

Possible Money Laundering Methods of Organised Crime in the European Union

Csaba ZSIGMOND¹ 

Introduction: Organised crime, as a form of group criminal activity, poses a significant threat to both individual states and European Union society as a whole. There is an internationally accepted legal definition of organised crime and organised criminal groups, but there are countless concepts in the criminological literature. The common element of these concepts is the pursuit of maximum profit through criminal activity. The large amounts of material goods acquired in this way must be laundered by these organisations to give the appearance of legality. Therefore, effective action against organised crime is based on the effective tracing and confiscation of the illegally acquired assets of criminal organisations, for which knowledge of money laundering techniques is essential.

Aims: The purpose of this article is to review and present the most common money laundering techniques used by organised crime, based on international and domestic (Hungarian) scientific literature and official Europol publications.

Method: The research is based on the above-mentioned authoritative literature and Europol reports.

Results: According to both academic literature and Europol, organised crime groups use both older, tried-and-tested methods (operating underground banking systems, smuggling cash to offshore countries, money mules, front men) and relatively newer money laundering techniques, such as exploiting the opportunities offered by the online space and cryptocurrencies) and seek to exploit weaknesses in the underlying legislation, the internal compliance rules of the banking system, and the lack of vigilance on the part of the authorities responsible for filtering money laundering. This article also examines the legal and organisational possibilities for effective action in the future.

Conclusions: The study points out that criminals seek to exploit weaknesses in financial systems by using money mules, shell companies, and straw men, but it also highlights opportunities for effective action: internationally coordinated

¹ PhD, Police Lieutenant Colonel, Assistant Lecturer, Ludovika University of Public Service Faculty of Law Enforcement, Department of Criminal Intelligence, Economic and Cybercrime, e-mail: zsigmond.csaba@uni-nke.hu

action (e.g. European Money Mule Action) and the use of artificial intelligence-based software in the financial sector.

Keywords: organised crime, money laundering, Europol, money laundering methods

Introduction

The Palermo Convention defines organised crime in general and internationally accepted terms as follows:

“Organized criminal group’ shall mean a structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offences established in accordance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit” (United Nations 2004: Annex I Article 2)

The concept of criminal organisations in European Union legislation was established in Council Framework Decision 2008/841/JHA, adopted as part of the Hague Programme:

“Criminal organisation’ means a structured association, established over a period of time, of more than two persons acting in concert with a view to committing offences which are punishable by deprivation of liberty or a detention order of a maximum of at least four years or a more serious penalty, to obtain, directly or indirectly, a financial or other material benefit” [Council Framework Decision 2008/841/JHA Article 1(1)]

The European Union’s regulations are very similar to the wording of the Convention, but define the scope of criminal organisations even more broadly. On the one hand, this definition contains only one restrictive condition, namely that the group must not be formed randomly for the purpose of committing a crime (TORNyai 2014), on the other hand, it is sufficient for the organisation to consist of three persons (more than two).

At the same time, regardless of this, there are countless definitions of organised crime in criminological literature; according to some authors, there are 150 definitions (LAMPE 2016). Both practitioners and theoretical researchers agree that there are countless criminal groups that show certain signs of organisation but do not necessarily meet the above definition (ZSIGMOND 2020).

All experts agree that the main goal of every organised criminal group is to achieve the greatest possible profit by committing various crimes (as stated in the definition of the Palermo Convention referred to above). Since illegal income comes from illegal sources (criminal activities), it needs to be concealed and legalised, which is what money laundering is for.

The term money laundering first appeared in an American newspaper in 1976, and later, from 1986, it became a federally regulated crime in the United States (LEVY 2015).

In the 1980s, the term appeared in only two court decisions, but later in 213 cases, and by the 1990s in 3,643 decisions (LEVY 2015). At the same time and in the years that followed, international organisations (OECD, FATF) and the European Union demanded urgent action from nation states against money laundering, emphasising the danger it poses to national economies. According to the European Union's definition, money laundering is a process by which criminals conceal the origin of their illegal income.

The UNODC estimates that 2–5% of global GDP is laundered annually worldwide (TIEMANN 2025).

In this paper, I have compiled the money laundering methods used by organised crime based on international literature, international reports and my own research.

