

Ethnic Chinese Money Laundering in the UK

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Purpose: This paper has been commissioned to inform partners in the UK of the threat posed by ethnic Chinese money laundering, using intelligence and insight from investigations across the UK.

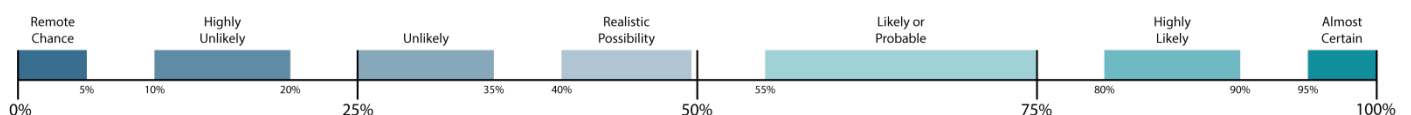
In this paper, the term 'Ethnic Chinese Money Laundering' refers to money laundering conducted by organised crime groups comprised entirely or mainly of persons of Chinese ethnicity.

It addresses the following questions:

- What is the scale and nature of ethnic Chinese money laundering in the UK?
- What do we know about the money laundering typologies employed by ethnic Chinese money laundering groups?
- What are the overseas drivers and what are the vulnerabilities exploited?
- What do we know about how networks are established and how they grow?
- What are the key intelligence gaps?

Team: Economic Crime Team, National Assessments Centre

Language of Probability: Throughout this paper, language of probability is used which is defined by the Professional Head of Intelligence Assessment (PHIA) 'Probability Yardstick'. The probability ranges for such terms are as follows:



Key Judgements

- The threat from Ethnic Chinese money laundering in the UK is increasing, in respect of both the number of groups operating and their capacity and capability. The main drivers of the threat appear to be the Chinese government's policy and regulations regarding personal foreign exchange transactions and the removal of capital from China, coupled with the increasing restrictions on access to banking for Money Service Businesses (MSBs).
- The laundering identified exploits a particular type of Informal Value Transfer System (IVTS), known as 'Chinese Underground banking', that is deeply ingrained in the Chinese community in the UK, along with the increasing phenomenon of 'Daigou', the practice of the purchase of high end goods in the UK which are shipped to China and sold at a profit. Both rely on the availability of large amounts of cash, which can readily be supplied by criminal groups.
- The scale of the threat is significant, with one bank alone identifying more than 14,000 compromised bank accounts, through which over £100 million was laundered in a 12 month period. Another financial institution identified a further £30-40 million in the same period through the use of compromised payment cards, highlighting the continuing need for dialogue between law enforcement and private sector partners to combat the threat.
- Bank accounts set up by Chinese students studying in the UK are widely used by money laundering groups to consolidate and move cash derived from criminal activity. It is likely that the Chinese students are recruited into this activity through Chinese social media applications.
- The nature of the operation of the money laundering groups so far identified implies the existence of Chinese 'controllers' who have access to pools of funds in multiple locations and can service the needs of multiple criminal groups. The identity and location of these individuals remains an intelligence gap, as does the extent and nature of any co-ordination between different networks.

The Scale and Nature of the Threat

1. Money laundering by UK based groups comprised of ethnic Chinese nationals presents a significant threat to the UK. The scale of the threat is unquantified, however the increase in the number of Chinese money laundering groups identified across the UK, alongside the capability and risk appetite of these groups, suggests that the value of funds laundered is likely to be in the order of hundreds of millions of pounds per year.
2. The threat has existed since at least 2012 but has escalated significantly over the last five years, with the rate of escalation increasing between 2016 and present. The threat is present across the UK, with cases identified in London, Manchester, Birmingham, Leicestershire, Gloucestershire, Yorkshire and Northern Ireland. Intelligence suggests similar groups are active in Wales and Scotland.
3. Before mid-2016, when banks started to view the MSB sector as an unacceptable risk, MSBs played an important role in processing cash and payments for the Chinese community in the UK. The reluctance of banks to offer banking facilities to MSBs, leading to the large scale closure of MSB bank accounts, and the increasing restrictions on cash processing facilities by other major suppliers such as the Post Office, has led to MSBs finding it increasingly difficult to deal with large volumes of cash. This has led to the Chinese community in the UK increasingly turning to a form of IVTS to move funds between the UK and China.

