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# Money Laundering Among Globalized World

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Additional information is available at the end of the chapter

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## 1. Introduction

In 21<sup>st</sup> century, economy is largely governed by advances made in information and communication technologies (ICT). Such technological advances make it easier to invest into developing countries. Developing countries' economies are growing at faster pace. Developed economies as well as developing economies continue to face challenges that come with economical advancements such as regulation of money flow, financial crimes, and abuse of financial systems. Among these challenges include crimes related to the information economy which is seen as an increasing source of concern within the international financial community. The proceeds from these crimes are bundled to give it a legal appearance and this process is known as "Money Laundering". Whenever a criminal activity generates substantial profits, individuals must find ways to hide, control, and legalize the funds without grabbing any attention from legal authorities. Failing to do so, their criminal activity will be transparent. During the process of legalizing the funds, they must ensure that their criminal activity is untraceable and all connections of funds to criminal activity must be removed. Money laundering is a sort of criminal activity trying to conceal the illegality of proceeds of crime by disguising them as lawful earning. In practice, criminals are trying to disguise the origins of money obtained through illegal activities so it looks like it was obtained from legal source. This would further make the same money usable, transferable, and negotiable. This is a common activity happening in almost all developing and developed countries where money that looks like usable can be re-used easily.

As crimes are occurring in each and every part of the world, money laundering initiates from each and every part of the world. Each scheme involving money laundering involves transferring money through various channels, using number of ways, and via multiple financial transactions to satisfy the primary goal of obscuring the origin of money and thereby making criminal activity hidden. Otherwise, money is unusable because it would connect criminal to criminal activity and it would be easy for law-enforcement to seize. The

origin of money is always some sort of illegal activity and that activity is subject to criminal action, hence it is important to hide the money. While hidden money is useless, attempts are made to unhide the money by attempt to make the money untraceable.

Money launders have only one goal in mind: to transform illegally obtained money into legitimate funds without exposing underlying criminal activity and make money usable towards further criminal activity. In today's world, majority of laundered money account for money coming from sale of illegal narcotics. Those who commit the underlying criminal activity may attempt to launder the money themselves, but increasingly a new class of criminals provides laundering services to organized crime. This new class consists of lawyers, bankers, and accountants. Criminals want their illegal funds laundered because they can then move their money through society freely, without fear that the funds will be traced to their criminal deeds. In addition, successful attempt of laundering prevents the funds from being confiscated by the authorities and in result criminal hides crime.

Most frequently used instrument by money launderers is banking institution as these institutions can provide multiple services such as deposit, cashier check, deposit box, loan, acceptance, discount, foreign exchange, settlement, and like. These institutions also provide easy means of transferring money or assets into another institutions or different branch of same institution in different geographical region with different regulations. With global economy and integrated financial markets, transferring funds across international borders is convenient and fast. Many countries have rigid bank secrecy laws allowing anonymous fund transfers. This creates an easy way for criminals to transfer money into other countries, and eventually cover up or conceal the nature or source of illegally obtained funds. Many organized international crimes lead to money laundering, such as Drugs, Property, Financial, Violence, Nightlife, Trafficking, Weapons, Fraud, Political Corruption, Financing of Terrorism . The connection between money laundering and terrorism is complex and very well known. But it plays very important role in survival of terrorist organization. Terrorism financing involves the raising and processing of funds to supply terrorists with resources to carry out their attacks or further training of individuals involved. Successful attempt of money laundering by a terrorist can have significant impact on national or regional security and can create significant damage to nation, culture, and economy. Whereas, the connection between money laundering and narcotics financing is simple clear as drug traffickers have one simple goal of bringing more drug on the streets.

The International Monetary Fund (IMF) estimates that the aggregate size of ML in the world could be somewhere between 2 and 5 percent of global gross domestic product (GDP) . The amount of illicit funds traveling through money laundering channels is estimated to grow at an annual rate of 2.7 percent. However, the full magnitude of the problem is still not known with any certainty. Using 1996 statistics, these percentages would indicate that money laundering ranged between US Dollar (USD) 590 billion and USD 1.5 trillion. This figure is almost equivalent to total output of economy of size of country Spain. However it must be said that overall it is absolutely impossible to produce a reliable estimate of the amount of money. A wide range of national and international agencies have attempted to quantify organized crime and components of money laundering in their particular sphere of interest,

and their assessments are frequently made available in public statements. There are reports published and researchers have tried to summarize and quantify amounts involved in money laundering activities. The author's model suggests a global money laundering total of \$2.85 trillion per year, heavily concentrated in Europe and North America. Numbers published by Walker or FATF may not be accurate and it is impossible to find actual number. Though, these numbers overall tell us the magnitude of money laundering activities performed across the world. Walker's report summarized origin and destination of laundered money as described in this table.

Rank	Origin	Destination	Amount (\$Usmill/yr)	% of Total
1	United States	United States	528,091	18.50%
2	United States	Cayman Islands	129,755	4.60%
3	Russia	Russia	118,927	4.20%
4	Italy	Italy	94,834	3.30%
5	China	China	94,579	3.30%
6	Romania	Romania	87,845	3.10%
7	United States	Canada	63,087	2.20%
8	United States	Bahamas	61,378	2.20%
9	France	France	57,883	2.00%
10	Italy	Vatican City	55,056	1.90%
11	Germany	Germany	47,202	1.70%
12	United States	Bermuda	46,745	1.60%
13	Spain	Spain	28,819	1.00%
14	Thailand	Thailand	24,953	0.90%
15	Hong Kong	Hong Kong	23,634	0.80%
16	Canada	Canada	21,747	0.80%
17	United Kingdom	United Kingdom	20,897	0.70%
18	United States	Luxembourg	19,514	0.70%
19	Germany	Luxembourg	18,804	0.70%
20	Hong Kong	Taiwan	18,796	0.70%

**Table 1.** Flows of Laundered Money source Walker 2003 & 2009

As this table describes, United States is most preferred country for money laundering due to strength of its currency. Tax havens such as Cayman Islands are becoming prominent offshore financial centers.

