



ØKOKRIM

Cash in the illicit economy

Cash in the illicit economy, Økokrim, april 2024
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Photo: Unsplash

Preface

The illicit economy is by and large still analogue. Despite the fact that most people now choose to use digital payment methods, the nominal value of the cash in circulation in Norway today is roughly the same as in 1996, at approximately NOK 40 billion. There is reason to believe that a large share of the cash that is currently in circulation is used in the illicit economy.

Despite Norwegian currency's more limited use abroad, cash currency has historically been transported out of Norway in large volumes. In 2022 alone, a year still affected by the Covid-19 pandemic, approximately NOK 8 billion was transported abroad. Only a fraction of the cash currency has been declared to the Customs when leaving the country; the rest was likely smuggled out. The cash is then accumulated through different hubs abroad, before being transported and declared back in to Norway.

In the spring of 2023, a new restriction was imposed on importing Norwegian currency from abroad, an important step in reducing money laundering and terrorist financing.

The cash import restriction has changed the flow of the Norwegian cash currency and organised criminals now experience difficulties laundering cash and paying for illicit goods. How-

ever, there is no indication that the cash import restriction has led to less use of cash among illicit actors, and professional money launderers have proved to be adaptable. As such, we are concerned that the criminals will find alternative ways to launder cash derived from illicit activities.

The Norwegian government has long been aware of the way that cash is circulated, as described in this report, and many other countries face challenges similar to those experienced in Norway. Criminal use of cash currency is currently in the spotlight thanks to successful collaboration between the Scandinavian FIUs.

There will be a sustained focus on this challenge through a stronger cooperation internally in the police, as well as across government agencies, the public sector, the financial sector and international partners. The purpose is to prevent money laundering and terrorist financing, and strengthen controls on the illicit economy. This will contribute to maintaining financial integrity and security, both domestic and international



Pål K. Lønseth
Head of Økokrim

Cash in the economy

Digital payment methods have an increasing impact on our society. Almost all person-to-person payments in Norway are completed through Vipps¹ or wire transfers, and goods and services are paid for by payment cards or mobile phones. The number of card transactions per person are increasing, while the value of each payment is decreasing. This combination demonstrates a lowered threshold for the use of payment cards.

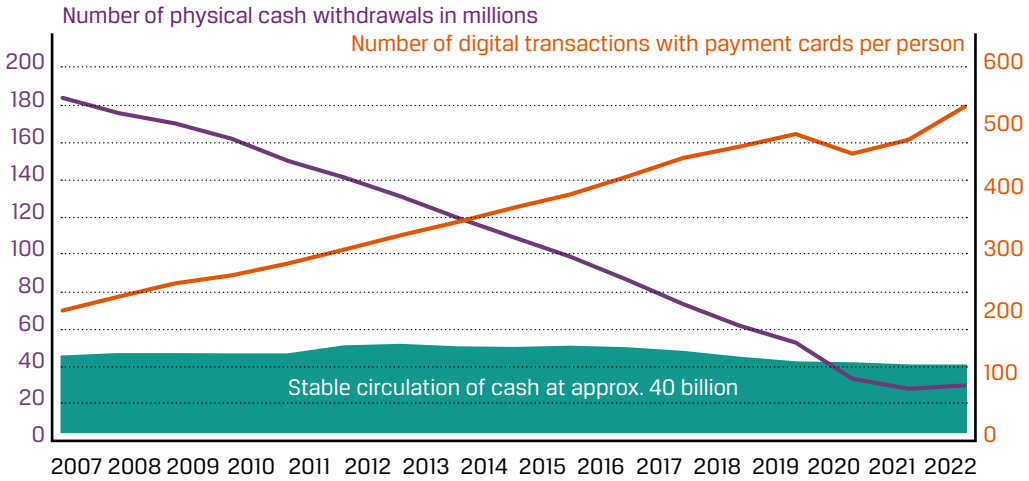
Simultaneously, the number of cash withdrawals decreased with approximately 83 percent between 2007 and 2022. In 2023, only 3 percent used cash at point of sale² in Norway and there are likely few people who keep their savings in cash. Despite a shift to a more digital economy, the nominal³ value of cash in circulation in Norway has been stable since 1996. By the end of 2022, the value of cash in circulation was approximately NOK 40 billion.

Demand is highest for the 500-note, the second highest denomination of Norwegian currency, and demand for this note is increasing. There are indicators that demand for cash is being driven in large part by the illicit economy.

Internationally, several currencies have experienced a simultaneous increase of cash in circulation and declining use of cash. This is referred to as "The paradox of Banknotes"⁴, and is identified in many economies, such as the Euro zone, Great Britain and the United States. From 2002, when the Euro was introduced, until the end of 2022, cash in circulation in the Euro zone increased by more than 600 percent. A significant increase of cash in circulation has also been observed for the British Pound and the US Dollar. For the abovementioned currencies, large-denomination bank notes make up the majority of the value of the cash in circulation.