Underground Banking in the Chinese Community

4. Underground Banking in the Chinese community (also referred to as Chinese Underground Banking) is a form of IVTS, commonplace within the Chinese community in the UK. Aside from the increasing restrictions on access to bank accounts for MSBs, it is likely that its prevalence is largely due to the Chinese government's policy and regulations regarding personal foreign exchange transactions and the removal of capital from China.
5. In China, these matters are controlled by the State Administration of Foreign Exchange (SAFE), which has, since 1998, been a governmental agency under the control of the Peoples Bank of China. SAFE has a number of responsibilities including drafting regulations and policy related to foreign exchange and supervising and inspecting forex transactions.
6. Under these regulations, the maximum value of foreign exchange transactions permissible by a Chinese citizen in a calendar year is the equivalent of USD 50,000. In addition, since 2017, the maximum permissible value of overseas withdrawals by a private individual using a Chinese bank card has been set at RMB 100,000 – approximately USD 15,400. Chinese citizens wishing to transfer money out of China, up to the USD 50,000 cap, are required to do so via a bank, and to seek permission from SAFE first.
7. In addition, financial institutions on the Chinese mainland are currently required to report all cash deposits or withdrawals valued over RMB 50,000 (or an amount equivalent to USD 10,000 in foreign currencies) to the Peoples Bank of China. For cross-border transactions settled in Renminbi¹, the reporting level is RMB 200,000. Passengers leaving China with RMB 20,000 cash or above, or any foreign currencies in cash equivalent to USD 5,000 or above, must complete a declaration form and pass through the "Goods to Declare Channel" (Red Channel) at international airports, seaports, train or bus stations.
8. The practical effect of these provisions is that it is extremely difficult for any private individual to move large amounts of funds, whatever their origin, out of China legitimately, achieving the goal of the legislation.

¹ 'Renmimbi' translates as 'the people's currency'; the basic unit of the Renminbi is the Chinese Yuan.

9. Media reporting suggests that many wealthy Chinese citizens are keen to invest in the UK, including by buying property. Thus, a thriving market has developed, between China and in many western countries, which facilitates the transfer of large amounts of funds out of the country, in contravention of the laws of China.
10. There are a number of ways in which Chinese citizens evade their home country's currency controls. These include splitting a larger total into amounts of less than USD 50,000 and persuading friends and family members to use their 'allowance' to send the money to a single recipient, and disguising the funds as a series of business transactions which are remitted to the ultimate destination outside China via a series of company bank accounts, often via Hong Kong. In China, businesses that are involved in this type of activity are known as 'underground money shops', and the Chinese government undertake numerous prosecutions of such businesses every year (Over 500 between 2007 and 2011; media reporting suggests 192 in the first eight months of 2016).
11. An alternative method of evading China's currency controls, which is used frequently by Chinese nationals in the UK and in many other Western countries, is to use underground banking. This involves paying the amount required to be remitted overseas to a bank account controlled by a Chinese IVTS provider, who then arranges for a reciprocal payment to be made into a bank account of the remitter's choice in the UK (or wherever the chosen destination is).
12. This form of IVTS is frequently encountered in many countries where there is a significant expatriate Chinese community. As one of the main drivers for this activity is the restrictions on moving money out of China, it is likely that any Chinese national wishing to move funds anywhere out of China will be drawn towards this methodology. Chinese IVTS providers will gain more customers, and therefore make more money, if they are able to offer their clients the ability to move funds to a wide range of destinations, rather than just one. It is highly likely that they endeavour to build their networks in numerous countries, and so develop the ability not only to move value between China and elsewhere, but also between any countries where they have a presence.
13. It is highly likely that it is this ability to move funds between jurisdictions other than China that makes this form of IVTS attractive to criminal groups. They can dispose of the cash that they have made from their illegal activities by handing it to a Chinese IVTS provider who needs it for another purpose, and receive the value in a location where the IVTS provider has a presence and the ability to make a reciprocal payment.
14. It is highly likely that this is achieved by having access to pools of funds in each location; funds are received into one and a corresponding payment is made from another. These pools of funds are commonly referred to as 'cash pools' but the funds are not always held in the form of cash; they can also be assets in company and personal bank accounts. This system also has the benefit of being an efficient method of foreign exchange, as the cash received at the pay-out location will be in the currency of the host country.
15. The payment by the Chinese IVTS provider into the recipient's UK account is frequently made in cash, 'smurfed'² or broken down into a large number of smaller amounts, often paid in at branches in numerous widely spaced locations. Alternatively, payments are received from one or more bank accounts of other Chinese nationals, into which cash has been 'smurfed' previously on the instruction of the Chinese IVTS provider. In order for this to happen, the Chinese IVTS provider has three requirements; access to bank accounts, ready access to a supply of cash and access to network co-ordinators.

