

Fraud and Corruption: A European Perspective



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Introduction

Traditional police leaders have considered major crimes, such as homicide, robbery, rape, and major thief, as the greatest threat to society, and thus being predominately confronted with major crimes resulted in an emphasis on preventing these types of crime in the training of police officers. Police have been trained to react to these major crimes such as serious violent crimes and property crimes in a similar way. People experience the highest level of insecurity when they or a close relative becomes a victim of violent crime, such as murder, armed robbery, and rape. They also feel violated when victimized by extortion, burglary, and theft. Police organizations have traditionally been structured to respond to these crimes by placing the most serious crimes in high-priority categories and allocating the most resources to the investigation and capture of those criminals who were committing the serious crimes. Police organization strategies used to combat serious criminal activity follow a problem-oriented response, firstly, addressing the number one issue of violent crimes, such as murder, extortion, and robbery and, secondly, the crimes that are considered of lesser importance to the welfare of society such as burglary and theft. The Major Crime Bureau in Vienna was structured following the model of Sureté, the model used by the French police. The departments were structured into units for fighting, murder, robbery, burglary, theft, drug trafficking, white-collar crime, counterfeiting, crimes against environment, and prostitution. Although this structure was abolished in Austria by the police reform in 2002/2004, generally, the revamped structure of the Austrian police did not establish a different department structure of those police units that were designated as the crime fighters.

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If one compares the international organizational structures of crime-fighting institutions, it can be recognized that the fields of crimes, which create the major problems of crime, are addressed by the organizations dealing with these problems in a similar manner. Worldwide police structures are concentrating on fighting terrorism, organized crime, and corruption. If one compares governmental or police institutions in Asia, Africa, America, or Europe, such international organizations as Interpol, Europol, Eurojust, and Frontex follow similar models to address today's problem of policing. New challenges of cybercrime, cyberterrorism, and Internet crime require new methods, equipment, and police training to be successful in detecting these criminals. Today the sharpest sword against all kinds of crime is analytic units which deliver strategic and operative tools to analyze dangers and dimensions of threat to the society.

Relationship of Corruption, Terrorism, Organized Crime, and White-Collar Crime

Research outcomes and practical experiences dealing with issues of crime generally show that there exists a dense relationship between corruption, terrorism, organized crime, and white-collar crime.

In this chapter the relationship between corruption and terrorism will not be discussed, although, it seems to be evident that without corruption, terrorist organizations would have great difficulty in achieving their goals, in that in order to carry out planned large-scale terrorist attacks, terrorist organizations must engage in corruption, fraud, and other crimes.

Dobovsek and Siak (2016) and Schneider (2016), experts in the field of criminology, researched the phenomenon of an existing relationship to the field of shadow economy (informal economy). Edelbacher (1998), after years of experience in the field of fighting organized crime, realized that all the successes of transnational criminals in trafficking human beings, trafficking weapons, trafficking drugs, or trafficking pieces of arts are possible because the criminals are able to corrupt public or private representatives of governments, parties, institutions, and international companies to reach their goals.

Antinori (2016) explained in one of his contributions in the book *Financial Crimes* how the so-called fifth generation of Mafia decided to concentrate on bribing and corrupting important members of government and parliament instead of killing them. They were and are much more successful in reaching their goals by corruption activities instead of using violence and threats. Using an old saying "Money is the diction," today you can buy nearly everything. International filmmakers showed us by their publications that the same 15,000 internationally lobbyists influence politicians at Capitol Hill in the United States and in Brussels, Europe.

Corruption, Organized Crime, White-Collar Crime, and Fraud

As was previously mentioned, reflecting on personal experience, Edelbacher (1998) concluded that the nexus of corruption and fraud seems to be the quality of so-called modern crime types. Dealing with major crimes, of course, any kind of violence like murder and robbery are seen as the number one threats to the welfare of society, but if you compare the damages of crime, especially the dimensions of white-collar crime, these types of crimes, often involving large-scale corruption of officials and fraudulent contracts with the public, create damages that can have a devastating effect on the states and economies. Experts from universities and international organizations confronted with these crimes try to analyze the damages and try to help establish and implement countermeasures. All democracies in all continents suffer by organized criminals who specialize in corruption and fraud.

Definition of Corruption

General definitions of corruption are difficult to achieve. This may result from conceptual reasons. Part of the difficulty in finding general definitions is that such labeling will vary from country to country and sometimes variations exist even within the same country, as corruption takes many forms subject to the society and culture, in which it materializes. Not all countries agree that certain types of abuse of power constitute corruption and should be illegal. Many analysts have therefore decided that corruption defines all generalization and have tried to center discussions on the many forms of corruption. In the absence of a consensus on the definition of corruption, other analysts have opted for an empirical approach, which seeks to clarify the essence of corruption by looking at its manifestation in real-life situations. The objective of this approach is to move toward a wider consensus as to which acts are harmful to society and should therefore be prevented and punished by helping governments to reassess what it is they define as corrupt acts that should be prevented and sanctioned Edelbacher et al (n.d.).

