



Anatomy of a Transaction Launderer

Guide

Transaction laundering is a serious threat to the integrity of any merchant portfolio.

Illicit merchants pose as an innocuous business to trick you into approving them for a merchant account. Gambling, counterfeit goods, and pharmaceuticals are sold by merchants pretending to be websites selling shoes, furniture, or electronics. For acquiring banks and ISOs, it's frustrating and costly to mitigate.

This guide outlines strategies for preventing transaction laundering, using examples of real transaction launderers identified by LegitScript.



Anatomy of a Transaction Launderer

An Insider's Guide and Case Studies

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1

What is Transaction Laundering and Why Does it Matter?

Transaction laundering is a method that high-risk or violative merchants use to gain access to a merchant account.

The illicit merchant creates a **seemingly innocuous website** — perhaps selling clothing or souvenirs — and obtains a merchant account for this online business, while actually processing transactions for the true underlying business. All of this happens without being known to, approved by, or underwritten by the payment provider.

Tip

Remember to look at merchant URL structures. The **Whois**, **DNS**, and **HTML** can unlock clues to transaction laundering. Third-party services like **domaintools.com** allow you to query hundreds or thousands of Whois records at once.

Transaction laundering is a spin on the **classic money laundering scheme**: a drug dealer needs a way to legitimize their cash and opens up a pizza place. It doesn't really matter to the drug dealer whether the pizza place draws in customers, or makes pizza at all: it exists only as a vehicle through which the cash runs. The pizza place can get a bank account, where its frequent cash deposits don't draw scrutiny. Transaction laundering websites take the same concept into the digital age.

The risk is about more than just reputation. It exposes payment processors to the risk of facilitating illegal activity, leading to steep fines from Visa and Mastercard, and even anti-money laundering scrutiny from regulators.



Case Study: Transaction Laundering Detection

Product pricing can provide important clues to a website's intent. The beads marketed on **buybeads.cn** were priced in increments of \$1, \$10, and \$50. These increments could be pieced together to add up to the actual price of the underlying merchant's product. The underlying merchant of buybeads.cn was **omega-lab.org**, a website marketing prescription drugs, including anabolic steroids, to jurisdictions where it was unlicensed to do so. omega-lab.org instructed buyers to go to buybeads.cn and use the incremental amounts offered there to input the exact order amount.

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Typical Forms of Transaction Laundering

Transaction laundering typically takes one of the following forms:

1. Underwritten Merchant as a Shell

The underwritten merchant may initially appear to be independent and legitimate, but it is in fact a shell company created for the purpose of acquiring a merchant account, and is under the control of the illicit merchant. This is a common form of transaction laundering.



Case Study: A Shell for an Illicit Gambling Website

Amid stock photos of customer service representatives, the **safebilling247.com** website stated, "If you have a transaction on your billing statement, you don't recognize it's probably one of your purchases." This website was processing payments on behalf of **lotusasiacasino.com**, an illicit gambling website, that allowed US customers to deposit money laundered through safebilling247.com.

2. Underwritten Merchant as a Co-Conspirator

The underwritten merchant may be approached by the illicit merchant, either before or after underwriting, and offered something of value (i.e., a commission) for illicit use of the underwritten merchant account. This is also a common form of transaction laundering.

3. Underwritten Merchant Goes Rogue

The merchant may have a legitimate line of business, and a hidden one — like a rogue gambling website that sets up a separate page for approved customers. This is an uncommon form of transaction laundering.

4. Underwritten Merchant as a Victim

The underwritten merchant may be a victim of the illicit merchant and unaware, at least temporarily, of the use of the merchant account. This form of transaction laundering is rare.