## 2. Money laundering process

The money laundering process usually involves several steps that make it difficult to trace the original source of money. Some of these steps include transferring the money between bank accounts, breaking up large amounts of money into small deposits, or buying acceptable forms of money such as money orders or cashier's checks. Time of deposit and amount of time money sits in particular place can also play a role in money laundering. The process is usually planned and organized to avoid being caught and facing punishment.

Typical money laundering process involves three steps: Placement, Layering and Integration. A typical money flow from origin to destination is described in chart below. As chart describes, the main intent is to convert dirty money into what looks like clean money. Money flows across various financial institutions, across borders, in different forms of assets or investments, and ultimately reaches intended destination.

### 2.1. Placement

This is the initial stage of money laundering where launderer inserts money resulting from illegal proceedings into some financial account, sometimes multiple accounts owned by multiple foreign individuals. The aim for launderer is to remove the cash from location of acquisition (also referred as source) to avoid detection from authorities and to then transform into other asset forms or instruments offered by various banking institutions in financial market. Launderer may purchase a series of monetary instruments (checks, money orders, etc.) that are then collected and deposited into accounts at another location. Financial institution is usually located and operated in different geographical location from intended destination. Majority of nations require that all large amount deposits be filed with regulatory agency. United States require that any cash deposits over \$10,000 be reported to Internal Revenue Service (IRS) and any suspicious deposits be reported to Financial Crime Enforcement Network (FinCEN). Launderers often initiate this process with multiple accounts across multiple financial institutions to avoid suspicious activity with one large amount.

### 2.2. Layering

Layer is important step of money laundering. This is where money transfers multiple financial institutions across different nations and can also change its form. Money can be converted to tangible or intangible assets or money can be transferred using various forms of transportation mechanisms. Layering may consist of multiple wire transfers between different accounts of different individuals, usually in chunks of amounts for each transfer. As part of these transfers, money can also change its form of currency or asset values. Assets can be in form of bonds, gold, cars, houses, diamonds, or even loan payments.

Launderers also use various forms of banking and investment in fake companies. Launderers use method known as smurfing where large amount of money transfers are broken into small less-suspicious amounts. In United States, this amount has to be less than \$10,000. Different countries have different amount limits to be flagged as suspicious.

