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ANNEX

## TYPOLOGY 12

### MONEY LAUNDERING BY MEANS OF PREPAID CARDS

YEREVAN 2012

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## Chapter 1: Scope of Application

1. Money laundering schemes devised by means of the instruments and transactions/ activities set forth in this typology may be relevant for the banks, which are reporting entities under the law.
2. In addition to banks, the schemes described in this typology may be of interest, in informative terms, for payment and settlement organizations licensed by the Central Bank; particularly for companies involved in the processing and clearing of payment instruments and payment/ settlement documents, for the operators of the payment and settlement system, as well as for persons involved in intermediary activities in prepaid card business as prescribed under the law.

## Chapter 2: General Provisions

3. A prepaid card is a type of payment card envisaged for making small amount purchases, usually that of consumer goods and services. Consequently, the procedure for obtaining and using prepaid cards is simpler than that of other payment cards. Due to the significant increase in the demand for prepaid cards, which are seen as an easier-to-use and more convenient alternative to other payment cards, prepaid card business over time has encompassed almost all functional attributes of that of the payment cards.
4. Currently the market offers a wide variety of prepaid cards, starting from quite simple ones (for examples, gift cards, which can be used within a limited network of sales points, are not rechargeable and can not be used on ATMs) and ending with multi-functional ones (for example, cards that can be funded and/ or recharged by cash, electronic payment instruments or bank accounts, the available balance can be withdrawn in cash through ATMs, be transferred to another card or bank account, and the card may be used for purchasing various goods and services).
5. Prepaid cards are characterized by a number of specific attributes. Particularly, such cards:
  - Can be obtained and used without the need to have a bank account (to sign a relevant contract);
  - When obtained, no or very limited customer due diligence measures (identification and verification of identity) are applied;
  - Are used anonymously, as the mandatory requisites of the card do not comprise identification data and signature of the holder.
6. Although prepaid cards are basically intended for a limited set of transactions, certain types of such cards currently have a broader scope of possible uses. In particular:

- Some types of prepaid cards enable cash withdrawal through ATMs;
- Prepaid cards recognized by international payment and settlement systems can be used outside the country of the issuer, in the countries having joined the system;
- Some types of prepaid cards can be used to fund bank or virtual accounts of the customer or a third party;
- Some types of prepaid cards allow for funding (recharging) the available balance by cash or through non-cash transfer.

7. The simplified procedure for obtaining and using prepaid cards, as well as their wide usage make these cards a rather convenient tool for money laundering. The schemes of money laundering through the abuse of the above-stated characteristics of such cards include:

- Money laundering scheme through the use of prepaid cards as an alternative remittance tool;
- Money laundering scheme through the use of prepaid cards as a transit account;
- Money laundering scheme by means of physical cross-border transportation of prepaid cards.

### Chapter 3: Description of Potential Money Laundering Schemes

#### A) Money Laundering Scheme through the Use of Prepaid Cards as an Alternative Remittance Tool

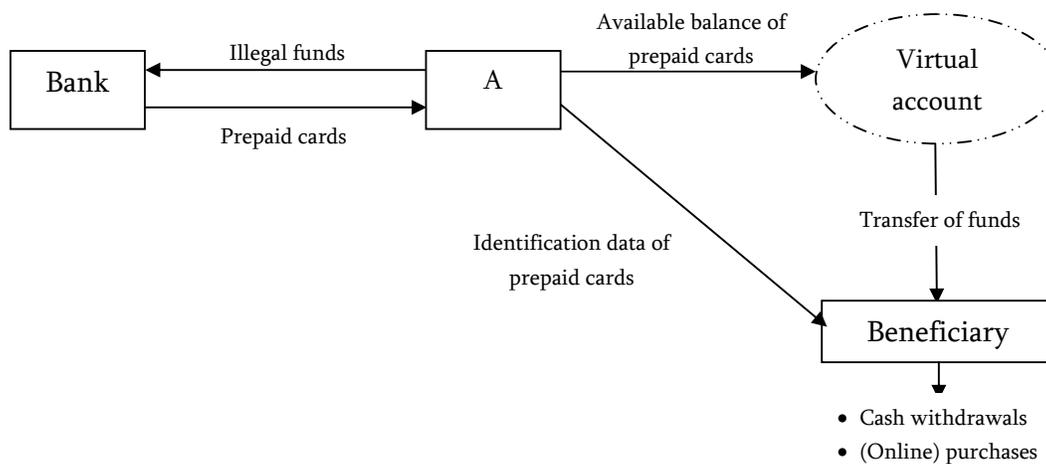
8. In this type of schemes criminals, who abuse the absence or deficiencies of due diligence procedures when obtaining and funding (recharging) prepaid cards, use them as an alternative tool for making anonymous transfers.

