
Combating financial scams and money laundering

Peter Dench, Banking System Department

This article looks briefly at the types of financial malpractices that have surfaced recently in New Zealand. It outlines the roles of various institutions and agencies as they co-operate to reduce the vulnerability of the public and the financial system to financial scams, money laundering and similar types of financial fraud, and discusses the international dimension to the problem. Some examples of recent scams, and strategies to help members of the public avoid such scams, are also noted.

1 Introduction

Over the last two or three years, there has been a great deal of publicity in New Zealand about the risk of losing money through financial scams, fraud, or similar financial malpractice of one type or another. Consumer interest groups, the news media and government agencies have provided public warnings, and advice on how to avoid being taken in by scams. Despite these warnings, new cases of scams are constantly hitting the headlines.

It is apparent that many of these financial malpractices have significant international linkages. Frequently, the scams we see here have been successfully conducted overseas, before they reach our shores. The promoters of scams endeavour to take every possible step to create an impression of legitimacy for their business, and often fabricate such complex transactions that even experienced professionals may find it difficult to detect whether fraud is involved. The promoter's intention is to avoid detection of the true nature of the scam, and to remain free from regulation, supervision and law enforcement from domestic authorities in any particular country. The Reserve Bank works together with other domestic and international institutions and agencies to counteract the proliferation of financial scams and combat money laundering.

2. What sorts of financial scams and similar malpractice are we seeing?

From a broad perspective, financial scam activity can be divided into two main categories:

- (1) those that are dealing in large amounts of money in each transaction, from a small number of investors, which we will describe as 'wholesale' (or large-scale) scams; and,
- (2) those that are aimed at obtaining smaller amounts of money in each transaction, usually from many members of the public or community-based groups, which we will describe as 'retail' scams.

Wholesale scams

Although the difference between the wholesale and retail categories may not always be quite so clear, as a general rule, wholesale scams are targeted at very wealthy individuals or families, companies, financial institutions, and sometimes even at national governments. The amounts under discussion in wholesale scams are often in the millions of dollars, or even hundreds of millions of dollars. In most cases potential investors are asked to maintain strict secrecy about the proposed arrangements, but the promoters of such fraudulent financial transactions (we will call them scamsters) know that their deals may be subject to at least cursory inspection or scrutiny by professional investors or their advisers.

Recent examples of these sorts of scams, known generically as Prime Bank Instrument fraud, have sought to establish legitimacy by claiming endorsement by, or incorporating transactions with, internationally recognised institutions of high standing (such as the World Bank, the International Monetary Fund, or reputable commercial banks). These claims have later turned out to be baseless. Another strategy used occasionally is to involve a person of high standing in the local community (sometimes, but not always innocent

of the nature of the scam) as a 'front-person' in marketing the scam, to give an appearance of greater credibility.

The scamsters will commonly set up a complex weave of inter-connected transactions, through many different financial institutions, companies, offshore-based banks or trusts, and/or charities, possibly involving entities based in several different countries. It is likely that part of the objective of constructing these exceedingly complex transactions is to confuse the investor about the true nature of the transaction, and it may be virtually impossible to determine, from the documentation, exactly what will happen to the investor's funds.

The promoters may incorporate a mixture of legitimate banking terms and other technical-sounding but otherwise meaningless phrases into the documents. Part of the intention may be to play on the reader's professional pride, so that an independent adviser could end up supporting such an investment rather than admit that they might have insufficient technical knowledge about how sophisticated or leading-edge financial investments actually work, to determine whether it is a scam or not.

Other examples of wholesale scams have involved offering large loans to prospective borrowers on (supposedly) concessionary terms. The outcome frequently includes the

Box 1

Types of financial scams appearing recently in New Zealand

(Other warning notices, and information on steps to take to avoid these sorts of scams, are available from the Internet websites of the Ministry of Consumer Affairs, the Securities Commission, and the Consumers Institute, or by contacting those organisations directly, see appendix.)

Prime Bank Instrument schemes – purport to offer financial investments in/or be supported by instruments variously described as bank guarantees, letters of credit, leveraged investment programmes, trading programmes, bank debentures or bank notes. Usually involving amounts over \$50,000, and offering very high monthly or annual returns. May include phrases such as "top 100 world banks", "prime bank", "blocked fund", "key tested telex", "ready, willing and able" or allude to a secret market in bank instruments that only the promoters can access. Emphasis is placed on secrecy and confidentiality. Documentation can involve a complex chain of transactions and a number of institutions, to create the appearance of legitimacy.

