Yellow	Yellow	Yellow
High-value goods	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Service providers	Blue	Blue	Yellow	Red	Yellow	Yellow	Yellow
Electronic payment services	Green	Red	Yellow	Red	Green	Yellow	Yellow
Legal and accounting professionals	Green	Blue	Yellow	Yellow	Yellow	Red	Yellow
Life assurance and pension funds	Green	Yellow	Green	Green	Green	Green	Green

Risk assessment	
High	Red
Medium	Yellow
Low	Green
Unknown	Blue

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Introduction

The national risk assessment of money laundering in 2015 is the first of its kind. It combines information and intelligence products from the Money Laundering Secretariat, Danish police and the prosecution service in general with information contributed by the Financial Supervisory Authority, the Central Customs and Tax Authority, the Business Authority, the Danish Bar and Law Society and the Gambling Authority, thereby creating an overall picture of the money laundering risks in Denmark.

Objective

The national risk assessment of money laundering 2015 is intended to assess the risk of the laundering of proceeds from crime and identify the specific areas of risk, i.e. sectors, systems, products and services, used in particular, and thus vulnerable to laundering activity in Denmark.

The risk assessment provides the foundation for the Money Laundering Secretariat's strategic priorities for action areas and resource allocation. At the same time, the report will contribute to greater public insight into money laundering, providing policy makers, authorities and the private sector with a better basis on which to organise anti-laundering initiatives and develop preventive strategies that can contain and reduce the scope of money laundering in Denmark.

Background

The laundering of proceeds of crime is a serious problem that undermines the integrity of our financial system and underpins criminal activity, which may have impact on the safety and security of our society. The process used to launder the proceeds of serious and organised crime involves a variety of methods, which are often quite complex and combine elements from both the legal and the illegal economy. The commingling of illegal and legal transactions takes place *inter alia* through banks, currency exchange offices, gambling providers, online funds transfer platforms, international money remittance operators and a variety of business structures. This present report has been drawn up to provide a strategic overview of *where* and *how* money laundering is conducted in Denmark.

Method

The national money laundering risk assessment is based on the following material:

- Information from transaction reporting, intelligence and investigation
- Interviews with staff from Central Customs and Tax, the FSA, the Business Authority, the Danish Law and Bar Society, the Gambling Authority
- Existing reports from Danish police, Europol, FATF², the FSA and other Financial Intelligence Units³

² The Financial Action Task Force (FATF) is an inter-government cooperation under the auspices of the OECD, which deals with developing recommendations on how to combat money laundering and terrorist financing.

- Information available in the public domain

The structure of the report is based on risk areas. An assessment of the risk based on six set criteria has been made for each area. The analysis model is described in Appendix A. This present report is a consolidation of a number of underlying, classified assessments of the risks of each particular area. The resulting picture is exclusively a reflection of the information that is available to the State Prosecutor's Office (SØIK).

The report pinpoints a range of methods and techniques known to have been used in Denmark to conceal the origin of illicit funds. It will be indicated explicitly if methods referred to have *not* been seen in use in Denmark but are known internationally and, therefore, give rise to staying alert to them.

Definitions

- **Risk areas:** Sectors, systems, products or services in Denmark that may be used in the process of disguising the origin of criminal funds
- **Money laundering methods:** The special procedures used to carry through laundering activities in a risk area or across risk areas.

³ Financial Intelligence Units (FIUs) are the national units responsible for receiving and analysing information about suspicious transactions and transmitting it to relevant authorities. The Money Laundering Secretariat is Denmark's Financial Intelligence Unit (FIU).

What is money laundering?

The Money Laundering Act defines money laundering as:

1. unlawfully accepting or acquiring for oneself or others a share in profits obtained by a punishable violation of the law,
2. unlawfully concealing, keeping, transporting, helping with the disposal of or in a similar manner subsequently assisting in securing the profits of a punishable violation of the law, or
3. attempting to commit or contribute to such actions.

The Money Laundering Act moreover comprises acts committed by the perpetrator of the criminal offence from which the proceeds originate.

Certain types of business undertakings (such as financial institutions) and professionals (such as accountants, attorneys, real estate agents, etc.) are subject to a number of investigation and reporting duties under the provisions of the Money Laundering Act that constitute part of the private sector's measures to prevent laundering. Non-compliance with these duties may be punished by a fine or a prison sentence.