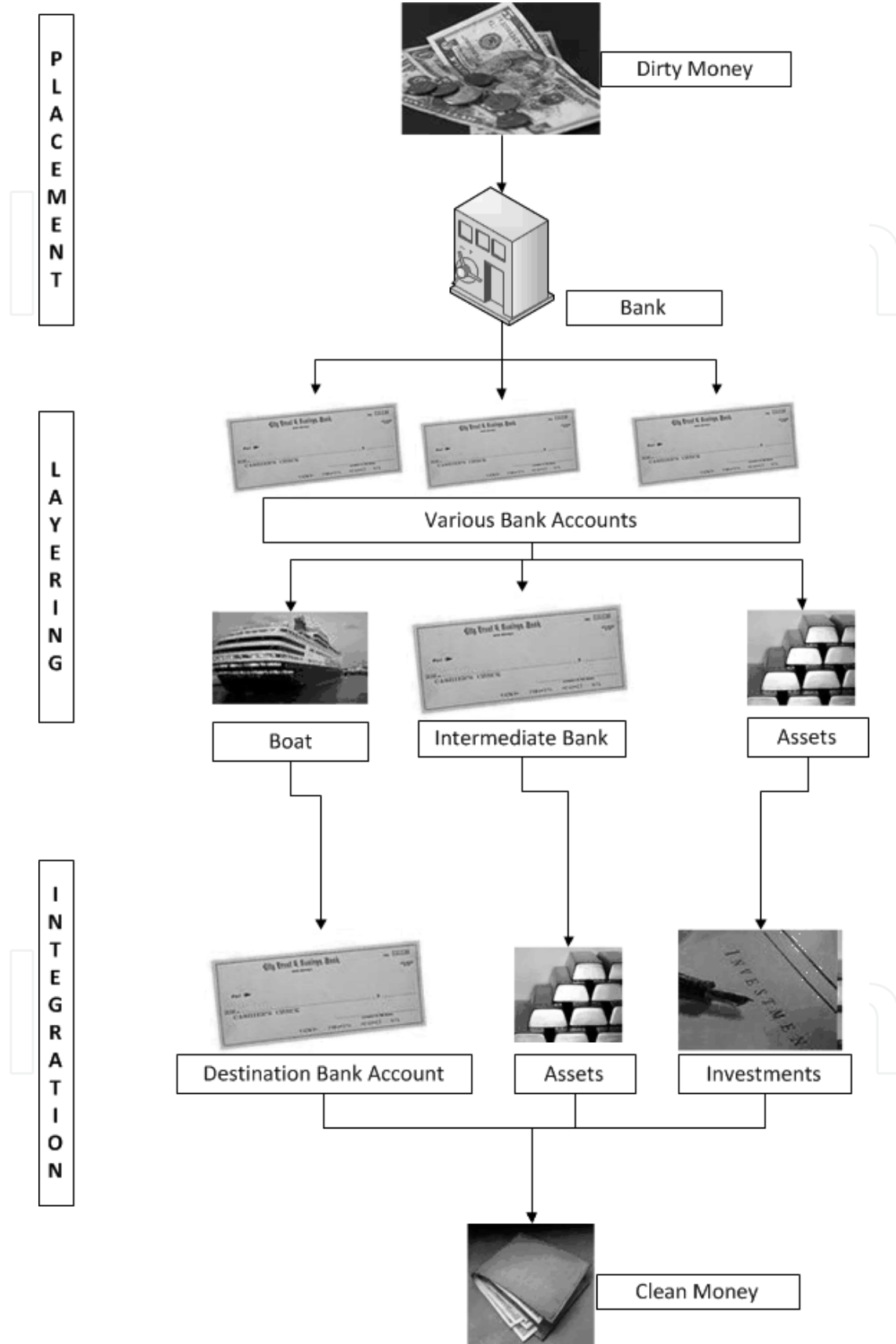


Figure 1. Money Laundering Process

Overseas banks: Money launderers often use various “offshore accounts” in countries that have bank secrecy laws allowing anonymous banking. These accounts allow easy means of making multiple transactions without being caught.

**Underground/Alternative Banking:** Mainly prevalent in Asia, countries often have alternate banking systems allowing undocumented money transfers across regions. These are trust based systems involving humans working as agents on both sides and these transfers have no paper trail. These systems operate outside of government control. Some of these underground banking systems are called hawala in India and Pakistan and fie chen system in China. Money launderers use these systems aggressively to accommodate intermediate transfers and can be crucial step in entire money laundering process.

**Shell companies:** These are fake corporations built to serve a single purpose of money laundering. These corporations play important role in process of selling goods across or services across border when actually they don't provide any goods or services but they simply create appearance of legitimate transactions through fake invoices and balance sheets. There have been reports of shell companies selling single screwdriver for thousands of dollars.

**Smuggling:** Cash smuggling is a method of money laundering in which proceeds of crime are stealthily moved across border, and then deposited in banking institution. Smuggling can be in form of large sum of money in luggage or hidden parts of body in multiple attempts.

**Insurance Agencies:** These agencies allow purchasing insurance policy. Money launders often purchase insurance policy with illegal source of money and later on try to alter the policy or file insurance claim to avert tracing of origin.

Money laundering scheme usually involves combination of these methods. Layering ultimately makes the origin of money untraceable and is the most complex step in illegal money laundering scheme.

### 2.3. Integration

This is the final stage in Money Laundering ‘Washing’ cycle. At this stage, money usually enters into destination location or main-stream economy in legitimate looking form i.e. appears to have come from legal transaction. This is the stage when money is integrated into the legitimate economic and financial system and is assimilated with all other similar assets. It would be very hard to trace the origin of money due to various layering methods involved. Hence, criminals have high confidence of not being suspect about origin of money. If criminal is not caught during placement or layering stage, it becomes very difficult to catch a launderer at integration stage. A successful integration in money laundering attempt means a successful money laundering attempt which results in money that shouldn't have become usable and results in successful hiding of criminal activity that should have been caught.

Almost all profit making criminal activity is linked to money laundering in one way or another throughout the world. As the main motive of individual is to make the money look like legal and to put the money in hands of criminal, launderers use variety of ways and number of geographical locations during layering and integration phases. During placement stage, money is very close to underlying activity but moves away farther during layering phase, ultimately untraceable at the end of integration. It is very important that such activity be stopped or caught during layering phase but layering phase can be very complex as money can flow through multiple financial institutions across various geographical regions providing adequate financial infrastructure. As an example, individual involved in criminal activity south Asia can use hawala system to transfer money to five individuals residing in north Asia. Each of five individual, then, can use different methods such as money orders, financial instruments, loans, to transfer money to offshore where yet another individual can collect and accumulate the money which now looks like legal income.

### **3. Politically Exposed Personnel & money laundering**

Politically Exposed Persons (PEPs) are considered high risk in today's regulatory environment. PEPs present a higher risk of money laundering because their political power or access to those with political power places control of their countries' funds within their reach. If they choose to abuse this power they can embezzle money, accept bribes and kickbacks or benefit from insiders knowledge. Many corrupt officials accumulate fortunes within their own countries and use money laundering methods to move that wealth into the broader financial system. Financial institutions who take on PEPs as customer assume a higher risk and are required to apply enhanced due diligence to these accounts and their associated transactions. Heavy fines have been imposed on financial institutions failing to maintain proper risk based approaches while working with PEPs.

While there is no global definition of PEP, the European Union (EU) Third Money Laundering Directive defines PEPs as

Natural persons who are or have been entrusted with prominent public functions and immediate family members, or persons known to be close associates, of such persons

The USA Patriot Act and European Union Directive use following five layers as identifying an individual as PEP:

1. Current or former senior official in the executive, legislative, administrative, military, or judicial branch of a foreign government (elected or not)
2. A senior official of a major foreign political party
3. A senior executive of a foreign government owned commercial enterprise, and/or being a corporation, business or other entity formed by or for the benefit of any such individual
4. An immediate family member of such individual; meaning spouse, parents, siblings, children, and spouse's parents or siblings
5. Any individual publicly known (or actually known by the relevant financial institution) to be a close personal or professional associate.