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- 1 A payment method through an app, which amongst other things, gives the ability to transfer money instantly to another person, by only using their phone number. The phone number is connected to an account. In addition, it can be used to pay bills and make settlement at points of sale. 75 % of the Norwegian population uses Vipps.
 - 2 Points of sale includes shops, restaurants, vending machines, hair dressers, public transportation, etc.
 - 3 The cash in circulation in a nominal value is the value of all existing cash at any given point in time. Even though the cash in circulation was the same in 1996 as in 2022, the utility of each Norwegian Krone was larger in 1996, than in 2022, due to inflation, which is not taken into consideration when presented in a nominal value.
 - 4 Bank of England, Banknotes in Circulation: Still rising: What does this mean for the future of cash, 2009.

The Norwegian Paradox of Banknotes



What sort of crimes generate cash in Norway?

Much of the most serious and profit-motivated crime committed in Norway is carried out by Norwegian or foreign criminal networks.⁵ Organised crime generates significant amounts of cash each year.

Narcotics sales, for instance, generates large amounts of cash that is collected and transported to drug suppliers abroad as settlement for the drug shipments, or is reinvested in bigger drug shipments.

Additionally, a broad range of crimes involve the use of companies, such as labour crimes and fisheries crimes, where illicit proceeds are generated through the sale of goods or services that are otherwise considered legal. Labour crimes typically generate a large amount of cash,

especially through the use of fictitious invoicing and the use of unreported employees and subcontractors. In these instances, cash is often integrated into legitimate turnover, used to purchase goods and services, or used to pay under-the-table salaries to unreported employees and subcontractors.

Swedish police state that criminal gangs in Sweden now acquire more money from fraud than from narcotics. Their estimates show that criminals, annually, generate approximately SEK 5,8 billion from fraud, and SEK 2,5 billion from narcotics.⁶ Even though fraud generates profit in a digital form, fraudsters often use money mules who withdraw cash to complicate efforts to follow the money trails.⁷

5 Criminal network is a collective term for gangs, groups, environment or a set of individuals working together to conduct criminal activity

6 Aftenposten, De skytter, sprenger og selger stoff. Men narkotika er ikke lenger deres viktigste inntektskilde. Published 12.10.2023.

7 Europol. Why is cash still king?, 2015

Cash in the global illicit economy

Profit-motivated crime and money laundering undermines society by infiltrating the licit economy.

Over the years, organised criminals have developed a parallel economy on a global scale, and this global illicit economy is largely reliant on cash. Criminal networks use the global illicit economy to launder illicit proceeds on an industrial scale, move funds through a web of criminal professional actors, and to bribe relevant actors. Several key actors in organised crime networks are located abroad, even though part of the crime takes place in Norway⁸.

Limited electronic traces of the owner and the recipient

Cash currency has a number of inherent characteristics, which prove useful

in the process of money laundering.^{9,10} Cash does not carry information on the history of ownership nor what it was used for. A third party, like a bank, cannot register when and how cash is used, or if it is stored. Nor can a third party prevent transactions from occurring. Criminal actors can therefore accumulate assets and conduct transactions in cash without detection by authorities.

Conversely, placing funds in a bank account or investing in securities or real estate can give the appearance of unexplained wealth and often triggers suspicion by financial institutions and authorities.

The use of cash is therefore an efficient way to break the audit trail, as it offers more anonymity than digital payment methods.

8 Europol, The other side of the coin; An analysis of Financial and Economic Crime, 2023

9 Europol. Why is cash still king?, 2015

10 NOU 2020:10, Inndragning av utbytte fra gjengkriminalitet, 2020

More lucrative to launder cash abroad

There are a number of ways to launder cash currency. For instance, the purchase of expensive valuables and prepaid cards or the use of using illicitly-derived cash to finance improvement and renovation of real estate, which not only launders the proceeds of criminal activity, but also potentially results in an increased value over time for the criminal.

Given that Norway is one of the least cash intensive societies in the world, the use of large amounts of cash easily draws negative attention. However, in many other countries the use of cash is the preferred method of payment, and some jurisdictions also have wealth amnesty for unexplained wealth.¹¹ This primarily exists in countries where the enforcement of the money laundering regulations is more relaxed than in Norway. General use of cash and large cash deposits draws less attention in these jurisdictions, and the origin of funds faces less scrutiny.

There are several advantages to moving cash abroad during the money laun-

dering process. Not only does this create a geographical distance to the predicate offence, but it also complicates efforts to trace the cash across borders and demands involvement of authorities in multiple jurisdictions.

Criminal actors profit from the shadow economy

In the illicit economy, there is a demand for facilitators who make a living by moving cash across borders. Professional money launderers and informal value transfer systems are widespread across the globe, and consists both of individuals and networks.

There are a number of actors in Norway who offer money laundering services to criminals in exchange for a minor percentage of the total amount that is laundered. They either transport the cash abroad themselves, or organise transport and/or money couriers on behalf of the criminal actors. Additionally, financially vulnerable people are often exploited by criminal actors to conduct cash transport.