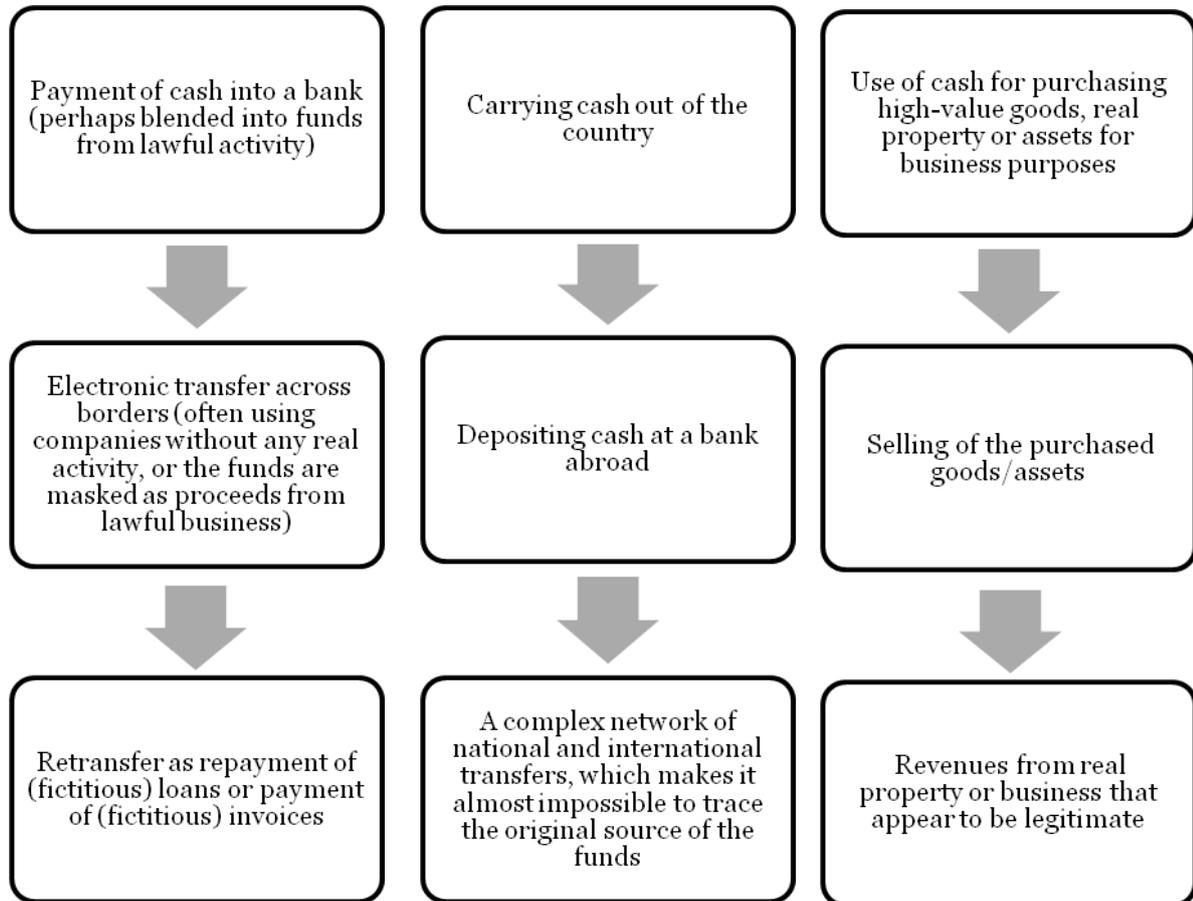
In criminal law, money laundering is covered by section 290 of the Criminal Code on handling stolen goods, which also comprises all types of proceeds from crime (such as theft, human trafficking, drugs crime, fraud, etc.). Both natural and legal persons (companies, associations, etc.) may be convicted for handling stolen goods/money laundering under the provisions of the Criminal Code.

Money laundering transactions, which may occur in various forms, are intended to alter the identity of criminal proceeds with the aim of making them appear to be legitimate funds or assets at some point. Laundering may take place in several stages:

1. **Placing:** The physical placing of the proceeds – i.e. placing in the financial system
2. **Disguising:** Separation of the proceeds from their source through (financial) transactions in order to hide the audit trail and achieve anonymity
3. **Integration:** Retransfer of funds to a person's property domain in a form where the proceeds have been converted into funds that appear to be legitimate.

In practice these stages may, for instance, be carried out as follows:

[BELOW: perhaps commingled with funds from lawful activity]



Conditions in society

Several factors in societal development help determine the extent and type of crime and money laundering. Assessing this development is therefore an expedient approach to forecasting future developments in the area.

Political factors

As a member of the European Union, Denmark is an integral part of a global community. International collaboration provides simplified requirements for conducting business activity in several countries, seeking jobs abroad and transferring funds across national borders. Despite the positive effects, this development may also render control and investigation of unlawful activity difficult. Denmark's participation in international police and justice collaboration (such as Europol, Eurojust and the Egmont Group) therefore continues to be relevant for the investigation of specific cases as well as overarching analytical work.

In recent years, the political focus has been on combating economic and financial crime and money laundering. On 3 June 2013, a broad majority in the Danish Parliament (Folketinget) decided to strengthen the combat of economic crime – including systematic and organised economic crime in particular. At the same time, the cash prohibition in the Money Laundering Act was extended to comprise all business operators, the maximum amount for cash payments was reduced from DKK 100,000 to DKK 50,000 and a new provision was inserted into the Administration of Justice Act that allows short-term restraint of account deposits in cases where there is reason to assume that the amount is associated with money laundering or the financing of terrorism. In addition, the police were given access to tracking a transaction through several banks, etc. based on only one court order (a funds tracking order).

Financial factors

In line with the USA and the rest of Europe, Denmark was exposed to the global financial market crisis in 2008, which impacted the economies of the countries and created a protracted economic crisis. The unrest in the financial markets generated problems for the inflow of capital for investment and ordinary economic activity, because private financial institutions became significantly more cautious about lending money. The consequence was an immediate economic downturn, which led to higher unemployment in several countries from 2009, for example.

One of the results of the economic crisis was that companies and citizens had less money at their disposal. A financial environment under pressure may have caused various forms of economic crime (including social fraud, tax evasion and undeclared work) to be more tempting to individuals, and business entities may have been more amenable to cooperation offered by criminal actors. In early 2015,

economic trends show signs of improvement and the expectation is more normal growth rates of approx. 1.5 per cent and rising employment figures.⁴

Social factors

Statistics Denmark foresee a rise in the number of immigrants in Denmark in the next few years. The rise is expected in immigration from poorer countries primarily, though immigrants from other EU States and Eastern Europe will probably arrive as well. Material wealth and favourable welfare programmes in Denmark may seem attractive to foreigners who seek to emigrate with the intent to commit financially motivated crime. In addition, illegal immigrants are at risk of falling victim to criminal activity such as human trafficking, blackmail, criminal coercion and social dumping.

Technological factors

Social developments are currently characterised by the active use of communication technology. The number of internet users in the world was 2.2 billion in 2001. According to Statistics Denmark, the share of individuals ages 16 – 74 with access to the internet had risen to 92 per cent in 2011, with 78 per cent using the net every day, which means that increasing volumes of information are shared and retransmitted.

Developments in and the use of technological resources help provide a basis for new forms of economic crime and further development of existing crime. Types of crime that would previously have required contact between criminals and victims in person may take place via the internet today. Using the net, criminal actors can quickly build up contacts and networks that enable them to exploit a variety of skills and opportunities. Persons who intend to commit economic crime have obtained a wider variety of services such as the buying and selling of stolen information (credit card data, passwords, etc.).