Pyramid schemes – involve multiple layers of members or 'distributors' and generate income through ever-increasing numbers of contributors or 'members' each

paying an initial subscription or fee. Financial rewards are based on people in higher levels of the 'pyramid' each receiving a share of the contribution from new members recruited to the scheme. The scheme may offer gimmick products, or over-priced services (such as travel benefits), which cannot easily be sold to legitimate purchasers. Chain referral letters involving payment of money can also be a form of pyramid scheme. Pyramid schemes are different from multi-level marketing schemes where the return is usually derived from the sale of commercially viable products or services to the public (without having to sign up new members). With pyramid schemes, later layers of investors have little chance of getting money back as the number of new investors required becomes impossible to achieve (see also Commerce Commission booklet entitled Pyramid Selling).

Ponzi schemes – may sometimes have the appearance of prime bank instrument schemes, but have the same ultimate effect as pyramid schemes. Investments offer high monthly returns, but in fact the initial investors are getting their interest payments either from their own money or from the principal invested by later investors. The schemes ultimately collapse as there is no true investment product. The promoters will plan to skip before it collapses, possibly after they have successfully used endorsements from the initial investors, who have

received payments at high rates of return, as a marketing ploy to attract a large number of new investors.

Nigerian scam letters – unsolicited letters purportedly sent by an employee of a government corporation, or a public official or a dignitary in Nigeria, offering a share of a large sum of money which needs to be processed through some convenient foreign company or bank account. Often asks for copies of company letterheads and/or bank account details, and usually requests an initial payment (advance fee) to meet costs, etc. The Central Bank of Nigeria has taken out advertisements in major newspapers around the world to highlight the fraudulent nature of these letters, but they are still appearing by the thousands in various countries. Recent examples have been seen from South African sources. Other countries, including Sierra Leone and France, may also be used as a base.

Advance fee scams – may take a number of forms, such as a fee for arranging a (fictitious) financial transaction such as a large foreign-sourced loan on soft terms, or the issue of a credit card from an overseas bank. Similar scams, for example marketed through advertisements, may ask for pre-payment for a product or service which turns out to have no real value, if it is ever in fact received. Some forms of advance fee scams may claim that the target person has won a prize in a competition or lottery (which they have never entered), but that they must send money for the entrance fee or to purchase an (overpriced) product in order to be eligible to get the (false) prize.

Pro-forma, or false invoicing – a regularly recurring scam usually targeted at businesses, implying that payment is due for some service (which in fact has never been requested or provided), such as listing in a world-wide directory, or advertising in a trade magazine. Often invoices are for sums in excess of US\$900 and the most recent ones have been coming in from Europe. The promoters have been known to be quite forceful in asserting the validity of their invoices.

Stock investment 'cold calling' – unsolicited telephone calls usually claiming to be from stock brokers or investment companies that have identified a confidential investment opportunity to purchase stocks or shares in an overseas listed company with good prospects at a bargain price. These callers are often based overseas and may ring several times over the course of a few days in an effort to gain their victims' confidence before making the investment pitch. The companies they are offering to invest your money in will normally be legitimate and not be connected to the scam in any way.

Credit card fraud – recent examples have seen local merchants receiving telephone or Email orders for large-value sales on credit card, possibly from scamsters based overseas. Although the credit card details have passed initial checks, some have subsequently turned out to be fraudulently obtained. Other examples have included scamsters adjusting the amounts to be charged to credit cards when card-holders details are filled in on mail-order purchase forms. Sometimes, unscrupulous merchants overseas (for example in a street-market) have been known to take a duplicate copy of a transaction slip with the imprint of the customer's credit card details, for later misuse. Using Credit cards for purchases over the Internet has also proven costly in some instances where the vendor site turns out to be a front set up solely to extract credit card details from would-be purchasers.

Internet based scams – most of the scams listed here, and many more variations as well, can be found hiding on the Internet, waiting for innocent victims. There is no easy way to check the accuracy of claims made on many Internet sites. If in doubt, do not proceed. Do make use of the various website references and links to overseas scam-busting sites to become better informed about the new types of scams which are emerging overseas, and will no doubt become more prevalent in New Zealand, if we let them.

payment of a substantial up-front fee by the prospective borrower, but the loan never materialises because of circumstances that are claimed to be outside the control of the promoter of the arrangements. These advance-fee type scams can take many forms at both the wholesale and retail levels and may be part of a larger scam, or be obscured within complex documentation to disguise the true advance-fee objective.

