

Actual versus Perceived Risks of Money Laundering at White-Label ATMs in Canada

An ATM Industry Position Paper



Produced by the ATM Industry Association

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Foreword

Canada has set the tone for reducing the risk of money laundering at the nation's ATMs, and this paper presents an industry perspective on the real nature of this risk versus the perceived risk. In so doing, the authors systematically dispel several misconceptions, especially in regard to the true situation facing white-label, or independent, ATMs. The best way to expose exaggerations in perceptions is through a calm appraisal of facts.

A key fact to bear in mind is that Criminal Intelligence Service Canada has not identified or formally reported any material misuse of ATMs for the purposes of money laundering or terrorist financing. There has only been one set of criminal charges in the 20 years of white-label ATM operation in Canada. In addition, comprehensive anti-money laundering rules have been developed through a collaborative stakeholder group led by the Federal Department of Finance and Law Enforcement, with participation by ATMIA, payment industry regulators (Interac and FINTRAC) and payment associations such as Visa and MasterCard. Besides, white-label ATMs do not accept deposits, have third-party data transparency and are properly regulated.

I'd like to thank ATMIA's President, Chris Chandler, and seasoned veteran Chris Mathers, President of Chris Mathers and Crime and Risk Consulting, who is a former member of the Royal Canadian Mounted Police (RCMP), with significant experience in the investigation of money laundering, drug trafficking and organized crime, for putting together a no-frills accurate picture of the current state of AML at ATMs in the white-label ATM estates in Canada – setting in motion what will be a process of following this example right around the world. Good job, Gentlemen!

Mike Lee, CEO ATMIA

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Industry Position

Exaggerating the risks of money laundering in the white-label ATM industry is hurting small businesses and is creating unnecessary doubt in consumers' minds over safe, reliable and convenient access to their cash.

ATMIA

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ATMIA is indebted to Chris Chandler, CA, CPA, MBA, and Chris Mathers, BA, for their contributions to this position paper.

Chris Chandler is the President of the ATM Industry Association and the CEO of Canada's leading ATM operator, Access Cash Holdings Limited. Mr. Chandler has more than 25 years of experience in the payments industry with Access Cash, Accenture, Bank of Montreal and KPMG. Mr. Chandler represented the ATM Industry in the multi-stakeholder 2008 Finance Department Task Force review of regulations for potential money laundering in white-label ATMs, which culminated in the launch of the Interac White-Label Anti-Money Laundering (AML) Regulations in 2009. Mr. Chandler has also represented the industry with the Quebec Finance department and the AMF with respect to ATMs in the provincial Money Services Business Act.

Chris Mathers is the President of CHRIS MATHERS INC., Crime and Risk Consulting. He is a former member of the Royal Canadian Mounted Police (RCMP), with significant experience in the investigation of money laundering, drug trafficking and organized crime. As an undercover operator for the RCMP, FBI, DEA and U.S. Customs Service, Mr. Mathers operated numerous "storefront" money laundering operations in Canada and the U.S. After his career in the RCMP, Mr. Mathers was President of KPMG Corporate Intelligence Inc., where he provided consulting services to Canadian businesses on anti-money laundering prevention and compliance. He is the author of *Crime School: Money Laundering*, published by Key Porter Books. CHRIS MATHERS INC. provides a suite of anti-money laundering compliance services, including training, policy development and audits.

Chapter 1. Exaggerated Risk of Money Laundering in White-Label ATMs

ATMs provide convenient access to cash and other banking services. In the 50 years since the first ATM was installed in London in 1967, ATMs have become ubiquitous, with over 3 million ATMs installed worldwide, including in extremely remote places, such as research stations located on Antarctica and in desert communities in Western Australia. Located not only at banks, ATMs are conveniently located in airports, train stations, convenience stores, gas stations, pharmacies, bars, hotels and many other locations.

While many ATMs are filled with cash directly from the sponsoring bank, a number of countries, such as Canada, USA, Mexico, UK, Germany, Poland, South Africa, New Zealand, Japan and Australia, make provisions for non-bank ATM operators, who deploy what are sometimes called white-label or convenience ATMs. White-label ATM operators often cash-fill their ATMs directly from a bank (similar to bank ATMs), but they can also cash-fill ATMs from operating cash, the same way they fill the store's cash registers.