The latest technological progress also gives the police more opportunities in their investigation of both conventional and new forms of crime. However, taking advantage of the progress will require that the police keep pace with skills development as well as technological developments and exploit the resulting opportunities, which is one of the reasons for the establishment of the National Cyber Crime Center (NC3) in early 2014, for example. Moreover, developments will require a higher degree of international cooperation, because technological aids pave the way for globalised crimes that are not tied to national jurisdictions.

⁴ Danish Federation of Industries: Economic Forecast, February 2015, pp. 1-2

Trends in profit-driven crime

As part of a major European study into the money laundering area – the so-called ECOLEF project – a team of researchers has estimated, based on crime statistics and expert surveys, that the annual money laundering potential in Denmark is in the range of approx. DKK 20.6 bn.⁵ It is important to emphasise that this estimate is associated with considerable uncertainty, since – unlike the crime that precedes it – money laundering activity is without any immediate victims and perpetrated clandestinely, for which reason the potential is naturally not known precisely.

Relative to the crimes that precede the laundering process, the number of reports on serious fiscal and VAT fraud has risen since 2009. There is an accelerating trend towards seeing an overlap of several fiscal fraud concepts, for instance overlapping VAT carousels and chain fraud. The actors in major cases involving fiscal and VAT fraud are often well organised, and individuals in outlaw motorcycle gangs and the street gang environment fund their activity by taking part in chain fraud in the service and construction sectors, for example. It is estimated that fiscal and VAT fraud generate the largest proceeds in terms of money among criminal actors in Denmark. The tax authorities estimate that the Treasury suffers a loss of DKK 2.5 – 3 billion a year from chain fraud alone.

The economic crime cases that occur in the largest numbers are concerned with fraud and forgery of documents. In 2014, the police registered the highest number of fraud cases since 1995. A significant part of the fraud cases are perpetrated using the internet, such as using stolen credit card data to buy goods online or selling objects on the net and not delivering them as agreed. In the period from 2008 to 2013 there was a steep increase in the number of crimes reported to the police concerning violation of the Companies Act and the Book-keeping Act. In 2014, the number declined slightly again. Crimes relating to business operation are often detected in connection with insolvency proceedings, so the marked increase may have to do with the rising number of firms that went out of business in the wake of the financial crisis. Insider dealing and market manipulation are small crime categories when rated by the number of cases, although they may involve huge sums. The number of reported stock exchange crimes has dropped from 2011 and the number of reports is now at very much the same level as before the financial crisis, when it was around 10 cases a year.

The use of illegal substances in the Danish population is stagnant to slightly declining – although at a relatively high level compared to the rest of Europe. However, the relatively high rate of use and high selling prices will maintain the controlled drugs market as a significant source of revenue for organised criminal actors. The same applies to the market for illegal replica products – so-called IPR crime – and to a lesser extent the proceeds of human trafficking, prostitution and organised property crime.

⁵ Project 'ECOLEF': The Economic and Legal Effectiveness of Anti-Money Laundering and Combating Terrorist Financing Policy, 2013, p. 39

Who are the actors?

The individuals referred to in money laundering reports often appear to be from networks that may attract relatively keen attention from both the police and other supervising authorities. The greater attention may be part of the explanation for the relatively high number of money laundering cases from these environments. Individuals with relations to the outlaw motorcycle gangs and the street gang environment are also encountered in money laundering cases, and foreign actors who administer companies and accounts from abroad have been observed in Danish money laundering cases as well.

In the money laundering process, criminals will almost invariably get in touch with professionals such as accountants, bank staff, money remittance providers, staff at currency exchange offices, car dealers, real estate agents, etc. The criminals will typically seek professional assistance in the form of counselling or help with handling illegal funds from people in their social network as well as, usually, they launder the proceeds of crime in a context that is known and familiar to them. This means that the most sophisticated money laundering methods, which involve various transactions in the financial system, are typically seen to be used in connection with economic crime, while simpler methods like money laundering through the gambling sector will be used more often in connection with drugs crime.

New trends

- **Using internet-operated remote access to administer companies and accounts from abroad**

Several cases have revealed criminals who use online access to carry on extensive online banking transactions and administer companies in Denmark from abroad.

- **Using migrants in front operations**

Several reports have shown that resident criminals use migrants as fronts to open accounts and register business firms that may serve in chain fraud operations, for example. The migrants will typically be from the organisers' countries of origin or from Eastern Europe.

- **Use of virtual currency for laundering purposes**

The Money Laundering Secretariat has observed in a number of cases that proceeds of crime have been changed to virtual currency, upon which it may be difficult for the authorities to trace the proceeds.

Forward-looking assessment

The scope of money laundering among criminal actors in Denmark is not estimated to decline over the next two years. This assessment should be seen in light of:

- A range of new opportunities for digital crime, which includes more extensive possibilities to run front operations; for instance, through the transfer of online banking access to a third party, access to completing transactions anywhere in the world and easier contact with many potential

victims in a short span of time, such as by means of phishing e-mails and favourable options to create contact between sellers and buyers of illegal goods using online fora.

- A rising number of reported economic crimes that may reflect increasing interest from parts of the criminal environment that have not traditionally dealt with this type of unlawful activity. The rising interest may be because economic crime is a profit-generating area in which there is no 'competition' for a limited demand (as in the controlled drugs market, for example).
- A crime picture that seems stable when it comes to other profit-motivated crime, in particular trafficking in controlled substances and pirated goods.

Prominent areas of risk

Currency exchange offices

A currency exchange office is a firm that exchanges currency as a business operation, either exclusively or as part of other business operations. About 65 exchange office firms are active in Denmark, the majority located in Greater Copenhagen.

