



# THE THB FINANCIAL BUSINESS MODEL

## Assessing the Current State of Knowledge

### July 2015

This Europol product is descriptive and oriented towards explaining the current crime situation providing an overview of all relevant factors (OCGs, criminal markets, and geographical dimension).

# TABLE OF CONTENTS

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- 1. KEY FINDINGS #3**
- 2. INTRODUCTION #4**
- 3. MONEY LAUNDERING AND FINANCIAL INVESTIGATIONS #4**
- 4. MONEY FLOWS WITHIN OCGs #5**
  - 4.1. The profit from trafficking
  - 4.2. International dimension
  - 4.3. Structure and roles
- 5. MODI OPERANDI #6**
  - 5.1. The banking system
  - 5.2. Money Service Businesses
  - 5.3. The movement of cash
  - 5.4. Legal Business Structures
  - 5.5. Informal Value Transfer Systems
  - 5.6. New payment methods
  - 5.7. High value goods
  - 5.8. Real estate
- 6. LINKS WITH OTHER CRIME AREAS #9**
  - 6.1. Income from other crime areas
  - 6.2. Use of victims in other criminal activities
- 7. CRIME RELEVANT FACTORS #10**
  - 7.1. Technology
  - 7.2. The economic crisis
  - 7.3. Schengen
  - 7.4. The 500 euro banknote
- 8. Annex #13**

# 1. KEY FINDINGS

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- ◇ Organised crime groups (OCGs) involved in the trafficking of human beings (THB) tend to work independently from other groups and launder their own criminal proceeds with little use of experts.
- ◇ OCGs are mainly small and based on family and ethnic ties. The family cell is used to support trafficking operations and money laundering activities.
- ◇ OCGs are expanding their scope of activities internationally but still use low-cost business models.
- ◇ There are no new methods of money laundering specific to THB groups, but the exploitation of innovative technologies is increasing.
- ◇ OCGs augmented their use of cash to send money back to their countries of origin, as an alternative to increasingly controlled banking systems.
- ◇ Victims are increasingly used by traffickers for criminal purposes, such as begging, benefit fraud, identity fraud, credit fraud and insurance fraud.
- ◇ Financial institutions, Money Service Businesses (MSBs) and other types of financial providers are most at risk to be exploited by the money laundering activities of OCGs.
- ◇ Legal Business Structures (LBS) - either owned outright by the OCG or unwittingly infiltrated - can be used as a way to launder the proceeds of trafficking activities.

## 2. INTRODUCTION

<sup>1</sup> European Union: European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions. The EU Strategy towards the Eradication of Trafficking in Human Beings 2012-2016, 19 June 2012, Com (2012) 286 final.

Organised crime groups involved in THB<sup>1</sup> have successfully combined illicit practices with strong business and technical skills. This makes them highly profitable, low risk and resilient to law enforcement actions. Their evolution into a professionalised and flexible service represents a growing challenge for EU law enforcement agencies (LEAs). In addition to the robust business model established by THB OCGs, there is a significant intelligence gap amongst LEAs regarding the financial aspects of THB. It is often unclear how much profit traffickers make, how proceeds are laundered and where they are invested. This partial knowledge base is a direct

consequence of the limited amount of financial investigations conducted into THB proceeds, and in turn results in difficulties identifying and prosecuting OCGs involved in THB.

The basis for this report lays in several key documents, including the UN Palermo Protocol (2000)<sup>ii</sup>, the EU Anti-Trafficking Directive (2011)<sup>iii</sup>, and the EU Strategy towards the Eradication of THB (2012-2016)<sup>1</sup>. They establish that a comprehensive, integrated and more effective European anti-trafficking policy is required in order to increase the existing knowledge on THB.

## 3. MONEY LAUNDERING AND FINANCIAL INVESTIGATIONS

All OCGs need to launder the proceeds of their activities. As shown in Figure 1, the money laundering process typically consists of three phases: placement, layering and integration. Money derived from criminal activities is placed into the legitimate financial system, moved among several recipients internationally (e.g. personal or business accounts) and then returned to the criminal group from seemingly legitimate sources.