##### A.1) Cross-Border Remittances

9. “A” wants to make cross-border transfers against goods and/or services (often with prohibited or limited/ regulated circulation under the law) in a way that, for whatever reasons, would enable to conceal from the bank or relevant public authorities the fact of having purchased the goods and/or services in question. For that purpose “A”, with different reasoning, obtains a large number of prepaid cards directly from the issuer or from an intermediary. After that, “A” uses identification data of the cards to open virtual accounts and to make respective payments to the suppliers of goods and/or services.

10. In another case, when prepaid cards are recognized by international payment and settlement systems (for example, Visa, MasterCard etc), “A” may communicate to the

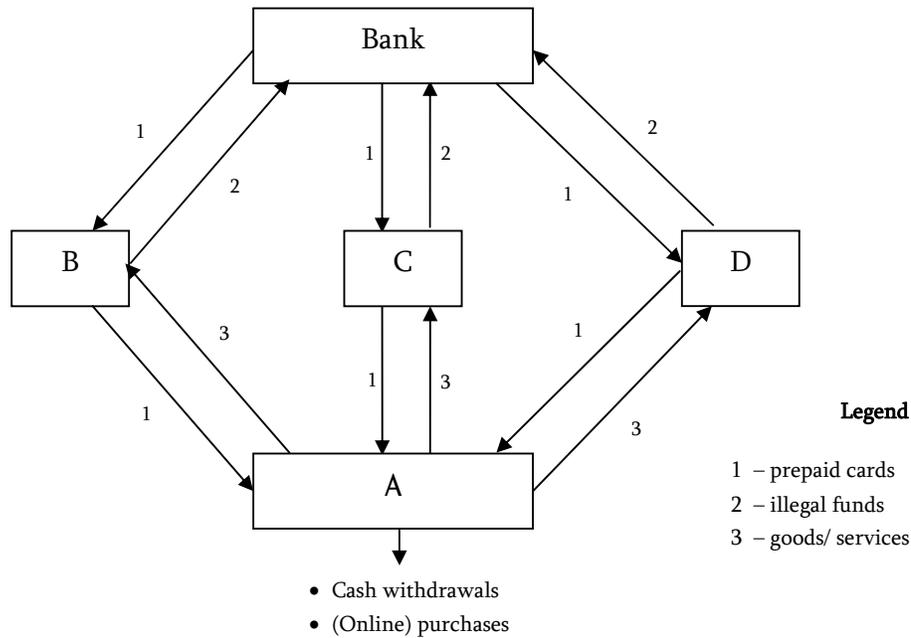
beneficiaries of the to-be-transferred funds identification data of the cards he has obtained, which means that the beneficiaries would themselves provide for the subsequent conversion of the available balance into electronic money and use them at their discretion. The transfer of funds may occur from time to time by means of recharging the cards. In this regard, prepaid cards have the advantage of being issued without conjunction to a bank account, which means that their usage is not anyhow reflected in the personalized account statement.



**A.2) Intrastate Remittances**

11. “A” involved in wholesale business aims to conceal the revenues collected from retailers (“B”, “C”, and “D”) thus avoiding payment of certain tax liabilities. For that purpose, retailers instructed by “A” obtain from banks prepaid cards and physically hand them over to “A”. Thereafter the retailers instead of depositing their sales revenues on bank accounts and making transfers to the accounts of “A” simply recharge the prepaid cards, which are factually possessed by the latter. “A”, in turn, uses the available balance of the cards by means of cash withdrawals or (online) purchases.

12. The scheme described above may be used for various criminal purposes such as tax evasion, collection of illegal drug revenues from retailers etc.

