

## With Border Violence Comes Bolstered Efforts to Clamp Down on Illicit Cross-border Transfers

April 20, 2009

[By Matt Squire](#)

The rise of violence tied to drug and weapons trafficking along the U.S.-Mexico border has brought political attention to bear on a perennial problem in the world of anti-money laundering: cash smuggling.

On Thursday, Mexican President Felipe Calderon and U.S. President Barack Obama said that the two countries would speed up the implementation of a \$1.6 billion security agreement meant to crack down on narco-trafficking in North and Central America. Drug-related violence in Mexico accounted for over 5,000 deaths in 2008, up sharply from 2,700 deaths in 2007, according to the U.S. State Department.

Under the program, known as the Merida Initiative, the United States and Mexico will work jointly to train anti-money laundering (AML) investigators and stem the flow of drug proceeds crossing into the Latin American country, often through illegal wires or smuggled aboard the millions of southbound vehicles crossing the shared border each year.

How drug money flows from U.S. to Mexican hands is due, in part, to strengthened AML compliance programs at financial institutions, according to Thomas Cash, executive managing director for New York-based security consultant Kroll Inc. Banks have done a "very good job" in rooting out drug funds, he said, adding that drug cartels have since turned to the "clumsy and dangerous" process of smuggling bulk cash.

That clumsiness has allowed the United States to claim some success in clamping down on illegal money flows. Since 2005, the U.S. Immigration and Customs Enforcement (ICE) and Customs and Border Protection have seized \$178 million as part of a joint program. And on Tuesday, ICE charged a

Mexican national with attempting to smuggle \$1 million into Mexico in 18 clear-plastics bundles hidden in the cab of a tractor-trailer.

But while the money is transported outside of traditional banking channels, it can find its way back into large banks once across the border via complicit Mexican currency exchange houses, according to Ken Rijock, a financial crime consultant with London-based consultancy World Check and a convicted money launderer.

Cash smuggled into Mexico is often “smurfed” or structured in amounts below reporting thresholds from corrupt exchange houses into the United States or into investments abroad, said Rijock, who moved around \$200 million for Columbian drug cartels mainly by smuggling the bulk cash through private and public air travel.

“It’s a round trip; and compliance officers need to recognize that sort of round trip activity,” said Rijock. “When they see funds coming in, [they should ask] is it for ordinary business purposes that you can understand or is it coming in high volumes that are not justified by the size of the remitter?”

Complicit remitters have drawn the attention of U.S. law enforcement agencies and financial institutions that been reluctant to do business with them.

In May 2007, U.S. authorities froze \$11 million in assets of Casa de Cambio Puebla S.A. de C.V., a Mexican currency exchange house. Mexican prosecutors later charged the casa de cambio for helping to move money for drug cartels. Many financial institutions, including Wachovia Bank, Harris Bank and Zions Bank have elected to discontinue serving Mexican currency exchange houses as a result of the Casa de Cambio Puebla scandal.

At a hearing before the Senate Committee on Homeland Security and Governmental Affairs on Monday, Arizona Attorney General Terry Goddard said that law enforcement agents need more tools to combat corrupt currency exchange houses, “on both sides of the border.” Between 2003 and 2007, Arizona seized over \$17 million in wire payments involved in smuggling, said Goddard.

But with financial regulators focusing on capital requirements and lending compliance, drug cartels may again eye U.S. banks as a better alternative to bulk cash smuggling, according to Kenneth Bryant, managing director of Bryant & Associates, a Hayesville, North Carolina-based AML consultancy.

"Over the past year, the focus of the regulators has changed and compliance staff has been cut, so it could be open season on traditional banking pretty soon," he said.