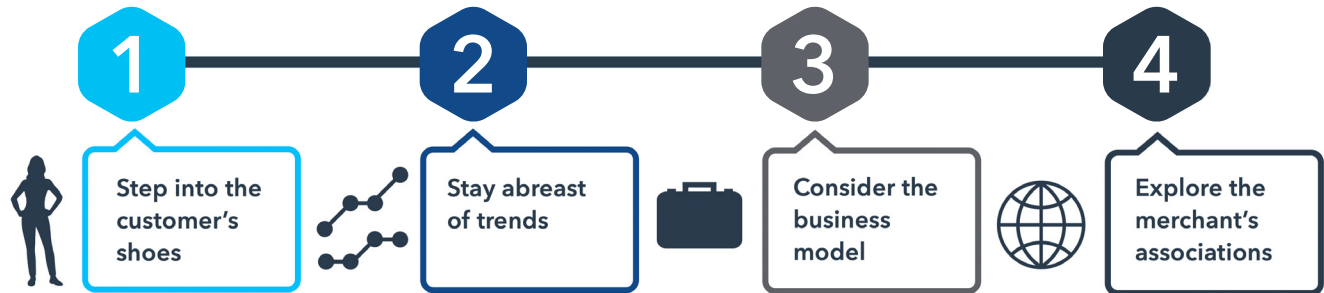
Tip

Require merchants to remove **Whois** privacy protection. There's no good reason for a merchant to hide who they are.

3

Key Principles for Identifying a Transaction Launderer

There are four key principles for identifying a transaction launderer. Let's explore each principle in turn.



1

Step Into the Customer's Shoes

What do transaction launderers care about? Transaction launderers don't care about the **customer experience**, because they don't really care about getting customers — at least, not on the underwritten website.

Consequently, even if the website has checked all the boxes of your onboarding requirements, when you put yourself in the position of a customer who might shop on the website, a transaction laundering website often lacks features to make shopping easier.

When evaluating the customer experience, remember to step into the customer's shoes and ask questions like:

- Are you able to select different sizes for that shirt you like?
- Can you easily contact a customer service agent?
- Is the website simple to navigate?
- Is the website complete or are there placeholder photos and dummy text?
- Does it have any social media presence?

If the website isn't doing its best to bring in and retain customers, it's possible that the merchant isn't looking for them in the first place.



Case Study: Evaluating the Customer Experience

teleskys shopping.com greets customers by stating that it is “Enriching lifestyles, Inspiring Values!” Sadly, the enrichment and inspiration stopped there. The website offered clothing but visitors could not choose a size on any of the dresses and tunics. It also provided a link to its “corporate site,” though it was always under maintenance and inaccessible. This website did not have the features that showed it cared about attracting customers, and, in fact, it wasn’t built to. LegitScript found that this website was processing payments for **generixstore.com**, an internet pharmacy marketing prescription drugs — including controlled substances — without requiring a prescription.

2

Consider the Business Model

Imagine that you ran the same type of business as the merchant. Do people succeed with this business model in the real world? Alternatively, are you easily able to figure out what the business really is? If the **nature of their business** is unclear based on a quick review of the website content, perhaps it's worth additional due diligence.



Case Study: Questioning the Business Model

primdeal.com appeared to be a website providing online services to restaurants — or so it seems. The website offered services, such as “Online Food Ordering portal (single restaurant)” with no additional explanation. If you were charging up to £1,150 for services, shouldn't you provide some information about what those services entailed?

The website was also far from pristine for a company claiming to offer web development services. At the bottom of the website, it stated, “Our secondary business area is high quality electronic gadgets in good price.” Its “secondary business area” actually turned out to be something else entirely. The website was used to obtain a merchant account for payments on **kamagradeal.com**, an internet pharmacy marketing unapproved prescription drugs.

When considering the business model, remember to review the pricing of merchandise and consider whether the price point is comparable to similar products and services on the market. If the prices seem artificially high or low compared to the prices of similar products elsewhere, the merchant may have no interest in offering competitive prices because it isn't actually selling the products or services it claims to.

Tip

Remember that criminals are rational economic actors and often choose a registrar carefully. This is why **registrar selection** is a key risk factor.