As per this definition, PEP is not necessarily the only person who holds political recognition but also their relatives, correspondents, and anybody financially affiliated with them. Regulations require enhanced due diligence and risk assessment when conducting business with Politically Exposed Persons, particularly when they become part of private banking transactions. Corrupt PEPs, like all skilled money launderers, use middle men and legal identities such as companies and trusts as vehicles in the process of moving value derived from their corrupt actions. Only the inept or brazen PEP moves value in her or his own name, or the name of a family member. Movement of value by PEPs and money launderers alike is also likely to involve transactions across country borders whether by movement of funds or the acquisition and disposition of assets. This includes an acknowledgment that business relationships with family members or close associates of PEPs involve "reputational" risks similar to those with PEPs.

Financial institutions are faced with challenges in regards to maintaining proper risk based procedures while working with PEPs. First of all, different countries may have different regulation requirements and different definitions of PEP. Maintaining enhanced due diligence requires screening entire customer base and all financial transactions against commercially available PEP database which is huge, over 1.5 million listing of individuals. Financial institutions are required to initiate, process, and conclude the payment within a day while ensuring risk based approach to each individual involved in payment transfer. This is not only time consuming but also costly resulting in less efficient operations on financial institution's behalf. Many times, lack of full information availability of individual involved make it difficult to identify individual as PEP or not.

#### **4. Effects of money laundering**

A successful money laundering attempt can provide enough cash value at intended destination which can be used towards further illegal activities or money appearance as a result of illegal activity can be made legal. In either case, each and every success of money laundering attempt pays for illegal activity. This type of successful activity encourages criminals to continue their illegal schemes because criminals get to contain the profit without trace of criminal activity or origin of money. These profits ultimately come from citizens' and tax-payers' pockets knowingly or unknowingly. These activities also create more fraud in financial systems, bring more drugs on the streets, bring more drug-related crimes, bring more illegal activities in society, provide solid base for terrorist activity and training. These advancements in criminal activity ultimately results in need for more resources with law-enforcement agencies.

In this globalized world, financial economy is heavily dependent on well-functioning of financial institutions. Financial institutions must be operating with legal, professional, and ethical standards. Reputation of integrity of financial institutions is utmost valuable. In such integral environment, if funds from illegal activities and money laundering activities are allowed flow through financial institution, it causes adverse effects on reputation and will be on national newspapers the next day. Though, when employees or directors are bribed,

funds arising from money laundering activities can flow through which puts financial institution into criminal network. Evidence of such complicity will damage integrity of financial institution. When multiple financial institutions are involved in such activities, economy can be under risk, and there will be changes in money demand, exchange rates. Eventually, corruptions and crimes are rewarded. The successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law.

Money laundering is a threat to the good functioning of financial system where it can acquire control of large sectors of the economy through investment, or increase bribes to public officials and government. Money laundering requires an underlying, primary, profit-making crime (such as corruption, drug trafficking, market manipulation, fraud, tax evasion), along with the intent to conceal the proceeds of the crime or to further enhance the criminal activity. These activities generate financial flows that involve the diversion of resources away from economically- and socially-productive uses—and these diversions can have negative impacts on the financial sector and external stability of member states. They also have a corrosive, corrupting effect on society and the economic system as a whole. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue. Money laundering distorts the economic data and complicate government's efforts to manage economic policy. It will have adverse consequences for interest and exchange rate volatility, mainly in dollarized economies. This affects income distribution, contaminates legal transactions, and increases potential for reduced GDP, increases the risk of macroeconomic instability.

Many times, laundered money is usually untaxed at its destination. Though any attempt to invest into small business will create stiff competition against other small business investors who are actively investing already taxed money. Ultimately, money laundering is linked to underlying criminal activity that generated it, and hence, laundering enables criminal activity to continue.

Corruption and money laundering often take place together, with the presence of one reinforcing the other. Corruption results in funds of billions of dollars which will result into an attempt to legalize. Money laundering is often an easy way to legalize the funds acquired through corruption and bribes. Besides financial institutions, many other highly reputable professions are vulnerable to money laundering. Lawyers, accountants, and trust and company service providers are also known to be involved in money laundering processes especially layering and integration. These professional have specific knowledge and tools to create complex maze of corporations in offshore havens and know how to destroy financial records to hide originality of funds. A key element of these money laundering services is anonymity in the ownership or management of private sector entities.

A report from International Monetary Funds stated that Money laundering and terrorist financing activities can undermine the integrity and stability of financial institutions and

systems, discourage foreign investment, and distort international capital flows. They may have negative consequences for a country's financial stability and macroeconomic performance, resulting in welfare losses, draining resources from more productive economic activities, and even having spillover destabilizing effects on the economies of other countries. In an increasingly interconnected world, the problems presented by these activities are global, as are the links between financial stability and financial integrity. Money launderers exploit both the complexity inherent in the global financial system as well as differences between national anti-money laundering laws and systems, and they are especially attracted to jurisdictions with weak or ineffective controls where they can move their funds more easily without detection. Moreover, problems in one country can quickly spread to other countries in the region or in other parts of the world. Strong AML/CFT regimes enhance financial sector integrity and stability, which in turn facilitate countries' integration into the global financial system. They also strengthen governance and fiscal administration. The integrity of national financial systems is essential to financial sector and macroeconomic stability both on a national and international level.

## 5. Combating money laundering

Money laundering is known to be a crucial step in success of drug trafficking, terrorist financing, white collar crimes, and other illegal activities.