¹¹ Wealth amnesty is allowing people or companies to legitimize their undisclosed domestic or foreign assets, without the risk of any past taxes or penalties.

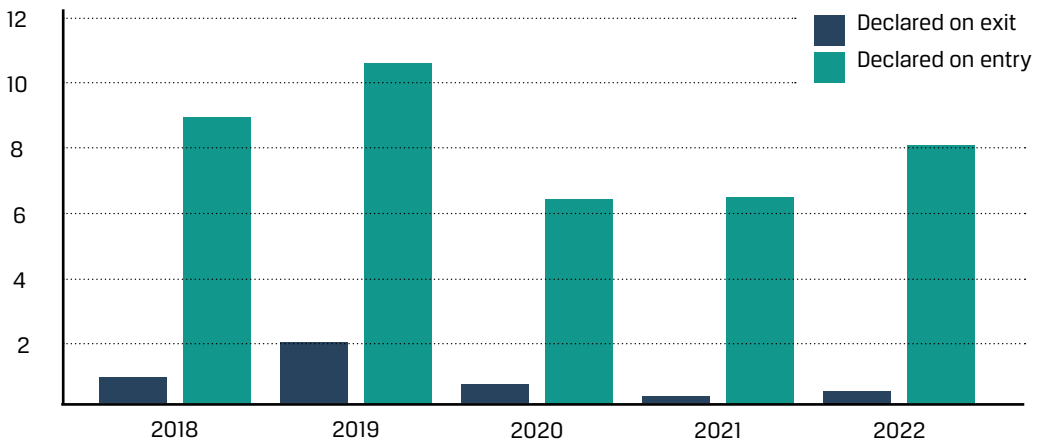
Smuggling Norwegian cash currency out of the country

An examination of the declarations of Norwegian cash, shows annual declaration of between NOK 8 and 10 billion when entering Norway. Even during the Covid-19 pandemic in 2020 and 2021, roughly 6,5 billion in cash was declared into Norway, despite strict travel restrictions. The amount of Norwegian cash declared when exiting the country is considerably lower, at roughly NOK 7-8

billion less than the amounts declared in. A large part of the discrepancy is thought to be the result of cash smuggled out of the country, and Norwegian authorities therefore lack information on the the export of large amounts of Norwegian cash currency.

Seizures of cash being transported out of Norway and into Europe indicate that the volume of each individual

Declarations in and out of NOK (numbers in billion)



outgoing shipment of cash is large¹², in 2023, authorities discovered four trucks in Sweden containing a total of NOK 23 million in Norwegian cash currency.

The use of the NOK 500-note and other high value denominations allows for the transportation of millions of NOK in shipments that take up less space than shipments containing smaller-denomination notes. The significance of high denomination notes are so high that authorities in some countries have observed that the EUR 500-note has been sold for more than its face-value in the criminal environment.

Criminals exploit the legal and global flow of goods

Companies that offer international services or transportation of goods raise little suspicion, and are therefore used by criminals to reduce the risk of detection when smuggling cash out of Norway. In the previous year, there have been several large seizures of Norwegian cash on trucks transporting goods from Norway. Tracing the owner of the cash is complicated, as the cash from several different actors is smuggled in bulk-shipments.¹³ The geographical distance also creates challenges for cooperation between authorities in multiple jurisdictions.

If we assume that NOK 10 billion is transported out of Norway (both declared and smuggled) in one year, this would equal the daily outgoing shipment of

- NOK 27,4 million, or
- approx. 55 000 of the 500-note, or
- approx. 57 kg of the 500-note

Known destinations of exchange

Turkey is a lucrative destination for the exchange of Norwegian cash currency, in part due to its periodic wealth amnesty. During these periods, both individuals and companies are not required to disclose the origin of funds, and are not held criminal responsible for declaring cash that originates from criminal activity. In 2022, Norwegian and Swedish cash currency were among the top four undeclared currencies on the Bulgarian side of the border between Bulgaria and Turkey.

The United Arab Emirates, Somalia, Poland, Iran and Iraq are other examples of countries where Norwegian cash is exchanged on a large scale.

12 National Customs Agency of the Republic of Bulgaria, Customs officers found undeclared Norwegian and Swedish kroner worth over BGN 1 million, 2023

13 A bulk shipment is many transactions merged into one single shipment

Cash worth billions annual Norway

The cross-border circulation of Norwegian cash involves different criminal actors. Each intermediary distances the cash from its original owner and the origin of the cash.