Methods

- **Exchange of banknotes from a low denomination to a high denomination**
Banknotes in smaller denominations are changed to notes in higher denominations in another currency in order to conceal the origin of criminal proceeds and reduce their physical volume to make it easier carry them across borders and away from the authorities' spotlight.
- **Use of exchange offices to withdraw cash**
In recent years, the Money Laundering Secretariat has seen several examples of money being transferred electronically to an exchange office from a company involved in chain fraud, for example, whereupon the proceeds are withdrawn, enabling the payment of wages to un-registered workers or the carriage of the proceeds out of the country.

Risk assessment

The Money Laundering Secretariat received 529 reports from exchange offices in Denmark in 2014. The Secretariat does not believe that the number of reports from exchange offices reflects a true view of the estimated money laundering activity in the sector. Most reports received by the Money Laundering Secretariat are from the major, established currency exchange office chains, while smaller exchange offices are absent in the body of reporting data. It has moreover been observed that some exchange offices have failed to apply for registration in the Business Authority's HVL register, which has enabled them to operate without any supervision during a certain period. In 2013, the Secretariat received reports of suspicious transactions running into the hundred millions carried out at currency exchange offices. Currency exchange offices are used by a variety of criminal environments and misused for the laundering of proceeds from drug trafficking, robberies and other property crime and conventional economic crime.

Even if they have identical rules on client identification, currency exchange offices appear to be more attractive to criminal actors than other financial institutions. In 2012, the limit amount for when occasional clients had to prove their identity was reduced from DKK 100,000 to EUR 1,000, which provided stronger opportunities for anti-laundering action.

Legal business structures

Legal business structures can be categorised into two groups: undertakings with limited liability, where owners are only liable for the debts of the business to the extent of the company capital they have contributed or agreed to contribute (public limited companies, private limited companies, associations, etc.) and undertakings with unlimited liability, where owners are personally liable to the extent of everything they own (single proprietors, partnerships, etc.).

Methods

- **Combining legitimate and illegitimate funds**

Business undertakings are used to place criminal proceeds and commingle legitimate revenues with illegitimate funds. To make the funds appear legitimate, the undertakings issue false invoices, receipts and other documentation.

- **Anonymity**

Criminal actors can operate business firms anonymously using frontmen, thereby avoiding that their extensive fiscal and VAT fraud can be linked directly to them.

Risk assessment

Criminal actors use legal business structures in all phases of the money laundering process – placement, layering and integration. It is therefore not surprising that one or more business entities is involved in slightly more than 1/3 of all laundering reports, nor that business entities account for 2/3 of the total sum of suspicious transactions in terms of money. Setting up, registering a (non-financial) business in a company format is relatively fast, inexpensive and simple in Denmark, which makes companies readily accessible to persons who wish to launder criminal proceeds.

The measures aimed to prevent misuse of legal business structures for criminal activity are not effective. Widespread use of frontmen to found and manage companies, for example, is one means of evading disqualification. In addition, limited control, for instance of the documentation of the value of the companies' assets when they are established or in later capital increases, makes it relatively easy to set up companies on an unlawful basis. These conditions make legal business structures vulnerable to exploitation as money laundering vehicles.

Money remittance providers

Money remittance providers can move money quickly and safely to areas in which a formal banking sector does not necessarily exist. A number of international providers of money remittance services have operations in Denmark, doing business most frequently by means of small agents such as neighbourhood shops, travel agents, etc.

Money remitters may play an important role in the money laundering process, for example through swift electronic transfers, worldwide reach and having less stringent procedures for the identification of clients than the banks.

Methods

- **Division of large sums into small transfers**

Criminal actors often transfer several amounts over a couple of days in order to conceal the total amount. It may be carried through with the same or several different money remittance providers.

- **Use of frontmen to conceal the identity of the organisers**

Criminal actors use one or more frontmen – often young persons – to disguise the identity of either the criminal originator or the recipient of the funds transfers. The frontmen may either allow criminal actors to use bank accounts, or make the transactions themselves at the money remittance providers, acting on behalf of the criminals.

- **Acquisition or ownership of money remittance operations**

A method that is currently most prevalent abroad is the acquisition or establishment by criminal actors of their own money remittance firms, which gives them direct access to the means to launder their criminal proceeds. It requires greater resources from the police and other supervisory and enforcement authorities to detect the illegal nature of the business, one reason being that it is easier to supervise big chains and agents than stand-alone operations.

Risk assessment

Several criminal environments, including chain fraud operators, human trafficking networks, drug trafficking rings and perpetrators of tax crime and general fraud, use money remittance providers. The number of money laundering reports from money remittance providers is relatively high and rising. In 2014, 1,288 reports were received, against 700 – 800 in 2008 – 2009. In 2012, the Danish FSA upgraded money remittance providers to the highest sector-risk group.

Over the past few years, the big money remittance chains have become more alert and filed more reports on suspicious money transfers due to efficient monitoring systems, for example. The reports are most

frequently filed by the head offices of the providers, not by their agents, for which reason reports based on direct client contact are missing. The number of reports is very low for stand-alone and alternative money remitters, which may be due to lack of knowledge of the Money Laundering Act. In addition, the implementation of anti-laundering procedures in the remittance sector has been more sluggish than in the banking sector, for instance, because the operators usually have other core services such as retail sales or currency exchange activity.

The Money Laundering Secretariat has information that indicates misuse of the established financial system by unregistered money remittance providers when they make cross-border transfers. The FATF has pointed out that the existing Danish system for supervision of money remittance providers is too inefficient, because the police and supervisory authorities take too long to investigate and prosecute unregistered activity and operation.⁶ The FSA has limited resources available for controlling and monitoring all money remittance providers efficiently, particularly the numerous small stand-alone and agency operators.