There are many national and global organizations which are actively trying to combat money laundering. Efforts are in place to aim increase awareness of phenomenon and to provide necessary legal or regulatory tools to the authorities. In United States, Department of Justice, State Departments, Federal Bureau of Investigation, International Revenue Service, Drug Enforcement Agencies and other regulatory agencies have divisions investigating money laundering and underlying structures that make money laundering work. Most nations have declared money laundering as crime. The global community is combating money laundering through various organizations such as Financial Action Task Force (FATF). The United Nations, the World Bank, and the International Monetary Fund also have anti-money-laundering divisions.

These organizations actively monitor and enforce laws and regulations on any institution or corporation involved in money transfer. These institutions include Banks, Insurance companies, Money Serving Businesses, Asset trading businesses, etc. Besides enforcing these regulations, regulatory organizations also publish criminals publicly to avoid further future crimes.

After money laundering has become a global concern and that the governments worldwide have started to create agencies to fight it, their efficiency is still being challenged. Combating money laundering has become an international priority. Fighting money laundering requires help and compliance from many entities and resources involved on the prevention and detection of money launders. Prevention, detection, and reporting should be performed by private partners such as banking institutions. Public partners such as law enforcements should be responsible for analytics and repression.

*“Illicit finance, in its many forms, is a threat to the integrity of our financial system, both domestically and internationally. Combating illicit finance not only protects our financial system from abuse by money launderers, terrorist financiers, weapons proliferators and others engaged in financial crime, but it helps to advance our most critical foreign policy and national security objectives. The many tools that the Treasury Department can deploy – ranging from anti-money laundering regulatory oversight, to outreach to counterparts overseas, to deploying targeted financial measures focused on particular individuals and entities – play an integral role in responding to many of the challenges we face. Treasury’s unique capacity to understand financial flows and the operation of the financial system, analyze financial intelligence, map financial and material support networks, and take targeted, powerful actions are key to meeting these challenges.” - David Cohen -- Under Secretary for Terrorism and Financial Intelligence, Department of the Treasury*

Prepared remarks at his confirmation hearing before the Senate Committee on Banking, Housing, and Urban Affairs May 3, 2011

### **5.1. Anti-money laundering regulations**

The combat against money laundering was started as early as 1986 with lawful criminalization of money laundering. The United States government was concerned over the increasing threat of organized crime and infiltration in legal economy. Large sum of money were said to be in control of criminal elements, it was believed that underground economy was expanding. This resulted in the “Drugs Trafficking Offenses Act” and the “Money Laundering Control Act of 1986” which declared money laundering as criminal offense.

Financial Crime Enforcement Network (aka FinCEN) was established in 1990 to provide the United States government with intelligence, knowledge, and data from multiple sources. FinCEN would also provide guidelines and capabilities to analyze data to help regulatory agencies and prosecutors detect, investigate, and prosecute financial crimes. FinCEN’s mission is “to enhance U.S. national security, deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems”. FinCEN carries out its mission by receiving and maintaining financial transactional data; analyzing and disseminating that data for law enforcement purposes; and building global cooperation with counterpart organizations in other countries and with international bodies. Today, FinCEN’s duty also includes promulgating regulations under Bank Secrecy Act (BSA), evaluating BSA violations, and providing assistance in leading the Treasury’s efforts in fighting money laundering both inside the country and internationally. All public and private financial organizations are obliged to report any suspicious activity to FinCEN. Suspicious Activity Reports (aka SAR) are filed in connection with transactions that financial institutions know, suspect, or have reason to suspect may be related to illicit activity. These reports are especially valuable to law enforcement because they reflect activity considered problematic or unusual by depository institutions, casinos, MSBs, securities broker-dealers, mutual funds, futures commission merchants, introducing brokers in commodities, and insurance companies.

About 1.4 million SARs were filed in fiscal year 2011 and 1.3 million SARs were files in fiscal year 2010

Under the Bank Secrecy Act financial institutions are required to report daily aggregated cash deposits of \$10,000 or more, and multiple deposits from the same depositor that added up to \$10,000. Such transactions are reported to the Treasury and the U.S. Secret Service. All citizens who have any financial accounts in foreign country must file FBARI (Report of Foreign and Financial Accounts) if the aggregate value of the financial account exceeds \$10,000. In 2011, FinCEN received over 14.8 million currency transaction reports. In 2010, FinCEN received approximately 14 million reports.

After an incident of September 11, 2001, The Congress of United States renewed the focus on detection, prevention, and prosecution of money laundering with terrorist financing in mind. The Title III of the USA PATRIOT Act, entitled “International Money Laundering Abatement and Anti-Terrorist Financing Act (IMLAFA)” aims to combat terrorism by stifling terrorist financial networks. IMLAFA expands the scope of money laundering laws to cover a broader range of financial institutions than those covered by traditional money laundering laws and required all financial institutions to implement programs designed to deter and detect instances of money laundering.

Financial institutions are obligated to undertake enhanced customer due-diligence on customers in the higher risk category. Recommendations provide specific measures for addressing risk associated with PEPs and correspondent banking relationships. This type of due-diligence requires having appropriate risk-based procedures to decide whether a customer is considered politically exposed personnel (PEP), senior management approval for establishing business relationships with PEPs, and ongoing monitoring of the business relationship relating to the source of funds. Financial firms which have PEP exposure are required to have compliance specialist, commercially available PEP database, and enough controls in place to monitor PEP activities.

Recent statistical data published by Internal Revenue Service on Money Laundering related investigations suggest uptick in number of investigations and Incarceration.