General characteristics of money laundering (stages, predicate offenses)

As I wrote above, the primary purpose of money laundering is to clean and legalise illegal income. This operation often requires complex financial transactions. Experts typically divide the process into three phases (GILMOUR 2016). Although some sources suggest that with the spread of modern 21st-century technology (e.g. cryptocurrencies), the three phases are not always observable, their existence is not refuted in the majority of cases:²

- placement
- layering
- integration

According to this, in the first placement phase, the cash is separated from the predicate offense and enters the financial system. At this stage, perpetrators often use unknown “front men”, often criminals, who place the money in banks, and this process often takes place in small amounts, in accordance with the money laundering regulations of the country concerned. The second phase is layering, when illegal income is separated from its source, i.e. the connection between the illegal activity and the person who obtained the income is concealed. Finally, the third phase is integration, when money launderers and leaders of criminal organisations enjoy their illegal income by purchasing luxury goods (luxury real estate, high-value cars, yachts, etc.). At this stage it is no longer possible, or very difficult, to identify the illegal source of the income.

Since the amounts derived from money laundering originate from various predicate offenses, the question arises as to how these crimes are typically distributed and what types of predicate offenses are typically characteristic.

Europol's (2015) survey was prepared in this regard.

Figure 1 below shows how predicate offenses for money laundering were distributed.

² See <https://eur-lex.europa.eu/EN/legal-content/glossary/money-laundering.html>

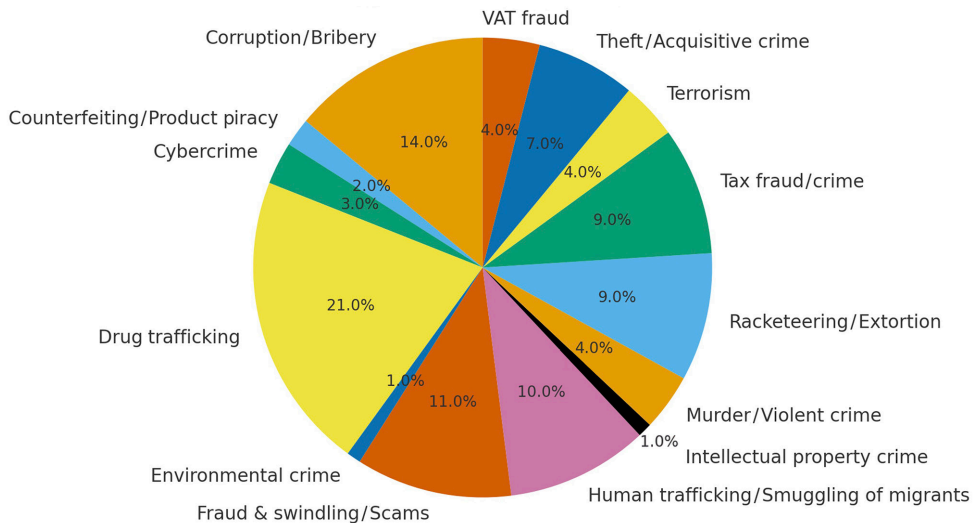


Figure 1: Distribution of criminal activities

Source: compiled by the author

According to the diagram, the top three crimes were drug trafficking (21%), followed by corruption (14%) and fraud (11%).

All three categories of crime (and, in fact, all categories shown in the graph) are typically committed by organised criminal groups.

Money laundering techniques used by organised crime based on scientific literature

According to extensive international empirical research, the following are popular money laundering methods.

Purchasing gold

Money launderers often purchase gold for cash from private collectors or dealers who do not question the origin of the cash paid for the gold. They declare the gold purchased with cash as a family inheritance, and in Switzerland, for example, they can deposit it free of charge and melt it down or transform it at any time (TEICHMANN 2017).

Jewellery

Like gold, jewellery is also suitable for money laundering. It is anonymous and, unlike gold, has no fixed price. It retains its value and can be easily converted into cash. There are two possible ways to launder money with jewellery. One is to buy the jewellery in a store, pay for it in cash, and then claim that you inherited it years ago. Antique jewellery is particularly suitable for this purpose, as it often does not have a registered serial number. In this case, it is almost impossible for the authorities to prove that the jewellery is not part of an inheritance. Another solution is when the money launderer opens a jewellery store and increases their legally obtained income with illegally obtained assets by inventing non-existent customers and issuing fictitious invoices for the sale of jewellery.

