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# **INTERNATIONAL MONEY LAUNDERING AND ITS PREVENTION IN THE BANKING SECTOR**

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# 1 INTRODUCTION

## 1.1 Money laundering and trade based money laundering

The term, money laundering, has its roots dating back to the early 20th century and the Prohibition time in the United States. Al Capone, a gangster from Chicago, was using laundry services to transfer his illegal alcohol proceeds into legal revenues, which gave the process of disguising the illegal origins of funds its name. (Bikker et. al 2013). Money laundering therefore refers to a process where the aim is to hide the illicit origins of funds in order to make the money to appear legitimate. (Zdanowicz 2009)

According to the Financial Action Task Force (FATF) (2006), money laundering can occur through three different ways: (1) through the financial system, (2) through the physical movement of currency or (3) through the movement of goods. The typologies suggest that money laundering detection methods designed for one of the above mentioned categories is not necessarily effective for the other two. When the detection methods are increased to an advanced level for one of the categories, the criminals react to that and shift from the techniques from one category to another in order to avoid getting caught. (Delston & Walls 2009; McSkimming 2010)

According to Choo, Irwin and Liu (2012), the average maximum amount of money used in one money laundering transaction is AUD 68 million (USD 52 million). The United Nations Office on Drugs and Crime (UNODC) has calculated that money laundering accounts approximately for 2-5% of the world's GDP (UNODC 2015), which calculated with the GDP numbers from year 2014 would settle approximately between USD 1.5 trillion and USD 3.9 trillion. Baker (2005) in turn, has earlier stated that the rough estimate for annual amount of laundered money would be between one trillion and two trillion US dollars. One of the first attempts to calculate the actual amount were done by Stamp and Walker (1999) in the end of the 1990's and at the time the result was USD 2.9 trillion globally per annum.

In a report by Global Financial Integrity (GFI 2014) it is estimated that trade based money laundering methods are used in more that 80% of the illicit financial flows coming from the developing countries. Also, about USD 101 billion was insinuated through export over-invoicing to China in 2012. These numbers give an indication of penetrative misuse of the international trade system. For financial institutions, banks and international organizations providing and using international trade and receivables financing this signifies a direct financial, compliance and reputational risk. In total, the value of the global merchandise export trade in 2012 was USD 18 trillion (PwC 2015), which therefore is the amount of trade that could be subject to the trade based money laundering.

Even so, the total amount of money laundering can only be estimated. It is difficult to get accurate data on money laundering to statistical analysis due to its nature geared towards secrecy. The extent of the operations, amounts of the profits or the persons involved in it are not published or available. In addition, estimating these activities is even more difficult because of the global basis of these activities. (World Bank 2003)

The amount of illegal financial and commercial transactions has been seen to increase substantially after the end of the Cold War, which were the opening years towards truly globalizing era. Ever since, the financial institutions and banks have been receiving significant amounts of laundered funds. The subject has been a taboo, which can be seen from the lagging legislation and the inability to deal with the situation. Yet, money laundering induces a huge risk to state stability, corporate security, democracy and free enterprise throughout the entire world. (Baker 2005)

Moreover, the possibilities for legalizing the money from illicit origins through the international business transactions have constantly been increasing. One of the oldest techniques used to avoid government scrutiny for moving money from one country to another is through the international trade. (FATF 2006) Money laundering therefore plays a big part in the global economy however recently the sub division of money laundering, trade based money laundering (TBML), has gained more attention due to the increased globalization and continuously growing trade volumes. TBML has been identified as a large risk for the international trade system. The system is vulnerable and faces many risks, but trade based money laundering has been stated to be one of the most important growing threats to the trade system (e.g. FATF 2006; INCSR 2009). According to Frangos (2015) TBML is increasing by nearly 10 percent annually. However, still most government law enforcement agencies have been ignorant when it comes to the techniques of laundering money through international trade. (Zdanowicz 2009)

Trade based money laundering refers to a process where the trade transactions are used to move illegal or criminal money to the international financial system by frauds such as over- or underpricing, by declaring incorrect amounts of goods, or by giving incorrect information about the export or import products' quality. Money can be moved out of a home country to a foreign country by under-valuing the home exports or over-valuing home imports. In reverse, money can be moved into the home country from foreign country by over-valuing the home exports or under-valuing the home imports. (FATF 2006; Zdanowicz 2009)

Money laundering methods that use trade to transfer funds are often the most complex money laundering methods with the large variety of different schemes. The most common TBML technique has previously been the Black Market Peso Exchange (BMPE), which has been used for example by many Colombian drug cartels. (Lormel 2009) Another popular trade based money laundering method is the over- or underpricing of goods which is accomplished by misstating the prices of goods and services in order to transfer funds

between colluding exporters and importers. (Zdanowicz 2009) Generally, when the money launderers are using trade finance activities to obscure the illegal movement of money, the techniques rely upon collusion between two trading partners, the buyer and the seller or the importer and the exporter. (Wolfsberg Group 2011)

Many ways of performing TBML are closely related to trade finance products provided by banks such as letters of credit or guarantees (Shanmugam & Thanasegaran 2007) and other foreign exchange transactions. Detecting the suspicious transactions are obscured by multiple trade based money laundering techniques which can vary by complexity and they are frequently combined with other money laundering techniques to further complicate the tracking of the money trail. (FATF 2006)

Banks and financial institutions might easily get involved with trade based money laundering because they are offering products to finance these trade transactions and providing services for international money transfers (De Wit 2007). Historically trade finance products have not been considered as the riskiest area of finance, however lately the perception has changed and trade finance is viewed as a 'higher risk' area of business for money laundering also due to the dramatically increasing volume of world trade. Approximately 20% of the world trade is done via trade finance products whereas the rest is carried out as 'open account' terms where the buyer and the seller agree the terms of a contract and arrange the delivery of the goods and the payment as a clean payment through the banking system. In that case, the bank will most likely be involved in the financing of trade only by providing overdraft facilities or revolving lines of credit, but will not know the specific information relating to the trade transaction. (Wolfsberg Group 2011)

Thus, when the bank or the financial institution is involved in the trade transaction by providing credit, there might be more possibilities to understand the underlying trade and financial movements. When the movements are understood, it would make it easier to detect possible abuse. It is notable that the risks do not only relate to trade finance activities. Any process to move funds through the banking system, for example by simple payment, may be camouflaged as means of financing trade in order to conceal the actual, possibly illegal, activity. (Wolfsberg Group 2011)

The report in trade based money laundering by the Financial Action Task Force (2006) indicates that the use of trade based money laundering can be expected to become increasingly attractive in the near future. Trade based money laundering is a remarkable concern for countries that rely heavily on trade with other countries and foreign investments. (Choo et al. 2012) Overall, the awareness of money laundering is relatively low and there is a need for increasing the awareness among different actors (De Wit 2007).

According to McSkimming (2010), the structures and extensive monitoring of the trade transactions are basically non-existent. However, the banking system is regulated

comprehensively and is made transparent and therefore the risk is increased for those who are seeking to launder illegal assets through it. Consequently, the criminals are switching to the comparatively unregulated international trade system as an alternative way to launder illegal funds globally (Delston & Walls 2009). This phenomenon implies that there is a complex substitution effect between the financial sector and the trade sector.

## **1.2 Anti-money laundering**

The problem of preventing and reducing money laundering is a major international concern (Alldridge 2008). It has been estimated that from 95% to 99% of banks' clients are involved in legitimate business or are using banking products and services for legitimate needs. However, those from 1% to 5% of the clients who try to use the banks or their products for illegal activities require the banks to have active anti-money laundering (AML) processes in place (Nanevski & Trajkovski 2015). Anti-money laundering processes are to prohibit the crime of money laundering and to prevent it from happening by following the regulation coming from national and international authorities such as the European Union (Alldridge 2008).

It is said that the international fight against money laundering started in the 1960's, but, it became a major international focus in the late 1980's (Delston & Walls 2009). The latest focus of the prevention of money laundering has been in the trade based money laundering, which abuses the international trade system (FATF 2006).

The global financial crisis has put an emphasis on the capital and liquidity regulation within the banking sector, which has changed as a consequence of the crisis. However, the anti-money laundering issue remains to be at the top of the agenda for the area of risk management. Being able to follow the laws and compliance regulations for money laundering prevention is vital because of the security risk it poses to both local and international communities as well as to the integrity of the financial institutions and the financial system as a whole. (Omar, Pok & Sathy 2014)

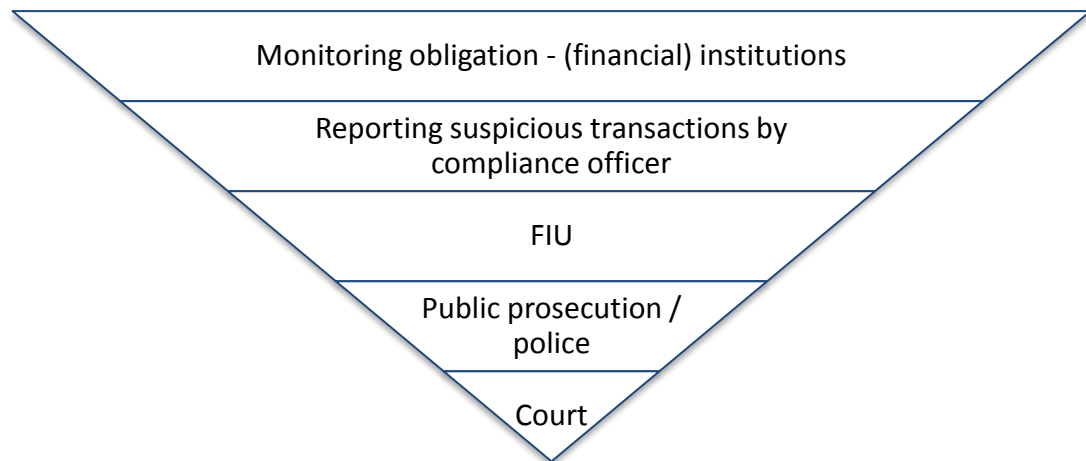
Compliance and AML can be an obstacle to a commercial enterprise like a bank in the sense of compliance hindering the possibilities for profit maximization. However, by committing to comprehensive compliance process, the bank can avoid negative publicity and lawsuits due to disregarding regulation and, thereby, reduce the possible costs of going to court. (Verhage 2009) The cost of having AML compliance is high for the banks and financial institutions, but the cost of noncompliance is even higher (Beaumier 2008).

Verhage (2009) presents an AML chain, which describes how a suspicious money laundering transaction flows through different phases from the reporting all the way to the final phase of court hearing as shown in Figure 1. The chain starts from the monitoring obligations where the cases entering the financial system are evaluated within the banks



and the staff working in the customer interface. If they notice something unusual in a transaction or a request, they move the case to their AML or compliance department. After that, if the case is still under a suspicion, it is reported as such by the compliance officers to the national Financial Intelligence Unit (FIU) for further investigation. The case would then be moved to public prosecution or police and in the end to court, if the case fulfills the characteristics of a criminal act.

Figure 1 Anti-money laundering reporting chain



Source: Verhage (2009).

Delston and Walls (2009) would like to involve the entire trade supply chain to the AML process against trade based money laundering, which would include for example importers, exporters, freight forwarders, shippers and air couriers. In that case, the governments should ensure that these traders are conducting customer due diligence (CDD), adopting customer identification programs, increasing the quality and scope of record keeping and filing suspicious transaction or activity reports like the financial institutions are obliged to do under the AML regulation.

When criminals try to obfuscate the customer due diligence process, they can use false identity documentation or other falsified business documents which might be altered, forged or acquired illegally. The nature of the fraudulent documentation needed by the criminal acting as the client, is closely related to the business case or opportunity they are trying to conduct. The ultimate question to always be asked is that is there a risk of illegal funds being used in the transaction or is there a possibility that by funding the transaction, an illegal activity will take place. (Naheem 2015)

There are multiple factors that should be taken into account when carrying out AML regulations for the banking sector and especially for global banks who are engaged in international transfers and trade finance. (Naheem 2015) The more the bank knows about

their customers, the better they can serve them and also use the information to build a client profile and assess the risk connected to the client. (Axelrod & Ross 2012)

### **1.3 Earlier empirical studies**

#### ***1.3.1 Earlier empirical studies on trade based money laundering***

Trade based money laundering is a subject of very limited earlier empirical research. There is basically no academic empirical research conducted specifically on TBML and only few international organizations have carried into effect surveys for people related to TBML and demonstrated the patterns of TBML with case examples. However, there is some empirical research done on money laundering but these studies only touch TBML or it is only a fraction of the actual topic of the research as can be seen on Table 1. For example Baker (2005, 182) studied the phenomenon of false pricing in different geographical areas with interviews and by sending out surveys. He was able to determine the percentages of the amount of false pricing in the foreign trade transactions for every region studied.