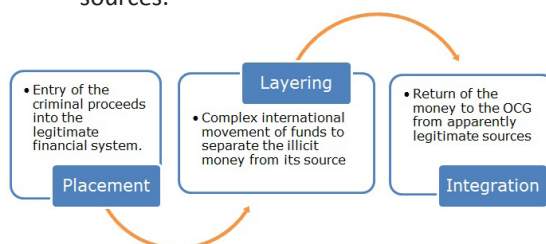


Figure 1. The money laundering process

In most cases, THB related criminal proceeds are placed into the financial system through deposits or cash delivery to MSBs, and then layered either via the mainstream banking system or via MSBs. These transfers are a valuable source of information on the processes used by THB groups to launder their money. They indicate who is sending money, how much, how often, from where, and to whom. In that sense, the financial investigation of proceeds from THB can be a very useful tool to identify the supporting financial structures of OCGs, to disrupt THB networks and to confiscate THB proceeds.

The analysis of financial transfers between individuals makes it possible to identify the main senders and receivers of money within a given period, allowing for the identification

of core members and associates of OCGs. This tool enables law enforcement to determine the relationships between OCG members, and provides new lines of enquiry by identifying links between suspects and persons previously unknown to investigators.

The financial analysis of money transfers by an OCG may result in the following findings:

1. The largest amounts of money are sent by persons associated with the main members of the OCG.

2. Senders include women carrying out multiple transactions on a frequent basis. They can either be victims sending their income, or associates of the OCG who collect and send money from victims.

3. Some individuals only receive money and show no record of sending money to others. They could be holding a leadership position within the group or be acting as a money mule, withdrawing the money and handing cash to other members.

## 4. MONEY FLOWS WITHIN OCGS

As mentioned above, financial investigations can provide law enforcement with a clearer picture of how a THB OCG works through the analysis of money flows among members and external associates. This section will demonstrate how THB OCGs are structured at the financial level. In particular, it will show how criminal proceeds are moved by OCG members between the country of exploitation and the country of origin.

### 4.1. The profit from trafficking

Based on the information available to Europol, it is challenging to estimate the overall profits derived from THB activities in the EU. Some Member State (MS) contributions do provide assessments of profit, but in most cases the data is incomplete and lacks a consistent methodology for calculation. This makes any estimate of THB profits extremely unreliable. However, open sources provide some assessments of the possible scale of the profit derived from THB globally. In 2005, the ILO<sup>2</sup> estimated that the yearly profits of THB in the world exceed EUR 29.4 billion<sup>3</sup>.

No evaluation of profits derived from THB activities in the EU specifically is available. Yet open sources reported on parts of the phenomenon, estimating the profits of sexual exploitation in the EU and developed economies to reach EUR 23.5 billion<sup>4</sup>.

When analysing profits from THB, it is important to bear in mind that traffickers operate across both licit and illicit economies. This intermingling of activities is especially evident in cases of labour exploitation, which may take place as a complement to legal activities. Regarding sexual exploitation, victims may have valid residency and work permits while they work in substandard conditions and are forced to give their income to traffickers.

### 4.2. International dimension

THB OCGs active within the EU appear to be relatively small in size and consist of 3 to 15 persons, active within larger loose networks of groups and individuals. They are organised in independent, though connected clusters

<sup>2</sup> International Labour Organisation

<sup>3</sup> ILO (2005) *Forced Labour and Human Trafficking: Estimating the Profits*, Working Paper No. 4

<sup>4</sup> ILO (2014) *Profits and Poverty: The Economics of Forced Labour*

that are spread across countries of origin and exploitation. There is no systematic structure regarding the allocation of tasks among OCG members.

<sup>5</sup> See section 5.2

Organised crime groups make efficient use of smurfing techniques<sup>5</sup> by sending money to a substantial number of people in order to blur the links between them, or by avoiding the placement of large sums into the system in order to evade Customer Due Diligence (CDD) and suspicious transactions reporting requirements. People who receive the money in the country of origin are either family members or low-level criminals. In the country of exploitation, money is not only sent by financial associates but also by victims who have taken on responsibilities such as collecting money from fellow victims and sending it to intermediaries. The OCG benefits from contact points: criminals who are not directly related to the OCG but are

used to facilitate the money laundering process due to their apparent lack of kinship or ethnic connection.

### 4.3. Structure and roles

Although roles tend to be allocated to different OCG members depending on their skills, place in the hierarchy and location, they are often interchangeable within the group.

The involvement of family and ethnically linked clusters and the use of victims as trusted criminal associates facilitate the smooth running of THB operations. Family members are involved in several aspects of the THB financial business model, including the transfer and withdrawal of money, the creation of multiple bank accounts and the ownership of legal businesses.