Importantly, white-label ATMs do not accept deposits at the ATM.

Over the last few years, various media stories have reported the potential risks of money laundering in white-label ATMs, making sensational claims that it is easy for criminals to launder money in white-label ATMs and implying links between ATM operators and criminals. These stories often quote so-called experts and make inferences without tangible supporting information. All of these reports appear to be based on anecdotal evidence.

What is real is that exaggerating the risk that criminals are using white-label ATMs for money laundering is hurting thousands of small business owners, convenience stores, gas stations, pharmacies, bars, hotels and other businesses that have white-label ATMs in their stores. These unsubstantiated stories scare customers and reduce ATM usage, which hurts sales and reduces the revenue generated from the ATM.

The ATM Industry takes the risk of money laundering seriously and works with regulators and government agencies to help ensure appropriate procedures and safeguards to mitigate the risk.

For example, in Canada, a number of recently-opened marijuana shops have ATM machines. Normal, licensed businesses, compliant with Interac Anti-Money Laundering regulations, can load cash into their ATMs as they do their cash registers. However, under current Canadian law, not all marijuana shops are legal and licensed; therefore, business receipts from marijuana sales in these unlicensed shops are considered crime proceeds and should not be loaded into the ATMs. The cash in the ATM must come from a legal source.

The ATM Industry has been proactive in reminding ATM operators of this unusual situation and has urged them to be diligent in not permitting marijuana sales proceeds to be loaded into ATMs.

The intent of this paper is to share the facts about white-label ATMs and to encourage those who are exaggerating the risk of ATM money laundering to consider the facts and seek evidence prior to making unsubstantiated claims.

Chapter 2. White-Label ATM Facts - Canada

Canada deregulated ATM operations and allowed white-label ATMs in 1996. Despite the media assertions about money laundering risks, here are the facts:

- **Since 1996, there has been only one criminal case involving white-label ATMs in Canada.** A white-label ATM owner/operator in Winnipeg was accused of loading her machines with cash from her brother's drug sales. Their activities were detected, and the case is currently before the courts.
- **White-label ATMs in Canada are regulated.** Since 2009, white-label ATMs are subject to specific anti-money laundering regulations that require every ATM owner to provide a significant amount of information, including information about themselves, the source of the cash used in the ATM, the location of the ATM and details about the Canadian bank account to which the ATM will deposit funds withdrawn. If a business owner has multiple ATMs or high volume ATMs, he is also required to provide criminal background checks. The owner must file all of these documents with the regulators for an ATM to be operational. Regulations also require annual audits of the documents.
- **Authorized third parties, independent of the ATM cash owner, record and retain information about every dollar that passes through a white-label ATM in Canada.** The information recorded by third parties includes a transaction record number, the amount withdrawn, the date and time of the withdrawal and the Canadian bank account to which the funds withdrawn are electronically settled. There are **no** white-label ATM withdrawals and settlements of any amount, at any time, that are anonymous. Independent third parties clearly record and retain the details of the money flow.
- **Misuse of white-label ATMs for the purpose of money laundering is not part of the national high risk priority list.** Criminal Intelligence Service Canada has not identified or formally reported misuse of white-label ATMs for purposes of money laundering or terrorist financing.

- **There have been no convictions for money laundering using white-label ATMs in the 20 year history of the ATMs.** Over the 20 year history of white-label ATMs in Canada, the industry has been diligent in supporting law enforcement in trying to keep criminals out. To date, there is only one case before the Canadian courts regarding money laundering through the use of a white-label ATM.

Chapter 3. Media Reports of Potential Money Laundering

Given the facts, why are there media reports concerning potential money laundering in white-label ATMs?

Reports about white-label ATMs as a potential vehicle for money laundering seem to have originated from several sources:

- A 2006 criminal case in New York City linking ATMs to organized crime using a technique called micro-structuring;
- A 2007 Canadian FINTRAC report outlining a hypothetical scenario involving criminals laundering money by filling an ATM with criminal proceeds; and
- Exaggerated perceptions of white-label ATMs and money laundering by experts and law enforcement agents.