<b>Money Laundering Investigations</b>	<b>FY 2011</b>	<b>FY 2010</b>	<b>FY 2009</b>
Investigations Initiated	1726	1597	1341
Prosecution Recommendations	1383	1240	1048
Indictments/Information	1228	1066	936
Sentenced	678	751	753
Incarceration Rate	86.10%	83.80%	85.90%
Average Months to Serve	70	69	72

**Table 2.** Investigations by IRS related to money laundering (Year 2009-2011)

An international forum named Financial Action Task Force on Money Laundering (FATF) was established in July 1989 in Paris during fifth annual Economic Summit of G7, bringing together United States, Japan, Germany, France, United Kingdom, Italy, and Canada. The FATF was created to help enhance international cooperation and assess the results of anti-money laundering policies globally. The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing. The Task Force is therefore a "policy-making body" which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. The FATF monitors members' progress in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. In performing these activities, the FATF collaborates with other international bodies involved in combating money laundering and the financing of terrorism. The Asia/Pacific Group on Money Laundering (APG) is an international organization (regionally focused) consisting of 41 members and a number of international and regional observers including the United Nations, IMF, FATF, Asian Development Bank and World Bank (see Members and Observers links for the list). The APG is closely affiliated with the Financial Action Task Force (FATF), whose Secretariat is located in the OECD headquarters in Paris, France. All APG members commit to effectively implement the FATF's international standards for anti-money laundering, combating the financing of terrorism and anti-proliferation financing, referred to as the 40 Recommendations. The 40 Recommendations were revised and adopted by the FATF membership after world-wide consultation (including the private sector) in February 2012. Part of this commitment includes implementing measures against terrorists listed by the United Nations in the "UNSC 1267 Consolidated List": The UN Security Council 1267 Committee Consolidated List - Al-Qaida, Usama bin Laden, & the Taliban etc.

## 5.2. Published penalties

National government and other regulatory agencies have started publishing penalties imposed on individual or organization entities involved in any form of money laundering attempt. It is very common to see published news about somebody being investigated or held on money laundering related criminal activities. Courts and the United States Sentencing Commission ("Commission" or "U.S.S.C.") have recognized that charging a defendant with money laundering will result in sentences greater than those of most other white collar crimes. There are known cases of USCC publishing fines to various Financial Institutions when audits found that there were not enough anti-money laundering procedures implemented or found guilty of working around anti-money laundering procedures to enable certain payment transactions pass through.

Leading news publisher CNN reported on January 11, 2011:

*During October 2005, United States congressman Tom DeLay was indicted on money laundering charges forcing him to step down as House Majority Leader. It was a felony conspiracy charge to move \$190,000 in corporate donations to Republican candidates in Texas State Legislature. In 2010, DeLay was found guilty of money laundering and conspiracy to commit money laundering. He was further sentenced to three years in prison and 10 years' probation.*

The case of Franklin Jurado was published by UN general assembly:

*Franklin Jurado, a Harvard-educated Colombian economist, pleaded guilty to a single count of money laundering in a New York federal court in April 1996 and was sentenced to seven and a half years in prison. Using the tools he learned at America's top university, he moved \$36 million in profits, from US cocaine sales for the late Colombian drug lord Jose Santacruz-Londono, in and out of banks and companies in an effort to make the assets appear to be of legitimate origin. Jurado laundered the \$36 million by wiring it out of Panama, through the offices of Merrill Lynch and other financial institutions, to Europe. In three years, he opened more than 100 accounts in 68 banks in nine countries: Austria, Denmark, the United Kingdom, France, Germany, Hungary, Italy, Luxembourg, and Monaco. Some of the accounts were opened in the names of Santacruz's mistresses and relatives, others under assumed European-sounding names. Keeping balances below \$10,000 to avoid investigation, Jurado shifted the funds between the various accounts. He established European front companies with the eventual aim of transferring the "clean" money back to Colombia, to be invested in Santacruz's restaurants, construction companies, pharmacies and real estate holdings. The Jurado case is an example of the increasingly sophisticated means drug cartels employ to secure assets. But it also indicates that the very profits that motivate drug organizations are an Achilles heel and those national legislators, law enforcement agencies and international bodies are stepping up efforts against money laundering.*

IRS and Department of Justice published case of Steve Ham:

*On January 6, 2012, in Plano, Texas, Steve Ham was sentenced to 16 months in prison and three years of supervised release for money laundering. According to court documents, Ham was part of a scheme with Richard Arledge, owner and operator of Richard Arledge Suzuki and the director and president of Expressway Financial, Inc. Arledge and Ham intentionally sold high-end luxury cars to individuals who derived their income from the illegal distribution of controlled substances, the promotion of prostitution, and mail and wire fraud. These criminal customers usually paid for their luxury cars in cash and provided tens of thousands of dollars in cash to the dealership in pillowcases, shrink-wrapped plastic packages, backpacks, and even fast food paper bags. During these financial transactions, Arledge, Ham and other dealership employees promised the criminal customers that the dealership would not report the financial transactions to federal authorities, despite federal reporting regulations requiring that all cash received in excess of \$10,000 be reported to the Internal Revenue Service. Ham and others also concealed the fact that the criminal customers were purchasing the cars by titling the transactions in the names of third parties and labeling the car purchases as "leases" to permit the dealership to re-acquire the luxury cars if ever seized by law enforcement during the course of a federal investigation. Arledge was sentenced to 188 months. Fourteen others were convicted or pleaded guilty in connection with the money laundering scheme.*



