



# What on earth is a... cuckoo smurf?

No, it's not a new character in *Smurfs 3*. Cuckoo smurfs are the criminals behind a sophisticated method of money laundering that's grabbing headlines...

The failure of the Commonwealth Bank of Australia (CommBank) to report 50,000 potential money laundering transactions has dominated financial headlines in recent months.

The bank claims this failure was down to a coding error in its high-street 'intelligent deposit machines' (fancy ATMs, essentially). But the episode has also brought a very specific money laundering technique into the spotlight: cuckoo smurfing.

Cuckoo smurfing is much more sinister than its name suggests. It's a method by which money launderers disguise their transactions as the legitimate international activities of unsuspecting bank customers, with





Cuckoo smurfs are to be distinguished from their small, blue, forest-dwelling namesakes

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one case in which money-transfer businesses and bureaux de change would hide relatively small sums of money, earned through the drug trade, among legitimate payments from individuals to family members in India and Pakistan.

"I've dealt with half a dozen cases where this was a feature. Some of them were very serious. I can think of one where we were talking about £100m being sent abroad for use by the Taliban," says Katzen.

### Smurfs up

Cuckoo smurfing is a feature of both modern digital transactions and very ancient banking systems. But it is becoming more common as banking technology advances.

"Criminals have to worry about two things: one is committing the crime in the first place, and the other is getting away with it," says Katzen. "Money launderers used to use pizza parlours and things like that, because they were predominantly cash businesses... Now that cash is perhaps less common in how businesses run, they have to find alternative means to liquidate the proceeds of their crimes."

CommBank's flawed technology – its automated transaction reporting consistently failed to flag suspicious deposits – made it much easier for criminals to hop their payments onto those of law-abiding customers without detection over the past five years. So does technology make it easier for money laundering to take place? Only if it doesn't work properly, says Katzen.

"Criminals were side-stepping the controls by using these cash-deposit machines to commit money laundering," he says. "Whether that's a technological innovation, I'm not sure. We have cash-deposit machines in [the UK], and we don't have the same problem."

Individuals are more vulnerable to cuckoo smurfing than businesses, says Katzen, so accountants with self-employed clients are most likely to come across it. This is mainly because it's much easier to capture the banking details of individuals than businesses. People who regularly make international transactions should be particularly vigilant.

Accountants with this kind of client should do due diligence in terms of the institutions the client transacts with, and consider their records very carefully to make sure nothing suspicious is going through.

If something does ring alarm bells and you suspect that you might be dealing with cuckoo smurfing, it is reasonable, says Katzen, to question your client about the transactions to see whether they are aware of the issue, as long as you don't tip them off if you make a suspicious activity report.

However, it's probably best to play it safe, he says: "If their account shows 1,000 transactions that look like smurfing or cuckoo smurfing, then the response 'I don't know' may not really be sufficient to allay any fears or suspicions... These are serious criminal offences, and I would understand why people would want to play it safe, rather than making value judgements, particularly if they'll be judged by objective standards."

Some automated software will flag up any suspicious transactions, which can make it easier to detect money laundering. But no matter how far regulations and technology evolve, criminals will always find a weak point to exploit, Katzen says. They can be extremely resourceful – just like non-criminal Smurfs.

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the help of people in finance institutions. For example, a criminal in London wants to pay a criminal in New York, and asks their contact at a New York bank for help. The New York banker identifies a legitimate transaction between a New York customer and London customer, and then diverts the New York customer's payment to the New York criminal, while the London criminal pays the London customer. Neither customer is aware that the money they've received has come from a criminal. Where the name comes from is anyone's guess.

"The origins of that are lost in the mists of time," says Andrew Katzen, partner at law firm Hickman & Rose and a money laundering expert. "Whoever dreams up these names has certainly got an eye for publicity."

Katzen has worked on numerous money laundering cases. He recalls