Access to bank accounts

16. Access is needed to a large number of bank accounts in the destination country into which large amounts of cash can be deposited; accounts over which the IVTS provider can exercise an element

² The practice of breaking down a cash deposit into small sums in an effort to evade perceived reporting restrictions

of control. This could be either through the genuine account holder, or through some other method, such as acquiring online banking credentials from them (Widely referred to as 'mule accounts').

17. Chinese IVTS providers are readily able to source mule accounts in the UK. The majority of these bank accounts appear to have been initially set up by Chinese students studying in the UK,³ who have been recruited by members of Chinese money laundering groups through social media, including 'WeChat'. It is likely that some students set up multiple bank accounts with different banks, and hand control of these accounts to the money laundering group, for a financial reward; alternatively, they may hand control of their accounts to the money laundering group when they return to China on the completion of their studies.
18. Chinese students are recruited into this activity by being told that they are providing money transmission services for other students, and unbanked Chinese citizens working in the UK. It is likely that, at least initially, once cash is received into their accounts, they make a payment from an account they control in China to an account controlled by the person who recruited them.
19. Students who regularly allow their accounts to be used for a fee may become more active within the money laundering group, and may be tasked with collecting cash from the group's criminal customers, consolidating it and paying it into student bank accounts. It is likely that at this stage students undertaking this activity are aware, or at least suspicious of, the criminal origin of the cash that they are handling.
20. This process gives the money laundering group additional opportunities for the ready dispersal of criminally derived cash, with the added advantage of not having to settle a transaction on behalf of the student in return. In one case, the money laundering group was able to gain control of approximately 600 accounts held with just one bank, with the group known to control accounts with multiple financial institutions.
21. It is likely that funds from bank accounts controlled by Chinese money laundering groups may be transferred into other accounts held by businesses involved in the export of high end luxury goods to China; in effect a form of trade based money laundering. It is likely such goods are mis-described or undervalued on import into China in order to evade customs controls and import duties and taxes.

Ready access to a supply of cash

22. Because the use of this form of IVTS is widespread and deeply ingrained in the Chinese community, the amount of cash needed to service this demand in the UK is very large. Since the legitimate use of cash in significant volumes in the UK (and most Western countries) is relatively unusual, due to the continual refinement of anti-money laundering regulations, Chinese IVTS providers frequently source the cash they need from groups involved in a wide range of commodity based criminal activity, such as drug trafficking, cigarette smuggling and organised immigration crime.
23. Cash collectors working for UK based Chinese IVTS providers have accepted cash from persons associated to criminal groups across the country, including in London, Birmingham, Manchester, Leicestershire, Gloucestershire, Yorkshire and Northern Ireland. The criminality involved includes trafficking in class A drugs.
24. In some cases, cash seized from Chinese cash collectors has been found to contain a significant proportion of Scottish and Northern Ireland banknotes, which has long been accepted in the UK as an indicator that the cash is likely to be derived from some form of criminal activity.
25. In many cases the amounts of cash being exchanged has been between GBP 300,000 – 500,000. This figure is significantly in excess of the GBP 50,000 – 100,000 normally encountered in similar

