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‘White Collar Crime – a serious threat or an inconvenience?’

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Introduction

- What is white collar crime?
- The extent of financial crime
- Money Laundering
- Fraud
- Final thoughts

What is white collar crime?

- The term was first used by Edwin Sutherland, who was described as the “most influential American criminologist of his day”
- In his 1939 presidential lecture to the American Sociological Society he defined it as “a crime committed by a person of **respectability** and **high social status** in the course of his occupation”.

What is white collar crime?

- Sutherland stated that white-collar criminals include:
 - robber barons,
 - merchant princes, and
 - captains of finance and industry.
- But is this definition still relevant in 2014?

What is white collar crime?

- “financial criminal will be defined as someone who has committed a financial crime and who has a certain level of standing (i.e. that of management) within a business or corporation” (Harrison and Ryder, 2013)

What is white collar crime?

- White collar crime has also been referred to as:
 - ‘financial crime’,
 - ‘economic crime’ and
 - ‘illicit finance’.
- Examples of white collar crime include money laundering, insider dealing, fraud and market manipulation.

The extent of Financial Crime

- It is **impossible to accurately quantify** the true extent of financial crime which is taking place on a daily basis around the globe.
- It is also due to the many **methodological difficulties** which are often encountered when trying to pull statistics together of this kind.

The extent of Financial Crime

- Fraud
- National Fraud Authority (2011)
 - £39bn
- National Fraud Authority (2012)
 - 73bn
- National Fraud Authority (2013)
 - £52bn

The extent of Financial Crime

- Money Laundering
 - the FATF have extrapolated amount of the laundered profits could be in the region of 2 per cent of the global GDP.
 - IMF -
 - \$590 billion to \$1.5 trillion
 - FATF
 - \$500 billion

The importance of Financial Crime regulation

- ‘criminal proceeds have the power to **corrupt** and ultimately **destabilise** communities or [even] whole **national economies**’ (Financial Action Task Force, 2004).
- The integrity of a nation’s financial institutions can be **eroded** by those organised criminals who seek to maximise their illegal profits so that they are able to enjoy, the so called **champagne lifestyle** (Ryder, 2011)
- The effects of financial crime can ultimately threaten **national security** on the basis that terrorists need money and resources so that they can carry out their illegal activities (Ryder ,2011)

The importance of Financial Crime regulation

- Financial crime will almost certainly also have an adverse impact on the economies of countries.
- The bomb attacks in London on the 7 and 21 July 2005 and the subsequent disruption to the transport system in London, cost the UK government in excess of £3 billion (Scanlan, 2006).

Money Laundering

- “With **lightening speed**, money can be wired from Yemen to terrorists in Florida for the destruction of buildings in New York and Washington. Business **corruption**, **drug trafficking**, **arms smuggling** and **terrorism** are sustained by the loopholes in the financial structure that allow illegal funds to slip through the system undetected” (Lacey and George, 2003)

What is money laundering?

- Processing of criminal proceeds to disguise their origin
- Concealing
- Disguising
- Converting
- Transferring or removing
- Facilitates the acquisition
- Retention
- Use or control
- Acquisition
- Use
- Possession
- Above relate to proceeds of criminal activity

The Scale of Money Laundering

- International Monetary Fund
 - Between 2 and 5 % of Global GDP
 - \$590 billion to \$1.5 trillion
 - £20 to £50 billion (UK)
- Financial Action Task Force
 - \$500 billion

How is money laundered?

- Three recognisable stages:
 - Placement
 - Layering
 - Integration

The Threat to Businesses

- Criminal sanctions
 - Proceeds of Crime Act 2002
- Financial Penalties
 - Financial Conduct Authority
 - Credible Deterrence
- Reputation
 - HSBC
 - Standard Chartered

The Threat to Businesses

- Anti-money laundering reporting obligations
 - Know your client (KYC)
 - Suspicious Activity Reports
 - Proceeds of Crime Act (2002)
 - Senior Management Arrangements, Systems and Controls (FCA Hand Book)
 - Failure to report could result in an unlimited fine and/or imprisonment
 - Increasing compliance costs
 - Defensive reporting

Fraud

- “The modern thief can steal more with a computer than with a gun” (Computer Science and Telecommunications Board, 1991)

What is fraud?

- “Persuading someone to part with something” (Doig, 2006)
- “Deceit or an intention to deceive” (Omerod and Williams (2007)
- “Act of deception intended for personal gain or to cause a loss to another party” (Serious Fraud Office, 2006)

Some classic instances of fraud

- Bank of Credit and Commerce International,
- Barings Bank,
- Enron
- WorldCom
- Bernard Madoff
- Alan Stanford
- Polly Peck (Azil Nadir),
- Mirror Group Pension Scheme,
- Guinness
- Barlow Clowes



Criminalisation of Fraud

- The Fraud Act 2006 three possible ways of committing fraud:
 - false representation (s 2).
 - failing to disclose information to another person where there is a legal duty to disclose the information (s 3).
 - dishonestly abusing one's position (s 4).

The Regulatory Agencies

- There are several agencies that attempt to combat fraud:
 - Financial Conduct Authority
 - Serious Fraud Office
 - National Fraud Authority
 - The National Crime Agency
 - Economic Crime Command

Anti-fraud reporting requirements.

- There is no general obligation to report fraud under the Fraud Act 2006
- Senior Management Arrangements, Systems and Controls (FCA Hand Book)
- Action Fraud

The Threat Posed by Fraud

- Criminal sanctions
 - Fraud Act (2006)
 - Maximum custodial sentence of 10 years
- Financial Penalties
 - Financial Services Authority
 - Unlimited
 - Applicable to employees and companies
- Reputation

The Threat Posed by Fraud

- Cyber attack (National Security Strategy 2010)
 - “Cyber-crime has been estimated to cost as much as \$1 trillion per year globally”
 - “Beijing experienced 12m cyber attacks per day during the 2008 games”
- A joined up approach
 - Many companies are expected to act as financial policemen
- Computer fraud

Conclusions

Fraud

- Becoming the crime of choice for organised criminals and terrorists
- Tougher sanctions
- Cyber crime
- Adverse impact on the economy
- E-Fraud
- Card fraud

Money Laundering

- Too many vulnerable governments have not criminalised all forms of money laundering
- Too many governments place restrictions on AML measures
- International cooperation not sufficient
- The Internet
- Laws and regulations fail to keep pace