Retail scams

Most wholesale scamsters will be carrying out only one or possibly a few transactions at the same time. On the other hand, retail scams are generally targeting a relatively large number of victims at the same time. Although the scamsters may risk breaching investor-protection regulations, the initial contact with their prospective retail scam victims will often be through public advertisements. Other forms of initial contact may be invitations to meetings (by direct mail, phone or word-of-mouth), sometimes under the guise of assisting the work of a charitable or religious organisation which could be based either within or outside New Zealand. Usually, there will only be a limited period of time before the fraudulent nature of the deal becomes publicly known, so the scamsters may seek to move quickly from one place to the next, to maximise their takings and avoid getting caught by the authorities.

Some examples of the types of scams circulating recently are noted in box 1 on the previous page.

International dimension

One element which is increasingly common to both the wholesale and retail scams is the 'international' connection, because in many cases, the documentation has originated outside New Zealand. Often some or all of the key perpetrators are themselves foreigners. Of course, New Zealand is not the only country that has seen an upsurge in various types of financial scams in the last 10 to 15 years. Scams of various types have been on the increase in many countries around the world, both developing and developed. Some wholesale scams targeted at the governments of small nations have potentially placed the country's economic viability at risk, for example involving amounts which substantially exceed annual gross domestic product. Even

retail-oriented scams can become so prevalent as to threaten to undermine the stability of a whole country. Albania, for example, nearly suffered a collapse in its government and its financial system through an endemic pyramid scheme (a high proportion of the population had committed money to this scheme, with many ultimately losing their life savings).

Of the several factors that have contributed to the international proliferation of financial scams, probably the most significant are the increasing ease, and low cost, of international travel and communications. Unfortunately, those factors also make it much easier for scamsters to get the money out of New Zealand before the investors realise they have been duped. After taking their fill here, some scamsters may head off to market their scams in other countries, possibly targeting neighbouring countries in the Pacific region.

Somewhat surprisingly, it seems that examples of the documentation used in some types of scams can be found on Internet sites, for purchase at a small cost. However, there are cases where simple spelling mistakes or similar errors have been carried over in the documents used for fraudulent purposes from one country to the next. The repetition of errors and certain key phrases can help investigators to determine the document's origins and lack of legitimacy.

Other scams such as those purportedly offering credit cards from overseas banks for an up-front fee, may be 'direct marketed' from overseas via Internet sites, so that the potential victim never has face-to-face contact with the promoter. There is little effective regulation of international Internet-linked financial transactions at present. Once the funds have left New Zealand, they will be much harder to track down and recover from the scamsters, with possibly the added risk of difficulties arising in seeking repayment through the legal system of some small, remote offshore financial centre.

Money laundering

Money laundering is the term used to describe the process where the proceeds of criminal acts such as drug-related offences, property crime and financial fraud, are transformed into legitimate-looking assets through financial transactions. Often, money laundering is carried out by organised criminal

groups, using transactions through several layers of companies and financial institutions, with the objective of disguising the original source of the funds to avoid identification and confiscation by enforcement authorities. The transactions may involve purchase and sale of real assets, gambling, and/or high cash-turnover businesses using various bank accounts, foreign exchange transfers and other forms of payment. In large-scale money laundering transactions, several different countries may be involved, often including offshore financial centres with minimal levels of regulation and supervision, but with high levels of secrecy.

It is likely that at least some of the proceeds of crimes committed within New Zealand finds its way at some stage from the 'cash' economy into the domestic banking system, although the frequency and size of this type of laundering is considered to be relatively modest in an international context. Internationally, the Asia/Pacific region more generally has seen a substantial increase in money laundering activity in recent years, and there have been publicised examples involving criminal groups from Russia and some Asian countries. These groups have often sought to use transactions through offshore-licensed banks, such as those that are nominally licensed in small island nations in the Caribbean or Pacific regions, as part of the process of laundering money to escape detection of their illegal activities.

Foreign currency transactions can generally be conducted through the New Zealand banking system with relatively few constraints. Financial institutions and foreign exchange dealers therefore need to be on constant alert for tell-tale signs of suspicious cross-border transactions, for example, criminally-derived funds originating offshore and subsequently transferred to New Zealand as part of the process of integration into the financial system. Financial institutions in New Zealand have strong reputational incentives to prevent money laundering from being conducted through the accounts and services that they provide. The institutions would not wish to be seen as a haven for criminal activities, and will therefore aim to be rigorous in identifying and reporting suspicious transactions.