In Switzerland, for example, jewellers are not required to identify customers for cash payments of up to CHF 100,000. This means that illegally obtained money can be declared as income from jewellery sales. In the next fictitious transaction, the dealer uses the money obtained in the first fictitious transaction to buy jewellery so that he has jewellery for the next transaction. The profit remains with the jewellery store. Since the jewellery never leaves the store, there is no need to purchase new products. Both methods – acting as a buyer and setting up a jewellery store – require a certain expertise. Therefore, money launderers can either acquire this expertise themselves or surround themselves with knowledgeable advisors with whom they can minimise the risks associated with misjudging the value of certain pieces.

Raw diamonds

A popular method of money laundering is the use of raw diamonds, which, like jewellery, are a means of preserving value. Their origin is difficult to trace, and they are easy to transport and hide. A common method is for one party to establish a diamond trading company and pay for half of the diamonds with legally obtained funds and the other half with illegally obtained money. Then, all that remains is to obtain certificates of origin and sell the diamonds to independent third parties at their actual value.

Antiques

Acquiring antiques is a technique used in the placement and layering stages. Their value is difficult to determine. The money launderer presents himself as a private collector or official antique dealer, and after acquiring the necessary knowledge, he purchases antiques on unregulated markets. Antiques are often purchased using a combination of money from legal sources and money from illegal sources, making it difficult for authorities to investigate later. If they trade in significant quantities of antiques, they may eventually open a shop, which provides another opportunity to launder illegal income.

Art

Acquiring art is also a popular method among money launderers, as, similar to antiques, the value of the goods is difficult to determine, the market is not sufficiently transparent, and cash purchases are very common. Professionals who deal with works of art legally have long been fighting to curb money laundering in this area, but significant legal loopholes still make it difficult to take action. During post-purchase checks, money launderers can claim that they bought the work of art years ago at a public flea market. This requires well-guarded warehouses where the art is stored for years before being sold, at which point it becomes cash in their possession again, originating from a verifiable, seemingly legal source.

Consulting firms

A popular method of money laundering is to set up consulting firms, as these companies are not subject to any controls and the pricing of their services is difficult to determine. A nominal director must be hired to set up a Swiss-based consulting firm with foreign subsidiaries around the world. No actual consulting takes place, but illegal income from other sources can be easily recorded and verified as legal income from consulting services using fictitious invoices.

Mergers and acquisitions

The cheap acquisition of companies experiencing financial difficulties is also a popular money laundering method, whereby a corrupt accountant overvalues the company and then sells it at a significantly higher price on paper. This is a risky method because it may attract the attention of the tax authorities, who may subject the transaction to thorough investigation.

Dubai banks

A popular method among money launderers is offshore areas: large amounts of cash can be moved without control, and Dubai banks have good connections with other banks around the world. They set up companies in the United Arab Emirates, appoint front men as executives, then open accounts and transfer money anywhere.

Deposit boxes

In many countries (e.g. Switzerland), cash or other valuables can be placed in such deposit boxes without any checks. This method is typical for money launderers who acquire

wealth sporadically or in small amounts and use it gradually. The contents are secret and the safe deposit box can be rented anonymously.

Cash to cash

Sometimes money launderers simply convert their cash into another currency, thereby concealing its origin. They cooperate with other criminals who have similar needs. For larger sums, they also involve corrupt central banks. Special mobile phone applications can help them find currency exchange partners. Although this method sounds very tempting, it requires significant resources: first and foremost, you need to know other criminals, corrupt government or central bank officials, and private currency exchange experts. In addition, there is a risk of receiving counterfeit money.

Currency exchange office

Money launderers set up their own currency exchange offices and then document fictitious currency exchange transactions, which they can use to legalise income from other illegal sources. In Switzerland, for example, tourists (e.g. young women from Kazakhstan or other former Soviet states) often provide their passports for such small-scale fictitious currency exchange transactions.

According to the aforementioned 2015 Europol report, the most popular money laundering method among criminals is cash smuggling (Europol 2015), but other methods are also used.

Real estate

Money launderers can use companies managed by nominally appointed directors (front men). They buy up properties in need of renovation in large cities. These companies can be financed by other offshore companies. A small portion of the purchase price is paid from illegal sources, while the majority comes from legal sources so as not to arouse suspicion. For this reason, they avoid transfers from offshore accounts. Similarly, part of the renovation costs may be covered by illegal sources, while the rest comes from legal sources. Later, these renovated properties are rented out, either actually or fictitiously, but the income can be used as proof to launder money from other sources.