## 5. MODI OPERANDI

The laundering of criminal proceeds is a major activity for THB OCGs. Only a small number of groups display no mechanisms to launder the money earned through their illegal activities. The following sections describe several modi operandi used to place, layer and integrate criminal proceeds into the legitimate banking system or economy.

### 5.1. The banking system

OCGs exploit the legitimate banking system to launder criminal proceeds by setting up accounts using false or fraudulent identity documents or by using front men and lookalikes. The accounts may be set up by relatives or fictitious persons and then closed after some time, or replaced by new accounts in order to avoid raising suspicion. Investing in the legitimate market is an

attractive method for OCGs to launder their money as it lends legitimacy to the funds, allows for global and secure transfers and provides opportunities for additional profits.

### 5.2. Money Service Businesses

Money Service Businesses and postal services are the most widely used modus operandi for laundering the proceeds from THB. The size of transfers can vary significantly.

MSBs specialise in receiving cash in one country and paying out the equivalent amount at any given location almost instantaneously. These businesses operate globally and provide fast and cheap services with no limit on the amount or the frequency of transfers, making them highly attractive to OCGs. Services that are transaction-based,

as opposed to the account-based services of the regular banking system, retain few details about customers. This makes it very difficult to assess whether activities appear unusual compared to a customer's standard behaviour.

Criminals can abuse MSBs in the following ways:

**1. Smurfing** - This practice refers to the use of a large number of persons to break significant amounts of cash into smaller amounts. These amounts may be deposited on several bank accounts or even transmitted via MSBs, as they are below the threshold requiring an in depth identification of the customer. Through the use of multiple senders and/or receivers, large sums of cash can be transferred overseas to the desired location without raising suspicion. The use of straw men or intermediaries is an effective countermeasure which obscures the links between criminals and financial intermediaries, allowing the smurfing of funds.

**2. False documents** - Customer Due Diligence carried out by financial institutions is strictly regulated. MSBs located in the EU are required to identify their customers, but any form of photographic identification is sufficient to transfer amounts below a specified threshold. OCGs can circumvent these requirements using false documents. In some cases, traffickers with direct control over a victim will use their identity details for fraudulent money transfers.

### 5.3. The movement of cash

There is evidence to suggest that OCGs are increasingly using cash as the primary means of laundering their proceeds. Advances in technology enabling the tracing of online

transactions coupled with stricter regimes for recording and reporting suspicious transfers have compelled OCGs to depend on cash to launder their profits. Unlike electronic money transfers, it is difficult to ascertain the source of cash, its purpose and its intended beneficiary. A large number of EU MS are required to demonstrate the link between the funds and the predicate offence in order to prosecute money laundering offences.

The physical movement of cash across borders is a common method of laundering money. Cash couriers are generally used to carry large amounts of money across borders, either overland (e.g. concealed in vehicle parts) or by air. In some cases, border controls have shown that traffickers transport cash and victims at the same time.

In some instances, OCGs move cash using the services of a money mule. A distinction must be drawn between money mules, who are used to transfer criminal proceeds electronically on behalf of others, and cash couriers, who physically carry cash across borders.

One increasingly observed trend is the use of victims to transfer or move criminal proceeds electronically or physically on behalf of OCG members. This is done through coercion, where they are forced to carry out money transfers or through employment scams where victims believe they are working for legitimate companies.

### 5.4. Legal Business Structures

A large part of OCGs involved in THB activities own legal businesses, either in the country of exploitation or in the country of origin. OCGs are mostly involved in the entertainment sector, but also in sectors like restaurant and catering, retail and small businesses, production and trade, construction, vehicle rent and retail and recruitment agencies.

Cash-intensive businesses such as catering and retail provide a good cover for the source of otherwise inexplicable quantities of cash. These businesses can be exploited in a variety of ways by OCGs, but in most cases they are used as a legitimate source of income from customers to facilitate the commingling of illicit funds with licit proceeds. Many businesses use the services of a complicit bookkeeper or accountant in order to legitimise criminal cash flows through false invoices, receipts and accounts. Once laundered, proceeds are transferred back to OCG members via business accounts on the pretext of subsidising activities or as management fees.

<sup>6</sup> Also referred to as *Hawala* banking.

<sup>7</sup> Definition by FinCEN Advisory 33, March 2003.