One definition of corruption is an abuse of power for private gains, which may be direct or indirect. There are some problems inherent in this definition. The approach applies a broad definition of corruption. Precision is sacrificed to a more common understanding of the problem.

Many scholars see therefore the utility of defining corruption by referring to the law. However, this approach also has limitations because legal traditions change over time and are interrelated with the sociopolitical and cultural context of the countries where the laws are enacted and implemented.

The international community became engaged in the elaboration of international legal instruments within different organizations such as the Organisation for Economic Co-operation and Development (OECD), European Union (EU), and the

Council of Europe. An analysis of these instruments shows, however, that they are limited in geographical coverage, in scope and substance. A comprehensive international binding legal instrument pertaining to corruption is still lacking. One remark that can be made in this context is that a minimum consensus on the definition of corruption is hard to achieve because the countries do not share the same problems and legal systems. The following section of this chapter focuses on several definitions of corruption and police corruption.

The classic definition by Dictionary of Law (2009, p. 95) defines corruption as “dishonest behavior such as paying or accepting money or giving a favour to make sure something is done.”

The draft of the United Nations Convention contained the following provisions in its Article 1:

Each Contracting State undertakes to make the following acts punishable by appropriate criminal penalties under its national law:

- (a) The offering, promising or giving of any payment, or other advantage by any natural person, on his own behalf or on behalf of any enterprise or any person whether juridical or natural, to or for the benefit of a public official as undue consideration for performing or refraining from the performance of his duties in connection with an international commercial transaction.
- (b) The soliciting, demanding, accepting or receiving, directly or indirectly, by a public official of any payment, gift or other advantage, as undue consideration for performing or refraining from the performance of his duties in connection with an international commercial transaction.

Bribery can involve the direct or indirect offer or provision of any undue pecuniary or other advantage to or for a foreign public official, in violation of the official’s legal duties, in order to obtain or retain business.

The Council of the OECD in the Recommendation on Bribery in International Business Transactions on May 27, 1994, adopted the following definition for the purposes of the Recommendation: Corruption is a “regular, repetitive, integral part” of the operation of political systems. Corruption pervades every level of government and economy. Corruption cases are wrongful acts on the part of public holders by misuse of their office.

Political corruption is a cooperative form of unsanctioned, usually condemned policy influence for some type of significant personal gain, in which the currency could be economic, social, political, or ideological remuneration. The fields of corruption mainly are:

Political parties

Influence on elections and candidates

Influence of entrepreneurs

(e.g., construction industry)

Influence on bureaucracy

Influence on and of journalists

The “modus operandi” on how corruption happens, e.g., by bribery, bid fixing, kickbacks, trading in influence, financing of parties, and media coverage.

Goldstein (1977) defines police corruption as the misuse of authority by a police officer in a manner designed to produce personal gain for the officer or for others. According to the definition by police officers, who engage in corrupt acts, gain economically by providing services they should be performing or by failing to perform services that are required by their position. Palmiotto’s definition contains all the essential elements for a comprehensive definition of police corruption. Broken down into constituent parts, the ingredients that constitute police corruption are as follows: first, the defining feature of police corruption is that police officers gain direct or indirect advantages as they encourage or discourage the performance of a public duty, and second, they misuse their authority by providing services or failing to perform services required by their position in exchange for the transfer of a benefit. Police corruption can embrace a range of activities ranging from free or discounted meals, kickbacks, shakedowns, and bribes to protection of illegal activities.

Types of Corruption

Corruption can be differentiated into systemic corruption and individual corruption.

Systemic Corruption

Systemic corruption deals with the use of public office for private benefits that are entrenched in such a way that, without it, an institution cannot function as a supplier of a good or service. A defining feature of systemic corruption is that a significant part of the public service considers corrupt practices as an accepted way of making a living. As corruption becomes institutionalized, it becomes more difficult to determine whether the person who seeks official action (bribery) or the official (extortion) took the first step in the customary exchange of favors in exchange for performance or forbearance. The institutionalization of corruption also has debilitating effects on society. The generalized corrupt practices of public officials provide a precedent for the behavior of citizens. They also take advantage of any opportunity to make easy money, due to the fact that the public officials do not set a moral example for the general public. Another characteristic of systemic corruption is that law enforcement agencies are so corrupt that offences of corruption are no longer investigated and prosecuted.

The underlying conditions for the emergence of systemic corruption are the same as those that explain individual corruption – a combination of opportunities to engage in corrupt practices and motivations or incentives to take advantage of available opportunities coupled with control weaknesses to allow corrupt practices to go undetected or unsanctioned. These common conditions should not obscure the

diversity of factors, which provide opportunities, motivations, or incentives for corruption and control weaknesses.