One of the major influencers on the topic of trade based money laundering is the Financial Action Task Force, which is an international organization established in 1989, who has conducted a research report only focusing on the trade based money laundering. The FATF (2006) report uses case studies as an example to illustrate various different trade based money laundering techniques, which can be used separately or in combination with other money laundering methods. The case examples are provided by authorities from different countries such as Brazil and the United States. The cases reveal how these events arouse suspicions and got detected. The FATF study also conducted a survey to authorities related to TBML such as customs agents and banking supervisors in order to map the current practices and to see what is the ability of the various government agencies to identify suspicious activities related to trade transactions. The survey also aimed to identify the capacity to share and act on the information. The results signal that the understanding for the TBML issue is still limited and that the government agencies are in need of more training. It was also pointed out that the respondents were less capable of identifying TBML activity than money laundering activities.

Table 1 Earlier empirical studies on trade based money laundering

<b>Year, Author</b>	<b>Objective</b>	<b>Methodology</b>	<b>Key Findings</b>
2005, Baker	Study the phenomenon of false pricing.	Surveys, interviews.	The geographical percentages of false pricing in trade transactions.
2006, FATF	Illustrate how the international trade system has been exploited, gather information on current practices.	Case studies provided by countries, questionnaire for authorities.	TBML techniques, lack of awareness and exchange of trade data between jurisdictions.
2009, EAG Working Group	To explore the ways of using foreign trade transactions to launder the proceeds of a crime, identify the legal aspects affecting the development of the mechanisms abused.	Cases and other data provided by different countries.	Instruments, mechanisms and corporate structures used for TBML.
2012, APG	Study the extent of the prevalence of TBML and highlight current techniques and methods, identify 'red flags'.	Case studies provided by countries in the area, surveys to authorities.	Identified the elements of trade that use TBML and the mechanisms of trade finance used for TBML.
2015, Frangos	Examine TBML as a primary money laundering technique by detailing specific TBML methodologies and TBML's societal influence.	Mixed-methods, qualitative analysis augmented by global quantitative economic findings and impacts.	Current AML programs do not effectively address TBML in trade-finance, the trade sector, for law enforcement, or in terms of regulation. Study gave policy recommendation for legislation.

The Asia/Pacific Group on money laundering (APG 2012) has also conducted its own studies on TBML and also uses multiple case studies to demonstrate the TBML mechanisms and how trade finance is used by TBML. The research aims to study the extent of the prevalence of TBML and highlight the current methods, techniques and procedures for TBML. In addition, they as well have conducted a survey to authorities related to TBML in the Asia-Pacific (APAC) area in order to define the 'red flags' to detect and respond to TBML. Even though the studies conducted by FATF and APG are quite similar, when the FATF study focused on the trade based techniques used in TBML, the APG study also emphasizes that these FATF techniques should be combined with techniques which abuse the trade finance mechanism for TBML to occur.

The Eurasian Group on Combating Money Laundering and Terrorism Financing (EAG 2009) has conducted a similar report to those of the FATF and APG but in their report they are also identifying entities which are most often involved in the process of legalizing the criminal proceeds and concealing the existence, illegal origins or illegal use of the international trade based proceeds. The report has identified three groups. The first one contains business entities with signs of fraudulence, one-day firms, shell companies and transit companies. The second group includes offshore companies and companies registered in prestigious jurisdiction with legal forms offering a low level of taxation. The most common forms of business ownership are recognized to be LTD (Private Limited Company), LLC (Limited Liability Company) and LLP (Limited Liability Partnership). The third group consists of lending institutions offering illegal banking services.

Frangos (2015) has focused her research on the socio-economic impacts of the TBML in the United States and she claims that dynamic TBML environment must be juxtaposed with the less flexible existing regulatory laws, enforcement, and mitigation techniques. Frangos also states that even though the increased popularity of the evidence and attention towards TBML, the TBML cases are truly on the rise. The disastrous effects of TBML are highlighted and it is warned that without putting an effort to international cooperation, TBML will exceed the other money laundering methodologies. Frangos also gives recommendations to the legislation targeted towards money laundering and the aim of the study is to highlight the need for redirecting the anti-money laundering activities towards TBML which would help the various industries and arenas affected by TBML.

Earlier empirical studies and surveys evidence that the awareness of TBML is low and that there is a need for wider knowledge. Authorities related to money laundering are less able to identify threats related to TBML than other money laundering techniques. However, the earlier studies show that the need for better information is acknowledged. Various studies have been conducted on money laundering however they only slightly touch the matter of TBML. Many studies only focus on the current anti-money laundering practices and the perceptions of authorities on the prevention of TBML. Some reports identify the entities involved in TBML. When taking this into consideration, the trade based money laundering process as a whole has not been observed comprehensively and therefore, there is an urgent need for studies on the TBML processes. Especially, there is a lack of studies trying to understand how the banking sector employees see why money is laundered, how is the money laundering process is conducted and what are the different money laundering techniques related to trade and international business.

### *1.3.2 Earlier empirical studies on anti-money laundering*

Unlike with the earlier empirical studies on TBML, it was easier to find studies written about the anti-money laundering in the banking context. Most of the studies are focusing on measuring how the AML or compliance methods are conducted in banks within a country by doing surveys for the work force as can be seen in table 2. Even though there were studies found on AML, it seems that the area is still quite lightly covered and there is a lack of studies focusing on the AML methods related to trade based money laundering prevention.

The study by Van der Zahn et al. (2007) is a good example of a study where the research focuses on how the banks are conducting the anti-money laundering practices. This study compared two central banks, the Australian and Ukrainian. They did the research with calculating a disclosure index and through the use of contextual analysis. They found some differences between the two central banks but concluded that these banks show very low levels of AML disclosures, however the Ukrainian central bank usually having more. It seems that the Ukrainian central bank is ahead of the Australian central bank in internalizing the AML methods while the Australian central bank takes the money laundering issues as a more distant concern.

Guohua and Simway (2011), in turn, studied the role of the commercial banks in combating money laundering within China. They think that having an effective AML regime can make a substantial contribution to the battle against money laundering both nationally and globally. The data for the study was collected via a questionnaire to commercial banks in China and they found that all of the targeted five bank conducts AML policies and procedures correctly and have compliance officers for AML activities and that they have trained their staff. However, the researcher questions the adequacy of the answers due to the banks not being willing to reveal information about their AML activities for various reasons. Therefore, they were careful with generalizing the findings of their current study.

Belaisha and Brooks (2014) studied the current situation and strategies of money laundering prevention in Dubai. They conducted semi-structured interviews for thirty respondents within Anti Money Laundering Suspicion Cases Unit, Anti Organized Crime Department and the Central Bank. The problem of money laundering was recognized among the employees of all these organizations and the researchers found that these employees are aware of the need for future anti-money laundering strategies.

The Pakistani context was researched in the study by Kemal in 2014. He aimed at checking the effectiveness of the AML regulations in Pakistan. He tried to find the relationship and impact of three different regulations, which were customer record keeping, employee training and suspicious transaction reporting on money laundering. He thinks that money laundering is the most prevalent in the banking sector and therefore

is was necessary to evaluate the effectiveness and the AML regulation on subjective judgments. He collected the data by sending out questionnaires to banking employees in two Pakistani cities and his findings were that the employee training has an impact on the money laundering in the banking system, however a weak one, which was consistent with previous studies. Same applies to the AML regulation of suspicious transaction reporting and its impact on money laundering crime. Also, there is a moderate inverse relationship between the employee training and ML and AML regulation of customer record keeping has a weak effect on ML in developing countries. Some of his finding were not consistent with earlier studies.

Table 2 Earlier empirical studies on anti-money laundering

<b>Year, author</b>	<b>Objective</b>	<b>Methodology</b>	<b>Key Findings</b>
2007, Van der Zahn, Makarenko, Tower, Kostyuk, Barako, Chervoniaschaya, Brown & Kostyk	Textual analysis of the anti-money laundering (AML) practices of the central banks of Australia (RBA) and Ukraine (NBU).	Calculation a disclosure index and trough use of textual analysis.	Low levels of AML disclosures by both central banks. Need for clearer communication about key issues, central bank priorities and activities for AML and terrorist financing in order to win the war against money laundering.
2011, Guohua & Simwayi	To assess the role of commercial banks in combating money laundering in the People's Republic of China.	A questionnaire and guided oral interviews for 5 commercial banks in Xichang City.	AML policies and procedures in place, have designated a compliance officer for AML activities and trained their employees.
2014, Belaisha & Brooks	Highlight the present strategies to prevent money laundering in Dubai.	30 semi-structured interviews.	Interviewees think that future strategies to prevent money laundering are needed.
2014, Kemal	To check to AML regulation in Pakistan.	Questionnaire for 100 bank employees.	There is an impact on training on ML in the banking system. relationship between employee training and money laundering and anti-money laundering regulation of customer record keeping has weak impact on money laundering in developing countries.

2014, Pok, Omar & Sathye	To ascertain the perceptions of AML and CFT compliance officers of banks in Malaysia to develop an understanding of how well they understand the risks and how well they have implemented the obligations imposed by the regime.	A structured questionnaire survey for 82 compliance officers of banks in Malaysia. Followed by focus group discussions.	Banks considered avoiding penalties, improving brand image and improving customer perceptions to be the rationale for implementing the policies. Some differences on the perception between conventional and Islamic banks about the compliance culture.
2015, Mariappan, Viritha & Venkatachalapahty	To assess the level of compliance with regulatory guidelines on AML in the scheduled commercial banks in India. To understand the bottlenecks in AML implementation.	Snowball sampling & structured questionnaire for 392 bank employees in the states of Puducherry and Tamilnadu in India	Mostly the banks were complying with the AML, compliance & KYC, reporting requirements and customer identification procedures. Issues were identified and they noticed that amending the AML measure to each banks' risks was unsatisfactory.
2015, Naheem	To provide an analysis of the HSBC Swiss bank accounts scandal, from the perspective of anti-money laundering (AML) compliance, and considers the future AML implications for the banking sector and HSBC.	Secondary data to offer a viewpoint. Extracts key statements from HSBC staff.	AML compliance should be embedded into a proactive corporate social responsibility approach (rather than relying solely on regulation to improve detection and reporting of money laundering activity).

In order to develop an understanding of the compliance officers' comprehension about the risks and how well the obligations by the regime have been implemented, Pok, Omar and Sathye (2014) studied to ascertain the perceptions of AML and counter-terrorism financing (CTF) within the Malaysian banks. They received 82 answers from the Malaysian compliance officers after sending out the questionnaires. Their findings show that the reasons banks are complying the AML and CTF practices are to avoid penalties, to improve customer perceptions and brand image. They found some differences between the Islamic and conventional banks. For example, they felt differently about the greatest benefits of following the regime. Islamic banks thought that the prime advantage was knowing their customers while the conventional banks felt it was the reduction of fraud cases.

Naheem (2015) provides an analysis of a real-life case example about the HSBC Swiss bank account scandal from the AML compliance point of view. It also considers the future

AML implications to both the entire banking sector as well as for HSBC. The scandal covered many different areas of the bank and one of the revealed subjects was that HSBC was supporting clients involved with money laundering and illegal trade activities. In the case HSBC and their clients colluded so that both could benefit from each other, however at the expense of the regulation targeted for the banks. HSBC has many issues concerning their AML practice but also, the banking sector should embed their AML compliance program into the proactive social corporate responsibility practice.

The study conducted by Mariappan, Venkatachalapathy and Viritha (2015) aimed at understanding the bottlenecks in the AML implementation. They assessed the level of compliance with regulatory guidelines in AML in the scheduled commercial banks in India. The respondents for the study were chosen with the snowball sampling and these bank employees who received the questionnaire were located in two different Indian states. Their findings show that mostly the banks were complying with the AML measures. However, it was found that the practice of customizing the AML regulations to meet the characteristics of a specific bank and its business risk and evolving regulatory obligation, was unsatisfactory. The major issues identified by the respondents in relation to the AML practice were the lack of resources, deficit of customer support, training, feedback and information exchange. They recommended that banks should have continuous training for the employees as well as inform the customer about the importance of AML guidelines.

The anti-money laundering subject has gained more attention compared to trade based money laundering subject. However, the amount of studies is still limited within the banking context and based on the above mentioned studies, it seems that these AML studies have concentrated noticeably to the Asian and Middle Eastern countries like China, India and Pakistan. Many studies have been focusing on the AML regulation and either its perception, conduction or effectiveness. And as Omar, Pok and Sathye (2014), state about anti-money laundering regimes: "...to our knowledge, its effectiveness, modes of operation and the consequences thereof – whether intended or unintended – have largely remained unexplored." Moreover, there is still a lack of research about why AML process is carried out, how it is done and what are the different methods the banks are using to prevent money laundering from happening.

## **1.4 Objective**

The objective of this research is to understand how money laundering and the anti-money laundering processes are perceived from the banking sector point of view. The aim is to enhance the understanding the why, how and what aspects of both trade based money laundering and anti-money laundering. Therefore, the sub-objectives are as follows:



1. why is money laundered?
2. how is the money laundering process like?
3. what are the money laundering techniques?
4. why conduct anti-money laundering?
5. how to conduct anti-money laundering process?
6. what are the anti-money laundering techniques?

These objectives are reached by conducting theme interviews for experts from the fields of trade finance, bank compliance, money laundering investigation and banking supervision. Therefore the aim is to get a comprehensive picture of money laundering through experts who see the money laundering and anti-money laundering from different positions in terms of the anti-money laundering chain.