Several additional laundering methods are worth mentioning:

1. Purchase of real estate in the name of off shore companies;
2. Reinvestment of paid dividends in the company;
3. Crediting OCG-owned LBSs and later taking out cash to account for the credit contracts;
4. Establishment of trading operations without any economic basis;
5. Overvaluation or bogus real estate investment;
6. Purchase of several companies and loans to its administrators at usurious rates. Administrators are then used as intermediaries to launder criminal proceeds and the companies are made bankrupt; and
7. Trade-based money laundering, where OCGs take advantage of the freedom of movement of goods and people in the Schengen area to convert criminal proceeds into legal goods that are then traded across international borders.

Part of the laundered money which is sent to the country of origin of the traffickers tends to be returned to the country of exploitation

in order to cover the running costs. For instance, vehicles and accommodation are rented and food and commodities are bought to meet the daily needs of exploited victims. Legal business structures can also be specifically obtained for the purpose of exploitation, such as bars which can be used to advertise victims' services and launder proceeds.

### 5.5. Informal Value Transfer Systems

Informal Value Transfer Systems (IVTS)<sup>6</sup> refer to any system, mechanism or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, whether or not in the same form. The transfers generally take place outside of the conventional banking system through non-bank financial institutions or other business entities whose primary business activity may not be the transmission of money<sup>7</sup>. These transactions take place outside of the traditionally regulated financial channels. Migrants and diaspora communities in the EU continue to rely on IVTS to send remittances to their country of origin. IVTS in the EU are not subject to all AML (Anti Money Laundering) regulations or due diligence practices, making it hard to monitor transactions. With progressively stricter AML regulations and CDD put in place in mainstream financial institutions, the placement of criminal proceeds into the banking system is made more difficult. Therefore, IVTS are becoming increasingly attractive to OCGs.

### 5.6. New payment methods

Online payments allow OCGs to quickly withdraw proceeds obtained from clients and victims via electronic means and to transfer them before the offence or suspicious transaction can be detected. An increased use of pre-paid credit cards



for money laundering purposes has been detected.

OCGs can buy virtual currency for legal tender from Bitcoin exchangers operating on centralised online trading sites or peer-to-peer (P2P) networks. Typically, customers set up and load their Bitcoin wallets using various means of payment. There is no limit to the amount an exchanger may be willing to trade, making this a potential money laundering opportunity for illegal proceeds. However, this particular modus operandi remains rather limited in scope.

### 5.7. High value goods

A favoured method of THB OCGs to dispose of the cash generated by their activities is the purchase of high value goods and real estate. Although some EU countries have introduced cash payment thresholds to tackle this, the majority have not. High value goods offer OCGs an opportunity to integrate criminal funds into the legitimate economy. Some of

these assets can also be used for business development purposes.

### 5.8. Real estate

One of the most widely used methods of money laundering by THB OCGs is the investment of criminal proceeds in real estate. In most cases, OCG members or their relatives use criminal proceeds to buy property or land in their country of origin. More complex schemes can involve the under or overvaluation of property or mortgages.

## 6. LINKS WITH OTHER CRIME AREAS

A large majority of THB OCGs are polycriminal, involved in more than one crime area. The following sections describe the criminal activities used by THB OCGs to supplement their income or facilitate their activities, as well as their use of other criminal groups or individuals to support their money laundering process.

### 6.1. Income from other crime areas

The most common side activity for OCGs is fraud, including VAT, MTIC, social benefits and identity fraud. These activities can be used to support their THB operations (e.g. through counterfeiting residency documents

or working permits), and/or complement their profits (e.g. by committing fraud or tax evasion). Other criminal activities include drug production and trafficking, organised property crime, counterfeiting, illegal possession and trafficking of weapons, and facilitation of illegal immigration. When OCGs are involved in several crime areas, it becomes more challenging for law enforcement to distinguish which activities are predicate offences and which are supported by THB proceeds.

## 6.2. Use of victims in other criminal activities

Evidence suggests an increased diversification in the use of THB victims, including children, for criminal purposes (e.g. forced begging, organised property crime, fraud and drug production). In several cases, victims were involved in robberies, burglaries, shoplifting and pickpocketing. The modus operandi of OCGs has also shifted from the direct exploitation of victims to activities such as identity theft, credit and social welfare fraud.

The most common modus operandi is the registration of victims under different addresses in the country of exploitation in order to abuse the social benefits system. Bank accounts are also opened in the name

of the victim with the employer or trafficker as the custodian, allowing them to control the account and withdraw the benefit payments. Victims may be abandoned or returned to their country of origin once the traffickers have seized their documents, opened the accounts and started the claims process.