Another distinction is to be drawn in terms of the effectiveness of anti-corruption measures between systemic and individual corruption. Preventive measures, such as organizational changes, salary increases, and other measures, become more effective, and enforcement measures of the traditional kind effecting the punishment of committing illicit acts become less effective, as corruption becomes more systemic. The reason for this is the decrease of the probability of detecting corruption. In a corrupt environment, people who are aware of corrupt activities by coworkers will not report them. The same holds true for the citizens who cannot trust the institutions. They cannot be a major source of intelligence by aiding in identifying corruption. As a consequence corruption will remain unpunished.

Individual Corruption

What makes individual corruption different from systemic corruption is that corruption is not generalized to the entire country. There are no customary exchanges of favors to encourage or discourage the performance of public duties ingrained in the organization, agency, or government. There are only individual corruption cases that are indirect opposition of the norms that govern the entity (agency, organization, government) and are adhered to by the vast majority of those belonging to the entity.

Terrorism and Corruption

Edelbacher and Kratoski (2010, p.83) note “An act defined as ‘terrorism’ is considered criminal in most of the penal codes of the countries of the world. However it is difficult to define what a terrorist act is, and the specific context (political, religious, revolutionary, nationalistic, state violence, etc.) in which the act is manifested must always be considered.” Several international organizations, including the United Nations and the European Union, have developed definitions of terrorism and have delineated the characteristics of terrorist acts.

Frech (2001, p.2) uses the US Federal Bureau of Investigation (FBI) definition of terrorism, “The unlawful use of force or violence against persons or property to intimidate or coerce a government, the civilian population or any segment thereof, in the furtherance of a political or social objective,” to illustrate the criminal nature of terrorism. According to Mueller (2003), terrorism includes six ingredients. They are:

- Potential/perpetrator. Any person or agency, other than a government’s aggressive activity against another government.
- Victim. Any place or person, including innocent targeted groups.

- **Methods.** They are chosen for maximum impact, including destruction, with minimal effort. The selection of symbolic targets is important.
- **Purpose.** The purpose of terrorism is generally to instill fear and terror.
- **Goal.** It usually is to force a change of governmental policy toward a goal favored by the terrorists. There are usually short range and long range goals.
- **Motive.** Usually the overarching motive of terrorists is to portray an aura of invincibility and capacity to strike unimpeded anywhere in the world.

Sedgwick (2008, p.8) citing US Department of Justice research concluded that international crime organizations and terrorist organizations use the proceeds from their involvement in many other types of crime to further their goals. These types of crimes include:

- Energy and strategic materials markets
- Smuggling and trafficking of goods and people
- Money laundering
- Cybercrime
- Terrorist operations and foreign intelligence

Combatting Terrorism and Organized Crime

Kratcoski (2017, p.19), in a summary of the presentations given at the International Police Executive Symposium (IPES) held in Budapest, Hungary, in 2013, stated, “It was noted that all countries have some internal (domestic) terrorists organizations and external internationally based left-and- rights wing extremist groups whose sole purpose is to cause confusion or fear and to convince the public that the government cannot protect its citizens and guarantee their security.” However some organized criminal groups, while not motivated by a political or religious ideology, nevertheless use terrorism as a means to further their own goals of achieving control and power to guarantee that their criminal activities will continue without any interference from the authorities.

Edelbacher and Kratcoski (2010), Kratcoski and Das (2003), and Kratcoski (2008) noted that terrorist organizations engage in various types of criminal activities in order to finance their operations. In addition to money laundering, terrorist organizations engage in the exploitation of the transportation and financial sectors of a country by:

- Smuggling of humans and smuggling of goods, such as drugs and weapons
- Money laundering, fraud, counterfeiting of currency, and documents
- Identity theft

Kratcoski (2017, p.19) referring to the IPES held in Budapest in 2013 noted “Several speakers at the IPES Budapest meeting emphasized that maintaining communications and information exchanges among law enforcement agencies throughout the world is critical in combating terrorist organizations. The development of

international laws and binding legal agreements must be a high priority for all countries that have concerns about international terrorist organizations.”

In an address to the attendees of the IPES, Budapest meeting, in 2013, Martin Kreutner, Dean of the International Anti-Corruption Academy, provided information on the efforts of several international organizations to combat corruption and crime. He provided information on the co-operative programs developed by the International Anti-Corruption Academy, the European Partners Against Corruption (EPAC) and the European Contact-Point Network (ECPN) that were used to develop common standards for anti-corruption measures that are employed throughout Europe to prevent corruption and other related crimes. The strategies and standards developed by these organizations serve as the framework for the anti-corruption agencies within the Council of Europe, the European Union Member States, the European Anti-Fraud Office, the European Union Member Anti-Fraud Office, and the European Union Police. The organization, Eurojust, provides an avenue for practitioners in the various.