(1) Criminal actors in Norway in need of transporting Norwegian cash out of Norway

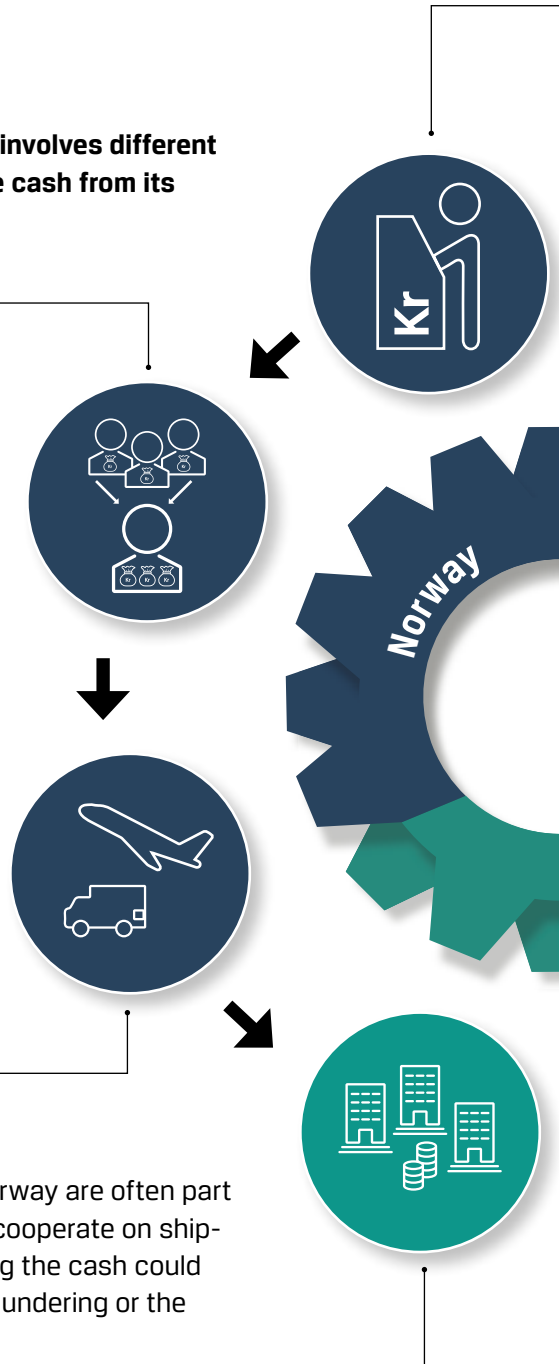
The proceeds of crime generate large amounts of cash and the Norwegian police frequently conducts seizures in amounts exceeding NOK 100 000. Cash from all over Norway is often collected in Oslo, prior to being smuggled out of Norway.

(2) Transportation of cash out of Norway

Norwegian cash is being transported out of the country by criminal actors using couriers on planes, in trucks amongst legal goods, or in cars. Cash transported by trucks or cars can easily be moved through multiple countries without the risk of control, as few countries demand cash declaration within the EU. The possibility of cross-border transportation by sea or mail cannot be excluded.

(3) Exchange of Norwegian cash abroad

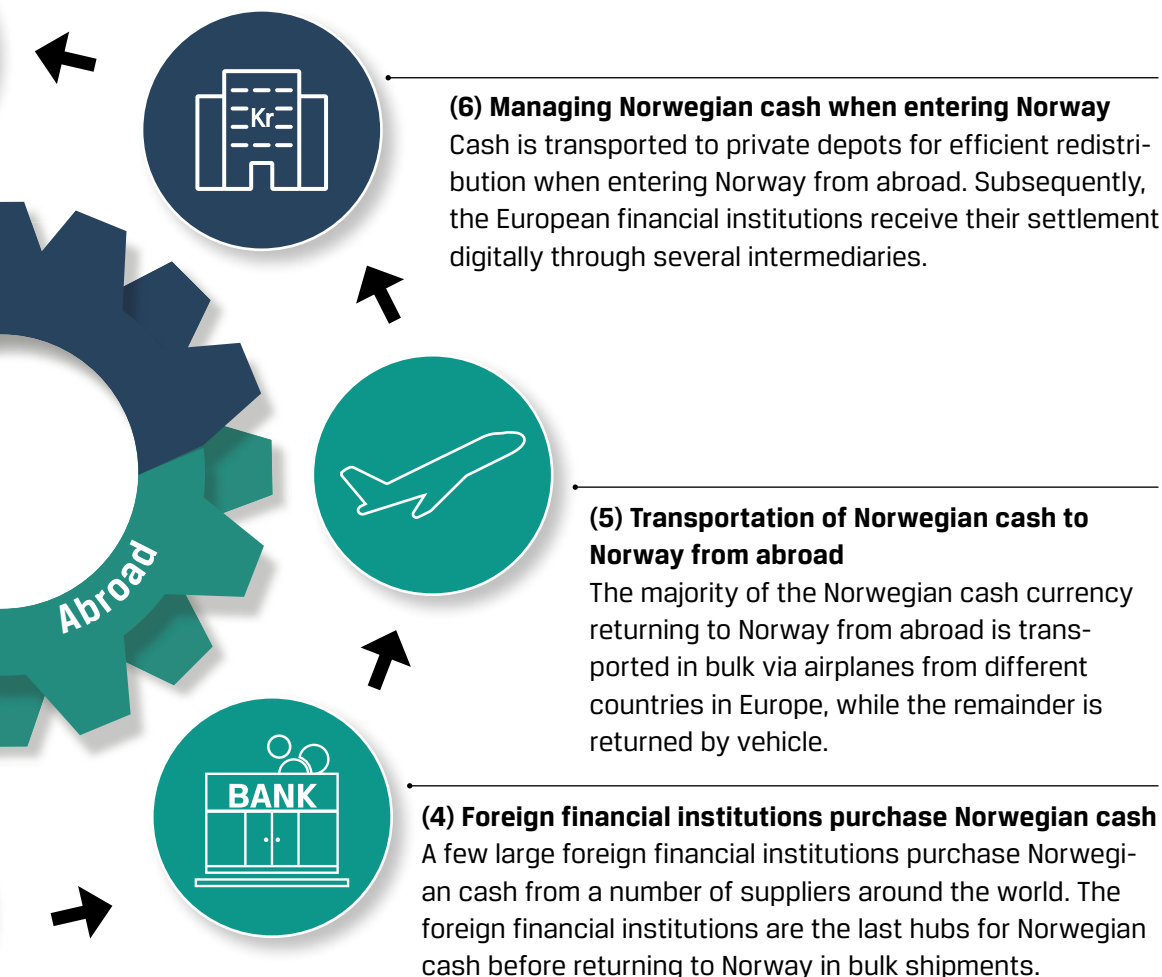
The criminal actors who transport cash out of Norway are often part of a larger international exchange network, who cooperate on shipments when needed. The purpose of transporting the cash could be to make settlement for illegal goods, money laundering or the financing of terrorism.