There is also an increase in THB for the purpose of forced or sham marriages. Member States reported that women from Eastern European MS would agree to travel to a Western MS to get married with a non-EU national for a small remuneration ranging from EUR 300 to EUR 2 000 and the opportunity to work in the country. The OCG conducting the deal would receive approximately EUR 10 000 from the 'grooms' for their facilitation services<sup>8</sup>.

<sup>8</sup> There is an intelligence gap regarding the actual role of the 'brokers' providing these intermediary services, concerning whether they belong to the traffickers' OCGs, if they act only as service providers for individuals, or if they also belong to other OCGs.

# 7. CRIME RELEVANT FACTORS

## 7.1. Technology

New technologies offer additional money laundering possibilities to OCGs. As mentioned previously, pre-paid credit cards and online banking allow OCGs to quickly transfer proceeds before the offence or suspicious transaction are detected.

## 7.2. The economic crisis

The resources available to law enforcement have been limited as a result of the financial crisis, whilst the need for specialised staff, tools and training has increased. This lack of resources has been highlighted by several MS in the context of financial investigations. Member States reported that a large number of THB financial investigations are not prioritised. Instead, arresting traffickers and supporting victims are considered more

pressing and this is where the investigation often ends.

Companies suffering from the economic crisis are also more vulnerable to the influence of OCGs. Member States have warned that an increasing number of companies may be willing to facilitate the exploitation of victims or the money laundering process.

## 7.3. Schengen

The absence of physical border controls provides significant opportunities for smaller or mid-level OCGs as well as individuals to operate in more than one country. The rotation of victims across cities and countries not only allows OCGs to avoid law enforcement detection, but also provides them with the opportunity to move proceeds within the EU using victims

who own legitimate travel documents. The absence of internal border controls supports the low-cost business model of THB groups by saving them the costs associated with producing counterfeit identify documents.

The free movement of goods and people within the Schengen area also facilitates the undeclared transport of large amounts of cash within the EU from countries of exploitation to countries of origin. This makes it difficult to trace THB proceeds. As described in the previous chapters, cases showed victims transiting regularly between the country of exploitation and their own countries while carrying large amounts of cash. The movement of an increased number of migrants within the EU has created money laundering opportunities, through the use of undeclared cross-border cash transports or alternative banking systems.

EU Regulation 1889/2005<sup>9</sup> introduced controls on cash entering or leaving the EU, by compelling individuals to declare amounts of cash equivalent or superior to EUR 10 000 when crossing the EU external border. However, this does not regulate intra-EU cash movements and there is no harmonised approach between all EU MS regarding intra-community cash movements. This lack of uniformity may present an opportunity which THB OCGs can exploit as part of their money laundering operations.

#### **7.4. The 500 euro banknote**

Several EU MS have noted that high denomination banknotes are used by THB OCGs for money laundering purposes. 500 euro banknotes are particularly attractive to criminal groups due to their high value-to-weight ratio, which enables the transport of large amounts of value in small packages.

<sup>9</sup> European Union: European Parliament and of the Council, Regulation (EC) 1889/2005 of 26 October 2005 on controls of cash entering or leaving the Community [2005], 25 November 2005, OJ L 309/9.

# The THB Financial Business Model Factsheet

## Proceeds of THB\*



**€29.4 billion**  
Estimated global annual profits of THB



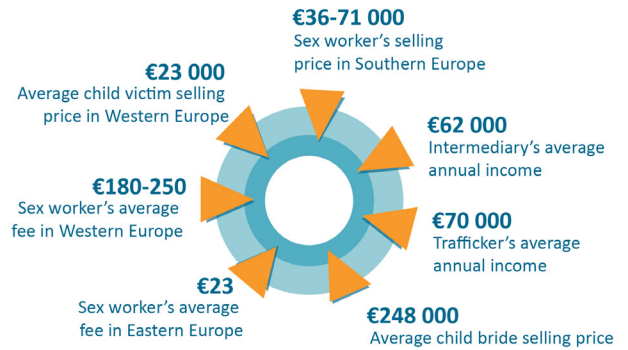
**€25.8 billion**  
Estimated global annual profits from THB-related sexual exploitation