European countries to exchange ideas on strategies that can be used to combat and prevent fraud and corruption, especially as they are connected to corporate crime, organized crime, and terrorism (Kreutner, 2013).

The Corruption Perception Index of Transparency International: 2016

Transparency International classifies corruption into *low-level* and *high-level* corruption. The number of reported cases of corruption and indictments related to corruption is used as indicators of the level of corruption in a country. The following is a ranking of the countries with the lowest levels of corruption for the year 2016 recorded by Transparency International.

Countries of Low Corruption:

1. Denmark
2. New Zealand
3. Finland
4. Sweden
5. Switzerland
6. Norway
7. Singapore
8. The Netherlands
9. Canada
10. Germany
11. The United Kingdom
12. Australia
13. Iceland

Countries of High Corruption:

- 170. Libya
- 171. Sudan
- 172. Yemen
- 173. Syria
- 174. North Korea
- 175. South Sudan
- 176. Somalia

Definition and Dimensions of Organized Crime

Corruption is a tool to establish an organized crime. Criminal organizations could not survive without the assistance of corruption. In previous centuries organized crime was not a topic of concern in Europe. Although the phenomena of organized crime existed in Italy, represented by the “Italian Mafia,” there was only a small influence felt in the other parts of Europe. Even in Middle Europe, organized forms of crime existed long time ago before they became a major challenge. Until the late 1970s, the existence of organized crime was denied by the officials of the executive forces in nearly all countries of Europe. Organized crime became an interesting topic to the European nations after the official reports of the United States about fighting Al Capone and other gangster mobs were sensationalized by the media and by the reports about the brutality of the “Italian Mafia.” In the last 40 years, crime has approximately doubled in Europe. It is rather complicated to compare the present amount of crime in Europe with that of the past because of the differences in legal definitions and the manner in which crime is recorded and summarized. However, presently, not only is the quantity of crime a challenge for the security of European nations, but the fear of the severity of crimes including the phenomena of organized crime is a major challenge.

“Organized Crime is like cancer. It cannot be openly seen, but it grows and can soon endanger the whole society. It grows slowly but continuously and when the symptoms come out - it is almost too late to react - Fighting organized crime is therefore extremely difficult and sometimes it seems useless. It is like fighting a tornado, a hurricane or the great floods.”

An important point of view to consider is controlling the development of organized crime is related to the extent a democratic police organization is established. Organized crime might be and can only be controlled when nepotism and favoritism can be eliminated from the system. A study in Turkey shows that nepotism and favoritism, the main factors of corruption, are dangerous for the work of police. Influences by politicians, media, and pressure groups like human rights organizations effect police work negatively. Nowadays terrorism and organized crime are the number one challenges in Europe.

It is difficult to estimate the extent of organized crime in Europe. Since 1989 an enormous change has taken place in Europe, when the “Iron Curtain” fell. The following changes can be seen since the fall of the Iron Curtain (the breakup of the Soviet Union):

- High proportion of imported crime due to great mobility of the criminals.
- Higher proportion of foreigners among criminals.
- Types of organized crime are increasing such as trafficking in human beings, drug trafficking, and stolen car trafficking.
- Violence is increasingly involved in crimes, for example, murder cases, extortion of protection fees, robbery, and black mailing.

Since the fall of the “Iron Curtain,” the biggest migrations since 1945 started. About two million Russians are ready to leave their country, and a lot of them want to come to the richer part of Europe. Between 300,000 and 600,000 immigrants come every year from the former Eastern Bloc, Africa, Asia, and Latin America to Europe. The general economic, social, and political conditions are the bases for the growth of organized crime structures. If these conditions become worse, organized crime groups can settle. The history of the “Italian Mafia” and the now growing “Russian Mafia” proves this theory. Discussing organized crime is a problem in definition too. In Europe we have no definition that is accepted by all Europeans Edelbacher and Herstaat (2011).

Therefore definitions of organized crime used by Interpol, Bundeskriminalamt Wiesbaden, and the Federal Bureau of Investigation in the United States are used in Europe. As we have learned by different symposiums on the topic of organized crime, there is a promising attempt by the Dutch Center of Research in defining organized crime that may become accepted by all nations Edelbacher (1998).

Interpol defines organized crime in the following manner: “Organized crime comprises systematically prepared and planned committing of serious criminal acts with the view to gain financial profits and powers and which were committed in a longer, undefined period of time by more than three accomplices united in hierarchy and job division organized criminal association in which the methods of violence, various types of intimidation, corruption and other influences are used, with the view to secure the development of criminal activities.” By this definition organized crime consists of using violence or corruption to achieve profitable or parvenu’s goals. Following elements are symptomatic:

- The existence of a criminal association or group.
- A criminal activity is carried out in an entrepreneurial way.
- The basic goal of the group is to achieve profit with illegal activities.
- The group uses violence or corruption to achieve its goals.