ly circulates in and out of

(7) Norwegian cash returning to the general public

The cash often returns to the general public through cash withdrawals from ATM's and stores. Criminal actors re-accumulate large amounts of cash, which again drives the need to transport the cash out of Norway. In this way, the cycle repeat itself.





Entry and exit declaration of cash

The declaration of cash to Norwegian Customs is mandatory when entering or exiting Norway, if the amount is above the equivalent of NOK 25 000. There are no fees for transporting cash in or out, but penalties for failing to declare cash above the declaration limit results in a fine of 20 percent of the undeclared amount.

The declaration form must contain information about who is declaring the cash or who the cash is being declared on behalf of. Furthermore, depending on entry or exit, the country of origin or destination must be stated.

New restriction – criminals are unable to exchange Norwegian cash

During the spring of 2023, some banks became more restrictive on purchasing Norwegian cash from abroad, due to high risk of money laundering.¹⁴ This has resulted in foreign financial institution not being able to sell Norwegian cash back to Norway and thus not accepting Norwegian cash themselves. The ability to exchange Norwegian cash abroad has therefore become greatly reduced and as a consequence, the declaration of Norwegian cash has decreased significantly.

The cash-based illicit economy has become less liquid, and criminal actors have large amounts of cash both domestically and abroad, which they are unable to exchange. This has made it difficult for criminal actors to settle debts, reinvest the proceeds of crime, and launder Norwegian cash.