The aim in this study is to focus on the international context of the money laundering and how global trade can be abused by money launderers. Therefore, the money laundering part focuses on the trade based money laundering methods and techniques. Also, a better understanding of TBML processes, techniques and the prevention methods for it is urgently needed since it is a growing concern in the international trade and it is still widely unfamiliar to many different parties involved in trade and its financing.

Many times anti-money laundering is associated with counter-terrorist financing and their prevention can be seen as a combined process. However, this study will only focus on the anti-money laundering and the terrorist financing and the counter-terrorist financing is left out of the scope of this thesis.

## **2 MONEY LAUNDERING AND MONEY LAUNDERING PREVENTION**

### **2.1 Money laundering**

#### **2.1.1 *Why launder money?***

As can be derived from the definition of money laundering (e.g. D'Souza 2012), the ultimate reason the criminals are laundering money is to cover the illegal origins of the funds. The source of the funds is usually from a criminal act and the criminals want to make the money clean and integrated to the financial economy so that it appears as coming from legal sources. After completing the money laundering process successfully, the criminals are able to use the money to obtain other assets.

There are certain objectives that the money laundering process should fulfill according to Schneider (2004). There are three objectives: convert, conceal and create, which are essential and should be satisfied by the three-staged money laundering process. 'Converting' is about changing the form of the money or cash into a less suspicious form. After that, the process should 'conceal' the illegal origins and the ownership of the funds. Lastly, the process should be able to 'create' an explanation, which makes the source of the funds or assets appear legitimate. With these objectives the aim is not only to transfer the original criminal funds into other assets but also to hide any sources that could reveal the original financing of these assets. The goal is to realize the greatest benefit from money laundering.

There are three stages related to the money laundering process: (1) placement, (2) layering and (3) integration. Schneider (2004) states that the placement stage satisfies the conversion objective and is critical because it converts the large numbers of cash into less apocryphal assets into the legal economy. Concealing is satisfied during the layering stage and creation accomplished with the final stage of integration and repatriation.

The third objective, create, is as important as the two first ones, convert and conceal. Even though it is vital to convert the bulk cash into other forms, its is crucial to create a credible rationalization for the origins of the funds because that is how the efficacy of the money laundering process is judged and determined if the scheme is convincing. The more convincing the entire laundering process seems, the more likely the scheme will not be detected and be exposed as a criminal process by authorities. (Schneider 2004)

### **2.1.2** *How is the money laundering process like?*

The money laundering process can be divided into three different stages: (1) placement, (2) layering and (3) integration (e.g. Choo, Irwin & Liu 2012), which can also occur simultaneously (Jukarainen & Muttillainen 2015). In order to hide the origins of the criminal funds being laundered, the money has to flow through these three stages successfully (Frangos 2015).

**Placement.** The first one of the three stages, placement, is the phase where the cash gained from criminal activities is placed into the financial system with various techniques. Generally, this stage aims to serve two purposes: (1) it releases the criminal from possessing the large amounts of cash and, (2) placing the criminal funds to the legitimate economy (Money Laundering: A Three Stage Process 2012). The illicit money can be placed for example by depositing the cash into bank accounts or by using this cash to purchase high priced assets such as luxury items, paintings, real-estate or other property, or simply by carrying the funds on a flight to a foreign destination. The purchased goods would then be resold and the money would then appear as legitimate through checks or wire transfers. (Russel 2004; Choo et al. 2012; Ryder 2012)

Money launderers often attempt to break up the profits into smaller fractions in order to avoid the need for currency transaction reporting. This technique is often called smurfing or structured payments. However, the direct payment from the criminals to the financial institutions rarely occurs, rather, the funds are more often placed to the system via less-direct activities such as reimbursement of the loans and the commingling of the illicit money with the income gained from legitimate business (Frangos 2015). The placement stage is the most vulnerable stage to detection and during this stage the criminal proceeds are most apparent. (Russel 2004; Choo et al. 2012; Ryder 2012) Even so, Simser (2008) argues that there are numerous different techniques for money launderers to cloak their assets after the placement stage i.e. ways to obfuscate the money trail and to make it difficult for the government authorities to follow the trail.

**Layering.** After placing the illegal cash proceeds into the financial system, the money launderers will attempt to disguise or conceal the illicit origins and the ownership of the funds by creating complex layers of different financial transactions or conversions. In the layering stage the aim is to disassociate the illicit funds from the criminal origins by deliberately creating intricate webs of financial transactions and to conceal any audit trails or source of origin or ownership of the money. This can be achieved, for example, by using a sequence of wire transfers into different accounts, by trading operations in the financial market, or through investments in shell operations. The criminals try to abuse the possible discrepancies or loopholes in the legislation and exploit the slow judicial or police cooperation. During the layering stage the detection of money laundering becomes more difficult because the money can be moved through purchase of property or shares,

or merely by just transferring the money via internet to several other countries in the world. (Russel 2004; Choo et al. 2012; Ryder 2012).

**Integration.** The third stage of the money laundering process is the integration phase, where the money - after completing the layering stage - is being integrated into the economy. This is accomplished by making it seem like the funds are earned in legal business. The money launderers could use shell corporations to obtain loans in order to finance domestic business or they could take an advantage of different bank secrecy laws in different jurisdictions, or use fake invoices and mispricing to make it appear legitimate. It becomes already exceedingly difficult to determine whether the funds are legal or illegal at the integration stage. (Russel 2004; Choo et al. 2012). After the money has been integrated and the large original sum has been divided into smaller portions, it does not attract as much attention anymore. (Jukarainen & Muttillainen 2015)

Schneider (2004) adds a fourth stage to the money laundering process in addition to the placement, layering and integration. He calls it repatriation, which refers to the part where the laundered funds are repatriated back to the criminal entrepreneur's hands with a practice, which seems legitimate and does not attract suspicions and minimizes the government scrutiny. However, this phase can also be included into the integration stage.

### **2.1.3 *What are the methods used for money laundering?***

The methods used for money laundering can vary country by country. They can differ because of the numerous unique characteristics of each country such as the economy, AML regime, the complexity of financial markets, the efforts and international cooperation. (World Bank 2003) There are also various different ways of laundering money. However, this study will focus on the trade based money laundering techniques some of which are presented below. Basically, trade based money laundering techniques can be divided into two categories, basic and complex techniques. (FATF 2006)

According to the report by Financial Action Task Force (2006, 4) the basic trade based money laundering techniques include: (1) over- and under-invoicing of goods and services, (2) multiple invoicing of goods and services, (3) over- and under-shipments of goods and services and (4) falsely described goods and services.

The TBML methods can also be further divided into two segments; price- and volume-based methods, however many times the criminals may use a mixture of both (McSkimming 2010). Frangos (2015) uses a similar separation between the TBML techniques but calls them invoice manipulation and trade diversion. She states that the invoice manipulation exploits the vulnerabilities from the financial aspects whereas the trade diversion focuses on the actual trade. The preconditions for both are that both parties, the importer and the exporter, are colluding and that the trade transaction costs

(such as shipping costs, insurance, transport risk, tax and shipping time) have to be lower than the actual amount of money laundered. (McSkimming 2010).

According to the classification by McSkimming (2010), price-based techniques are based on the misrepresentation of the import or export prices and they either exceed the real market price or are lower than in the market. With the abnormal pricing methods the quantity and quality of the goods or services are, in turn, correctly reported. Hence, volume-based techniques are relying on misstating the true quantity or quality of the goods or services under the transaction. Thus, the price is corresponding the real market value, but the underlying shipment is not correctly declared. (McSkimming 2010).

**Over- and under-invoicing of goods and services.** The technique of over- and under-invoicing of goods and services belong to the basic trade based money laundering techniques according to the classification by FATF (2006). It is one of the oldest money laundering techniques and a very common practice used to transfer value to different locations in the world today. The key factor in the transfer of the value between the exporter and the importer is the misrepresentation of the price of the good or the service. (FATF 2006; McSkimming 2010)

Money can be moved out of a home country to a foreign country by under-valuing the home exports or over-valuing home imports. In reverse, money can be moved into the home country from foreign country by over-valuing the home exports or under-valuing the home imports. (FATF 2006; Zdanowicz 2009) An example of over- and under-valuation of goods can be found in Annex 1.

When the goods or the services are invoiced at a price lower than the market price, the exporter transfers value to the importer who receives the extra profit from selling the goods at a price higher than what they actually paid to the exporter. Alternatively, if the goods or the services are over-invoiced, the value is transferred from the importer to the exporter, who is able to receive a higher price from the importer, who will receive a lower value when they sell the goods in the open market. (FAFT 2006)

However, it should be noted that in order to launder money through over- or under-invoicing, the two parties, the exporter and importer, have to collude in the fraudulent transaction. It can also occur that both parties involved in the transaction are controlled by the same company. For example a parent company can set up a foreign affiliate in a borough, where the legislation of it is less strict with money laundering controls. The misrepresentation of the price has also significant tax effects. For example the importer might try to avoid import duties with under-invoicing and similarly, the exporter might use over-invoicing to receive increased export tax credits. According to McSkimming (2010), under-invoicing is at the most powerful level when the exporter is importing the goods from a country with strict customs and border control systems to a jurisdiction lacking them. Abnormal pricing is the overriding focus of customs authorities.

When money launderers are using abnormal pricing, they tend to prefer either high-value but easily transportable items like jewellery, goods that do not attract import/export duties and hence generate little attention from customs, goods that are easily traded on secondary markets like commodities and precious minerals, non-perishable goods, or heterogeneous goods that are difficult for customs to value like art or antiques. (see McSkimming 2010)

There are two separate reasons why under-invoicing is often preferred by money launderers. First, the contact with the financial system is not involved at the vulnerable placement stage of the money laundering process (De Boyrie, Pak & Zdanowicz 2005). When using under-invoicing, the criminals can use the unwashed money or cash to purchase goods and thereby form a source that has no reason to raise suspicion about anything illegal. By the time the financial transaction through a bank occurs, the money is already shrouded with an apparent legal trade transaction. To compare, with over-invoicing the financial transaction takes place already when the exaggerated invoice is paid due to the trade with a foreign party which may require, for example, foreign exchange. In this case the reportable and possibly suspicious transaction is created before the trade occurring. (McSkimming 2010).

Second, the under-invoicing is preferred because the government scrutiny is lower for exporters than for importers. The importers are liable for import duties and are strictly examined by regulatory authorities. Under-invoicing is thus at its most effective when the capital is moved from jurisdiction of strict customs and border controls to a jurisdiction lacking them. In addition, under-invoicing is favorable for both parties involved because they both are able to benefit from the reduced taxation, hence lower transaction costs. (FAFT 2006; McSkimming 2010)

**Multiple invoicing of goods and services.** By invoicing the same goods or a service for multiple times is another commonly used technique of trade based money laundering. The same goods might go between two jurisdictions many times. Therefore, the money launderer might be able to receive the same payment for the international trade transaction multiple times and justify it for the same shipment. (FATF 2006)

**Over- and under-shipments of goods and services.** The quantities of the goods shipped or services provided can also be under- or overstated in addition to the misrepresentation of the price. Moreover, the exporter or the importer might be able to transfer value, which does not correlate with the actual amount of the products shipped. In the extreme, a 'Phantom Shipment' can be used, when the exporter may not ship any goods at all, but the shipping and customs documentation is made equivalent to the money transferred to the exporter. That is when banks or financial institutions might end up being involved in the provision of trade finance products for these falsely described quantities of shipments. (FATF 2006)

**Falsely described goods and services.** The quality and the type of the goods or service can also be manipulated and misrepresented. For example, an exporter might ship goods which are described as luxury products but in reality are of much less value or quality. The goods shipped might also be completely different items than what is stated in the customs declaration. This creates inconsistency with what is stated in the documents and what is actually shipped or delivered. Services can also be targets of false description. (FATF 2006)

In practice, many times money laundering cases apply several different money laundering techniques or use a mix of them. Often both the financial system and the international trade system are involved in the abuse. The FATF Report (2006) presents how multiple methods are used for a single criminal operation with a complex technique called Black Market Peso Exchange arrangement.

**Black Market Peso Exchange arrangement.** The roots of the mechanics of the black market peso exchange arrangement decent from the time of Colombian Drug Cartels and cocaine exporting to the United States in the 1980's. These drug deals generated profits of USD 10 billion a year of which about USD 4 billion a year was laundered through black market peso exchange arrangements. The following steps form a simple black market peso exchange arrangement. (FATF 2006)

1. The illegal drugs are smuggled into the United States and sold for cash;
2. The drug cartel arranges to sell the US dollars obtained in cash from the first step to a peso broker for Colombian pesos;
3. The peso broker pays Colombia pesos to the drug cartel from his Colombian bank account, which obscures the trail to the drug cartel from the arrangement;
4. The peso broker structures or 'smurfs' the USD cash into the US banking system in order to avoid reporting requirements and consolidates the money in his US bank account;
5. The peso broker finds a Colombian importer who is in need of US dollars to pay to a US exporter;
6. The peso broker arranges to pay to the US exporter on behalf of the Colombian importer from his US bank account;
7. The goods of the US exporter are shipped to Colombia; and
8. The Colombian importer sells the goods shipped in the market for pesos and pays the amount back to the peso broker. Often the goods shipped are of high value like computers or other electronics or apparel. (FATF 2006)

In addition to trade based money laundering, the black market peso exchange method combines other illegal activities like drug smuggling and money laundering through the financial system. Often, the drug cartel can have its own peso brokers and there is no need for external peso brokers. In reverse to the other basic trade based money laundering methods presented above, the importer and exporter in a black market peso exchange

arrangement do not need to collude. Usually the prices and the quantities of the goods are reported correctly, however the value is still transferred across borders or countries. Even though the original term of this type of arrangement refers to the drug business, similar techniques are used across various types of criminal activities. (FATF 2006)

Overall, the techniques used for money laundering and trade based money laundering can have features from many different methods. Table 3 presents a chart which combines the three different money laundering stages with the goals and methods used to achieve them.