Bundeskriminalamt Wiesbaden defines organized crime in the following way:

Organized crime, is the profit and power-oriented systematic commission of crimes which are of considerable importance individually or collectively if more than two persons involved cooperate for a longer or an indefinite period;

- By using business or business-like structures;
- By using violence or other means suitable for intimidation; and
- By exerting influence on politics, media, public administration, judicature or economy.

The Federal Bureau of Investigation defines organized crime as:

Organized crime are criminal activities committed primarily to make money and generate profit by continuing and self-perpetuating criminal conspiracy by fear and corruption and motivated by greed. Organized crime groups shows an:

- Organizational Structure;
- Continuing Criminal Conspiracy; and
- Purpose: Generation of profits (Edelbacher, 2016).

The Netherlands’ criminal intelligence units (CIUs) deal with organized crime in a way that differs from the traditional forms of serious crime. Crime analysts filled in a structured questionnaire on every active criminal group. A criminal group was defined as the cooperation of two or more people who are involved in crimes which, in view of their impact or their frequency or the organized framework within which they are committed, represent a serious violation of the legal order. The questionnaires that were completed were processed at the National Criminal Intelligence Division (CRI). In the analysis of the answers, a number of characteristics were used as selection criteria in order to establish the organizational degree of groups. The following eight main criteria were applied:

1. The group has a hierarchic system of leaders and subordinates, with a more or less fixed division of tasks between core members.
2. The group has an internal system of sanctions, such as intimidations, acts of violence, and sometimes even liquidations.
3. The group concentrates on acquiring income from different forms of crime, depending on the profit opportunities involved in more than one type of serious crime.
4. The group has criminal contacts with the world of trade and industry and/or with government agencies (corruption).
5. The group launders criminal earnings by investments in legal enterprises, real estate, or in movable property or by foreign exchange.
6. Business enterprises are being used as a front.
7. The core members have been acting jointly for over 3 years.
8. The group uses intimidation, acts of violence, and sometimes even liquidations against competitors within the criminal world.

In the analysis of the data, the degree of organization of a criminal group is determined simply by counting the characteristics. The more characteristics are present, the higher is the degree of criminal organization. The designation *organized* is given to groups which complied with six or more of the eight criteria. At least six out of eight formula takes into account both the diversity of organized crime and the fact that the police in the early stages of the investigation process usually do not have complete knowledge of all features.

All of the definitions point out one imported main stream: *Organized Crime* is greed driven. For the practical work, it is important to know the attributes and indicators of organized crime.

The working group judiciary/police in Germany described the following indicators of organized crime:

Planning/preparation of the crime

- Accurate planning
- Hired labor
- Large investment

Utilization of the spoils

- Highly profit-oriented
- Backflow into legal economic cycle
- Money laundering measures

Connection of the crime – relation of the criminals

- Supraregional
- National
- International

Conspiratorial criminal behavior

- Counter observation
- Complete withdrawal
- Code names

Group structure

- Hierarchical setup
- Dependent and authoritative relationship between several suspects of a crime
- Internal sanction system

Help for gang members by:

- Escape aid
- Provision of lawyers
- Threats to intimidate of persons involved in trials
- Untraceability of witnesses
- Silence of the persons involved
- Testimonies of witnesses for the defense
- Matched testimonies of persons from the scene
- Taking care of prisoners
- Looking after the relatives
- Readmission into the scene after release from prison

Corruption

- Inducing dependence (e.g., by sex, gambling)
- Bribery
- Corruption

Efforts to create monopolies

- Control of certain sections of night life
- Offering “protection” against payment

Public relations

- Controlled, tendentious, or other press reports of a trial, which distract from a specific suspicion of a criminal act

Fields of Organized Crime

Practical experience shows that mainly the following fields of crime are relevant to organized crime structures:

- Trade in human beings
- Drug trafficking
- Environmental crime
- Trafficking in arms
- Extrusion of protection fees
- Prostitution and gambling
- Protection racketeering
- Illegal car trafficking
- Art thefts and trick thefts
- International financial fraud
- Money laundering
- Corruption and bribery (Edelbacher et.al. [2016](#))

Worldwide organized crime groups of the Russian Mafia, the South American cocaine cartels,

Chinese triads, the Cosa Nostra, Camorra, Ndrangheta and other mafia organizations, the Nigerian organizations, and the Japanese Yakuza are creating the most troubles in crime.

Definition of White-Collar Crime and Fraud

The line between accepted but undesirable and illegal business practices is sometimes difficult to draw. There is a constant stream of cases that provoke doubt about the conduct of business and government.