A later extensive empirical study based on anonymous interviews with money launderers revealed new money laundering methods and confirmed the existence of previous methods (TEICHMANN 2020). This research revealed the following money laundering methods: banking system, consulting firms, antiques, real estate, which I have explained in detail above, with one exception (banking system).

Compared to previous research, I identify the banking system as a new method.

Money launderers continue to successfully exploit the weaknesses of the banking system, despite the fact that most financial institutions make serious efforts to filter out transactions suspected of money laundering. A common method is the use of front men. Companies are set up in the names of front men, with subsidiaries often based in offshore countries, and then countless transactions are carried out on the basis of various fictitious and existing contracts, the authenticity of which cannot be verified or appears to be above suspicion.

Money laundering methods in the European Union based on Europol reports

Europol's 2023 report, which was compiled from data provided by Member States based on investigations conducted, describes how cash smuggling and concealment are very popular methods among organised crime groups.

The report explains that money laundering activities of criminal groups are motivated by the following objectives:

- the need to conceal the origin and true owner of illegal income
- the need to maintain direct or indirect control over illegal income
- the need to change the form of income in order to reduce the huge amount of cash generated by criminal activities or to break the link with the underlying crime

Cash meets all of the above requirements and is owned by the person who possesses it. Unlike electronic transfers, the source of cash is difficult to determine and it is impossible to identify the intended beneficiary. The essence of cash smuggling is that organised criminal groups have large amounts of cash at their disposal after committing crimes (e.g. drug trafficking, human trafficking, etc.), the origin of which they must conceal.

Therefore, they first use various smuggling techniques: they hide larger denomination cash in clothing, underwear and shoes (e.g. 500 euro banknotes), they modify the chassis of cars to create hiding places, hide it among food or toys, or, in extreme cases, swallow it as drug smugglers do. The cash hidden in this way is then smuggled into a bank in an offshore country where anti-money laundering directives and recommendations are not strictly followed, or deposited into the account of a front man or money mule, who then transfers it to an offshore account.

In another report (Europol 2023b), which is also based on specific data from investigations in Member States and also highlights the cash smuggling described above, Europol draws attention to the following money laundering techniques:

- informal value transfer system – underground banking, cash smuggling
- mule exploit the banking system
- trade-based money laundering
- digital assets
- the misuse of legal business structure
- investment of criminal assets in the legal economy

Informal value transfer system – underground banking

An informal value transfer system (IVTS) is any system, mechanism, or network that accepts money in order to pay it or its equivalent value to a third party in another geographical location and that operates outside the regulatory supervision of the legal banking sector. This is also referred to as underground banking. As increasingly stringent rules have been introduced in the legally operating mainstream banking world, IVTS has become increasingly attractive to organised crime groups. According to a Europol report, IVTSs are used to move the proceeds of migrant smuggling, organised property crime, human trafficking, and drug trafficking. Hawala is a type of IVTS used to move and launder proceeds from illegal criminal activities. Hawaladars (also known as fei qian [fei ch'ien, 飞钱] in China or black market peso exchange in South America) often run a legal business in parallel, such as a currency exchange, phone shop or travel agency.

Mule networks exploit the banking system

Money mules are individuals who are recruited, often without their knowledge, to act as money laundering intermediaries for criminals by providing their bank accounts. The money mule method has been used by criminals for several years to launder money. Money mules provide their accounts by accepting money derived from criminal activity, for which they receive a commission. Even if they are not directly involved in the crimes that generate the money (cybercrime, payment and online fraud, drugs, human trafficking, etc.), they are still accomplices because they launder the proceeds of such crimes (Europol 2023a).

These individuals are often recruited through social media, with the promise of a well-paid job. In some cases, they are persuaded to insure their accounts (Europol 2023a). If, as a result of recruitment, the money mule agrees to cooperate in exchange for money, the criminal organisation's contact person asks them to provide their personal account information or bank card with PIN code. There are then two ways in which the criminal organisation can obtain the money that has been transferred to the money mule's account: either the recruiter asks the money transporter for their bank card with the PIN code, gaining full control over the account, and after the illicit funds have been transferred, the recruiter withdraws the funds from an ATM and disappears (RAZA et al. 2020). In the other method, the money mule must transfer the funds to either another money mule's account or the criminal's account and may keep a certain commission (RANI et al. 2024).