International actors have issued alerts of an elevated risk from so-called alternative money remitters, a form of informal banking services based on cultural, historical or geographical tradition, the best known being the Middle Eastern Hawala system. The sector of alternative money remitters is often characterised by cultural or personal relations and therefore involves confidentiality, which has made it attractive for illegal transfer activity. In Denmark, all money remittance providers, including alternative money remitters, must have a licence to offer their services under the provisions of the Act on Payment Services and Electronic Funds, and all money remittance providers are subject to the Money Laundering Act as well. It is assessed that several unregistered alternative money remitters are in operation, thus increasing the risk of misuse.⁷

⁶ FATF-GAFI: "Money Laundering through Money Remittance and Currency Exchange Providers," June 2010, s. 20

⁷ Determining the extent of alternative money remittance activity involves substantial difficulty because the providers operate in an environment that may be near to inaccessible to supervisory authorities and the police.

Cash smuggling

Transporting money (cash, travellers' cheques, debt instruments, etc.) into and out of Denmark is not illegal, but failing to declare amounts above €10,000 or DKK 75,000 (or equivalent sums in other currencies) is a contravention of customs legislation.

As a starting point, the importation and exportation of large cash sums of criminal proceeds may be carried out in three ways:

1. By declaring the criminal proceeds to the customs as if they were legitimate funds and then carrying them across the border pretending they are legal funds.
2. By failing to declare the criminal proceeds to customs by either personal cash smuggling (for instance by hiding the cash on a person's body or in luggage or in a car) or by wholesale cash smuggling (by transporting the proceeds in large quantities hidden in containers and trucks across land or sea borders, for example).
3. By dispatching the criminal proceeds by postal and courier services.

Cash smuggling is used by criminal actors in connection with cross-border crime that involves buying and selling illicit goods (such as drugs) and laundering funds originating from fiscal or VAT fraud. To minimize weight and volume, cash is often smuggled using foreign high denomination banknotes (€200 and €500, for instance).

Methods

- **Placing criminal proceeds in jurisdictions with weaker AML control**
Cash is smuggled out of the country and placed in countries with weaker anti-laundering control in order to make the tracing, seizure or restraint of the proceeds more difficult for the authorities.
- **Smuggling cash to buy assets and valuables abroad**
Cash is smuggled out of the country to finance the purchase of real property, cars, jewellery or other luxury goods, which can be stored and used abroad or sold and the proceeds taken back to Denmark.
- **Smuggling cash to finance the purchase of illicit goods**
Cash is smuggled out of Denmark to be used in the purchase of illicit goods abroad, such as drugs, pirated goods, weapons, etc.

Risk assessment

Cash smuggling is an attractive option for criminals because it allows them to sever the electronic money trail, create distance to the crime scene and hide, place and invest illicit funds abroad. At the same time it does not per se require special expertise or planning to carry money from criminal sources across the border. Finally, cash is accepted everywhere and easy to transport because most criminal actors are accustomed to and comfortable handling cash.

As the financial sector in Denmark is getting better at complying with registration and reporting obligations, cash smuggling is assessed as being used increasingly to move criminal proceeds abroad.

Most contraventions of customs legislation in Denmark are detected at the point of exit. Compared to the other information held by the Money Laundering Secretariat about suspicious transactions carried out with foreign exchange in cash, it is estimated that the financial loss in cash smuggling is relatively large compared to the loss in other laundering options. This assessment should be considered in light of the fact that cash smuggling is believed to be primarily *from* Denmark *to* other countries, whereby the laundered funds leave Denmark.

Banks

In October 2014, the Danish FSA had registered 84 banks and 28 branches of foreign credit institutions in Denmark. A very substantial part of the illicit funds that are laundered will at some point move through a bank. Banks are attractive locations in which to place criminal proceeds because the sector has many customers and handles enormous volumes of transactions every day, which can make it possible to conceal suspicious transactions. To criminal actors, the efficient service of the banks (for instance online banking services) will frequently carry more weight than the risk of being detected.

Methods

- **Using accounts to place criminal proceeds**

Banks can be used to place large cash deposits (for example in the night safe system) on either personal or business accounts, whereupon the money can be passed around in the financial system.

- **Using accounts to disguise criminal proceeds**

Banks can be used to carry through faster transfers between a number of accounts, and large sums of cash can be withdrawn, for instance by withdrawing the maximum amount from cash dispensers several times on the same day. This approach has been seen frequently in connection with chain fraud.

- **Using accounts to move criminal proceeds abroad**

Accounts held at banks can be used to transfer money to countries with weaker AML control, making the tracking and restraint of the proceeds more difficult for the authorities.

Risk assessment

In recent years, banks have been used to launder proceeds from crime such as tax crime, criminal breach of trust, embezzlement and various types of fraud. The banking services and products that are misused will typically be regular deposit accounts (both business accounts and personal accounts, including youth accounts and children's accounts), domestic and international online bank transfers, cheques, credit cards, the night safe system and loans.

Banks are assessed continuously as being one of the most widely used laundering channels in Denmark. One of the reasons is that several of the banks' services and products are relatively easy and inexpensive to use. Because of the banks' correspondent banking connections, their customers moreover have access to financial markets worldwide, which contributes further to the banks' attractiveness as a laundering channel.

The number of STRs from banks has risen appreciably in recent years. However, several smaller banks have still not submitted any money laundering reports to the authorities. In the period 2012 to April 2014, 30 per cent of all Danish banks did not submit any reports, while 28 per cent filed only between 1 and 5 reports.

The gambling sector

In 2014, the gross gambling revenues in the Danish gambling sector reached approx. DKK 7.7 billion⁸. Particularly land-based betting and casinos are a traditional method used to launder proceeds from crime. Money launderers exploit the cash-based operation in parts of the gambling sector, the huge turnover and the large number of transactions, which makes it possible to camouflage illegal transactions among legal gambling activity. The laundering cases with relations to the gambling sector typically involve proceeds from drugs crime, unregistered income (tax evasion) and fraud using stolen credit card data.

Methods

- **Trading in winnings**

Prize receipts and coupons from land-based betting and lotteries, for example, may be traded for more than their nominal value and thus be used to cover up the origin of criminal funds.