Table 3 Money laundering stages with goals, aims and methods combined

<b>Stage</b>	<b>Goal</b>	<b>Aims</b>	<b>Methods</b>
<i>Placement</i>	<ul style="list-style-type: none"> <li>To place the money in the financial system</li> </ul>	<ul style="list-style-type: none"> <li>Get rid of cash</li> <li>Placing the money to legitimate economy --&gt; <i>convert</i></li> </ul>	<ul style="list-style-type: none"> <li>Deposits, purchase of high price assets</li> <li>Physical movement of money</li> </ul>
<i>Layering</i>	<ul style="list-style-type: none"> <li>Cover the trace and the ownership</li> </ul>	<ul style="list-style-type: none"> <li>Conceal the origin</li> <li>Disassociating funds from the criminal origins --&gt; <i>conceal</i></li> </ul>	<ul style="list-style-type: none"> <li>Complex layers of multiple transactions such as sequence of wire transfers</li> <li>Purchase of shares</li> </ul>
<i>Integration</i>	<ul style="list-style-type: none"> <li>Integrate the money into the economy</li> </ul>	<ul style="list-style-type: none"> <li>To make the money to appear from legitimate source --&gt; <i>create</i></li> </ul>	<ul style="list-style-type: none"> <li>Shell corporations</li> <li>False invoices, mispricing</li> <li>Foreign jurisdictions</li> </ul>

## 2.2 Money laundering prevention

### 2.2.1 Why anti-money laundering?

The fight against money laundering has been made a priority within the international community. However, the money laundering prevention process is outstandingly complex as well as demanding and having an adequate anti-money laundering (AML) process requires plenty of resources from the banks. The ultimate goal of AML is to determine and conduct an effective and capable anti-money laundering process and one has to take many variables into consideration in order to succeed in establishing it. In



addition to the process taking a lot of time and money, the staff in the banks has to obtain a high level of knowledge. (IMF 2015; Nanevski & Trajkovski 2015)

The risk related to both money laundering and terrorist financing is formed by three components: the threats, vulnerabilities and the consequences. A threat can be formed by an individual person, a group of people, target or an action, which can harm a country, a society, the economy or the business life. Vulnerabilities are related to weaknesses appearing in the supervision by the authorities, the self-surveillance of the sectors or within the crime prevention. The weaknesses can be abused by menacing actors which enables the criminal activity. Certain products and services as well as some technological possibilities are prone to being vulnerabilities. (FATF 2013)

The consequences are all the possible effects and impediments the money laundering could cause. When evaluating the consequences, the means for the authorities, companies, associations and other actors to prevent the consequences from happening, should be identified. (FATF 2013)

The intention behind involving the financial institutions into the AML is to make money laundering more difficult and expensive to the criminals. Also, when financial institutions are part of the AML process, it is seen to help in further investigation and prosecution of the underlying profit-generating crimes. (Simonova 2011)

The good reputation for integrity is an essential asset for a financial institution. Therefore, it is vital to protect the integrity by having adequate AML processes because the integrity is very dependent on the perception that the bank or the financial institution functions with a framework of high professional, legal and ethical standards. (Alldridge 2008) Thus, AML protects the financial institutions' integrity and therefore the integrity of the entire financial system. By conducting generally accepted social and ethical codes and rules related to the prevention of money laundering, the financial institutions, especially banks, help to protect the integrity of the entire core financial system as a whole. If the integrity is perceived negative from the outside, it may lead to losses in faith, trust and confidence to those institutions and the system. It might also lead to unwillingness to use specific institutions. (Simonova 2011)

Reasons for conducting AML efforts include avoiding the negative consequences that money laundering might cause. In the macro level, the negative outcomes include uncertainty in foreign markets and exchange and interest rates causing distortion in the market expectations, difficulties in government tax collection, decreasing amount of investments, losses in the efficiency of legal trade, and large regulation costs. On the micro level, the negative consequences include the risk of loss of reputation to the financial institutions and the costs of creating and maintaining effective AML controls. (Alldridge 2008)

If a bank or a financial institution ends up getting involved with criminal activities or as an intermediary for funds or decides to ignore the criminal nature of the funds, it may

cause irreversible damage to its reputation among other financial intermediaries, regulatory authorities or ordinary customers. A financial institution might get drawn into becoming part of the criminal network and it may result as providing evidence to harm the company's reputation. (Alldridge 2008)

Banks can be used as remittance systems when a money launderer from one country is sending money to another by overstating the price shown in trade finance documentation. In that case, there is a difference in what the value of the goods traded are and the value stated in the documentation provided to the bank. (Naheem 2015)

The entire AML procedure is built around risk. Not only the legal risk but more around the risk of money laundering. Financial institutions should focus their resources on the high-risk transactions and put fewer resources on the low-risk transactions. It is the responsibility of each financial institution to define the risks of money laundering essential to their own business. Failing to create sufficient AML systems can result in huge penalties imposed by the supervisory authorities. (Simonova 2011)

Basel Committee on Banking Supervision (2001) emphasizes the risks related to unsuccessful AML. These risks evolving from inadequate conduction of the AML program, and especially the know your customer –program, sets the bank subject to serious customer and counterparty risks, especially reputational, operational, legal and concentration risks. These risks are interrelated but they can cause substantial financial costs for the bank. Reputational risk poses a great risk for the banks due to the nature of their business where the trust from the depositors, creditors and general marketplace is vital for their operations. The risk is to lose the confidence in the integrity of the institution. Further, banks are especially vulnerable to the reputational risk. (Basel Committee on Banking Supervision 2001)

The operational risk is related to the direct or indirect losses resulting from failed or inadequate internal processes, people and systems or from external events. A public perception of the bank not being able to control their operations can disrupt or adversely affect the business of the bank. (Basel Committee on Banking Supervision 2001)

Legal risk can be realized if a bank fails to observe mandatory know your customer (KYC) standards or due diligence procedures. The bank might become subject to lawsuits or suffer from fines, criminal liabilities and get special penalties from the banking supervisors. These, in turn, can harm the reputation of the bank and cause costs for its business. (Basel Committee on Banking Supervision 2001)

Concentration risk comes from having too concentrated client base. The bank supervisors are concerned that if the bank does not know its customers well and their relationships with other customer, it would not be possible to measure its concentration risk. The bank supervisors require banks to have adequate information systems to avoid concentration and being exposed to single borrowers or group of related borrowers. (Basel Committee on Banking Supervision 2001)

Part of the AML regime, customer due diligence (CDD), can be beneficial to a bank in multiple ways. First, it can be useful in the prevention and detection of for example fraud and identity theft. Second, gathering customer data can be beneficial from the economic perspective. According to recent studies, companies with close customer relations earned by gathering the customer data, have higher profits compared to companies that are focusing more on the product than the customer. (Simonova 2011)

When a bank has good CDD systems combined with KYC practices required by the regulation, it has the fundamentals to build an adequate AML process. By conducting a successful AML process, the banks are able to avoid the realization of the earlier mentioned risks and the negative consequences of being part of a money laundering scheme.

### ***2.2.2 How to perform anti-money laundering?***

Alldrige (2008) states that the AML process has two aspects. The first one is ‘prohibitory’ and includes making the laundering of money a crime. The second aspects, ‘preventative’, creates regulation for markets and determines the reporting obligations. The preventative aspect requires the customer due diligence, regulation and supervision, reporting suspicious transaction, and penalties for those organizations not complying with the regulation and failing with operating appropriate systems.

Nanevski and Trajkovski (2015) argue that customer due diligence is the focal point in the AML process which aims to have comprehensive knowledge and information about the client in order to determine the correct measures and activities for the bank in relation to the proper risk category defined for the client based on all the information. CDD process tries to identify the identification of the client and its beneficial owner and obtain information about the client such as its financial situation, business activities and geographic area. CDD refers to a situation when a bank knows the customer in a level where they are able to know what to expect from a client in relation to the use of a specific product or performance of a specific transaction. If the bank encounters that a certain transaction is something unusual for the client or certain products or services differ from the normal, the bank should initiate further activities. The goal is be sure that the bank’s client is not engaged in any illegal money laundering activities. (Nanevski & Trajkovski 2015)

Part of the CDD process for new clients is to identify the beneficial ownership, which focuses on the actual beneficial owner of the business in stead of only finding the names of the stakeholders or shell companies that could be operating under the name of the client. Determining the beneficial ownership can get banks closer to unraveling the actual

origin of the money and where the financial transaction is ultimately heading to. (Naheem 2015)

In addition to having a CDD for new clients, a bank should monitor the existing clients too. Even when having an established relationships with an old client, there might be some changes in the client's characteristics. For example, their business activity might be amended, the beneficial ownership replaced or the financial situation could be either worsened or improved. The bank should be following the clients' transactions and activities on a regular basis. The depth of the CDD and customer monitoring should be based on the risk that is related to the client and the risk its activities set to the bank. Lower risk is related to more simple CDD measures. On the other hand, the higher risk clients require enhanced CDD measures. (Nanevski & Trajkovski 2015)

According to Axelrod and Ross (2015) an AML program consists of four basic towers: (1) assuring ongoing compliance with a system of internal controls, (2) bank personnel or an outside party to conduct an independent testing for compliance, (3) having individual or individuals who are responsible for monitoring and coordinating the every-day compliance and (4) a training program for expedient personnel. In order to be successful in operating all four pillars, a company should have divided the roles of each pillar in a coordinated manner between the business units, compliance and internal audit. (Axelrod & Ross 2015)

Compliance departments and compliance officers are the ones who are ensuring that the bank is implementing the AML legislation that is in coordination with the internal controls. In addition, a compliance officer is conducting the AML and compliance measures which means that they are detecting and preventing the criminal activities tied to money laundering. They also monitor and report suspicious activities that they, or people working in the customer interface, have identified. (Verhage 2009)

Maintaining an effective AML compliance program can be a difficult task because the field of money laundering prevention is changing all the time. Due to the new regulation coming from regulators and governments, internal adjustments with the procedures and the always changing money laundering techniques lead to AML compliance departments to find themselves struggling to stay ahead of all the constant change. (EY 2014)

According to Beaumier (2008), there are factors in the financial institutions' AML compliance programs that separate the successful ones from the others not as successful ones. Some of the themes that might lead to poor performance of the programs are

- Unsuccessfully implemented and/or designed risk-assessment processes
- Know your customer programs that are unable to separate the due-diligence requirements for low- and high-risk customers
- Poorly designed programs to support the reporting of the suspicious activity reports accurately and timely
- Inexperienced and poorly trained staff

- Not having adequate testing programs with well trained staff to use them.

Moreover, an effective AML compliance program is constructed from successful design and implementation of components such as AML governance framework, sanctions risk assessment, customer risk assessment, customer acceptance standards, monitoring and investigation, reporting, training, management information systems and testing. (Beaumier 2008)

The key for having an effective AML process in place is to have a suitable governance framework, which means that there is a full commitment from the managers and the board of directors to the AML efforts and that the division of work is clear. In addition, the incentives should be targeted based on the compliance goals. Moreover, the business has to support in the AML process too, it should not only be the responsibility of the compliance department. (Beaumier 2008)

The AML compliance programs are not static, like other risk-management programs are not either. The programs and the AML processes should be constantly improved and adapted into the new regulation and changes in the field of money laundering. (Beaumier 2008)

### ***2.2.3 What are the methods used for anti-money laundering?***

Trade based money laundering can take many different forms and sometimes separating it from other forms of money laundering using financial systems can be difficult and the lines are often blurred. (APG 2012) One of the methods to detect, and thereby prevent, money laundering is to be able to recognize the suspicious characteristics of a transaction requested by a client. There are some patterns and so called red flags i.e. factors that can make a certain transaction look suspicious. Red flags and patterns can help in identifying the occurrence of money laundering in trade and trade finance transactions. The Asia/Pacific Group on Money Laundering (APG) has presented a classification of the red flag indicators into five groups based on the opinions collected from the reporting jurisdiction. These groups are trade finance, jurisdictions, goods, corporate structure and predicate offenses. (APG 2012)

With regard to trade finance, the important red flags relate to letters of credit and methods of payment. Some jurisdictions can be sensitive to trade based money laundering if duty free zones exist and high duty structures are prevailing. If there appear discrepancies about the description, quantity, quality and the value of the goods which are traded, they can be important red flags to notice. In addition, the use of shell companies could be a sign of TBML because they are often used as corporate structures to facilitate TBML. Customs offenses and tax evasion are important predicate offences for TBML as well. (APG 2012)

The FATF (2006) has listed indicators for trade based money laundering that are routinely used to identify TBML activities. Those include, in addition to the ones mentioned above, cases when there are discrepancies between the details in the bill of lading and the invoice, the size of the shipment is out of the normal scale of the importer's or exporter's normal business, the discrepancies in the type of the goods, when there is a destination country listed as 'high risk' in terms of money laundering, or when there is use of shell companies or third party entities that have no apparent connection to the actual case.