**Figure 2.** Published crack-downs, Source: US Drug Enforcement Administration

Department of Justice and IRS sentenced two men in alleged money laundering scheme:

*On January 4, 2012, in Trenton, N.J., Rabbi Eliahu Ben Haim and Akiva Aryeh Weiss were sentenced for their roles in a money laundering scheme in which Weiss operated an illegal money transmitting business. Ben Haim, of the Elberon section of Long Branch, N.J., was sentenced to 60 months in prison and three years of supervised release. Akiva Aryeh Weiss, aka Arye Weiss, of Brooklyn, N.Y., was sentenced to five years probation with the special condition that he reside in a mental health facility. Weiss previously plead guilty to an Information charging him with operating an unlicensed money transmitting business, or "cash house". According to court documents and statements made in court, Haim admitted that beginning in October 2006, he met with a cooperating witness, Solomon Dwek, and for a fee of approximately 10 percent, agreed to launder and conceal Dwek's funds through an already-existing underground money transfer network. Haim admitted that prior to laundering Dwek's funds, Dwek repeatedly told him the funds were the proceeds of Dwek's illegal businesses and schemes, including bank fraud, trafficking in counterfeit goods, and bankruptcy fraud. To conceal and disguise the nature and source of the funds, Haim directed Dwek to make the checks payable to several organizations that Haim operated. Once he received the checks from Dwek, Haim deposited them into bank accounts held in the names of the organizations and then wired the proceeds of those checks to a co-conspirator in Israel, or to bank accounts held by other individuals and corporations in various foreign countries, including Israel, Turkey, China, Switzerland and Argentina. The co-conspirator in Israel would then make cash available through an underground money transfer*



*network, including at the cash houses operated by Schmuel Cohen, aka Schmulik Cohen; Yeshaye Ehrental, aka Yeshayahu Ehrental and Yishay Ehrental, and Weiss. Weiss admitted that from June 2007 to July 2009 he operated an unlicensed money transmitting business with individuals residing in Israel. In conducting his business from a location in Brooklyn, Weiss admitted he transferred between \$200,000 and \$400,000 in cash to Haim and Dwek. Ehrental and Cohen, both of Brooklyn, pleaded guilty to operating an illegal money transmitting businesses and were each sentenced to 18 months in prison on September 9, 2011, and August 24, 2011, respectively.*

World's leading newspapers published on-going investigations on HSBC for money laundering:

*HSBC Holdings PLC is under investigation by a U.S. Senate panel in a money-laundering inquiry, the latest step in a long-running U.S. effort to halt shadowy money flows through global banks, according to people familiar with the situation and a company securities filing.. The inquiry is being conducted by the Senate Permanent Subcommittee of United States on Investigations could yield a report and congressional hearing later this spring. The subcommittee has a history of conducting high-profile hearings that have proved embarrassing for the world's biggest banks. The intensifying scrutiny of HSBC is the latest in a series of investigations by U.S. officials into how global banks have processed -- and in some cases, intentionally hidden -- financial transactions on behalf of countries which allegedly support terrorism, corrupt foreign officials, drug gangs and criminals. Since 2008, European and U.S. banks have signed deferred prosecution agreements and paid more than \$1.2 billion in penalties for alleged violations of anti-money laundering regulations.*

During March 2012, Maribel Lopez was found guilty of money laundering:

*On March 22, 2012, in New York, N.Y., Maribel Lopez was sentenced to 18 months in prison and three years of supervised release for her role in a cocaine distribution conspiracy. In September 2011, Lopez pleaded guilty to one count of structuring. According to court documents, Lopez assisted a narcotics distribution organization by transporting and concealing narcotics proceeds. From October 2006 through June 2009, she made over 80 cash deposits in amounts under \$10,000, totaling \$155,120.*

Indiana Investor Sentenced for Wire Fraud, Money Laundering

*On March 14, 2012, in Indianapolis, Ind., Brian Eads was sentenced to 30 months in prison, three years of supervised release and ordered to pay \$863,095 in restitution for wire fraud and money laundering. According to court documents, Eads and a related defendant, John Richards, worked together in 2005 and 2006 to sell houses to real estate investors. Richards, a mortgage broker, falsified numbers on loan applications, and Eads enticed investors by assuring them there would be no risk to invest in properties he had for sale. Eads paid down payments and paid money outside of closing, asking investors to falsify invoices for work that was never done. As a result, Wells Fargo loaned money on the 26 properties, suffering an approximate \$380,104 loss. Additionally, the investors' credit histories were negatively impacted. In a separate scheme in 2009, Eads suggested that a longtime acquaintance join with him in purchasing investment properties with funds provided by the acquaintance. The first several transactions were positive,*

*with the acquaintance and Eads both receiving small profits upon the sales. Then, Eads sold numerous properties to his acquaintance and provided titles of properties that he did not own. This acquaintance lost approximately \$295,791. In yet another scheme, Eads partnered with an investor from Utah in 2010. This investor and Eads discussed purchasing 38 properties in Indianapolis, Muncie, and Anderson. Eads provided details of the properties like pictures and the sales prices. The Utah investor wired money to Eads to purchase the properties. However, the investor never received deeds, and an inspection of records revealed that Eads did not own several of the properties in question. Although Eads eventually substituted some of the titles, the Utah investor lost approximately \$187,200.*

There are thousands of other cases published by authorities or leading newspapers. Authorities hope to warn criminals against further money laundering attempts by making these cases publicly available and generate awareness among citizens.