3

Stay Abreast of Trends

Transaction launderers have been known to gravitate toward certain website types that successfully fly under the radar. **Clothing** and **consumer electronics** merchants have been go-to guises for transaction launderers for several years.

More recently, LegitScript has noted a trend of service-based businesses, such as **IT consulting** and **computer support** websites being used for transaction laundering purposes, especially for illicit internet protocol television (IPTV).



Case Study: Investigating Service-based Businesses

onlinepresenz.com offered social media services, including Facebook likes and Twitter followers. It was one of several new websites offering technical or internet services set up to process payments on behalf of **cafecasino.lv**, a gambling website. The website allowed US customers to deposit funds to gamble with on **cafecasino.lv**, which is illegal in the US. The lump-sum payments were less likely to raise eyebrows coming from a service-based business such as **onlinepresenz.com**.

Because these businesses' sales are service-based rather than product-based, it's harder for financial institutions to detect unusual activity based on transaction volume. For this reason, service-based businesses may merit additional scrutiny.

Of course, the trends are constantly shifting — this is the internet, after all — and expertise in the latest techniques is paramount in order to stay a step ahead of transaction launderers.



Case Study:

High-risk Businesses Hiding Behind Low-risk Businesses

At first glance, there's nothing wrong with **supplementvitaminsmart.com**. It's a website marketing dietary supplements. In this case, the website was, in fact, processing payments for an internet pharmacy website, **safe-pills.com**. Among other legal violations, this website marketed prescription drugs without requiring a prescription. It is a common practice for rogue internet pharmacy networks to operate a small arm selling less-regulated products. If a low-risk merchant has shared ownership with a high-risk business, the low-risk merchant merits additional scrutiny.

4

Explore the Merchant's Associations

If the merchant's website content suggests that it may present an elevated risk for transaction laundering, a review of the merchant's associations with other businesses and individuals may provide additional insight.

LegitScript experts evaluate information provided by the merchant, website content, and technical data to identify associations with bad actors. This analysis sifts out the merchants who are engaged in transaction laundering from those who may simply have a poorly configured website.



Case Study: Uncovering Merchant Associations

fidelitytaxgroup.com, which offered tax services, looked fairly buttoned-up. This website was laundering payments for **sundrugstore.com**, a website that rotated between several rogue internet pharmacy networks. After LegitScript found the connection, the registrant of **fidelitytaxgroup.com** went on to register the domain name for a related internet pharmacy website, **sun5rx.com**. LegitScript's expertise in identifying merchant associations and knowledge of how illicit merchant networks function help identify the next threat on the horizon.

Transaction launderers have learned how to game the system, but the payments industry can adapt by adjusting its process to think like a transaction launderer. The transaction launderer, unlike a legitimate merchant, has no interest in operating a business. Viewing the website from the perspective of the customer — or someone trying to operate a similar type of online business — may illuminate deficiencies in the website content.

LegitScript's team of experts navigates these nuanced cases to partner with payment processors and acquiring banks for best-in-class transaction laundering detection.



Case Study: Unmatched Transaction Laundering Detection

Surya SEO, a search engine optimization firm, was acquired by one of the largest acquiring banks in the US via an ISO. But the merchant URL, **suryaseo.com** was really a transaction laundering website for **buygenericxanax.com**. A test buy from the illegal online pharmacy, selling Xanax without a prescription, established that Surya SEO was merely a front for the criminal activity. Other monitoring firms failed to catch the connection between the merchant and rogue internet pharmacy. LegitScript's process identified the connection within seconds.



About LegitScript

At LegitScript, our mission is to make the internet and payment ecosystems safer and more transparent for businesses and internet users.

LegitScript has created the world's leading team of experts to detect merchants engaged in transaction laundering. That's why LegitScript is recommended by major card brands to help payment service providers monitor for high-risk merchants to determine which are in compliance and which aren't.

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