In the remaining sections of this article we will discuss the role of various groups, organisations and agencies in helping to identify and stamp out these forms of financial malpractice.

3 The role of professional experts and advisers, banks and other providers of financial services

The first course of action most people will take, when considering substantial new financial commitments or investment decisions, is to seek professional advice from legal or financial experts or advisers to check out the nature of the contract, its risks and rewards. The advisers should be entirely independent of the promoters of the proposed transaction. Obtaining advice regarding the potential risks, and assistance in due diligence checks about the persons or organisations marketing the financial transactions should help reduce the risk of falling victim to financial scams and similar malpractices. Of course, it may not always be easy, even for professional advisers, to identify that fraud is about to be committed. On at least a few occasions in the past, expert advisers have apparently not realised that a financial scam or fraud is involved.

The salient message is that, regardless of any pressure from the promoters about signing up to a deal with extreme urgency or utmost secrecy, if there is any remaining element of uncertainty, the wisest course of action is to seek further advice from a second, independent, and well-informed source.

Professional advisers such as lawyers, accountants, bankers and investment advisers may face something of a quandary between their responsibility to protect client confidentiality, and their moral obligation to draw possible scams or fraud to the attention of the appropriate authorities. Wherever possible, obtaining clients' permission to pass on relevant information about likely scams to the authorities, will help reduce the possibility of other innocent investors being duped by the same scamsters.

As part of New Zealand's efforts to combat money laundering, the Financial Transactions Reporting Act 1996 (the FTR Act), places legislative requirements on various types of persons and organisations involved in financial transactions (broadly defined as financial institutions). The requirements include procedures for customer identification and retention of records of customers' identity. In certain circumstances,

financial institutions are required to report suspicious transactions promptly to the New Zealand Police and to cooperate with investigating authorities. The reporting requirements may be triggered if there are reasonable grounds to suspect that a financial transaction conducted through that person or organisation may relate to a money-laundering offence or involve the proceeds of crime.

The FTR Act requirements apply to all banks and other financial institutions, life insurance companies, casinos, sharebrokers, foreign exchange dealers and other persons who as a principal part of their business, handle transactions for funds management, transfer of funds, real estate settlement, or deposit and investment of funds. In some circumstances, the requirements will also apply to lawyers (subject to certain professional privilege constraints) and accountants. Auditors may voluntarily report transactions where a suspicion is formed during the exercise of their professional duties. Immunity from civil, criminal or disciplinary proceedings is provided for those who make reports of suspicious transactions, unless the information was supplied or disclosed in bad faith. The FTR Act is one of several measures adopted to conform to international conventions on the detection and prevention of money laundering.

The New Zealand Bankers Association, as an industry group representing the main retail-oriented banks in New Zealand, has taken a proactive role in combating money laundering in New Zealand. The Association issued voluntary procedures and guidance notes to member banks in 1991 based on 'best practice' standards for the banking industry, and issued a revised manual for banks and their staff in 1996, incorporating the requirements of the FTR Act. The Association has put together training aids and pamphlets to assist bank staff and customers to understand, and comply with, the Act's requirements. Other relevant industry groups such as the Financial Services Federation are also familiarising members with their obligations under the FTR Act.

For those persons and organisations that may, from time to time, fall within the broad definition of 'financial institution' under the FTR Act, the Financial Intelligence Unit of the New Zealand Police is the formal point of contact and recipient of suspicious transactions reports. A detailed set of guidance

notes is available from the Financial Intelligence Unit, to clarify the requirements and reporting obligations under that Act.

4 The role of investors, consumer interest groups and the media

In several respects, investors and consumers, who have the most to lose from financial scams and other malpractices, also have the greatest incentive and ability to prevent these scams occurring. A few simple rules (see box 2) and a healthy degree of scepticism about deals which seem 'too good to be true' can help avoid painful financial losses. The age-old investment maxim still applies, that where a higher than normal return or benefit is being offered by the promoter of a financial transaction, the risks are proportionately higher than losses can, and often will be incurred.