3.1. A 2006 New York City Criminal Case

Reports and expert opinions concerning white-label ATMs and money laundering may have originated as a result of a 2006 case in New York City linking ATMs to organized crime.

In 2006, US law enforcement agents observed two well-known criminals, Luis Saavedra and Carlos Roca, traveling from ATM to ATM in Queens, New York, depositing cash into bank accounts held by a network of other criminals. Typical of money laundering, they kept their deposits small, never depositing more than \$2,000, with most deposits ranging from \$500 to \$1,500. On the first day, they placed more than \$111,000 into 112 accounts. Bridget Brennan, Special Narcotics Prosecutor for New York City, estimated that at the height of the activity, the organization was moving approximately \$2 million a month. The indictments against Saavedra and Roca stated that they were laundering the profits of a Colombian drug-trafficking organization.

Prosecutors say the men engaged in a laundering practice called micro-structuring, a money laundering scheme known for its simplicity. To evade suspicion by banks, the criminals always made small deposits. Detecting micro-structuring is challenging for law enforcement because the deposits and withdrawals are typically so small they usually pass for ordinary ATM transactions and are hard to identify as unusual or suspicious.

This type of money laundering cannot be accomplished in Canadian white-label ATMs because they do not accept deposits; therefore, they cannot be used by criminals for anonymous micro-structuring. The 2006 case in New York involved bank ATMs that accept deposits.

We believe the details of the 2006 case have been lost over time, but the perceived connection between ATMs and organized crime has remained, implicating white-label ATMs, despite their inability to accept deposits.

3.2. A 2007 FINTRAC Report

In 2007, Canadian financial tracking agency FINTRAC prepared a draft report outlining a hypothetical scenario involving white-label ATMs not owned by a specified bank, located in convenience stores, airports and bars. In the hypothetical scenario, FINTRAC described a technique used by criminals to launder money by filling an ATM with criminal proceeds and then allowing unsuspecting individuals to withdraw the cash, completing the money laundering cycle. The premise was that the criminals would continue to replenish the ATM with illicit funds. The scenario did not address the fact that such funds would accumulate in a known Canadian bank account with clearly documented third party records of each deposit from the ATM.

Importantly, based on their own reporting, FINTRAC believed that, at best, the exposure to this risk was fairly limited.

We believe that some consultants have promoted this hypothetical white-label money laundering scheme to bolster their businesses and provide for-fee solutions to the problem, which they claim is real and significant.

While this hypothetical scenario is simple and easy to imagine, it ignores the facts:

- White-label ATMs are regulated.
- There are transparent third party records of the ATM transactions.
- Third party visibility to Canadian bank accounts receiving ATM funds exists.
- Documentation is maintained by the ATM industry.

The steps FINTRAC did not include in the scenario help ensure that this hypothetical, simple money laundering scheme cannot be achieved without leaving a clear, detailed paper trail that cannot be tampered with or altered. Such detailed, transparent third party record keeping of every dollar of every deposit is hardly an attraction for criminals determined to stay in the shadows and out of jail.

3.3. Exaggerated Perceptions of Money Laundering in White-Label ATMs

Our research and interviews also show that the perception of money laundering in white-label ATMs has been exaggerated well beyond what is warranted by the facts. Each expert or law enforcement agent we interviewed initially held a negative view of white-label ATMs and believed that money laundering could be occurring. However, in each case, when pressured to present the actual details, there was no factual evidence of money laundering in white-label ATMs in any of these cases.

Situations in which organized crime figures were in a bar that had an ATM, or in which a criminal who laundered money in other ways also happened to operate an ATM, were remembered and recast as money laundering in white-label ATMs. It stands to reason that if these memories had been actual instances of money laundering in ATMs, we would have expected more than one charge of money laundering in white-label ATMs in the last 20 years.

Chapter 4. White-Label ATMs and Money Laundering - The Reality

In summary, the facts do not support the exaggerated risks of money laundering in Canadian white-label ATMs. These ATMs:

- Do NOT accept deposits (the source of US-based money laundering),
- Are regulated,
- Have third party data transparency,
- Are not identified in law enforcement national high risk priority industries, and
- Are not subject to rampant criminal activity, as evidenced by only one set of criminal charges in the 20 years of white-label ATM operation in Canada.