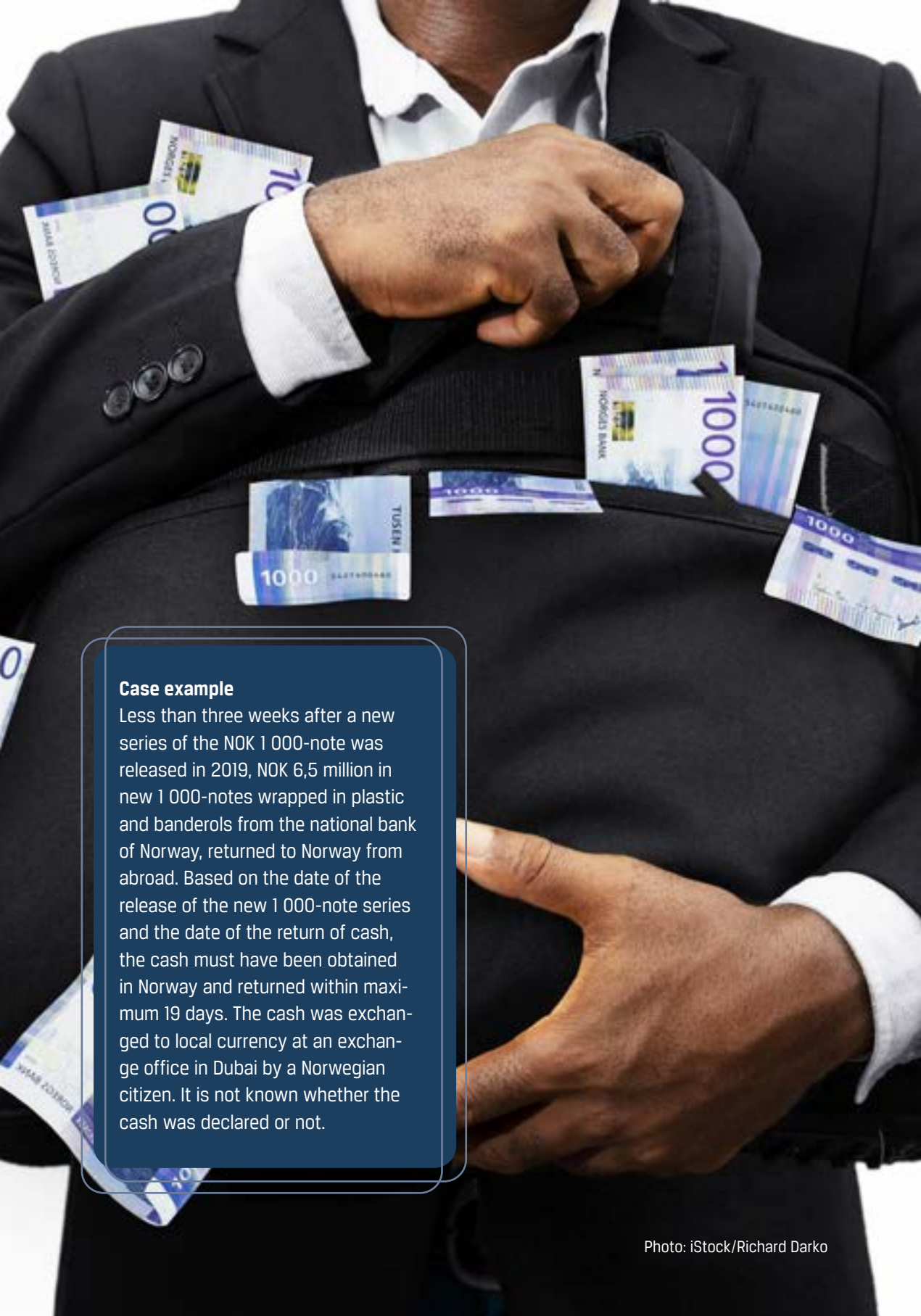
Concerns of change of modus operandi

Criminal actors and networks who move cash have previously demonstrated the ability to quickly adapt. There are already indications that criminals have altered their money laundering methods as a consequence of the difficulties exchanging abroad and banks having more restrictive posture towards importing Norwegian cash currency.

There is also reason to believe that cash is increasingly being converted in Norway to valuables¹⁵, crypto currencies, and the exchange of Norwegian cash to Euro or American Dollars. For now, it is unclear to which extent these methods are used, and whether or not these are the methods that will be utilized to launder the large amounts of cash. Norwegian police and Customs authorities are closely monitoring the development.

¹⁴ Norges Bank, Problemer med veksling av norske sedler i utlandet, 2023

¹⁵ For example, cars, gold and watches.



Case example

Less than three weeks after a new series of the NOK 1 000-note was released in 2019, NOK 6,5 million in new 1 000-notes wrapped in plastic and banderols from the national bank of Norway, returned to Norway from abroad. Based on the date of the release of the new 1 000-note series and the date of the return of cash, the cash must have been obtained in Norway and returned within maximum 19 days. The cash was exchanged to local currency at an exchange office in Dubai by a Norwegian citizen. It is not known whether the cash was declared or not.

Norwegian authorities lack overview of cash usage

Little is known about what cash in Norway is used for. It is therefore unknown how large of a portion of the roughly NOK 40 billion in cash currency in circulation is held for transactional use and savings.

Pulverisation of responsibility

Efforts by Norwegian authorities to maintain an overview of cash usage is complicated by the involvement of many private sector actors in the management of cash circulating in and out of Norway. The national bank ensures that there is sufficient cash in the society, but the distribution, storage and ownership of the cash in the private depot is outsourced to cash management companies and a large Norwegian bank.¹⁶ In addition,

the services of withdrawal and deposit of cash are outsourced from the banks to stores and ATM-operators.¹⁷

Cash deposits and withdrawals

Cash can be withdrawn and deposited through deposit machines, ATMs, stores¹⁸ or branches. The transaction limit for both withdrawals and deposits varies depending on the use of method and bank. Some banks do not have amount limits for each transaction.

There are examples of cash deposits into Norwegian bank accounts for several million NOK within a few months, and millions in cash withdrawn from foreign payment cards within a few months. The source of funds withdrawn in cash from

¹⁶ Norges Bank, Årsrapport for setlar og myntar, 2022

¹⁷ Financial Supervisory Authority, Bankenes tilbud av kontantjenester, undated

¹⁸ Banks offer the service "Cash-in-store", which makes it possible to conduct cash withdrawals and deposits in physical stores. Another service, "cashback", can be used in conjunction with a purchase in a physical store.

foreign payment cards and the purpose of their use in Norway is unknown.

There are no license requirements to operate ATMs in Norway, but the Financial Supervisory Authority must be informed of the establishment of an ATM. Accumulated numbers for cash withdrawals and deposits by the use of different methods are reported to the Norwegian national bank, but authorities do not have easy access to the underlying data. As such, there is little insight into the distribution of cash to the general public, which ATMs are used most frequently, or which ATMs have the highest turnover.