An important contribution the public can make to the fight against scamsters is to pass any suspicions or information about a possible scam to the relevant authorities, who can then investigate the matter and publicise it where appropriate. Consumer interest groups such as the Consumers Institute, with its monthly magazine and Internet website (www.consumer.org.nz) have taken a leading role in publicising various types of scams or 'rip-offs.' Television programs such as Fair Go and Target, and investigative journalists through other media sources such as newspapers and magazines are constantly delving into rumours of new scams. These organisations are making a valuable contribution to keeping scams and similar malpractices at the forefront of public attention.

5 The role of the authorities

A number of government agencies maintain a watching brief to monitor developments in, and contribute to public awareness about the dangers of, the various types of financial scams and other malpractices. Each agency has a different mix of roles ranging from providing consumer advice to undertaking enforcement action, as outlined below. For example, the Ministry of Consumer Affairs provides consumer

Box 2

A few simple rules for prudent investors

- Always seek independent advice on investment alternatives, from competent professionals you know and trust.
 - Check out the details of the offer, the company, and the promoters' background, thoroughly, before investing.
 - Independently verify that the names, addresses and telephone numbers used in the documentation are legitimate.
 - Find out what returns or rewards the promoters are getting for attracting your new investment.
 - Don't be pressured into committing funds before you have finished checking the details out, even if a 'special offer' or 'prize' is supposedly only available for a short time.
 - Be cautious about unsolicited approaches regarding investments, lottery subscriptions, or promotions suggesting you have just won a prize draw. Scammers have even been known to use plausible-sounding charitable donations as a front.
- Protect the details of your finances, bank accounts or credit cards. Even using a company letterhead to reply to correspondence from scammers may risk subsequent misuse of that letterhead.
 - If an investment statement and prospectus is not available for an investment offer, it may be operating outside the ambit of the Securities Act regime.
 - Investments offering returns that seem just too attractive to turn down may stand a very high risk of losing the whole amount. Be cautious about committing funds to high-risk investments unless you can afford to lose the whole amount.
 - Be wary of promotions stressing a high level of confidentiality, or demanding sign-up with extreme urgency.
 - Remember that recommendations from earlier investors' may (sometimes unwittingly) be aimed at encouraging new investors to contribute so that the new contributions are simply paid out as interest due to earlier investors.

information and advice but has no enforcement role in respect of financial malpractices. The Securities Commission has the power to prohibit promotional material. It also issues public warnings. The Commerce Commission, on the other hand, provides advice and takes enforcement action in relation to pyramid schemes. The New Zealand Police and the Serious Fraud Office carry the investigation and enforcement responsibility in cases of financial fraud. Members of the public can assist by acting as the 'eyes and ears' for these agencies, to provide timely information on suspected scams and similar financial malpractices, so that relevant information can be passed on to the appropriate authority for action.

The contact details for the main agencies referred to in this article are listed in the appendix.

The Ministry of Consumer Affairs introduced in August 1999 a very helpful section to its Internet website www.consumer-ministry.govt.nz, with the sub-title Scam Watch. Numerous

examples of the types of scams being found around New Zealand, and tips on how to avoid them, make this website a valuable point of reference. It also provides links to similar Internet sites in Australia, Canada and USA that provide examples of prevalent scams and warnings of what to watch out for.

The Commerce Commission, which is responsible for the administration of the Fair Trading Act, has published information booklets, for example on how to identify Pyramid selling. Under the Fair Trading Act, Pyramid schemes are illegal and promoters can be prosecuted by the Commission.

The Securities Commission, through its Internet website www.sec-com.govt.nz, posts bulletins and publications providing information about how to obtain investment advice, and on the role of investment advisers. It also releases, from time to time, warnings of recent types of financial scams that may have the appearance of an offer of securities to the public. The Commission is empowered to act where

investments do not comply with New Zealand law, for example where there is no prospectus or investment statement.

Investigation of complaints relating to evidence of financial fraud fall within the ambit of either the New Zealand Police or, where more substantial amounts or complex cases are involved, the Serious Fraud Office. Referral of fraud cases may come from a variety of sources including other government agencies, receivers and liquidators, professional associations or the general public. Primary responsibility for enforcement of the various legislative provisions to combat money laundering rests with the New Zealand Police, the New Zealand Customs Department, and in certain circumstances, the Serious Fraud Office.