### **5.3. Challenges in combating money laundering**

For many financial institutions, compliance with anti-money laundering programs is seen as a problem to be solved at business unit or geography level. Money laundering itself is a cross-geography, cross-branch and cross-business challenge. Financial institutions are challenged with regulatory laws across geography and markets. Araujo says that even though money laundering is accepted as global challenge and national governments worldwide have started to create agencies, regulations, and laws to fight it, advancements of national anti-money laundering regulations and their efficiencies are being challenged. Proper application and implementations of regulations face challenges that range from unwillingness of financial institution to being cost effective. Countries are required to constantly changing their anti-money regulations. It becomes a challenge for financial institutions to determine which regulations to obey. And face greater challenge to ensure that they are complying with the regulations that govern their worldwide activities. Some countries have specific laws which are deemed as prescriptive enforcing activities whereas financial institutions in other countries have to comply by adopting specific practices such as risk-based approach. There are other international standards which are not mandatory, such as Paris-based Financial Action Task Force's 40 recommendations. Therefore, multinational financial institutions are challenged with single global standard governing their client acceptance and on-boarding policies and conducting payment transactions. International standards are not always mandatory in some countries. Financial institutions often find themselves alone in determining what their needs are, what regulations they must obey to, what recommendations they should follow upon, and how to implement systems with their technical environment.

Complying with laws of various countries requires extra activities to be performed while ensuring efficiency in daily business operations. These can become quite costly for financial institutions and require extra efforts from financial institutions. These efforts include maintaining special compliance department, monitoring payment messages, implementing 'know your customers' policy, identifying and implementing appropriate

risk based approach, and housing appropriate technical solution to meet compliance requirements.

Most anti-money laundering schemes depend on the creation of mechanisms that make banks and their employees to cope against money laundering since a great deal of corruption combat depends on their reports on suspicious activities. One of the reasons for these struggles is the lack of effectively involving stakeholders and financial institutions to combat money laundering. The central aim of the anti-money laundering regulation is to design a system of procedures and incentives that induces financial institutions to act effectively with regard to the production of the necessary information towards suspicious activities. There are a number of papers in the literature that intend to give more precise reasons for the lack of efficiency of the anti-money laundering regulation. The point raised by various researchers is that the burden of an efficient report system cannot fall entirely on financial institutions since they may face legal schemes that create incentives to not report suspicious activities.

## **6. Technological advancements**

Technology has advanced rapidly in last couple of decades. Due to these advancements, wire transfers have become faster even across borders. It is very common to transfer chunk of money from one bank in one country to another bank in another country within a day. Sell of goods or assets and money reimbursements can happen within minutes. Technology has made it easier to connect people across world. Online banking has made easier to manage bank accounts even if financial institutions are located overseas. These advancements make it difficult to identify, monitor, and freeze financial transactions involved in money laundering. The challenge is that anti-money laundering is a complex process involving many entities and should be able to detect precisely. Many times, financial institutions are not equipped with technical systems to acquire and maintain all customer identification attributes required to file proper suspicious activity reports.

On the other side, advancements in technology are helping financial organizations to help combat money laundering. Computerized payment processing systems help find patterns of money movements across accounts which can be flagged as suspicious activity. Technological advancements have been made to screen all cross-border payments data against so called watch lists published by various regulatory authorities such as OFAC (Office of Foreign Asset Control), Financial Action Task Force, European Union, FBI, etc before initiation of payment and hold the payment until further investigation completes. Technologies can be a big help in detecting suspicious activities. There are many AML vendors providing cutting-edge technical solutions in market that financial institutions can benefit from. Technology can help maintaining risk based profile for each and every customer based on transactional activities, relationships with PEPs, and real-time payment screening against PEP database, Interdiction database, and other private lists such as fraud list, black list, white list, frozen list, etc.

## 7. Global citizens

It is important that global citizens understand the concept of money laundering and play active role in combating it. For example, if someone offers \$1000 cash and asks for legal check worth less than cash value, it is likely that individual is trying to legalize cash holdings. Global citizens should not only stay away from such activities but also report to authorities. Bank secrecy act allows filing suspicious activity reports by any individual; the filer doesn't have to be financial institution. It is recommended that in any occasion citizens see any suspicious activities being offered or performed, even without citizen's involvement, suspicious activity report should be filed.

## 8. Concluding remarks

Money laundering can be committed through variety of ways using cash smugglings, gambles, insurance policies, business investments, underground banks, shell companies, etc. Money launderers use variety of ways, multiple channels, multiple transactions, and various parties to accomplish the simple goal of making illicit money to what looks like legal money. Money laundering usually involves large sum of assets. There are people who are more likely to have access to or have influence over those amounts. These people can be suspect or being targeted by money launders into some sort of money laundering schemes. Often, money launderers use accomplices - like lawyers or real estate agents. So, tracking the habits of these third parties can also lead to the persons with the criminal intent.

In order to mitigate the adverse effects of criminal economic activities and to promote integrity and stability in financial markets, anti-money laundering (AML) controls must be implemented effectively.

*“Effective anti-money laundering and combating the financing of terrorism regimes are essential to protect the integrity of markets and of the global financial framework as they help mitigate the factors that facilitate financial abuse.” - Min Zhu, Deputy Managing Director of the IMF*

Money laundering exists almost everywhere in globe. Almost all profit generating crime results in some form of money laundering. If money laundering can be eliminated, lots of the evils in the world can be dispelled. Combating money laundering is a global challenge. Combating money laundering is not the job of government alone; it is everyone's job to fight against money laundering. An efficient combat to money laundering depends on the joint efforts of competent authorities, banks and employees.

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