Lack of information from obliged entities

Norwegian obliged money service businesses which have received and exchanged Norwegian cash currency have historically reported very few suspicious transaction reports (STR) to the Norwegian Financial Intelligence Unit. There have also been few STRs reported related to cash-exchange, despite the recently observed increase in exchange of NOK to Euro or US Dollar.

Non-obliged entities

Traders of valuables are not obliged entities by Norwegian anti-money laundering legislation, but must adhere to a cash

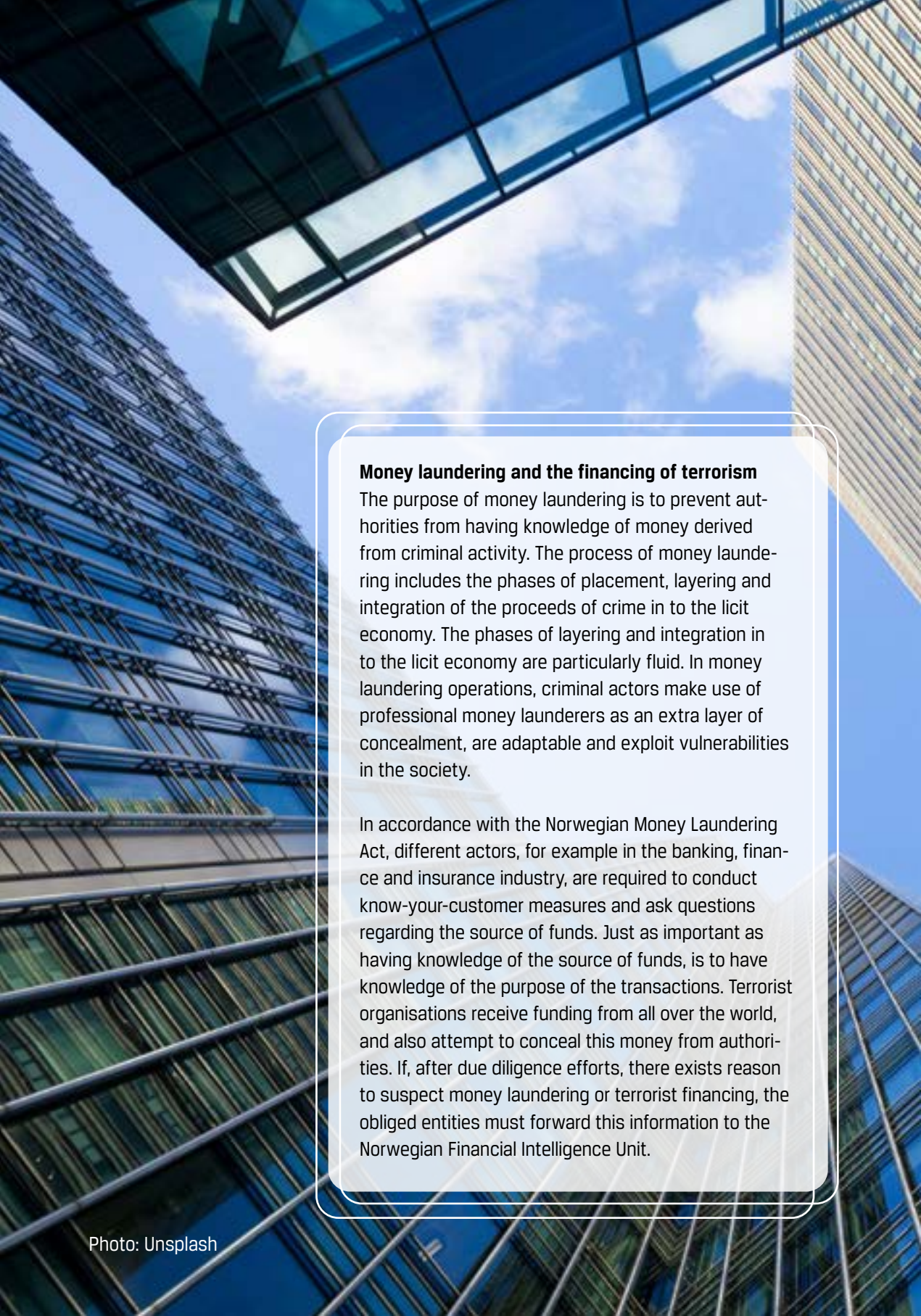
payment limit of maximum NOK 40 000. However, there can be other suspicious circumstances and by making traders of valuables obliged entities, the Financial Supervisory Authority would be given the opportunity to supervise the industry.

Cash management companies are also not obliged entities in Norway, even though they have knowledge of domestic and cross-border cash flows.