Reserve Bank role

The Reserve Bank of New Zealand has more of a background role in combating the impact of financial scams and money laundering, compared with some of the other agencies discussed in this section. One of the three main functions of the Bank is to promote the maintenance of a sound and efficient financial system, which includes responsibility for registering and supervising banks in New Zealand. The Reserve Bank of New Zealand Act 1989 does not permit any entity other than a registered bank to use the word 'bank' in the name or title under which the entity is formed or registered, or carries on business, apart from a few limited exceptions. The exceptions include, for example, where 'bank' is part of the name of a real person, or a street name or geographic place name. The Bank is therefore particularly concerned about cases of financial scams and similar malpractices where persons or entities may be passing themselves off as banks. Other situations of potential systemic concern might involve material amounts being laundered through the banking system, or financial scams becoming widespread so that domestic or international confidence in the banking system could be affected.

As supervisors of the banking system, the Bank requires registered banks to confirm that they have in place procedures and controls to comply with the Basel Committee on Banking Supervision's 1988 Statement of Principles on Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering. The Bank follows up on the

effective implementation of anti-money laundering measures in the course of its annual prudential consultation meetings with each registered bank.

Within its focus on the integrity of the financial system, the Bank endeavours to ensure that the legislative, accounting and institutional infrastructure is conducive to achieving its overall soundness and efficiency objective. The Bank has sought to ensure that the rules and processes established to combat money laundering do not compromise the efficiency of the financial system unduly (for example through the imposition of unreasonably high compliance costs). The requirements under the FTR Act have been established in a manner consistent with the broader approach to financial sector regulation, that is to seek to ensure that incentive structures within the financial sector are conducive to minimising the incidence of money laundering. Apart from monetary penalties for non-compliance, other mechanisms also create incentives for directors and management of banks to ensure that various business risks, including the risk of non-compliance with legislative requirements, are effectively managed and controlled.

For further information, please see the article entitled "The role of the Reserve Bank of New Zealand in supervising the financial system" which is available from the Bank's Internet website, www.rbnz.govt.nz under the Publications heading.

As each of the above-noted government agencies have distinct responsibilities in respect of different aspects of financial scams and money laundering, an inter-agency liaison network exchanges information (within the bounds of secrecy and privacy constraints) and refers suspicious cases on to the appropriate investigative authority for investigation and action.

6 International aspects of financial scams and money laundering

New Zealand plays an active part in the global drive to detect and combat money laundering. Government agencies and private sector institutions work together to give effect to New Zealand's anti-money laundering framework, consistent with the country's obligations under various international agreements and conventions. These include the 1988 United

Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (also known as the Vienna Convention) and compliance with the 40 recommendations of the primary international anti-money laundering group, the Financial Action Task Force (FATF). New Zealand is a member nation of FATF.

The Reserve Bank is a member of New Zealand's inter-departmental anti-money laundering working group (known as the FATF Working Group). The working group provides advice to the New Zealand Government on policy issues and legislative proposals to combat money laundering, carries out a liaison role with domestic and international groups, and represents New Zealand at FATF Plenary meetings and meetings of the Asia Pacific Group on Money Laundering (APG). The APG, which has a small secretariat based in Sydney, Australia, provides a forum for co-operative anti-money laundering efforts within the Asia/Pacific region. It co-ordinates practical support to countries in the region and encourages the adoption and implementation of the FATF's 40 recommendations for measures to create an effective anti-money laundering framework in each country.

As noted earlier, many of the scams and other financial malpractices that we see have originated from outside New Zealand in one form or another. The world-wide expansion of cross-border transactions over the last two decades, and the increasing ease of international payments by electronic means, has made New Zealand and its neighbouring countries potentially vulnerable to financial activities over which no single country has effective direct supervision or control.

In the last few years, financial sector supervisors of some of the offshore financial centres in the Caribbean and Europe have been tightening their regulation of offshore business. This has led to a shift in focus for dubious offshore business towards some of the less well-regulated offshore centres and tax havens, including some countries in the South Pacific. A particular threat for the Pacific region is posed by the expansion of Russian banks and entities controlled by Russian organised crime. United States authorities have recently disclosed that billions of dollars have been channelled through the Bank of New York in the past year or so, in what appears to be part of a massive money laundering

operation by Russian organised crime. Entities licensed in an offshore financial centre in the Pacific have been linked to some of those transactions.