- **Online gambling**

The Money Laundering Secretariat is aware of several cases in which stolen credit card data have been used to deposit amounts on online gambling accounts that have subsequently been paid out as 'winnings' and thereby, on the face of it, appear to be legitimate income on the gambler's bank account.

Risk assessment

The greatest risk of laundering in the gambling sector is assessed to be related to land-based betting (i.e. bets agreed by a gambler and a gambling provider who meet physically). Firstly, it is because winnings are proved by an issued receipt that can be used to conceal the origin of the funds deposited. Secondly, the gambler has the option of placing his cash deposit and (to a certain extent) withdrawing his winnings anonymously. Thirdly, it is easy to engage in land-based betting with gambling providers all over the country. At the same time, providers of land-based betting are not subject to any reporting duty, for which reason the detection risk is lower than in other types of gambling.

In respect of land-based casinos, the laundering risk is assessed to be low, primarily because Danish casinos do *not* issue receipts for prizes they pay out. In addition, it is not possible to have prizes transferred to a bank account, and it is not possible to be anonymous, because all gamblers must prove their identity at the entrance when visiting a casino. Finally, casinos are subject to a reporting duty, which raises the detection risk for those who attempt to launder money. However, casino gambling is still estimated to be a popular activity in certain criminal circles, so considerable sums of illicit money are assumed to be spent on gambling in land-based casinos.

⁸ Source: the Danish Gambling Authority

Generally, the risk of laundering via on-line gambling providers is generally assessed as low, one reason being that it is difficult to operate anonymously on an online gambling account, because there is a login requirement by means of a digital signature such as the NemID system. At the same time, most online gambling providers operate electronic monitoring systems designed to uncover cheating and inactivity, which raises the risk of detection for gamblers who try to launder money. The lack of reporting duty for providers of online betting is assessed, if considered as a detached issue, to increase the risk of money laundering for this online gambling segment.

Real estate

International experience has shown that the purchasing and leasing of real estate is among the methods used most frequently by organised criminals to launder proceeds from their crime. Denmark has seen several examples of criminal proceeds invested in real estate.

Methods

- **Manipulation of the value of a property**

In connection with trading real estate, criminal actors may fix the value above or below the market value, either to use their (cash) proceeds for the purchase or to create a 'legitimate' profit when reselling the property – for instance where the buyer and seller agree on a lower property value, whereupon the buyer resells the property at its market value (making a profit).

Risk assessment

The Money Laundering Secretariat believes that the laundering of criminal proceeds by means of the purchasing of real estate, either in this country or abroad, is relatively widely used in Denmark. There has been a rising trend among criminals to see the purchase of real estate either in Denmark or abroad as an attractive investment of criminal proceeds. In particular, properties abroad are popular, for instance in countries such as Thailand, Spain and Turkey, but the ownership of rental property is also used to some extent *inter alia* because the investment can bring legal returns on an ongoing basis. It may be difficult to determine whether proceeds from property sales or letting are the result of price developments in the property market or property improvements carried out by means of criminal funds.

In the period 2007 – 2012, the State Prosecutor's Asset Recovery Office restrained equity in real estate worth more than DKK 80 million. Thus, real estate is the asset category in which the Asset Recovery Office restrains criminal proceeds most frequently. For many of the criminals the motive has been obtaining or continuing a criminal and/or luxurious lifestyle. Ownership of real estate provides a tangible and permanent asset and furthermore serves as a long-term investment object. Real estate acquired for criminal proceeds may also serve as a means to obtain further funding opportunities such as loans, credits, etc., which may potentially help conceal the criminal activity.

Less prominent areas of risk

High value goods

There is no clear-cut definition of the concept of high-value goods. Basically, they are goods of a sufficiently high value such as precious metals (gold, silver, etc.), diamonds and other valuable minerals, cars, motorbikes, boats, aircraft, helicopters and other means of transport, machinery (for manufacturing and agriculture, for example), art and antiques and travel and sports clubs (club sponsorships, player sponsorships, ownership, etc.). Buying high value goods is not illegal, but it constitutes money laundering if the source of the money is criminal activity.

Methods

- **Cash purchase of high-value goods**

Cash payment for purchases of DKK 50,000 and above or an equivalent value in foreign currency is illegal. By contravening the cash prohibition and purchasing high-value goods and paying in cash that originates from crime, criminal actors can acquire assets that may be sold later, whereby the funds appear to be legitimate income from the sale of goods.

- **Investment of placed proceeds**

Once illegitimate funds have been placed in the financial system they may be invested in assets that make them appear to be legitimate. Danish authorities have seen investments of criminal proceeds in vehicles (cars, motorbikes), expensive watches, shares and to a lesser extent gold and precious stones.

Experience from abroad shows that areas such as sports (football and horse races), art/antiques, gold/precious stones and valuable minerals are used frequently.

Risk assessment

High-value goods serve as a means to transform criminal proceeds into a different type of asset, thereby removing them from the authorities' spotlight. High-value goods moreover appeal to criminals because they may lend prestige and have attraction power, with young people in particular, and may therefore help lure more persons into committing crime.

The DKK 50,000 cash prohibition rule has turned out to be an efficient barrier to organised money laundering by means of purchasing high-value goods, because it hampers the placement of cash from criminal proceeds.

In recent years, Danish authorities have had keen focus on measures to ensure that crime does not pay. SKAT, the central tax authority, takes an active part in police actions against organised criminal groups, and often levies execution against high-value property, if the owner has debts to public authorities or cannot account for the origin of the funds invested – if the owner lives off social benefits at the same time, for example.

Service providers

Service providers are undertakings that offer services to business operators. They may be company formation providers (setting up companies), office facility providers (offering addresses plus postal, switchboard and conference facilities, etc.) and individuals and/or companies that are both company formation and office facility providers (providing both the address and administration such as book-keeping, financial statements, management, etc.). About 200 service providers are in operation in Denmark, the majority of them providing company formation. They may be relied on by criminal actors to set up, host and administer companies used to transmit and receive proceeds of crime.