Another useful method for money laundering detection is the know your customer program (KYC). The KYC program is required by the regulators and when looking from the AML perspective, there are multiple objectives for the KYC program. The KYC program should identify the client and verify the identity of the client and understand to what extent this customer's profile could be associated with money laundering risk. An essential part of the KYC program is to conduct ongoing customer due diligence and more frequently for the customers with higher risk. The due diligence should also be renewed based on changes and activities that are different than expected. On top, one of the objectives for KYC is to enable banks to make more informed decisions about their customers based on the risk perceived. In addition to KYC being a requirement from the regulators to the banks, KYC is also a vital tool for understanding, identifying and mitigating money laundering and other risks posed by customers. (Deloitte 2015)

The Basel Committee on Banking Supervision (2001) also highlights that the KYC procedures should be seen as a critical aspect when effectively managing banking risks. KYC program goes deeper than just shallow account opening and record-keeping. It also requires banks to formulate a policy for customer acceptance and a tiered customer identification program involving the more extensive due diligence for the customers with higher risk and also including the proactive account monitoring for suspicious activities.

Customer due diligence or enhanced customer due diligence systems are used to collect client information and background account information. There are usually a number of criteria that the customers needs to fill before the bank is willing to cooperate with them. It may be that initial check on the client does not reveal anything suspicious, but during the second round of checks and when the bank starts to look for the beneficial ownership, some deceptions might be unraveled. The client could be found to be using for example companies that they use to circumvent the risk assessment processes. Also, if the bank finds out that there are unusual business transactions or there are unexpected transaction patterns in relation to the client's normal business, it should be a signal that something is amiss. (Naheem 2015)

A bank can also conduct financial investigation to reveal possible money laundering cases. FATF (2012) has listed some of the benefits and objectives for the financial investigation i.e. the investigation related to recognizing the money laundering cases and

initializing investigation for them. When the financial investigation process includes the collection, collation and analysis of all information available, it could help to assist in defining the crime which is essential in the combat against money laundering.

## **3 METHODOLOGY**

### **3.1 Research approach**

Traditionally, there are two different research approaches, quantitative and qualitative. Quantitative and qualitative research methods can be separated but they can also be used together. The quantitative and the qualitative methods can be seen as each other's continuum instead of each other's opposites. (Alasuutari 1994). However, this research is conducted using only the qualitative methods. Qualitative research describes the reality and the social relationships as it is experienced by the ones living in it. The intention in the qualitative research is also to present the broad and varied meanings and perceptions the interviewees have and explore the general and intricate set of factors surrounding the phenomena studied. (Creswell 2013) Therefore, qualitative research applies well to studying the daily function of the business (Adams et al. 2007). Consequently in this research, the aim was to gain knowledge on how the issues of money laundering and its prevention are perceived in the daily business within the banking sector and their stakeholders.

In qualitative research the data is seen as a whole; it is thought to bring forward the logical entity's structure of something understood as singular. A qualitative research inquires also absoluteness. (Alasuutari 1994.) As a general rule, the qualitative method is used when the aim is to describe or improve the understanding and interpretation of a certain phenomenon (Eriksson & Kovalainen 2008) like this research aims to do.

In the end, a qualitative study operates always by classifying separate events. It also classifies the individual cases from the perspective of the people involved in the study or through the meanings given to them by the people. (Alasuutari, Koskinen & Peltonen 2005.) Therefore the qualitative method was chosen for this research and in this study, the studied event is seen from the perspective of the interviewee and through the meanings given by the researcher and the interviewee.

Many times the research process starts with a research idea, which is the base for the research plan. The research plan can include information about the subject, goals and the time schedule. (Vilka 2005) This research started from an idea, which has been modified into a research subject and further to research plan to be conducted. The topic of the research set some limitations to the research process due to the limited amount of previous academic literature available. Therefore, the research method is not classical theory framework based model. Instead, this research started with an overview on the topic and what has been written about it in multiple different sources which were not limited only to academic literature. The aim was to create an overall understanding on the issue and define current status based on the available material.



This research focuses on the issue of international money laundering and its prevention within the banking sector. Due to the wide concept of money laundering, this research narrows the focus to trade based money laundering and the techniques related to it. The TBML approach was chosen because the study wanted to be put into the international context and because TBML is an issue which is increasing but is not widely studied. The anti-money laundering part is also viewed from the TBML point of view with the specific factors reflecting a possible TBML case. Many times counter-terrorist financing is studied together with the AML, however, in this study the CTF is left out of the scope.

## **3.2 Data gathering**

The data in the thesis is gathered through interviews for four different experts in the fields of trade finance and money laundering. The interviewees have experience either from the banking sector, banking supervisory or money laundering detection. The interviews were conducted as theme interviews in a narrative manner in order to enable the interviewees to speak about the topic as widely as possible. Because an interview is a very flexible method for data gathering, it suits many different meanings well. An interview also makes it possible to discover the motives behind the answers and the steering of the data gathering. The non-verbal signs can help to interpret the answers and to understand meanings in an unexpected way. (Hirsjärvi & Hurme 2010)

Specialists in the field of trade finance, compliance, money laundering and financial supervisory were interviewed. Trade finance specialist and compliance officers were interviewed within one of the major banks engaged in international business in Finland and the money laundering specialist is found from the Finnish National Bureau of Investigation (Keskusrikospoliisi, KRP). In addition, a specialist from the Financial Supervisory Authority (Finanssivalvonta, Fiva) was interviewed.

Due to the sensitivity of the studied subject, the interviewees wanted to stay anonymous. Money laundering is a criminal act and anti-money laundering processes are seen as vital internal processes for the banks' business and therefore any names will not be mentioned. The four different interviewees will be referred as interviewee A, B, C and D.

These four experts were chosen for this research in order to gain the perspectives of all the different parties involved in the money laundering process on the other side from the criminals. They all are somehow part of the AML chain, which describes how the money laundering case flows through different organizations after it has been detected. Usually the banks are the ones facing the money laundering case in the first place after which the case is forwarded to their internal compliance department who investigates the case further and decides whether the case is discarded or forwarded to the national

Financial Intelligence Unit (FIU) which in Finland is the Finnish National Bureau of Investigation. The FIU then launches a criminal investigation for this money laundering case and aims to solve it. Therefore, all these functions participate in the handling of the money laundering cases in different phases. In addition, the Financial Supervisory Authority was interviewed in order to utilize the perspective of a banking supervisor, who is monitoring if the banks are following the anti-money laundering procedure. Thus, with these four experts it is possible to form a coherent picture on the money laundering process. The understanding of money laundering processes and trade based money laundering is vital to the specialists and experts interviewed because they all are working in an industry where money laundering is a threat to the business.

There are various types of research interviews. The differences are mainly formed within how structured the interview is i.e. based on how fixed the questions are and how much the interviewer is controlling the situation. (Hirsjärvi & Hurme 2010) This study is conducted with theme interviews which is a semi-constructed theme interview method. In a semi-constructed interview some aspects are set, but not all. The interview is allocated to specific themes, which are discussed. What makes a theme interview structured is that one of the aspects, the interview themes, are the same for everyone. The form and the order of the questions might vary depending on the interviewee but it is not completely free like it is in an in-depth interview. (Hirsjärvi & Hurme 2010)

The interviews were all conducted during the summer 2015 and in Finland due to the physical constraints and Finland has an easy access for the researcher since she also lives in Finland. The language of the interviews was also Finnish, because it was the strongest common language between the interviewees and the interviewer. Therefore, the outcomes from the interview had to be translated into English afterwards. The duration of each of the four interviews varied between 45 and 60 minutes. The people interviewed within the Finnish bank were chosen based on the interviewer's personal connections as well as with the expert from the Financial Supervisory Authority. The fourth interviewee from the National FIU was found through an inquiry on an email presenting the interest to find a suitable person with information and experience on the topic. All of the interviews were done on a face to face basis which enabled the interviewee to observe the body language, gestures and facial expressions in addition to the speech of the interviewees.

All of the interviews were recorded and notes were also taken in order to have a backup in case the audio recordings would have been damaged, unclear or lost. After the interviews all of these interviews were transcribed entirely and divided into sections by the themes of the interview questions.

Table 4 Operationalization table

Objective	Sub-objectives	Interview themes
Understand how money laundering and anti-money laundering are perceived within the banking sector	Why ML	<ul style="list-style-type: none"> <li>• Objectives</li> <li>• Reasons</li> <li>• Goals</li> </ul>
	How ML	<ul style="list-style-type: none"> <li>• ML process</li> <li>• Different stages and phases</li> </ul>
	What ML	<ul style="list-style-type: none"> <li>• TBML techniques</li> <li>• Case examples</li> </ul>
	Why AML	<ul style="list-style-type: none"> <li>• Reasons to have AML</li> <li>• Why banks need AML</li> </ul>
	How AML	<ul style="list-style-type: none"> <li>• AML process</li> <li>• KYC</li> </ul>
	What AML	<ul style="list-style-type: none"> <li>• AML methods</li> <li>• Techniques</li> <li>• Red flags</li> </ul>

### 3.3 Data analysis

The aim of the data analysis is to clarify the plentiful material and to create new information on the subject studied. The goal is to compact the material without losing the information. The analysis part can consist of two different stages; the analysis and the interpretation. (Eskola & Suoranta 1998) However, the division into the two stages can be unclear because many times the interviewer starts the analysis already during the collection of the material during the interviews (Eriksson & Kovalainen 2008) like it was done in this research.

The choice of the analysis strategy can be considered as the basis of the analysis. Most of the time the approach is either inductive or deductive (Eriksson & Kovalainen 2008). This research has used the inductive approach which starts from the material and then tries to find how money laundering and anti-money laundering processes are perceived within the banking context. The aim was not to test a theory, but more to research how

well the interviewees recognize the different aspects of money laundering and the money laundering process as well as what are the means of preventing the money laundering from happening. The analysis aims to bring forward the current perception of the money laundering and the AML processes in reflection to the current literature available.

In theme interviews it is common that the themes form the ground for the structure for the material analyzed. It is important to move forward step by step and to start the structuring of the analysis well in advance. (Eskola & Suoranta 1998) In this research, the structuring of the material already started during the transcribing process. The answers of the interviewees were sorted under different themes. This, in turn, helped to do the actual analysis and comparison of the different answers.

After the structuring of the data, the actual analysis starts even though often these phases happen side by side. There are multiple different techniques for the analysis and they are constantly developing. These techniques help the researcher to clarify the material collected. This research has conducted mainly thematic and typology analysis. The thematic analysis suits well a research which tries to solve practical problems and it helps to find out answers to questions important to the objective of the study. It is also typical for thematic analysis that quotations from the transcribed text are raised to describe the theme. (Eskola & Suoranta 1998) Quotations were used in the analysis part of this thesis to make the text more alive and to visualize the perceptions of the interviewees and to bring the reader closer to the subject.

The other analysis method used in this thesis was the typology analysis. The typology analysis seeks for similarities within the material and tries to create relevant types for the phenomenon. It is also a way to make the data more compact which helps to further compress the data after the thematic analysis. In this thesis, the different types were created for the understanding about the money laundering and the methods used to prevent it. It is characteristic for typology analysis that the types include features that would not be reached only with one answer. (Eskola & Suoranta 1998)

The analysis was divided into two sections, money laundering and the anti-money laundering. The analysis first focused on the perception of the interviewees about the reasoning behind money laundering and why criminals use money laundering. After that, the understanding of the money laundering process was handled following with the money laundering techniques the interviewees were able to identify.

The anti-money laundering part starts with the why banks should have AML processes in place and then moves to the actual AML process in more detail. Finally, the analysis goes through the different techniques used to detect possible money laundering cases.

### **3.4 Limitations of the study**

This study has gathered empirical data only within Finland due to the geographical location of the researcher and her contacts for the interviewees. However, even though the interviewees are from Finland, the subject is international since most of money laundering and its prevention happens in an international context. Due to the sample of the research being small, it makes it difficult to expand the results of the study further to a larger context. Therefore, the results are not to be generalized.

Because the subject of money laundering is a sensitive matter and the field is very regulated and supervised, the interviewees wanted to stay anonymous. Therefore the names of the interviewees are not mentioned in this study.

To cover different points of view to the matter of money laundering and its prevention, two of the interviewees were chosen outside of the bank. To have a view from the banking supervisor brings value to the perception outside the banks and on the other hand to have a person from the national investigation bureau, brings the actual money laundering cases closer and lights up the situation after the banks have tried to prevent the money laundering from happening.