There are hundreds of well-known cases on the edge of white-collar crime, and thousands of others we never hear about. As nearly all criminal organizations change their priorities, very often they cooperate even with terrorist groups, white collar crimes became the number one income source. Attempts to explain the deviant and criminal acts of individuals have a long history that cross the boundaries of biology, psychology, sociology, and many other disciplines. Unlike crimes committed by individuals, it is much more difficult to isolate and ascribe meaningful motives, qualities, and distinguishing characteristics to corporate entities or to those working within these organizations.

Edwin Sutherland introduced the white-collar crime concept and gave the original definition in 1939. He refers to crime (Edelbacher et al. 2016) by “persons of high social status” that are committed “in the course of” an occupation as types of white-collar crime. In this definition the acts of individuals are included. The second part of the definition, however, appears to omit individual crimes, such as income tax evasion or credit card fraud, which are usually unconnected with one’s occupation. Likewise, occupational thefts committed by working-class individuals, such as embezzlement or bribe-taking, also seem to fall outside Sutherland’s definition. Although the meaning of the term white-collar crime is notoriously uncertain, nevertheless, the term has garnered worldwide recognition and has become part of both popular and scholarly literature everywhere.

Austrian Definition of White-Collar Crime

White collar crime is not listed as a specific criminal act in the Criminal Code of Austria. It is included in the general definition of fraud.

Fraud is all behavior that happens to cheat somebody to gain advantages. There is only one exemption from the definition, insurance fraud. To avoid insurance fraud, attempts of insurance fraud all are crimes that follow the Austrian Criminal Code.

Crime against Payment Systems

Fraud in Opening Bank Accounts

The most dangerous kind of international financial fraud is connected with the opening of bank accounts.

Bank accounts are opened under a false identity. In the majority of cases, foreigners act under false identity, and in banks, they present false identity papers when they open an account. The defrauder is usually not known to the bank officials and appears usually only twice on the bank premises, first when opening the account and second when withdrawing the funds. Very often, a stolen or fake check is pre-

sented for credit entry. The incidence of Black Africans involved in this sort of crime is high. Banking frauds are often committed by way of faxed bank-transfers. Unknown defrauders send false transfer-orders by fax. Banks are unable to verify the transfer-orders in a short time. Counterfeiting is often detected only after the withdrawal of large amounts. Very often, fraudsters use well-known company names. These companies are known by the banks to transfer large amounts, so that a transfer order does not seem suspicious to them Edelbacher (1995).

As far as a bank is concerned, it is not always possible to use security codes. In a similar way, fake invoices are used for bank transfer. With these fake guarantees, the bank issues cash checks, which the unknown fraudsters immediately change into cash. It is only afterwards that the irregularities are detected.

Fraud through Mediation: “Ghost Money Operations”

Another scam is the so-called fraud through mediation. This form of fraud happens mainly to individuals, who need to borrow money and who cannot obtain further funds because they no longer have creditworthiness. They fall prey to “dubious” moneylenders. These moneylenders act as mediators, often unwittingly, handing over the victims to fraudsters. Then they attempt to sell a bank guarantee to the victim that can be used as a security for credit at a bank. The bank guarantee is worthless, because it is either from a letter box company or is counterfeit.

A similar form of mediation fraud is the so-called advanced fee fraud. This type of fraud requires the victim to participate in a collateral funding exchange, which means raising money against bank guarantees. It is common to all these forms of mediation fraud that the victim has to make an initial payment in the form of a commission, fee deposit, or some other type of payment Edelbacher and Thiel (2008).

Another form is the trade in gold, foreign exchange, and currency. There is also the so-called self-liquidating loan. It is a loan which is paid off through the interest generated and can even result in a profit. The role of the bank in these transactions is secondary. Their role is to provide evidence of legitimacy and an air of respectability while money is laundered in their premises. Other defrauders regularly use banks for their professional fraud. They build up a chain of correspondence with the bank and try to persuade them to act as trustees for very large financial transactions. In 99% of the cases, it is not money laundering but pure fraud against businessmen and is known as “ghost money operations.”

Fraud through False or Stolen Securities

It is said that *zerobonds* to the value of billions are lying like bombs in bank vaults. Since the fall of the.

“Iron Curtain,” a lot of so-called joint ventures were started with false certificates and stolen or false securities.

Two different groups of criminals are connected with these frauds. The first group deals in artificial diamonds with false certificates of authenticity, presented as genuine diamonds to be sold for large sums of money. The second group (the so-called gem-group) deals in gems, which are still in the uncut form (e.g., rubies from the Ural mountains). They issue false certificates which claim that the gems are worth more than they actually are. Because of their low value, it is not economic to cut and refine them. It appears that in both cases, the fraudsters are from Eastern Europe and so are the gems. Inquiries made to the experts, who issued the certificates, showed that the original certificates referred to stones other than the items in question.