Developments in the Pacific region

Within the Pacific region, the Finance and Economic Ministers of South Pacific Forum countries have expressed concern over the implications for economic development of undesirable financial activities in the region. Forum countries have agreed to a timetable for each country in the region to adopt legislation, by the year 2000, to criminalise money laundering, provide for reporting of suspicious financial transactions to competent authorities, and for mutual cross-border assistance in criminal matters. New Zealand has already set the appropriate legislative arrangements in place and, in conjunction with the Forum Secretariat and other countries and agencies, is endeavouring to assist smaller Forum Island Countries with progress towards the regional deadline.

In 1998, the New Zealand Ministry of Foreign Affairs and Trade, with the assistance of the Reserve Bank, funded a 'Roadshow' to Pacific Island Countries to increase awareness about the risks associated with financial scams, money laundering and offshore financial centres. The Roadshow comprised a small team of experts in each of the main topic areas, with representatives from multi-lateral agencies within the Pacific region, as well as Australia, New Zealand and the United Kingdom. The Roadshow was part of New Zealand's contribution to strengthening good governance in the region. Seminars, briefings and discussions were conducted in thirteen Pacific Island Countries, with key representatives of the government, public sector, central bank, financial institutions and business sectors in each country. The Ministry has subsequently provided a summary report on the Roadshow to the countries visited, and to the South Pacific Forum. The report outlines the key aspects of each of the topics covered in the seminars, provides recommendations for further action, and details contacts and resource information for future reference.

Other regional initiatives are also being investigated, aimed at strengthening the ability of Pacific Island Countries to exchange critical information on suspicious financial or

criminal activities, and to assist them to carry out effective due diligence investigations on foreign investment or offshore financial centre applicants. With a relatively limited number of skilled personnel available domestically to vet such applications, some of the smaller countries currently face the risk that they inadvertently become host to the same activities of scamsters and money launderers that other countries are endeavouring to shut down. That also poses a risk that the region as a whole could suffer a loss of reputation because of the lack of integrity of one or two countries.

A co-operative approach is being adopted by many of the Pacific Island Countries to establish effective legislation and oversight of their offshore financial centres and to banish dubious institutions from their jurisdiction. The Reserve Bank endeavours to provide information and assistance wherever possible, to its central bank counterparts and other financial sector supervisors in the region, to help those countries combat financial scams and similar financial malpractice. Arising from the Roadshow visits in 1998, the effectiveness of regional networking to provide information exchange, co-operation and assistance has been strengthened, and has already proven its benefits in several instances where financial malpractices have been averted.

7 Summary

Despite the combined efforts of government agencies, consumer groups and the media, New Zealanders continue to fall victim to various types of financial scams. Many of the scams are structured in such a way that they can withstand casual scrutiny without being easily detected as fraudulent. It is therefore important to be circumspect, to seek independent professional advice and follow a few simple rules before committing any funds, to reduce the chances of losing money through scams. The general public can also contribute to the battle against financial scams by bringing their suspicions to the attention of the appropriate authorities as early as possible.

A proliferation of financial scams and money laundering could have negative effects on the economy and the integrity of the domestic financial system. Government agencies and financial institutions are working together to combat the threat of money laundering in New Zealand. These issues

are also becoming a focus of international attention, and New Zealand is providing support and assistance to the efforts of countries in the Pacific region to reduce the risks of financial losses and loss of reputation through scams or misuse of offshore financial centres in the region.

Appendix

Contact details for Government Agencies referred to in this article

Ministry of Consumer Affairs

P O Box 1473

Wellington

Phone: (04) 474 2750

Fax: (04) 473 9400

Email: mcainfo@moc.govt.nz

Internet website: www.consumer-ministry.govt.nz

Securities Commission

P O Box 1179

Wellington

Phone: (04) 472 9830

Fax: (04) 472 8076

Email: seccom@sec-com.govt.nz

Internet website: www.sec-com.govt.nz

Commerce Commission

P O Box 2351

Wellington

Phone: (04) 471 0180

Fax: (04) 471 0771

Internet website: www.comcom.govt.nz

Financial Intelligence Unit

New Zealand Police National Headquarters

P O Box 1473

Wellington

Phone: (04) 474 9499

Fax: (04) 498 7405

Reserve Bank of New Zealand

P O Box 2498

Wellington

Phone: (04) 472 2029

Fax: (04) 473 8554

Email: rbnz-info@rbnz.govt.nz

Internet website: www.rbnz.govt.nz

Serious Fraud Office

P O Box 7124

Wellesley Street

Auckland

Phone: (09) 303 0121 or 0800 109 800

Fax: (09) 303 0142

Email: sfo@xtra.co.nz