Methods

- **Transmitting criminal proceeds across national borders**

A company is formed and given an address at an office facility, whereupon large sums are transferred from abroad, for example proceeds from tax evasion, through the company's account to a third party abroad in order thereby to disguise the original source of the funds.

- **Setting up and managing complex company structures**

Service providers may assist in the formation and administration of companies in several countries in structures that may be used to evade tax and channel criminal proceeds to recipients abroad.

Risk assessment

Part of the services offered by service providers (forming companies, providing a registered office address, delivering receptionist services, bookkeeping, financial statements, management, etc.) are attractive to criminal actors who wish to disguise or conceal their association with a company, in particular if the service provider does not show any interest in the natural persons behind the served companies (the beneficial owners). To foreign criminal actors who wish to use Danish companies for laundering purposes, using a Danish service provider may be *especially* attractive due to their own lack of insight into the Danish rules on company formation, financial reporting, disclosure obligations, etc. At the same time, it may be difficult for service providers to detect money laundering because they do not always have insight into the financial transactions and activities carried out by their clients.

Service providers may be abused by criminal actors particularly after the proceeds of their crime have been introduced into the financial system and the funds need to be channelled through one or more companies (the layering phase). Against that background, it is assessed that using a service provider for laundering activity will require a certain amount of knowledge and expertise.

Electronic payment services and virtual currencies

Electronic payment services and virtual currencies are used increasingly as part of the globalised economy. Their dynamic character and rapid technological development provide opportunities to criminals, who take advantage of these systems for money laundering.

Methods

- **Disguising the proceeds of crime**

Criminal actors can use virtual currencies to move proceeds from online crime such as breaking into online banks and credit card fraud to anonymous electronic accounts, from which the funds are withdrawn by means of a so-called 'exchanger', who offers to exchange virtual currency into real currency.

- **Exploiting limited customer contact**

Criminals may take advantage of the limited customer contact that characterises many electronic payment services, for instance to open accounts used to operate unregistered business activity or deposit sales revenues on which VAT is evaded.

Risk assessment

The opportunities to deposit and withdraw amounts anonymously and carry through transactions swiftly and without being noticed anywhere in the world make electronic payment services and virtual currencies highly attractive to criminals who wish to launder proceeds or purchase illegitimate goods and services. Especially criminal actors who perpetrate various types of online crime may exploit electronic payment services and virtual currencies to blur the money trail, before the illegitimate funds are removed from the financial system.

The Money Laundering Secretariat continues to receive increasing numbers of reports of abuse of electronic payment services and virtual currencies for laundering purposes. At the same time, the number of reports on data fraud is rising, and because electronic payment services and virtual currencies are used typically in connection with online crime, the laundering activity in this area is assessed to be growing.

Legal and accounting professionals

The Danish legal profession comprises about 4,700 attorneys working in about 1,800 law firms⁹. The accounting and book-keeping profession comprises almost 4,300 firms employing more than 14,000 full-time accountants¹⁰. Both law and accounting firms may be utilised unknowingly to support money laundering and, in certain cases, also have insight into criminal activity and take an active part in it.

Methods

- **Use of professional services to lend legitimacy to criminal activity**

By using the services offered by professionals, criminal actors can lend legitimacy to their activity: for example, by engaging accountants to assist in the formation and registration of companies, at times using forged documents, by obtaining an auditors' report on a set of dubious financial statements or relying on a debt instrument drafted by an attorney to cloak fictitious loans.

- **Formation and administration of complex company structures**

Professionals may assist in the formation and administration of companies in several countries, which their clients require in order to evade tax and move criminal proceeds out of the country.

- **Misuse of client or business accounts**

When proceeds of crime are passed through a client or business account, the illegitimate funds may take on the appearance of being payments from a respectable source.

Risk assessment

The Money Laundering Secretariat does not have any indications that Danish attorneys or accountants are frequently used *unknowingly* to underpin laundering activity. Regarding attorneys and accountants who support, provide guidance on and take an active part in crime, the scope is assessed, with a certain amount of uncertainty, to be modest. Despite the limited scope, there are substantial consequences when lawyers and accountants provide assistance and counselling to criminal networks on how to set up structures and barriers that make it difficult to uncover and prosecute the financial sides of organised crime, in particular. Such assistance may lead to potential distortion of competition (due to greater acceptance of risk and lower pricing in the companies involved), increase the commingling of legal and illegal business activity and lower the risk involved in taking part in organised crime. It is therefore imperative for the legal and accounting professions, which submit few reports generally, to maintain focus on their anti-money laundering obligations.

⁹ Source: Danish law practitioners – facts on the legal profession

¹⁰ Source: Statistics Denmark: GF2

Life assurance companies and pension funds

Life assurance and pension companies, of which 36 are in operation in Denmark (October 2013), are subject to the Money Laundering Act. Life insurers and multi-employer pension funds must therefore comply with the requirements of the Act in respect of customer identification, due attention obligations, monitoring customer transactions, investigation, recording and reporting duties and duties to retain records.

Methods

- **Extraordinary payments on pension schemes withdrawn prematurely**

International experience includes examples of life assurance companies that have been used for money laundering; for instance, where criminal funds are used to pay extraordinary contributions to a pension scheme, which are subsequently withdrawn prematurely, making the funds appear as legitimate benefit payments from the life assurance company.

Risk assessment

The Money Laundering Secretariat has received no information about cases in which life assurance companies and pension funds have been used in money laundering activity in Denmark. The attractiveness to criminal actors of using life assurance and pension schemes to launder money in Denmark is reduced significantly by the fact that benefits *cannot* avoid taxation – because the pension company – never the taxable client – always administers and complies with current tax legislation on the client's behalf. In addition, premature termination of a pension scheme will trigger taxation at the rate of 60 per cent on the amount disbursed. Furthermore, all insurance policy holders are identified by their civil registration numbers, which limits the chances of acting anonymously, and all contributions to Danish life assurance and pension policies are made from accounts at recognised banks and reported to the tax authorities at least once every year. Upwards of nine out of ten personnel schemes are administered by employers, who determine the size of pension contributions, for instance - not by the insured persons themselves. Against that background, the risk of money laundering using life assurance companies and pension funds is assessed to be low¹¹.