With 830 members, the ATMIA is a proud contributor to the Canadian business community. We support over 30,000 Canadian merchants and small business owners operating ATMs. Millions of Canadians use safe, high-quality ATMs to obtain convenient access to their cash anywhere, anytime, including remote areas and areas considered underserved by our banks.

The ATMIA will continue to work with the regulators and governments to diligently mitigate the risk of criminal activity in the ATM sector. The ATMIA encourages the media, the experts and others to respect the services the ATM industry performs and recognize the negative impact exaggerated risks for criminal activity can have for small business operators and Canadian ATM users.

The graphic on the following page amply demonstrates the reality of white-label ATM risks.

THE REALITY ABOUT TRYING TO USE ATMs FOR MONEY LAUNDERING

Comprehensive anti-money laundering rules for ATMs were developed by a broad stakeholder group led by Federal Department of Finance and Law Enforcement (RCMP, OPP, SQ) with participation by Industry (ATMIA), the payment industry regulators (Interac and FINTRAC) and Payment Associations, including Mastercard, Visa and AMEX.

These comprehensive rules were released in 2009 and are administered and enforced by Interac with the agreement of all participants of the broad stakeholder group.

ATM OWNER REQUIREMENTS

When placing an order to become an ATM Owner, the following info must be provided:

- Detailed personal information*
- Banking information

LAW ENFORCEMENT COOPERATION

Law Enforcement Agencies liaise with Interac and Financial institutions and can access ATM records as required for criminal investigation

3rd PARTY ATM RECORD KEEPING REQUIREMENTS

Detailed records of each ATM withdrawal & bank deposit clearly tracking every dollar in every ATM are retained for a period of 7 years by 3rd party processors and networks. They cannot be tampered with or altered by ATM owners.

ALL ATM FUNDS TO CANADIAN BANK ACCOUNTS WITH ADDITIONAL AML RULES

All Funds withdrawn from ATMs are deposited into Canadian Bank Accounts that undergo additional AML screening and criminal checks when opening accounts

REQUIRED CASH OWNER (e.g. those who put cash into ATMs for operations) AND ATM SOURCE OF FUNDS INFORMATION

All Cash owners must provide mandatory AML (Anti Money Laundering) information. The AML information provides the ATM operator with the following important information about the cash owner and the business the ATM(s) will be installed at:

- Legal business information (business name – operator name – address – contact)
- Cash owner legal information (name – DOB – copy of government issued ID)
- Cash Owner account information (FI name – address and account numbers)
- Source of funds = what source is the funds provided by: (Bank – Corporation – Private individual – Armored Service), and what account does the funds circulation through
- Clean Criminal record check for high risk ATMs including all directors and shareholders if a company
- Transportation method to get the cash to the ATM(s) (private/personal vehicle – armored truck etc)

All AML documents must be signed by the Cash Owner. The forms are then fully validated by the ATM Operator and its Processors for completeness prior to the Cash Owner account being activated and the ATM allowed to go live.

* Detailed information includes: Full Name, Address, Phone number, D.O.B, Government Issued ID
 **Detailed ATM information includes: cash loading capacity



Chapter 5. Canadian Law Enforcement Strategy on Organized Crime

The Canadian Law Enforcement Strategy on Organized Crime, also known as “the Strategy,” is Canadian law enforcement’s formal response to organized crime in Canada. The intelligence element of the Strategy is represented by Criminal Intelligence Service Canada (CISC). CISC has identified over 672 organized crime groups in Canada, the majority of them geographically concentrated in major urban areas which allow anonymity and ease of access to markets and ports. Urban areas, like Toronto and Vancouver, also have very active real estate markets.

CISC has identified the major risks as drug trafficking, cybercrime and financial crime. They have also identified trends in the financial spectrum, including skimming, Ponzi schemes and stock market manipulation, with the movement of ill-gotten gains to offshore jurisdictions with weaker regulatory controls.

Criminal Intelligence Service Canada has not identified or formally reported any material misuse of ATMs for the purposes of money laundering or terrorist financing.