## 4 RESULTS

### 4.1 Money laundering

#### 4.1.1 *Why launder money?*

All of the four interviewees were able to identify some of the reasons and purposes for the criminals to launder money. Mostly the objective for the money laundering was seen as to hide the original criminal source of the funds and to make the money to appear clean in the economy when they are re-using the money to other purposes. In interviewee A's words, the aim is to make the origins disappear.

It was experienced by interviewee B that the money needs to be laundered to make the lives of the criminals easier. That enables the criminals to buy other assets or channel the funds to other places and get the money to the normal circulation.

Interviewee A thought that the ultimate aim might not be to make profit out of the money laundering process but in stead, the criminals might take risk and try to channel the funds for example into an insurance product. However, during this process the criminals might also lose some money. The aim might be to get at least most of the funds to appear clean as interviewee A described:

*“If you have a hundred, like invested in it, they gain after channeling it for example only 80% back from the amount. They try to get at least some of the sum through.”*

Interviewee C saw that a classical reason for laundering money might also be the aim to avoid taxes or to transfer the money to a foreign country. For example, there are countries from where the money keeps disappearing to other countries. The criminals might want to transfer the funds to a so called safe location from a location with tighter controls or they want to transfer the money away from the reach of a third, unwanted party. Interviewee C also included trade through other countries as a part of money laundering. Now that trade with certain products or countries is forbidden by the threat of sanctions, money laundering could be used to change the information in the document so that these sanctions could be avoided while the trade is still ongoing.

Another example brought up by interviewee C, where money laundering is involved when trying to avoid sanctions, was the trade could be made through an intermediary country. As he explained:

*“When you cannot trade through one country, for example Iran or Iraq at one point, the trade was not done to these countries but the trade was done with the neighboring countries, from where the trade items were tried to transfer to there.”*

Interviewee C thought that by avoiding the permissions from the authorities to trade to these countries, it was part of money laundering to circumvent these restrictions.

The ultimate goal of covering the illicit origins of the funds was recognized, however other objectives related to the money laundering process (convent, conceal and create) were not identified. The interviewees were more focused on only the concealing part, which was in a way seen to cover the entire act of money laundering as a whole. Sub-objectives for different stages were left out of the picture. The interviewees focused more on the actual benefits the criminals are able to gain from laundering the money, making it clean and available for the re-use to other purposes.

Furthermore, the common understanding among the interviewees was that the aspiration with the money laundering is to have the criminal funds in the legal economy and disposable for other purposes. The aim of the money laundering process itself is not necessarily aiming to making profit, moreover, to fade the origin. Sometimes the launderers might even lose some money during the laundering process due to the risk they have been taking in order to lose the trace to the origin.

#### **4.1.2 *How is the money laundering process like?***

Money laundering process is commonly divided into three stages, placement, layering and integration, which describe the different phases the money has to go through in order to become clean after the funds are gained from criminal activities. The three money laundering process stages were not recognized by the interviewees as separate phases within the money laundering cycle. Basically, the interviewees were not able to comment much on the process, like interviewees A and C stated:

*“I am not capable of saying anything.”*

*“If only I knew.”*

Moreover, the image of the entire money laundering process was fragmented. The different stages were not recognized and the knowledge of the classification into separate stages was low. The money laundering process was described to start with an initial criminal act generating profit which cannot be used a such, and therefore a money

laundering process is needed to make it clean. That is a more simple view of the process but none of the stages appeared. Interviewee D's vision of the money laundering process starts with a person or an organization having profit from a criminal act that cannot or is not wanted to be used as such right away. These funds then are wanted to be transformed to other formats. It could also operate as a means of payment between other criminals. But if the criminals get the funds through the official system, they get a receipt or other documentation that states that the money is from legitimate sources or business, even though in reality it is not, and then the money has changes its format and is usable for other purposes.

Rather, the common perception about the process among the interviewees classifies the process into three more practical and visible stages; the original crime, the time the funds are entering the financial system and when the money is clean and ready to be used for other purposes. However, the borders of the stages are obscured. It is understood that something happens after the money enters the financial systems before the money is again disposable but the interviewees were not able to divide it into stages within the process. It was understood that the money is not yet clean after it has reached the bank or the financial sector; more stages are needed in order to complete the process. Interviewee B thought that even if the money is able to enter to the banking sector, it is not clean yet. She thought that the funds do not get clean with washing.

Interviewee D was the only one who was aware that there are some common classifications into different stages within the money laundering process. He was not able to identify or name the three separate phases, but he was aware that the stage where the money enters the financial system is the most critical phase. For banks and the anti money laundering system, it is the easiest point to detect a possible money laundering case. Furthermore, it is the most critical point for the criminals as well. If they get past the first phase (placement) it gets harder for the authorities to notice the money laundering.

*“When the batch is brought to the official system, for example, the banking system, there lies the biggest risk point for the criminal, because if the anti-money laundering system works, the system alerts and the alert leads to functions like us with a notification. It is the most critical point for them. From that on, at some point it becomes exploitable.”*



### **4.1.3 What are the methods used for money laundering?**

There are multiple different ways to launder money and the techniques used to cover the illicit origin of the funds can be almost anything, sometimes only the imagination is the only limitation. The interviewees' perceptions of the different techniques varied greatly from common cash couriers to commodity trading.

Interviewee D thought that the original criminals prefer moving the cash around because the cash is hard to trace. That is probably the reason why the use of cash couriers is very popular. The aim is to transfer the money from place A to place B, so that it can be used outside the borders of one country or by moving the money from one branch or an office to another. The precious metals like gold are becoming more popular as a means of transferring value across borders. There have been cases where the precious metals have been brought to Finland and then transferred first to Sweden and then to Norway while it becomes remarkably more complex. The more locations and the more countries are involved, the more complicated it becomes for the authorities to follow. There are suspicions that even the same articles are used multiple times to do these circles all over again.

Banks have many different products that could be used for money laundering purposes. The interviewees stated that basically anything could be used and there might not be products that could be excluded from the list of products under the money laundering risk. As interviewee B put it:

*“Any banking product could be subject to use. The criminals sure are creative.”*

The role of banks in the middle of the money laundering process was recognized and the interviewees were well aware that banks are commonly used for money laundering and many times money laundering could not happen without the bank being in the middle. Also, apparent trade transactions and transferring money across country borders were identified as different money laundering channels. Moreover, the interviewees have seen a huge variety of different things and think that the variety of choices is endless. The power of imagination is the only limitation for the criminal developing a money laundering scheme.

Interviewee A was most familiar with three different types of money laundering channels. In addition to the cash courier method, interviewee A felt that a large amount of money is being channeled through the financial institutions by wire transfers or through different banking products, which operate as methods of payment, guarantee products or insurance type of products. She thought that there is a remarkable amount of ways the

banks are being used. Also, she recognized that international trade and commodity trading can be connected to money laundering.

There are many elements in how international trade can be used to launder money and there are multiple parties involved in it, which makes it very difficult to detect. Import and export business can give wide possibilities to money laundering because it can be tied to a great variety of different commodity combinations and channels. The customs are only checking a small fraction of the shipments coming into a country, which signals that there is a good opportunity for money launderers to falsely describe the goods shipped. The reason to provide a false description to the goods might be for example to state that the goods are legal commerce when in reality they are items with which trade is forbidden. The problem is the fact that the banks providing the finance for the international trade do not see what the ships are actually carrying and they have to trust that the goods described in the bill of lading are what they are stated to be.

Interviewee A thought that a typical thing for money laundering is that there is usually a large sum of money gained from criminal activities but it is not channeled only through one method but is divided into smaller portions and different techniques are used in order to cover the illegal origin. This view was also shared by interviewee D. That makes the funds harder to detect because the systems does not pay attention to smaller amounts and does not sound an alarm.

When the money launderers want to integrate the money into the economy, they might buy commodities, cars, art or other valuable property and they can be traded again and even without the aim of gaining profit. There are cases where a company wants to do associate arrangements or acquisitions within fictitious companies.

Some of the more detailed techniques interviewee A mentioned were, for example, falsifying of documents like letters of credit, mis-stating the amount of the goods shipped, cash deposits or purchase of high value products that have not been previously purchased. Double invoicing, mis-stating the description or the value of the goods traded were some of the techniques mentioned too. She also brought the use of guarantees to the light. If you have, for example an international on-demand guarantee, a criminal person could make a request for payment on false terms and the bank could be obliged to transfer the money into the bank account of the requestor. In the case where a letter of credit could be abused, the criminal would have to be very well informed about the product, but if they know the characteristics, it could be easily abused. Letter of credit is a very complicated product and involves multiple different parties which makes is vulnerable for money laundering purposes.

In the opinion of the interviewee A, the most simple technique to launder money is to make a deposit into a bank account. If someone brings a large amount of cash into a bank office, the staff should be aware and think that there might be something suspicious about it. A criminal might also come into a bank with the intention to purchase a product or a

commodity. It might be hard to notice that money laundering is involved if this person has already been a client of the bank for a long time because one might think that they already know the customer and its usual business. However, this product can be something unusual and very exceptional from the client's business or something they have never purchased before. That is when there is a risk of money laundering.

The money launderers can try to buy durable goods such as a car or other valuable assets like a painting or art in general, told interviewee D. After buying the asset, it can be used for business or trade again so that the money seems to be coming from a legal source and the origins are faded. In this case, the purchased assets can be sold forward with a low margin because the aim is not to make profit but to make the money appear clean. Interviewee D expressed that as soon as the assets are frozen, it becomes quite easy to tell whether it is a false alarm or an actual money laundering case. The clients, who usually react right away and are very upset about someone intervening their assets, are the ones with honest intention. On the other hand, if a client does not react or does not care about it, the assets frozen might be just a fraction from a larger sum. In that case, it would not be worth putting resources on the one fraction that was detected and rather ensure that the other ones get through the system.

Receipt trade and quasi-trade were some of the techniques brought up by interviewee B. He expressed his view on false transactions, where there is a transaction used so that the criminal can get funding from one place, but the real use for the funds is somewhere else. A criminal could also just do the paperwork for a transaction that in real life does not even exist. Then only the papers move from place a to place b but the goods described are non-existent. He explained the use of receipt trade as follows:

*“If the real value of the merchandise is 100 units, the trade is done with 1000 units. That is receipt trade. It can also be used as financial instruments. Finance can be arranged to the other end, to the buyer, so that if the value of the trade is 1000 units in the papers but the real value of the merchandise is 500 units. That way, it would make it a loan of 1000 units and the loan would be paid back at one point. Then, instead of having 500 units, you would have 1000 and you would get 500 units of money laundered in during the process.”*

Interviewee D brought up the use of transportable credit cards as a new way of transferring and laundering funds between different locations aside of the cash transportation. These credit cards are pre-loadable and they can be easier to transfer but also more easily traceable. The balance of the cards and the pin codes are informed by SMS for example. Then the receiving party can go to the ATM to do the withdrawal.

He also thought that double invoicing with different prices and values can be used for almost anything. The case might be that the commodities are shipped to the border of one country and as soon as these products are on the other side of the border, the documentation papers are replaced and the price changes immediately. The benefit of doing so could be for example the lower taxation in the other country. He also suspected that the same commodities might do multiple rounds and be used many times for the same fraud.

The use of tax haven companies is widely used in interviewee D's experience. They work in a way that there is a company A in the tax haven and the beneficiary is one of the criminals. This person could charge his remuneration and form an invoice to cover services such as consulting in a merger which creates an explanation to the organization to transfer money to the tax haven. After that, the money can be used to buy investments in other countries. Even if the origin of this money might be questioned, their origins might not ever be revealed. Because the tax havens have a better information protection system, the people working from there are not obliged to reveal all the details about the business. Interviewee C adds to this that the tax havens like the Cayman Islands, do not require the information about the person controlling a fund so it becomes easy to invest the money into a financial instrument and through that, cover the trace.

Interviewee C gave an example of a different way the criminals might use banks to make their money appear clean. There might be a person or a company who wants to start a building project, not now, but in the future. But before the project starts, they already have the money for it and they want to deposit the money to the bank so that it would be there to wait for them until the project starts, which is the opposite of how it normally would go. In a case like that, the money launderers want to have a place to store the money and make it appear clean with the excuse of the upcoming project. The criminals might even have pictures and plans about the project when in reality the project is non-existent. They only want to hide the origin of the money and put it into a safe place.

## **4.2 Money laundering prevention**

### **4.2.1 *Why anti-money laundering?***

Regulation coming from the national and international authorities was seen as the major reason for having compliance departments and anti-money laundering processes within the interviewees.