³ Figures from the UK Council for International Student Affairs (UKCISA) identify that in 2016/17, there were more than 110,000 students from China and Hong Kong studying in the UK – approximately a quarter of all international students in the UK. This is more than six times the size of the next largest non UK student population (17,500 – the USA).

situations where the money laundering group is known to be controlled by Indian or Pakistani nationals. This suggests that Chinese IVTS suppliers may have a greater risk appetite than their South Asian counterparts.

26. The operating practices and methods employed by Chinese cash collectors at these handovers are largely similar to their South Asian counterparts. These include the use of postcodes, sent between parties on mobile phones (often using the 'WeChat' messaging and social media platform), to identify handover locations, the use of 'tokens' to authenticate the identity of the parties to the handover, and the maintaining of handwritten 'ledgers' by the collector recording amounts of cash collected and disbursed and the exchange rates applied to each transaction.

Access to network co-ordinators

27. As their networks grow, Chinese IVTS providers need to employ people in the UK who are willing to manage part of their network on their behalf. In turn, these people will need to recruit others to perform a range of functions. These will include collecting cash from criminal groups, dispersing it according to their instructions (usually by paying it into mule accounts), and identifying and acquiring access to bank accounts.

28. In the UK, the activities of individual cash collectors are co-ordinated by other persons, leading to the formation of loose and informal networks which facilitate the receipt, management and dispersal of larger amounts of cash across wider geographical areas. The extent and nature of the management of UK based networks from overseas, is currently an intelligence gap, as is the extent to which networks in the UK collaborate with each other. However, given the similarities between the methods of operation of south Asian and Chinese networks within the UK, it is almost certain that Chinese 'international controllers' exist and conduct operations within the UK.

29. In some cases, there are irregularities in the immigration status of individuals whose bank accounts are exploited or taken over by money laundering groups, and by 'representatives' collecting and disbursing cash. These irregularities include not returning to China on the expiration of student or work visas, and in one significant case, a large scale fraud on the UK's Tier 1 investment visa programme, whereby over 100 Chinese nationals were able to obtain visas based on falsified documents demonstrating fictitious GBP 1 million investments in UK companies.

Daigou

30. Daigou (pronounced 'dye-go', or sometimes 'dye-goo') is a Chinese term which roughly translates to 'buying on behalf of'. It relates to another practice commonplace in Western countries with a sizeable expatriate Chinese community, that of purchasing goods on behalf of third parties back in China. The term applies both to the activity and the persons carrying it out.

31. In China, luxury goods are often subject to significant import tariffs, and so can be very expensive to buy. Counterfeiting of designer brands is also rife. Also, a widely reported scandal in 2008, involving babies in China dying after being fed counterfeit or tainted locally produced infant formula milk has resulted in a significant demand in China for western produced infant formula milk. A flourishing market has therefore developed whereby Chinese nationals in the UK (and many other Western countries) purchase large amounts of high end branded goods and infant formula milk, and ship them back to China to sell them there.

32. This practice can be highly lucrative and for some has extended beyond servicing the needs of immediate friends and family, with some Daigou making substantial sums by selling goods on online marketplace sites such as TaoBao (a Chinese company similar to eBay). This activity is not illegal in China as long as all local laws are complied with. However in practice many Daigou flout the law by importing the goods into China without paying the required import duties and taxes, in order to enable them to sell the goods cheaper than official outlets, and some bribe customs officials to evade controls.