¹¹ For a more detailed review of the particular risk elements, please refer to the report "Life assurance companies and multi-employer pension funds – Analysis of risk of money laundering and terrorism financing" (2014) [in Danish], prepared by the Danish FSA in collaboration with the insurance and pension industry association and the State Prosecutor for Serious Economic and International Crime.

Countermeasures

The identified risk of proceeds from crime being laundered requires adequate countermeasures able to meet the threats of an illicit economy to Danish and international society. The Money Laundering Secretariat wants to pinpoint four relevant and necessary countermeasures:

- Collection and communication of financial intelligence to identify vulnerable points in the anti-laundering measures deployed and understand existing and new laundering methods
- Enforcement of anti-laundering legislation to identify and contain the risk of money laundering
- Well-developed cross-sector collaboration on preventing and investigating laundering activity
- Cooperation with the private sector to reinforce the effects of current anti-money laundering initiatives

The Money Laundering Secretariat, Denmark's financial intelligence unit, is a central actor in the roll-out of these countermeasures. Under the provisions of the Money Laundering Act, the Secretariat receives all reports on suspicious transactions registered in identified segments of the private business sector and is responsible for the analysis and communication of this financial intelligence to authorities in Denmark and financial intelligence units abroad. This cooperation and exchange of financial intelligence will support the efforts to prevent the laundering of proceeds from crime as well as back up the operational sides of the work of the police and prosecution service in fighting profit-motivated crime in many countries.

A central task for the police and prosecution service in Denmark is leading the combat against heavy cross-border crime that may jeopardise social developments and subvert the public sense of justice. It was specified in the general strategy for the police and prosecution service for 2011 – 2015 that one approach to tackling this challenge would be analysis-driven cooperation with other authorities and international cooperative partners. This means that the Money Laundering Secretariat's collection and communication of financial intelligence should help develop an inclusive strategy to combat and prevent crime - capturing important signals and trends in society, responding consistently to them and deploying other resources in society to achieve holistic solutions.

Efficient implementation of anti-money laundering legislation in the private sector is imperative, both to prevent criminal abuse of the sector for money laundering purposes and to reinforce the Money Laundering Secretariat's collection of financial intelligence reports on suspicious activity, which cannot be kept outside the sector despite all the preventive measures taken. The FSA, the Business Authority, the Gambling Authority and the Bar and Law Society monitor the private sector's performance in complying with anti-money laundering legislation. These monitoring activities therefore fill an important role in the enforcement of anti-laundering legislation.

The authorities involved in fighting money laundering are collaborating in the Danish Anti-Laundering Forum, with the goal of identifying and containing the risks and understanding how existing and novel laundering methods work. While this knowledge contributes to supporting effective enforcement of anti-laundering legislation, it is also crucial to ensure that it is communicated to the private sector. To this end, the authorities issue guidelines and threat assessments, attend meetings with industry-specific interest organisations and consult regularly with the business undertakings whose daily work includes countering attempts to launder money.

Appendix A. Risk assessment model

RISK FACTOR		Low risk	Medium risk	High risk
Threat	SCOPE	<p>Few with abilities and capacity</p> <p><i>As far as is known, the channel is not used or only by a small group in criminal environments.</i></p>	<p>Some with abilities and capacity (or unknown)</p> <p><i>As far as is known, the channel is used by a moderate number of individuals in criminal environments.</i></p>	<p>Many with abilities and capacity</p> <p><i>As far as is known, the channel is used by many parts of the criminal environments.</i></p>
	DEVELOPMENTS	<p>Less than previously</p> <p><i>As far as is known, the channel is used less than previously</i></p>	<p>Status quo (or unknown)</p> <p><i>As far as is known, the channel is used to the same extent as previously.</i></p>	<p>More than previously</p> <p><i>As far as is known, the channel is used more than previously.</i></p>
Vulnerability	ACCESSIBILITY (Ease of use)	<p>Difficult</p> <p><i>Access is difficult, associated with considerable cost, using it requires extensive planning, knowledge and/or technical expertise.</i></p>	<p>Moderate</p> <p><i>Reasonably accessible, associated with limited cost, using it requires moderate planning, knowledge and/or technical expertise.</i></p>	<p>Easy</p> <p><i>Easily accessible, associated with low cost, using it requires less or no planning, knowledge and/or technical expertise.</i></p>
	COUNTER-MEASURES	<p>Significant</p> <p><i>Supervisory and control bodies are adequate, and laundering attempts are likely to be detected.</i></p>	<p>Limited</p> <p><i>Supervisory and control bodies are limited, and laundering attempts are not too likely to be detected.</i></p>	<p>Non-existent</p> <p><i>Detection is difficult. Supervisory and control bodies are weak or non-existent. There are few indicators of suspicious transaction behaviour.</i></p>
Consequence	ECONOMIC LOSS	<p>Low loss</p> <p><i>The amount estimated to be laundered is low. Laundered money remains in Denmark.</i></p>	<p>Moderate losses</p> <p><i>The amount estimated to be laundered is moderate. Some of the laundered money is transferred abroad.</i></p>	<p>Heavy losses</p> <p><i>The amount estimated to be laundered is moderate or large. The greater part of the laundered money is transferred abroad.</i></p>
	CONSEQUENCE TO SOCIETY	<p>Little or no significance</p> <p><i>No individuals outside criminal circles are affected or suffer any harm or loss.</i></p>	<p>Moderate Significance</p> <p><i>Several individuals outside criminal circles are affected or suffer harm or loss.</i></p>	<p>Great significance</p> <p><i>Many individuals outside criminal circles suffer harm or loss.</i></p>