The entire AML process derives from the regulation coming from outside. The regulation sets the outlines for the AML programs which the bank designs based on the

regulation. The regulation is seen very tight and not following the regulation closely might cause large damage to a bank or its staff. Even individual workers have responsibility and therefore there are trainings designed and ample information available to protect the staff from being unconscious about money laundering. As interviewee B stated:

*“This regulation is in a way very harsh because everyone has a personal responsibility. And to protect the staff, it is why the training for the staff has to be organized by the employer to be sufficient and that the instructions are clear.”*

Most of the regulation comes from the European Union (EU) level and some of the interviewees mentioned that there is a fourth AML law coming out from the EU soon. The new directive has to be implemented nationally and it will bind the banks to adapt to the new changes in it. Even though the regulation is hard to implement and is very extensive, it is seen legitimate considering the seriousness of the money laundering problem. Interviewee B explained further that the aim of the regulation is not to restrict the business of the banks but to guide them to understand and ensure that the banks are able to prevent money laundering from happening. There has been a phenomena where banks and insurance companies have been de-risking because they think that the obligations deriving from the regulation to know the customer, are too much work. That means that they have been avoiding certain types of organizations or companies which is not the point of the regulation.

The role of compliance is growing and it is seen as a vital internal operation for the AML processes and in the prevention of money laundering within the bank. The main objectives of compliance are stated to be ensuring that the bank has adequate processes for money laundering prevention and to ascertain that relevant information about the processes is available and that the staff working in the bank is trained to recognize possible money laundering and to operate with these situations. Interviewee B sees the role of the compliance to be securing and helping the business. She thinks that the meaning of compliance is increasing and agrees that the role is to ensure that the company or a bank has the right processes and methods functioning and that there is sufficient instructions available and that the staff is sufficiently trained.

The discussion about the reasoning behind the AML focused much on the legal aspect of having AML controls i.e. to the role of compliance and the regulation. However, the reasons for a bank to follow these rules from the internal point of view did not come up from the interviewees. For example the integrity or the reputation of the bank were not mentioned, not either was the affect on the customer perception mentioned. The

interviewees did not think about the AML reasoning on wider context or on the macro level either.

#### 4.2.2 *How to perform anti-money laundering?*

The interviewees looked at the anti-money laundering and the AML process from different points of view. However, most of them shared the idea that one has to know the customer and the customer's normal business in order to detect the abnormalities and perform anti-money laundering. Another common thought shared by the interviewees was that in terms of performing the AML process, it is all based on the regulation which sets the framework for banks for the anti-money laundering process. Also, the know you customer principle derives originally from the regulation so they are closely connected and having a KYC process is a prerequisite for financial institutions and banks to have in place.

Interviewee B described the AML process to have three different fronts where business units belong to the first one, compliance to the second one and internal audit to the third one. The direct money laundering risks lay in the first frontier where the cases come in and the staff should be able to recognize the possible money laundering cases. The compliance department is helping the business units by supporting them in adequate fulfillment so that internal audit can approve the correct manner of handling the cases.

*“We are talking about first, second and third defense line. The business units are on the first one, where the risks are being taken and it is important that they have good risk control programs and systems and methods. Then we, compliance, are in the second one and providing the support they need in the business units. Then we have the internal audit, who inspects, does these targeted inspections.”*

The AML process is very complex and many different variables have to be taken into consideration in order to do it successfully and effectively. As the interviewee A pointed out, the AML process can depend on the size of the client company. There are a lot of large exporters who are quite well aware of the money laundering risks in the business but there are also a great amount of small and medium-sized firms who might not be as well aware of and familiar with the risks. That is why a bank needs to adapt to the different needs of the clients when they are performing the AML processes.

The characteristics of the various banking products also vary, which leads to different behaviors in the detection process for the different products. For example, the role of the people monitoring the transactions is different for trade finance products and traditional

wire transfers. In the case of wire transfers the AML process focuses on monitoring whether the sum transferred exceeds the amount set as the limit. With wire transfers, another important feature monitored is the frequency of the transaction from certain sources to certain destinations or the parties receiving the money. This process can be automated for example by setting predetermined limits that alert the staff when it is crossed.

On the contrary, as interviewee A explained, trade finance requires a lot of manual work for the AML process. That implies that the staff working with trade finance product have to be sufficiently trained and very skilled so that they know the different characteristics of the specific trade finance products. Also, there should be documented instruction on where the staff should pay attention to and when something should raise suspicions.

Overall, training of the staff was considered to be essential especially to the people working with the clients directly however not excluding all the other staff in the bank. A high level of knowledge is required from the staff, thus the training for the staff is seen as a constant process. Interviewee B reasoned the ongoing AML process development by saying that;

*“With all the anti-money laundering techniques, once you have found a way to prevent a certain type of money laundering from happening, the criminals are always shifting and will try to seek for another way.”*

Further, the training to cover the entire staff of the bank is considered to be pertinent. Interviewee B also pointed out that another party, for whom the training and the knowledge about the money laundering is of great worth, is the group of people involved in the development of the computer systems which are helping the staff to screen the money laundering cases.

*“Also the one developing the computer systems should be trained well so that they understand to take that into consideration when creating the systems and also think how the systems could be abused, and if yes, what could be the risk control methods.”*

According to interviewee B, a vital thing is to determine where the money used for a transaction is derived from and where it is heading. There are multiple ways to do it, but the bottom line is that one has to be very meticulous. To have good records of the customer and their information help to complete the process.

It is the core business of the bank to know where their clients', both private and corporate, money comes from. When the banks are asking the origins of the funds face to

face or by a questionnaire, it does not mean that they are always suspecting that this client is engaged in money laundering but they are obliged to know where the money is coming from, explained interviewee B.

When something suspicious is first detected and then reported further, the authorities have a way to stop a transaction from happening or freeze the accounts of the parties involved in the case. Interviewee D explained that the authorities can tell a bank to freeze the assets of the suspects for five days in order to be able to research the situation carefully. If during the freeze some proof of a crime is found, the case can be forwarded to the crime investigation process or the funds can be confiscated by the bank.

#### **4.2.3 *What are the methods used for anti-money laundering?***

Having well trained staff seems to be a key to successful detection of money laundering cases according to the interviewees. It is vital for the staff to know where to pay attention to and what are the things that should be raising suspicions. Especially in the trade finance department the detection of the possible money laundering cases is based on manual work by the staff whereas with other more simple products like wire transfers, it is easier to detect discrepancies based on the amount or frequency of the transfers. Therefore the staff should be very well trained in trade finance and have wide knowledge about the products and customers. For the bank being able to train the staff, it should evaluate where the greatest risks lie.

There are certain factors that could give a signal of a possible money laundering case. Knowing these factors i.e. the red flags can help the bank staff to recognize them and act accordingly. Generally, the interviewees were well aware of different red flags and facts the staff in the banks should be paying attention to.

Most of the red flags are things that deviate from what is thought as normal either to the client's behavior, business or products they have been normally using. For example, if the client is making certain products and suddenly they are purchasing a large volume of supplies that, in reality, are not needed in their manufacturing process. The transactions that the client wants to make, can always be compared to what other companies do in the industry and see if it diverges from the standard. New geographical locations in terms of the location of the trading partners or contract sums that are out of the normal scope of the transactions should raise suspicions within the staff too. Then these factors or numbers can be compared to the client's financial figures. Interviewee A presented questions that the staff in the bank should be wondering while evaluating each case:



*“Can they notice if the client is trading with products they have not used before or are they trading to countries where they have not traded before. Are there bigger sums? Is it in reasonable relation to the turnover?”*

The staff should always compare the current case to what is seen as normal behavior from the client and then see if something does not match or sounds weird. It might be easier to notice the abnormalities with smaller companies because their business is usually focused on a more narrow spectrum. It is more difficult with the larger corporations who's businesses consist of great variety of different products or services or their combination.

Interviewee A continued with other factors to take into consideration. If there are changes in the ownership structure of the client company or if there are new people acting on behalf of the client, it is worth exploring and making sure that these persons have the authority to act. Other red flags might include discrepancies with goods the customer is exporting or importing. If the value, quality or the quantity of the product seems abnormal, the staff should consider how valid these facts are and if they make sense in relation to the business.

Common red flag indicators mentioned among the interviewees were the rush to get things done right away, the client not caring about the profit they would gain from making the transaction or if the transaction the client wants to perform is very complicated. For example, if a client is in a hurry and has an urgent pressure to buy a certain banking product or to carry out a transaction, it should raise doubts. Many times the time required to execute a transaction is quite standard so the clients should be expecting that and be prepared for reasonable time to conduct the process.

If a client is willing to pay any price for a certain banking product or a transaction to be done, the staff in the bank should take a closer look at the case. Usually, if the client does not care about the cost or is willing to engage in a transaction without getting any profit out of it, they can use the transaction for other purposes like money laundering. Their ultimate goal is to get at least some amount of the original funds to go through the banking systems and make the money appear clean. The cost is like the price they pay for the washing as interviewee C explained and interviewee B highlighted:

*“Usually – if you have a customer who is not interested in what is the profit for or the benefit for him. If he is not interested in that, then there's something weird, I'd say.”*

Not caring about the profit is also closely tied to not caring if the transaction is very complicated. If the client wants to have multiple different layers or there are multiple parties tied to one transaction, the aim might be to hide the original source of the money

or feint someone who would try to investigate the transaction. That way, it might be easy to launder money.

The interviewees highlight that the key is being aware of your clients' business and its characteristics. When you know your customer, you are able to identify to what extent the customer poses a risk to be laundering money. The relationship with the client might change over time. The business of the customer might grow or it might be expanding to new geographical areas or start offering new products. Interviewee C wanted to point out the importance of an ongoing due diligence with the customers because one cannot rely on what was sufficient yesterday, would be sufficient today as well. Therefore, following closely the customer's business enables the correct handling of new request from the customer. It becomes a win-win situation to both the bank and the client; the better the bank knows the customer, the better it is able to serve them.

The red flags are tightly connected to knowing your customer, if one does not know the customer well, it is hard to detect the deviations from the normal business. Know your customer process is a vital part of the compliance programs and detection of money laundering. It is seen as the basis for the entire business between the bank and the client. The bank has to know multiple things about the customer and its business so that they will be able to evaluate and recognize the abnormal things. Interviewee B pointed out that the KYC program is one of the requirements resulting from the regulation and therefore all the banks are obliged to have a KYC program in place.

Usually the detection of money laundering is done in cooperation with people and computer programs designed to detect abnormal behaviors. However, the interviewee B underlines the importance of the people in detecting the money laundering cases nonetheless recognized that the computer systems are supporting the work of the people. Although, the people are the ones with the knowledge about the product and the clients.

*“The criminals are creative. But it is in this industry that you have to know your own products and understand what is the normal use of these products. Experts, in detecting money laundering, in my belief, even though there are various program based systems in the world and they might be very useful, but it is the human in the service situation or the person connected to a case that is, however, the best one to detect that everything is as its supposed to be here.”*

All in all, the interviewees agreed on the key to recognizing the abnormalities and the signals of money laundering. Interviewee A pointed out that the size of the bank also affect the action they take to perform AML. All bank should have their own risk assessments done, which help them to identify where the greatest risk lay. Mapping out the different red flags, what kind of phenomena there are and where to pay the attention

to, are also part of the risk assessment towards the AML methods. The bank has to know how they react when a possible money laundering case comes in and therefore have instructions on how to act. No one else will do it for them.

As interviewee C stated:

*“My common instruction is that if it tastes bad, it probably is. That is when you should hit the brakes...”*

### 4.3 Summary of main empirical findings

The main empirical observations on money laundering are summarized in Table 5 and the main observations on anti-money laundering in Table 6 on the following page.

Table 5 Summary of main observations on money laundering

<b>Money laundering</b>	
Why?	<ul style="list-style-type: none"> <li>• To hide the illegal origins</li> <li>• For purchasing other assets</li> <li>• To avoid taxes</li> <li>• Circumvent regulation or sanctions</li> </ul>
How?	<ul style="list-style-type: none"> <li>• No clear vision of the process and different stages</li> <li>• Starts with a criminal act generating profit</li> <li>• Has to enter the financial system before clean</li> </ul>
What?	<ul style="list-style-type: none"> <li>• Frauds</li> <li>• Document hoax such as double invoicing</li> <li>• Cash and precious metals transportation</li> <li>• Use of banking products and wire transfers</li> <li>• Bank deposits</li> </ul>

Table 6 Summary of main observations on anti-money laundering

<b>Anti-money laundering</b>	
Why?	<ul style="list-style-type: none"> <li>• To comply with regulation</li> <li>• Avoiding fines</li> </ul>
How?	<ul style="list-style-type: none"> <li>• Know your customer –program and customer due diligence</li> <li>• Understanding the normal behavior of the clients</li> <li>• Risk control programs</li> <li>• Training of entire staff</li> <li>• Meticulousness</li> </ul>
What?	<ul style="list-style-type: none"> <li>• Well trained staff</li> <li>• Red flags</li> <li>• Abnormalities</li> <li>• Awareness of clients' business and industry knowledge</li> </ul>

## **5 CONCLUSIONS**

### **5.1 Discussion of empirical findings**

The existing literature has been able to collect material and identify patterns for the money laundering process even though money laundering is a subject of limited possibilities when it comes to research. The academic literature is still in its infancy especially with trade based money laundering. However, the additional material written by different sources helps to map out the current situation of money laundering. Anti-money laundering has been the subject of academic literature more than money laundering because AML does not happen behind the curtains and can therefore be studied more easily.