Insufficient knowledge

While not all use of cash is criminal, almost all criminals use cash at some stage during the money laundering process.¹⁹ The lack of traceability and the anonymity of cash is of high significance for criminals in their money laundering operations. In an increasingly digitalized society, criminals' use of cash in the money laundering process has not been a high enough priority. Norwegian police and relevant authorities possess large amounts of information on criminal use of cash, but the information is largely unstructured and has not been systemized. As a result, baseline knowledge and the possibility to work preventatively has been less than optimal.

¹⁹ Europol, Why cash is still king?, 2015



Money laundering and the financing of terrorism

The purpose of money laundering is to prevent authorities from having knowledge of money derived from criminal activity. The process of money laundering includes the phases of placement, layering and integration of the proceeds of crime in to the licit economy. The phases of layering and integration in to the licit economy are particularly fluid. In money laundering operations, criminal actors make use of professional money launderers as an extra layer of concealment, are adaptable and exploit vulnerabilities in the society.

In accordance with the Norwegian Money Laundering Act, different actors, for example in the banking, finance and insurance industry, are required to conduct know-your-customer measures and ask questions regarding the source of funds. Just as important as having knowledge of the source of funds, is to have knowledge of the purpose of the transactions. Terrorist organisations receive funding from all over the world, and also attempt to conceal this money from authorities. If, after due diligence efforts, there exists reason to suspect money laundering or terrorist financing, the obliged entities must forward this information to the Norwegian Financial Intelligence Unit.

Recommendations

The introduced restriction on the import of Norwegian cash currency is an important step towards reducing money laundering and the financing of terrorism. At the same time, as long as the source of funds is known and legal and can be documented in a sufficient manner, it should be possible to return Norwegian cash to Norway.

A majority of the cash currency that has circulated in and out of Norway, is likely linked to the illicit economy and a part of money laundering operations. The introduced import restriction raise concern that the criminal actors may alter their money laundering methodologies in a way that would increase money laundering in Norway. It is of vital importance that the development is closely monitored, and that authorities collaborate on measures that can prevent and detect money laundering operations.

There is a need for further action in several areas such as enhanced base of knowledge, cooperation, and control of the circulation of cash. The use of cash for money laundering purposes should result in greater consequences for criminal actors. In order to achieve this, the following possible measures are outlined below.

Increased base of knowledge

There is insufficient knowledge of how much of the cash in circulation is held for transactional use and savings. An examination of the use of cash in the Euro zone concluded that they were unable to identify the use of approximately 80 percent of the circulation of cash in Euro, which is approximately 1 000 billion worth of Euro.²⁰ A similar examination of the use of Norwegian cash should be conducted to increase the knowledge of how much of the cash is circulating in the illicit economy, and how criminal actors are using cash in their operations.

National cooperation

Norwegian authorities should increase cooperation, information exchange, and better make use of the collective knowledge to monitor changes in modus operandi. There are also several private actors that could contribute with useful information and knowledge on how the criminals are using cash in Norway.

International cooperation

The Norwegian police depends on regular information sharing with other countries, and good and stable inter-

20 ECB, The paradox of banknotes: Understanding the demand for cash beyond transactional use, 2021

national anti-money laundering cooperation. Increased participation in international forums such as Europol, INTERPOL, FATF and Egmont would make it possible to strengthen the global network on combating financial crime and secure compliance of international standards.

Expanding the depth of obliged entities

Several central actors in the management of cash in Norway are not currently obliged entities within the anti-money laundering regime. Authorities are therefore missing out on important information on how criminals use cash. A determination should be made as to whether ATM operators, cash management companies, and traders of valuables should become obliged entities.

License requirement to operate ATMs

A determination should be made as to whether ATM operators should be required to have a license from the Financial Supervisory Authority. This would ensure that only regulated and approved actors would have access to the ATM market. The license should also require ATM operators to report turnover of cash for each ATM.

National limits for cash withdrawals and deposits

A limit on maximum amounts for cash withdrawals and deposits should be

implemented. The limit should apply to both Norwegian and foreign currencies. In addition, cash withdrawals or deposits above the limit should be required to be conducted in physical banks, as this would increase the opportunity to examine the source of funds before deposit.

Declaration form

An improved declaration form for bringing cash in to or out of Norway should be imposed, to increase the control of the flow of cash crossing borders. It should be mandatory to state the source of funds and the purpose of use. In addition to an amount limit, there should be a requirement to declare cash in advance. This would provide the authorities a better possibility to examine the source of funds.

Increased consequences for cash smuggling

The current consequences for undeclared cash movement so low that it can be profitable even when the criminals are caught. Authorities should consider increasing the consequences for illegal transport of cash in or out of Norway. The fine for failing to declare cash should be increased from the current rate of 20 percent. If a cash smuggler is not able to explain the source of cash or if the holder is not in an economic position to have accumulated such an amount, it should be possible to instantly seize the cash.

For digital report



ØKOKRIM

Postal address: P.O. Box 2096 Vikta, NO-0125 Oslo
Street address: C.J. Hambros plass 2 C, NO-0164 Oslo
Contact: +47 23 29 10 00 / post.okokrim@politiet.no

www.okokrim.no