Fraud through Checks, Check Cards, and Credit Cards

One form of crime which has not been sufficiently addressed at the international level is fraudulent use of payment cards (credit, debit, ATM, check guarantee,) and checks (national checks, Eurochecks and traveler’s checks). Yet this form of crime has grown rapidly in line with the increase in the volume of transactions made by these payment means. Perversely, the very fact that cards are widely used and accepted has encouraged criminal groups to engage in falsification and counterfeiting.

In 1968, the Eurocheck system was introduced. European banks and savings banks agreed to redeem checks of other banks according to standardized conditions. In 1972, a standardized form of checks and check cards was issued. The standardized Eurocheck system depends on fraud-proof checks and check cards. Today, checks are not popular any more. Forms of crime related to checks seldom happen during the present time. Fraud can occur as a result of:

- Theft of checks
- Falsification of checks
- Falsification of check cards
- Fraudulent use of stolen, counterfeit checks
- Issue of checks without cover
- Theft or falsification of identity papers

In an effort to counter fraud, the industry has introduced advanced technology and fraud-prevention measures such as:

- The introduction of holograms and lithographic printing in the mid-1980s in order to protect against counterfeiting of cards
- Increased authorization of transactions to prevent the use of lost or stolen cards
- Increasingly sophisticated monitoring systems
- Measures to ensure that new or replacement cards actually reach the legitimate cardholder and are not intercepted, for example, by groups operating within the PTTs

- The introduction of technology to protect the magnetically encoded account information on the magnetic stripe
- The current move toward integrated circuit (chip) cards

The above security measures do provide an effective deterrent to fraud carried out by individuals. However, organized criminal groups have been able to overcome many of the current security measures to produce very-high-quality counterfeit cards.

Fraud Using Debit Card Machines: Bankomats

Since 1984, payment can be made using the card and PIN code. Every Bankomat card has a four-digit PIN code, which is read by a device. This device can read a magnet strip. In 1987, there were already 20 million Bankomat cards in Germany and 1.5 million in Austria. Later on the chip card technology was implemented and is used especially in Europe. Organized criminals have specialized on debit card fraud, and today it is possible to withdraw money fraudulently from an account using a Bankomat card, literally “a la carte,” on the principle that it is “better to hack than to crack.”

Fraud with Credit Cards

In 1996, more than 450 million credit cards were being used in the United States. In Austria, we have more than 1.4 million credit cards in use currently. Credit cards are cards, which entitle the holder to obtain money, goods, or services. All well-known credit cards, such as Eurocard, Visa, Diners Club card, and American Express follow this pattern. The predominate credit card scams are: 70% of credit cards are reported as lost and 30% of cards are either falsified or stolen. A focal point is total forgery of credit cards. For example, in July 1997, a number of Russian criminals who used such cards were arrested in Vienna. The amount criminal groups gain from card and check fraud was estimated at over 3 billion ECU worldwide and over 500 million ECU in Europe. This represents a substantial proportion of total financial crime.

Counterfeiting Banknotes and Photocopied Money

Ever since the creation of money as a means of payment, people have tried to imitate it and to pass fake money off as genuine money. The currency of the United States and the Euro are prime targets for counterfeiting in that they have the widest

international circulation. It is quite striking that after the fall of the “Iron Curtain,” the amount of counterfeit money coming from Eastern Europe is now three times higher than it was in the past. Now that photocopying has reached a very high standard, it is also possible for non-experts to make false banknotes in a relatively easy way. Computer techniques, such as scanning, are also used to counterfeit money.

Falsification of Documents and Identity Cards

False identity cards and false documents have always been the basis for fraud. Many employees of finance institutions and banks do not check identity cards and documents to see if they are authentic. The saying “know your customer” is not always applied in banking transactions. In the experience of investigative police officers, it is international fraudsters who use false or altered identity cards and documents the most frequently. Since the opening of the Eastern borders and with the greater mobility of people, many more individuals come into Europe with counterfeit identity papers. To hide their real origin, they procure false identity papers on the black market and use these documents for entry into a country of their choice. More and more identity cards, passports, driving licenses, and other identity papers examined by the authorities show evidence of falsification.

Money Laundering

Drug trafficking was originally considered to be a matter for national concern, but its international nature quickly became apparent. Law enforcement authorities first began to cooperate on an international basis via informal dialogue and through Interpol. In 1988 the Vienna Convention established a legal framework for fighting drug-related crime, and in 1990 the Council of Europe Convention sought to tackle money laundering related to all types of crime, drug-related or otherwise (including money laundering related to card and check fraud). Both the G-7 and European Union have adopted measures to combat financial crime – the former by endorsing in 1989 the 40 Recommendations of the Financial Action Task Force and the latter by adopting Directive 91/308/EEC on money laundering. Slowly but surely, governments have adopted concrete measures and started legal and judicial cooperation which, although insufficient, should have a deterrent effect upon money launderers. Austria has become a very interesting country for criminals who try to launder money. Austria has a stable currency, a safe economy, a liberal foreign exchange policy, and, moreover, the banking secrecy and the possibility for the foreign money launderer not to have to reveal his personal data as a bank customer: The money launderer may remain anonymous.