Trade-based money laundering (TBML)

Criminal networks are increasingly involved in TBML. Foreign trade and transit proceeds are used to move criminal funds using false invoices and documents. Criminals set up trading structures. Popular goods include used vehicles, metals, clothing, construction equipment, medical devices, fishing products, real estate, watches, high-value goods, gold,

clothing, art (artworks, antiques, non-fungible tokens [NFTs]), and even horses (Europol 2023b). TBML consists of several stages: products are purchased with money derived from crime, which are then traded internationally. Invoicing fraud is also common.

Digital assets

A popular form of money laundering is the purchase of cryptocurrencies with money derived from crime. Cryptocurrencies are often purchased with proceeds from online fraud, drug trafficking, cyberattacks, racketeering and tax fraud. Investigative authorities across Europe are increasingly successful in uncovering cryptocurrency accounts and wallets and seizing ever-larger amounts of cryptocurrencies.

The misuse of legal business structure: From restaurants to banks

Cash-intensive businesses offer ample opportunities for mixing revenues from legal and illegal sources. Criminals exploit the large number of small transactions, the use of large denomination banknotes, and the diversity of rules governing cash payments. Bars, restaurants, pizzerias, grocery stores, construction companies, car dealers, car washes, art and antique dealers, auction houses, pawn shops, jewellers, textile merchants, alcohol and tobacco retailers, retail/night shops, gambling operators, strip clubs and massage parlours are common examples of cash-intensive businesses that criminals can use for money laundering purposes.

Investment of criminal assets in the legal economy

Organised crime groups invest their money in high-value movable assets (luxury cars, jewellery and other luxury goods), real estate, precious metals, cash-intensive businesses, the gambling industry, holding companies and charitable foundations and digital assets. Sometimes they launder money through football clubs, acting as sponsors or manipulating match results. Often, front men at the head of companies registered in offshore countries buy football clubs, and cross-border transactions involving player salaries and television rights fees can cover the movement of illegal money.

Summary

It is clear that in order for organised crime groups to enjoy the illegal proceeds of their crimes without the risk of being caught, it is essential that they conceal and disguise the origin of these proceeds, which they can achieve through various money laundering techniques.

To prevent these techniques, various international (OECD, FATF) and European Union institutions and organisations have issued numerous legal acts, recommendations and guidelines, yet in most cases, organised crime groups exploit the weaknesses of the system. As long as there are offshore countries and countries that do not wish to follow these recommendations, criminals will be able to place huge amounts of wealth in the accounts of banks in such countries without any major problems in our global world. Europol analyses highlight that organised crime groups still have access to cash during the placement and layering stages of money laundering. Therefore, increased action against cash smugglers remains timely, whether through the introduction of legal provisions that provide for additional screening and checks for large amounts of cash, or through the introduction of various technical devices (e.g. special search dogs, X-ray devices) that enable customs and police authorities to search for and find smuggled cash.

As regards money laundering methods involving the acquisition of gold, art, diamonds and other high-value products that are difficult to control, it can be said that as long as the authorities are unable to control the entire commercial chain of these assets, these methods will continue to be popular.

The authorities responsible for combating money laundering have also been fighting against popular shell companies, straw men, and money mules for a long time.

As I have stated in previous writings, the best way to prevent the establishment of shell companies for the purpose of concealing money laundering or other economic crimes, and the use of straw men, would be for lawyers and accountants involved in the establishment and operation of companies to report such activities to the FIU authorities of the respective states (SZIEBIG 2024).

Detecting, freezing and reporting suspicious transfers and transfers to money mule accounts would be the responsibility of financial institutions based on FATF recommendations, yet this common money laundering method often goes undetected.

Two operations demonstrate effective action against money mules: Between 15 September 2021 and 30 November 2021, European Money Mule Action 7 (EMMA 7) was launched to expose money smugglers, identifying 18,351 money smuggler accounts and arresting 1,883 individuals (Europol 2021). This is approximately 4.5 times the number in 2020, when EMMA 6 identified 4,031 money mule account holders and arrested 422 individuals (Finance Finland 2020).

In addition to the above, there are further encouraging signs regarding future action against straw men and money mules. In recent years, banking experts have developed an increasing number of technical methods: algorithms, machine learning models, artificial intelligence, relationship analysis, and behavioural analysis. In the process, software has been developed that is capable of recognising and flagging suspicious behaviour, from account opening to various transactions. Recent research is also working to continuously develop effective artificial intelligence-based software that can recognise and flag suspicious transactions to the bank's compliance unit. Some publications point out that existing systems are still not very effective, given that a few years ago, world-renowned financial institutions were fined by the authorities (KUTE et al. 2021).

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