33. In addition, many Daigou do not pay the required income tax on their income in China. The Chinese Government has announced an intention to introduce a new e-commerce law in January 2019 which is designed to crack down on illegal practices in this industry. This legislation will introduce a number of requirements on Daigou including the obligation to register with the Government before operating an online business, which is likely to lead to the practice being driven further underground.
34. Daigou operating in the UK experience significant difficulty in funding their activities, as the restrictions on moving money imposed by SAFE prevents them removing the proceeds of their sales from China. It is therefore common for them to rely on the same form of IVTS, with many receiving criminally derived cash directly into their UK bank accounts, or wire transfers from mule accounts set up in the name of other Chinese nationals, into which criminally derived cash has previously been 'smurfed'. It is highly likely that the Daigou then pay out the equivalent value to the cash they receive, less any service fee charged, to the IVTS provider in China using the funds derived from the sale of the clothes or other luxury items, with the Daigou retaining any profit from their activities.
35. In the UK, an additional effect of the growing prominence of Daigou is the increase in the fraudulent abuse of the HM Revenue & Customs (HMRC) VAT 407 retail export scheme, which allows VAT to be reclaimed on goods purchased in retail stores in the UK that are intended to be exported. In addition, some high end stores provide a service to customers whereby they assist in the reclaim of the VAT under this scheme, and also ship the goods on behalf of their customers.

Gambling

36. Whilst some forms of gambling, such as lotteries and sports betting, are legal in mainland China under Article 303 of the Criminal Law of the People's Republic of China, many other kinds such as casino games, are not. However, gambling is deeply rooted in Chinese society and gambling in many forms is extremely popular amongst Chinese nationals in the UK, who face no such restrictions.
37. As is the case for Chinese property investors and Daigou, Chinese nationals wishing to use funds located in China to gamble in the UK, face numerous difficulties getting these funds to where they need them. Analysis of Suspicious Activity Reports (SARs) suggests that they also make use of the services provided by Chinese IVTS providers for this purpose.
38. Bank accounts held by Chinese nationals are funded by multiple cash deposits made in numerous different locations, many of which are remote from the customer's home. These funds are then used for gambling purposes, either in casinos or on online gambling sites. In many cases the customer is making significant losses on this activity. It is highly likely that this represents gambling as a leisure interest rather than as a method of laundering criminal funds, with the customer making a reciprocal payment to a bank account in China controlled by the IVTS provider.
39. Other less common examples of gambling establishments being used as a probable money laundering vehicle by Chinese nationals include cash taken into a casino, used to 'buy in' for chips. These are either gambled sparingly or not at all before cashing out again, and the use of gambling activity to provide false provenance for cash deposits into bank accounts.

Abuse of the UK Financial Sector

40. One financial institution has identified a large scale money laundering network responsible for laundering significant volumes of cash through the UK banking system via personal banking beneficiary accounts. The personal banking relationship used to facilitate the deposits are often not held in the name of the persons actually depositing the cash.

41. Over 100 depositors have been identified who have made cash deposits into over 14,000 personal bank accounts held or set up predominantly by Chinese students. The amount of cash deposited into these accounts in a 12 month period totalled in excess of GBP 100 million, with some of the depositors having deposited over GBP 2.5 million each. The recipient bank accounts are held all over the UK, with clear patterns of activity across the UK.
42. Some of the cash deposited into the accounts is used for Daigou purposes, with a limited number of corporate entities also using the funds to clear credit card expenditure. Some of the recipient accounts have also received high value funds transfers from China, a possible indicator of underground money shop activity.
43. Another financial institution has identified that its charge cards are also being exploited by Chinese individuals. The practice involves groups of linked individuals holding multiple cards issued on linked accounts, which are used to purchase designer goods in high end retail stores in the UK. Typical individual transactions are for up to GBP 4000-5000 a time, and there can be 30-40 such transactions carried out on the linked cards a day. Some of the UK based networks identified are spending GBP 3 million to GBP 4 million per month in this way.
44. Settlement of the combined spending on all of the linked cards is made from up to 60 debit cards, none of which appear to be in the name of the charge card holders. The debit cards used to settle the accounts need not be in the UK or linked to UK based accounts, meaning that this system can potentially be used to transfer funds from anywhere in the world to the UK. It is a realistic possibility that the bank accounts being used to settle the balances on the card accounts may be being funded with criminally derived cash.
45. The total value of this activity in the UK is estimated by the financial institution in question to be at least GBP30-40 million per year.

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