MONEY LAUNDERING

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Money laundering

"Any financial transaction which generates an asset or a value as the result of an illegal act."

Another definition:

- Money laundering is the practice of engaging in financial transactions in order to conceal the identity, source, and/or destination of money, and is a main operation of the underground economy.

According to Swiss Bank:

- Money laundering is a process whereby the origin of funds generated by illegal means is concealed (drug trafficking, gun smuggling, corruption, etc.)

History/Background:

- Terrorist financing, although only one aspect of money laundering, has become a critical concern following the events of September 11, 2001.
- The international dimension of money laundering was evident in a study of Canadian money laundering police files. They revealed that over 80 per cent of all laundering schemes had an international dimension.

Money Laundering & Globalization

- The 20th Century was characterized by a number of structural changes in the World economy. In the last decade of this century, Globalization became the buzz word: bringing together nation states to make the world a "global village" .
- The main pillars of this process were Liberalization and Deregulation of national economies.
- Some of the prominent changes in this century were **rapid developments in financial information, exponential growth of technology and communication which allowed money to move anywhere in the world with speed and ease.**

Money Laundering & Globalization

- These developments combined, created both opportunities and risks for the society. One of these risks is the increase crime and criminality. **The phenomenon of money laundering is an aspect of organized crime**

How much money is laundered every year?

- Since money laundering is an illegal activity therefore one can only **estimate** the amount of money laundered every year.
- The International Monetary Fund, for example, had stated in 1996 that the aggregate size of money laundering in the world could be somewhere between 2- **5% of the world's gross domestic product**
- This is $800 billion - $2 trillion in current US dollars.

PROCESS OF MONEY LAUNDERING

PLACEMENT

- **Placement** refers to the physical disposal of bulk cash proceeds derived from illegal activity.

- This is the first step of the money-laundering process and the ultimate aim of this phase is to remove the cash from the location of acquisition so as to avoid detection from the authorities.

PLACEMENT

- This is achieved by investing criminal money into the legal financial system by opening up a bank account in the name of unknown individuals or organizations and depositing the money in that account.
- It may involve use of smurfing techniques through which the launderers make numerous deposits of amounts of money that are small enough to avoid raising suspicion.

LAYERING

Layering is the movement of funds from institution to hide their origin.

- It consists of putting funds, which have entered the financial system, through series of financial operations to mislead potential investigators and to give the funds the appearance of having legal origins.
- Again, obscuring the source is the key.
- Launderers may purchase expensive items such as jewelry, yachts, or cars in order to change the money's form.

INTEGRATION

- **Integration** refers to the reinsertion of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds.
- The funds may be reintroduced in the economy through, for instance, the purchase of luxury items or through investment in assets such as shares in a company or real estate.

OBJECTIVES OF MONEY LAUNDERING

- The main objectives of money launderers are thus to place their funds in the financial system without arousing suspicion, to move them around, often after a series of complex transactions crossing multiple jurisdictions so that it becomes difficult to identify their original sources, and finally to move the funds back into the financial and business systems so that they appear legitimate.

CRIMINALS OF MONEY LAUNDERING

Drug Dealers:

Drug dealers usually deal with large amounts of cash, making it difficult for authorities to make a paper trail.

Large amounts of cash raise red flags.

CRIMINALS OF MONEY LAUNDERING

Mobsters/ Gang members:

Like drug dealers, these individuals (in a group form) perform many
cash transactions while maintaining safe networks overseas.

CRIMINALS OF MONEY LAUNDERING

Terrorists: Terrorists are big in money laundering.
Terrorist activities must be financed; otherwise explosives and other weaponry would not be an obtainable asset.

CAUSES OF MONEY LAUNDERING

Absence of legislation against money laundering:

- Absence of legislation against money laundering give a free hand to criminals. sometimes governments itself is involved they do this to win political rivals, to please their allies and to strengthen their rule.

Evasion of tax:

- Tax evaders launder money so that they can lie about where money and assets came from in order to evade tax. And sometimes they simply operate outside that part of the economy where records are kept.

Increase profits:

When people have incentive for more profit in any particular area, such as in production and trading of drugs, arms, and across the borders trade, they start taking risk to earn higher profits.

To Appear black money legitimate:

- In money laundering, black money usually becomes legitimate after a series of process. And less risk is involved of being caught. This doesn’t happen in other economic crimes. So in order to appear their money more legitimate they go for money laundering.

Economic Distortion and Instability:

- Money launders "invest" their funds in activities that are not necessarily economically beneficial to the country. They redirect funds from sound investments to low-quality investments that hide their proceeds, economic growth can suffer.

Undermining the integrity of financial markets

- Large sums of laundered money may arrive at a financial institution but then disappear suddenly, without notice, This can result in liquidity problems to financial institutions.

  Indeed, criminal activity has been associated with a number of bank failures around

  the globe.

Recommendations to reduce money laundering

Some of these recommendations include:

1- Identify and do background checks on depositors (know your customers).

2- Keep surveillance processes up to date

Recommendations to reduce money laundering

3-Financial institutions should, in relation to politically exposed persons, in addition to performing normal due diligence measures:

A) Have appropriate risk management systems to determine whether the customer is a politically exposed person.

B) Obtain senior management approval for establishing business relationships with such customers.

Recommendations to reduce money laundering

C) Take reasonable measures to establish the source of wealth and source of funds.

D) pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose

Thank you