According to the director of the Swiss National Bank, “Money Laundering” gives a “breathhtakingly vivid description” of what is going on. Filthy money is put

into a washing machine, and clean white money comes out after the laundering process. Money laundering is a process, through which profits generated by criminal activities are transported, transformed, converted to, or mixed with legal funds, with the intention to conceal or hide the real origin, the kind, and the disposal of such profits (legal definition of money laundering in Austria: see Art. 165 StGB).

There are three phases in a money laundering process. They are:

1. The placement – channeling cash money.
2. The adjustment – changing cash money into disposable financial assets.
3. The reintegration – the “black money” is now laundered, it becomes “normal money” again, and it cannot be recognized any more as black money.

Austria was criticized heavily by the United States and the European Community for its indirect support of money launderers. The consequence was that Austria, now a member of the European Community, introduced laws against money laundering in the penal code and in the new banking law in 1993 and 1994. After these legal provisions were issued, a special bureau dealing with these forms of crime was installed in the Federal Ministry of Internal Affairs. Suspicious transactions have to be reported to these special bureaus by the banks.

Computer Crime and Telemarketing Crime

Technological innovations such as the Internet or electronic banking are extremely practical possibilities to commit crimes or to transfer illegal profits. The solidarity of democratic societies is endangered the most by these forms of fraudulent bribery. The electronic transfer of money and securities, through the Internet and other means, has facilitated the abilities of criminals to employ fraudulent schemes to further their goals. Computer crime was not such an important issue in Austria, in the past, but this is changing. Austria is not so important economically, but the country serves as a platform between the East and West and therefore becomes more and more endangered by international, transnational criminals. This is different from the problems of the other countries of Europe. Computer crime is becoming more and more a danger to their economic systems. The use of mobile phones as the vehicle to commit computer crimes has also become a problem. An enormous damage to telephone companies is caused by this type of crime. Immigrants from Africa are especially prone to using this form of computer crime as a way to stay in contact with their home countries.

Summary

In this chapter, it was shown how fraud is connected with many other types of crimes, including violent and property crimes. Also it was demonstrated how fraud and corruption are related.

There are many types of fraudulent scams and schemes that are employed by criminal offenders of all types. The majority of fraud cases are committed by individuals. The amount of money or goods the fraudsters obtain from victims is often small. However large fraudulent acts, those that are perpetrated by corporate executives, political leaders, and leaders of organized crime, could result in the fraudster receiving many millions of dollars.

These large-scale fraud schemes generally have international implications and require the corruption of political leaders, government officials, and often members of the police and judiciary in order to obtain the goals set by the fraudsters. This assertion is particularly true in those countries that are developing economically and have an unstable government. In fact corrupting government officials in business transactions of an international scope is often normal in some countries rather than being an abnormality.

Terrorist organizations tend to use any means, criminal and noncriminal, to achieve their goals. These goals can be of a political objective, religious objective, or a military objective, such as overthrowing the existing government. Many of those who are corrupted, especially those who may work within an organization or government that is being targeted for terrorist acts, may not benefit monetarily by cooperating with the terrorist group. They are rewarded by the personal satisfaction of knowing that they assisted the terrorist organization in achieving its goal and knowing that they contributed to the achievement.

Criminal organizations have used all types of crimes to further their goals, which are primarily monetary. However, fraud and corruption are major tools that help the organized crime units to obtain power and control over other individuals, businesses, and government officials. One of the major goals of organized criminal groups is to transit from an illegitimate organization and be accepted as a legitimate organization. Corruption, fraud, bribery, and an occasional act of violence are the tools used in the transition process.

Discussion Questions

1. Discuss the difference between fraud and corruption, and give an example of how they are related.
2. Discuss how the Internet is used to facilitate fraud in the financial sector.
3. What are the essential characteristics of organized crime?
4. Discuss the methods used, including fraud and corruption, by crime organizations (e.g., Mafia), to infiltrate business enterprises.
5. Define money laundering and discuss the money laundering process.
6. Discuss the reasons why the governments of developing countries tend to be vulnerable to be corrupted.
7. Discuss how the innovations in mass communications (the Internet, electronic transfer of money, and securities) have resulted in increases in the amount of international fraud.
8. Identify the major organizations involved in the prevention and control of international fraud and corruption. What methods do they employ to investigate and control these crimes?

9. Identify the major types of fraud found in the payment systems.
10. Discuss the characteristics of white-collar crimes. What are the motives of corporate leaders for corrupting government and public service officials?

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