**€23.5 billion**  
Estimated profits of sexual exploitation in the EU and developed economies

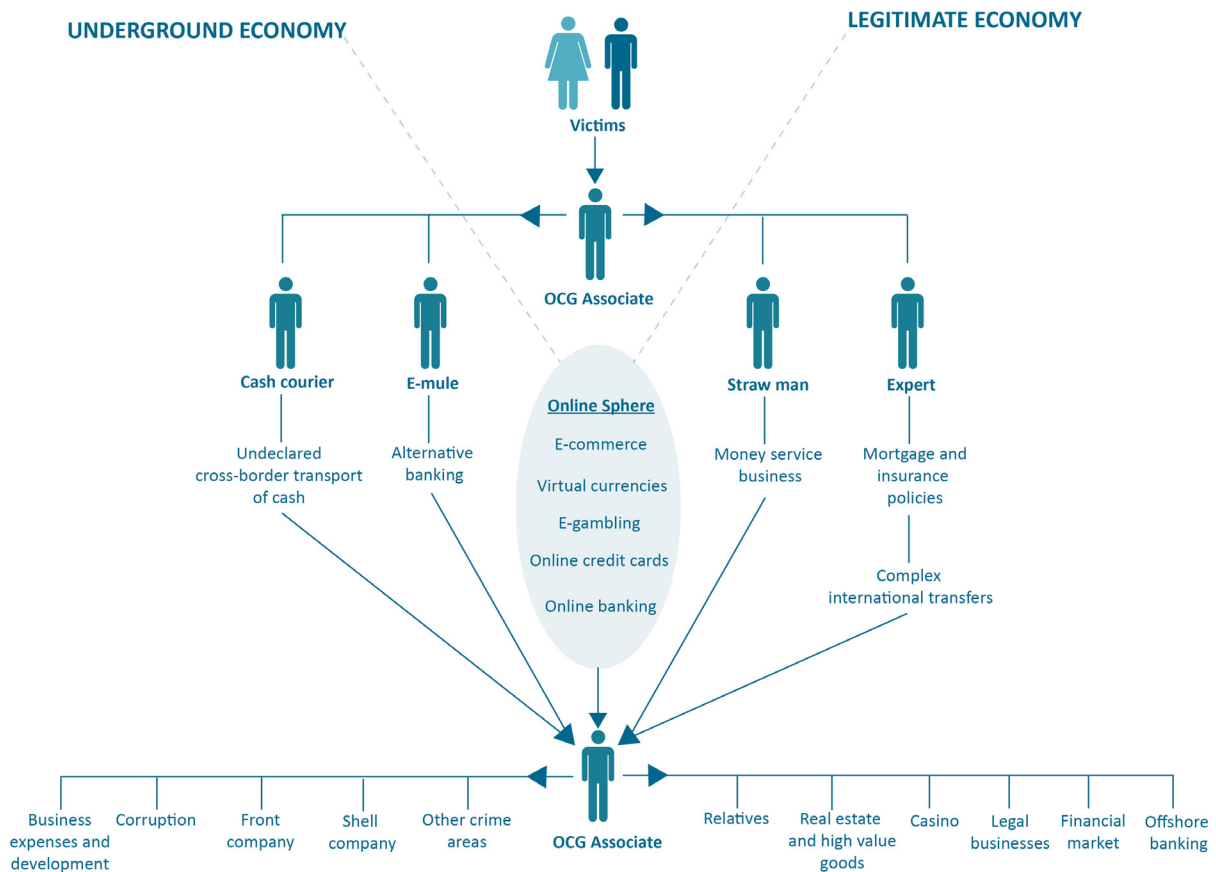


**€3.5 billion**  
Estimated global annual profits from THB-related labour exploitation



\*Data based on open sources

## THB money flows



## 8. ANNEX

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<sup>i</sup> THB is defined by the Palermo Protocol (2000) as ‘the recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal of organs.’

<sup>ii</sup> UN General Assembly, *Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, Supplementing the United Nations Convention against Transnational Organized Crime*, 15 November 2000.

<sup>iii</sup> European Union: Council of the European Union, *Directive 2011/36/EU of the European Parliament and of the Council of 5 April 2011 on preventing and combating trafficking in human beings and protecting its victims, and replacing Council Framework Decision 2002/629/JHA*, 15 April 2011, OJ L. 101/1-101/11. It set up provisions to improve coordination and coherence between EU institutions, EU agencies, Member States (MS), third countries and international actors in the field of anti-trafficking. The Directive states that ‘the use of seized and confiscated instrumentalities and the proceeds from the offences referred to in this Directive to support victims’ assistance and protection, including compensation of victims and Union trans-border law enforcement counter-trafficking activities should be encouraged.’ Article 7 on seizure and confiscation specifies: ‘Member States shall take the necessary measures to ensure that their competent authorities are entitled to seize and confiscate instrumentalities and proceeds from the offences referred to in Articles 2 and 3.’



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