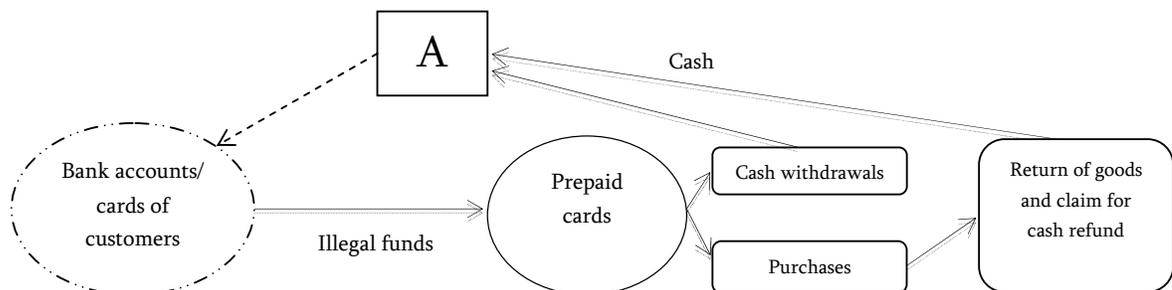


**B) Money Laundering Scheme Through the Use of Prepaid Cards as a Transit Account**

13. In this type of schemes criminals abuse the opportunity of conducting non face-to-face transactions by prepaid cards, which enables them to distribute illegally gained (embezzled) funds in a way that their real beneficiaries (final recipients) are not identified.

14. “A”, who has illegally obtained data on bank accounts/ cards of customers, uses the available balance of those accounts to fund (recharge) his prepaid cards. After that, “A” uses the prepaid cards to withdraw cash and/ or make purchases. At that, if illegally gained funds in this scheme are used for funding prepaid cards with limited use (for example, gift cards, which can be used within a limited network of sales points), criminals may turn the goods, which they have paid for by the cards, into cash with one of the following methods:

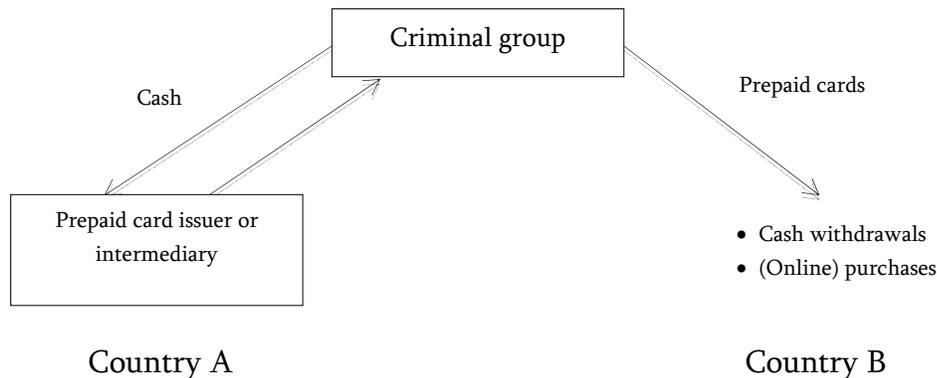
- Resale the goods to third persons;
- Return the goods to the sales point and claim for refund in cash.



### C) Money Laundering Scheme by Means of Physical Cross-Border Transportation of Prepaid Cards

15. In this type of scheme criminals abuse the absence of a limitation on the physical cross-border transportation of prepaid cards from country to country, in order to convert illegally gained funds into available balances of prepaid cards for further use in a third country.

16. Thus, the criminal group operating in Country A wants to legalize the proceeds of its illegal activities. For that purpose they obtain a large number of prepaid cards directly from the issuer or from an intermediary. Thereafter, the cards are physically transported to Country B, where the available balance on them is used by means of cash withdrawals or (online) purchases.



### Chapter 4: Conclusions

17. Transactions, which are carried out through the above-illustrated schemes and sequence of actions, are aimed at concealing the origin, movement, or true ownership (final beneficiaries) of illegal proceeds.

18. In order to arrive at a conclusion on the existence of potential money laundering schemes, banks and other stakeholders should pay attention to the circumstances, which are essential in terms of uncovering such schemes, such as:

- 1) Discrepancies between the information submitted by the customer and information detected by the bank in the course of on-going due diligence;
- 2) Customers who obtain and fund (recharge) an unusual number of prepaid cards (issued by the same provider);
- 3) Customers who obtain prepaid cards denominated in foreign currency with unexplained rationale for their expected usage;
- 4) Diverse sources of funding (recharging) prepaid cards (for example, bank transfers, card-to-card remittances, cash) by multiple third parties;

- 5) Multiple funding (recharging) transactions over a short period of time with amounts just below the reporting (identification) threshold (structured funding);
- 6) Funding (recharging) transactions followed by multiple ATM withdrawals shortly afterwards (often through ATMs outside the country of the prepaid card issuer);
- 7) Usage of prepaid cards only for cash withdrawal, as opposed to using them for POS or online purchases;
- 8) Atypical use of prepaid cards (including frequent cross-border transactions).