Within this research it was found that there are gaps in what the interviewees know especially about the money laundering and trade based money laundering. The AML context was more familiar to the interviewees and they were able to identify factors related to AML better than factors related to money laundering.

The literature has revealed many different objectives that the criminals have for money laundering and the process itself in addition to the aim to hide the illegal origin of the funds. For example Schneider (2004) has identified three objectives: convert, conceal and create. These all are related to each of the three money laundering process stages. Within the interviewees, the reason behind money laundering was widely recognized. Within the interviewees of this research, it was known that the aim is to hide the illicit origins and to try to make the business seem legal even though the business or the money is derived from crime or other illegal sources. It is a relatively broad goal within the money laundering but the perception of smaller goals within the money laundering process were not apparent to the interviewees. The reason for not recognizing the sub-objectives the criminals have could be closely related to the lack of knowledge about the different stages the money laundering process has.

The money laundering process and the three stages placement, layering and integration, are widely described in the academic literature. (e.g. Choo et al. 2012) However this research revealed that the interviewees were not able to name any phases of the process and most of them had not even ever heard that there is a classification into different stages within the money laundering process. If the interviewees would have been able to name the different stages, it might have been more probable that they could have specified the sub-objectives the criminals have because they are closely tied to these phases. Schneider (2004) stated that the convert objective is fulfilled during placement, the concealing part during layering, and creation during integration. The criminals have to be able to complete each of the three phases in order to make a successful money

laundering act. Therefore there are objectives for each state that they need to reach and recognizing those could be beneficial in the AML process.

Nevertheless, the research found out that it was recognized that there are some steps in the money laundering process but they were not separated into the three different stages. The understanding of the entire process of the money laundering cycle is vital. The literature about the process says that the most important phase in the ML process is the integration part when the criminal money enters the financial systems. That is when the banks and financial institutions have the best change to detect the money laundering and get the criminals caught. Even though in practical level two of the interviewees did mention that the most critical phase is when the money tries to enter the financial system, it could not be put into the overall picture in terms of the money laundering process and cycle.

The money laundering can happen through physical movement of currency, through the financial system or through the movement of goods (FATF 2006). Different techniques used by the criminals for money laundering and trade based money laundering were quite well known even though the details were not always identified but at least they were familiar in a broader level. The FATF (2006) has classified the trade based money laundering techniques to under- and over-invoicing, multiple invoicing, over- and under-shipments and falsely described goods or services. It was noted during this research that the understanding of the possibilities to abuse import and export varied between the interviewees and the techniques such as double invoicing or the use of falsified trade documentation were the most familiar ones.

The anti-money laundering concept was more familiar and the interviewees know more about it than they do about the characteristics of money laundering. However it was noted during the analysis that the focus is primarily on their own role in the process and the roles of the other actors in the AML chain were not as clear. That is related to each of their roles and what they are responsible of doing.

The reasoning according to the literature to have an AML system in place is very clear and there are multiple factors such as the integrity, good reputation and the aim to avoid the negative consequences of being involved in money laundering (e.g. Alldridge 2008; Simonova 2011) The analysis showed that the reason for a bank to have an AML system in place was clear but the awareness of the importance outside the banks could be higher. For example, the importance of a bank in maintaining its integrity is vital not only for the bank but also to the entire financial sector and the trust towards them (Simonova 2011). Mostly the reasoning of having an AML system was said to be the regulation and legal responsibilities. The regulation coming from outside was seen as the initiative for banks to have AML processes because they are legally obliged to have them. The regulation is an external factor influencing the AML but it was noted that the internal reasons were not

mentioned. Moreover, the views of the interviewees in relation to the AML process were more reactive than proactive.

As the existing literature and the regulation suggest, the AML process in the banks should be based on the know you customer process. Different components of the AML process were described from various perspectives but the main source for the process and all the methods is to understand what the clients and their business are, which is the aim of the KYC program. The research found out that in the opinion of the interviewees knowing your customer is the base for everything else. In addition, the people working in the banks are a key component and it is vital to have well trained staff who are awake and know the client, its business and the products they use.

It is notable that the role of digitalization and technology in the AML process was not the center of attention. With today's advanced technology, software and analytics capabilities, the IT programs could be of great help in detecting the abnormalities in the cases coming in to the banking system. All the banks have some computer programs supporting them and one of the interviewees pointed out that the IT people should be included in the designing process of AML, but the benefits of having automated work to support the manual work could have been emphasized more. That means that the trust towards talented staff is still wide.

A surprising observation was how well the interviewees were able to recognize different red flags, the indicators of a possible money laundering case. They were very widely recognized and the interviewees presented a wide selection of different factors that they think that would sound suspicious. They reflected the red flags mentioned in the literature quite well.

Other things noted during the research were for example that the flow of information between the different parties in the AML chain or the parties engaged in international trade was not in a high level. Still, the research showed that current stage is not sufficient and that there is a need for more extensive exchange of information between different actors.

Overall, because the subject of money laundering has not been widely studied, the research did not have much presumptions and therefore all of the results brought fresh knowledge about the current perceptions of the interviewees' visions about money laundering and its prevention. It can be deduced that the knowledge compared to the existing literature among the interviewees varied greatly depending on each person's role and experience.

Both the literature and the interviews prove the need for better understanding for money laundering, the process and the techniques. They also demonstrate that the AML process is vital for the financial institutions and that the process should be developed constantly with the changes happening in either the client relationships or the trends in the field of money laundering.

## **5.2 Managerial recommendations**

Being able to recognize the risks and threats related to money laundering is vital for the banks' business. First, the regulation coming from the outside legally binds the banks to follow the rules and requires the banks to create comprehensive AML systems. Otherwise, if the banks fail to do so, they are posed to sanctions and huge fines. The financial losses are not the only factors the banks should be worried about. In addition to the money lost as fines, the bank is subject to losing its customers if the bank is revealed to be participating in a money laundering case. The clients do not want to be part of a bank who is consciously laundering money or involved in money laundering even by accident. It would result as a huge loss in the bank's reputation.

The recently revealed so called Panama-papers on the tax haven of Panama have further raised interest towards the topic. Often money laundering is closely tied to tax havens and tax evasion. Now that some banks with good reputation have been claimed to be part of the use of tax havens, these banks should be even more careful when they select who they cooperate with and who their partners are. The customers have also become more aware of the issue and are more sensitive to negative publicity such as banks breaking the money laundering regulation or being involved in tax evasion. If these customers feel that their bank is part of these activities, they are eager to react quickly and change their bank to another because they do not want to be associated with a tax evasion or money laundering themselves.

If the bank loses its reputation, it does not only lose its customers, but also its integrity. If the integrity is lost, the trust in the markets towards the entire financial sector can be under threat. Therefore, even though having comprehensive systems for AML is very expensive, it might become even more expensive not to have them. That is why the banks should constantly be developing and enhancing their AML systems so that first of all, they can avoid these losses or cost, but also so that they can detect the maximum amount of illegal money laundering.

To train the entire staff to be aware of the money laundering possibilities is essential to the banks, even though it requires a lot of resources and time. It is very difficult to know every detail of a client, their business and their industry. That is a large challenge for the banks to ensure that the people dealing with each client are aware of the risks that lie in that specific case. The training process for the staff should be ongoing because the nature of the clients' business changes with time as do the methods used for money laundering, too. Now that digitalization is spreading everywhere, it also gives the banks an opportunity to use programs that are designed to help the staff to detect the abnormalities and to recognize the threats. That could save some of the resources even though the importance of having the well trained staff should not be under evaluated.



When the banks are developing their AML processes, they should become much more aware of the different money laundering possibilities. The criminals are very creative so the banks should be prepared for various different cases. It would help the banks if they knew how the money laundering process flows so that the AML systems could be designed to reflect them. When they would know where the greatest risks lie, they would be able to enhance the detection of money laundering. That said, the banks should familiarize themselves with the entire money laundering cycle, not only the part when the money is entering the financial system, where the focus seems to be at the moment.

The banks are already aware of multiple signals of a possible money laundering case. Even though the different red flags are widely known, they belong to the reactive way of preventing money laundering from happening. There was a lack of techniques to prevent money laundering proactively. The proactive premise could forestall the money launderers from coming to the banks and therefore decrease the odds of a bank getting involved in it. Cooperation and information sharing between financial institutions, authorities and companies could help to develop these proactive methods.

Furthermore, better cooperation between the different actors would be very beneficial in the designing process of the banks' AML programs. First, cooperation between the banks and the financial investigation units could bring synergies when the FIUs could help the banks to pay attention to the right, suspicious looking, factors. The banks, in their turn, could share their knowledge about the customers to help the FIUs to solve the criminal money laundering cases. Also, since most of the money laundering cases are in the international context, the international cooperation between the different national FIUs could bring more efficiency and accuracy to the investigation process.

The companies engaged in international trade, importing or exporting, could be connected to the prevention of the money laundering, too. These companies can be abused by a third company to launder money. If the awareness about the money laundering risks in these companies is raised, they would be better able to react to money laundering happening through them. Their executives and compliance departments should be including the risk of money laundering to their guidelines and also think about how to prevent it and how to react to it. Combining these companies to the AML chain with financial institutions and the authorities could further enhance the fight against money laundering.

The information the national customs have could also be very helpful in the detection of the abnormalities. The customs have a huge database of the quantities and the prices used for international trade and their statistics could help the banks to evaluate each case. The customs are doing random sampling on some shipments to see if the shipment is in accordance with the documentation related to the commerce. Because the banks are only handling the documentation, but they never see the actual shipment, at the moment, the banks have no other choice but to trust that there are goods being moved as is stated in

the documentation. To patch this loophole, the customs could be better cooperating with the banks in information exchange, even though it might require a lot of resources.

The banks, and other companies, should constantly develop their AML processes in order to be able to respond to changes in the money laundering trends. It is vital for their business to be able to detect the real money laundering cases because false alerts can also have an impact on the business and harm the existing client relationships.

### **5.3 Suggestions for further research**

The current academic literature especially on trade based money laundering is very low even though it has been recognized that trade based money laundering is a growing threat to international trade and for the banks engaged in financing the export and import companies. The phenomena of trade based money laundering therefore requires fundamental research. That could also raise the awareness of TBML in the banks and global companies who are facing it. Especially the research on money laundering through the physical movement of goods would require more attention.

Because trade based money laundering is a relatively new topic, it would be beneficial to do research on how the current AML regulation is able to respond to the issue. Is the regulation comprehensive enough? How are the different methods of TBML taken into consideration in the development process? It would also be interesting to study how the AML regulation process is designed and conducted. Further, how well are the AML processes in the banks able to respond to the TBML threat?

Furthermore, the entire phenomena of trade based money laundering requires more attention. A more comprehensive study could be conducted to a wider selection of interviewees from different areas to gain a broader picture on the phenomena and its characteristics. Also the banking context would need more research. This research focused on only one bank in Finland but in order to get a deeper understanding on how the criminals are abusing banks for their money laundering activities and how banks are preventing it, different banks from multiple areas could be studied. In the end, the banks are the ones in the middle of the money laundering process.

By this date the research has mainly focused on the perceptions of the authorities on anti-money laundering and the studies have been conducted on a country level. Research within the Nordic countries or Europe would be needed and this could be further expanded to international level and large global banks for the scope of the interviews or quantitative analysis.

An interesting topic for future research could be the role of technology in the money laundering prevention and fraud detection. The use of technology is emphasized in the

current era of digitalization. For example, how can technology help banks in the AML process or how could technology solutions enhance the detection process and prevent the bank from spending resources on false alarms.

The results from this research show that the importance of having well trained staff was considered as one of the most essential factors in the AML process within the banks. Therefore, research could be conducted in the field of staff training. How are banks ensuring sufficient level of education to the employees? How is the training organized and how do different training methods correlate to the success of bank's AML process?

Many times money laundering is looked at from the anti-money laundering side, which focuses on the banking industry due to the obligations the regulation sets to them. Still, many times the banks themselves have not been the focus of the studies. Instead, the focus has been on the authorities' perceptions. However, importing and exporting companies themselves are also under the threat of being abused for money laundering. The possibilities to abuse these companies could be a subject of future research. Further, the ways these companies are protecting themselves from money laundering and how they are developing their own anti-money laundering systems could be subjects for a research.

Moreover, due to the lack of sufficient literature and earlier studies on TBML and AML in the banking context, new research should be conducted in order to fill this existing gap. Further research on the subject would not only benefit the banks, but also the authorities designing the regulation, international companies planning their trade patterns and governments conducting risk evaluation and international politics.

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## ANNEXES

### Annex 1 Examples of suspicious prices in trade transactions between the USA and Switzerland

#### 1. Over-valued Swiss imports

Chlorine	USD 5917.00/kg
Tin waste and scrap	USD 8930.00/kg
Frozen asparagus	USD 6322.00/kg
Cut rubies	USD 32407.00/carat
Slip joint pliers – base metal	USD 9036.00/dozen

#### 2. Undervalued Swiss exports

Color video projectors	USD 28.90/unit
Re-treated truck and bus tyres	USD 3.00/unit
Diamonds	USD 28.92/carat
Penicillin	USD 12.91/kg
Hearing aids	USD 13.75/unit

Source: De Boyrie et al. 2005, 221